

**OFFERING CIRCULAR**

**8,000,000 Shares**



**4.75% Non-Cumulative Preferred Stock, Series M**  
**(stated value \$50 per share)**

This Offering Circular relates to the offer of 8,000,000 shares of the 4.75% Non-Cumulative Preferred Stock, Series M (the “Preferred Stock”) of the Federal National Mortgage Association (“Fannie Mae”). The Preferred Stock has a stated value and liquidation preference of \$50 per share. Dividends at the rate of 4.75% per year will accrue from and including June 10, 2003. We will be required to pay dividends quarterly on March 31, June 30, September 30 and December 31 of each year, commencing September 30, 2003. However, we will be required to pay dividends only when, as and if declared by our Board of Directors, or a duly authorized committee thereof, in its sole discretion out of funds legally available for such payment.

Dividends on the Preferred Stock will not be cumulative. Accordingly, if for any reason our Board of Directors does not declare a dividend on the Preferred Stock for a dividend period, we will have no obligation to pay a dividend for that period, whether or not our Board declares dividends on the Preferred Stock for any future dividend period. If, however, we have not paid or set aside for payment dividends on the Preferred Stock for a dividend period, we may not pay dividends on our common stock for that period.

On or after June 10, 2008, we may redeem the Preferred Stock, in whole or in part, at any time or from time to time, at our option at the redemption price of \$50 per share plus the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of redemption.

The Preferred Stock will not have any voting rights, except as set forth under “Description of the Preferred Stock—Voting Rights; Amendments.”

We will apply to list the Preferred Stock on the New York Stock Exchange (the “NYSE”) under the symbol “FNMprM.” If approved for listing, we expect trading of the Preferred Stock on the NYSE to commence within a thirty-day period after the initial delivery of the Preferred Stock.

**Our obligations under the terms of the Preferred Stock are only our obligations and are not those of the United States or of any instrumentality thereof other than Fannie Mae.**

	<b>Initial Public Offering Price (1)</b>	<b>Underwriting Discount</b>	<b>Proceeds to Fannie Mae (1) (2)</b>
Per Share .....	\$50.00	\$0.4375	\$49.5625
Total(3) .....	\$400,000,000	\$3,500,000	\$396,500,000

(1) Plus accrued dividends, if any, from June 10, 2003.

(2) Before deducting estimated expenses of \$300,000.

(3) Fannie Mae has granted the Underwriters an option to purchase up to an additional 1,200,000 shares of Preferred Stock to cover overallocments, if any. If all such shares are purchased, the total Initial Public Offering Price, Underwriting Discount and Proceeds to Fannie Mae will be \$460,000,000, \$4,025,000 and \$455,975,000, respectively. See “Underwriting”.

**Lehman Brothers**  
**FTN Financial Capital Markets**

**Pryor, Counts & Co., Inc.**

**Sandler O’Neill & Partners, L.P.**

**Vining-Sparks IBG, L.P.**

**The date of this Offering Circular is June 5, 2003.**

We are not required to register the Preferred Stock under the U.S. Securities Act of 1933, as amended. Accordingly, we have not filed a registration statement for the Preferred Stock with the U.S. Securities and Exchange Commission (the “SEC”). The shares of Preferred Stock are “exempted securities” within the meaning of the U.S. Securities Exchange Act of 1934, as amended (the “Exchange Act”). Neither the SEC nor any state securities commission has approved or disapproved the Preferred Stock or determined if this Offering Circular is truthful or complete. Any representation to the contrary is a criminal offense.

The distribution of this Offering Circular and the offer, sale, and delivery of the Preferred Stock in certain jurisdictions may be restricted by law. Persons who come into possession of this Offering Circular must inform themselves about and observe any applicable restrictions.

This Offering Circular is not an offer to sell or a solicitation of an offer to buy any securities other than the Preferred Stock or an offer to sell or a solicitation of an offer to buy the Preferred Stock in any jurisdiction or in any other circumstance in which an offer or solicitation is unlawful or not authorized.

No person has been authorized to give any information or make any representations other than those contained in this Offering Circular and, if given or made, such information or representations must not be relied upon as having been authorized. Neither the delivery of this Offering Circular nor any sale made hereunder shall, under any circumstances, create an implication that there has been no change in the affairs of Fannie Mae since the date hereof, or in the case of facts set forth in the documents incorporated by reference herein, since the respective dates thereof or that the information contained herein or therein is correct as to any time subsequent thereto.

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## SUMMARY OF THE OFFERING

*This summary highlights information contained elsewhere in, or incorporated by reference in, this Offering Circular. It does not contain all of the information you should consider before investing in the Preferred Stock. You also should read the more detailed information contained elsewhere in this Offering Circular and in the documents incorporated herein by reference.*

### Fannie Mae

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act. We are the largest investor in home mortgage loans in the United States. We were established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market and were transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968.

### Description of the Preferred Stock

Issuer .....	Fannie Mae
Securities Offered .....	8,000,000 shares (assuming the Underwriters do not exercise their overallotment option) of 4.75% Non-Cumulative Preferred Stock, Series M, no par value, with a stated value and liquidation preference of \$50 per share.
Dividends:	
Dividend Rate .....	4.75% per annum. Non-cumulative quarterly cash dividends at the rate of 4.75% per year will accrue from and including June 10, 2003.
Frequency of Payment .....	Quarterly, when, as and if declared by the Board of Directors in its sole discretion, but only out of funds legally available for the payment of dividends.
Payment Dates .....	March 31, June 30, September 30, and December 31 of each year, commencing September 30, 2003.
Preferences .....	The Preferred Stock will be entitled to a preference, both as to dividends and upon liquidation, over the common stock (and any other junior stock) of Fannie Mae. The Preferred Stock will rank equally, both as to dividends and upon liquidation, with all other currently outstanding series of Fannie Mae preferred stock.
Optional Redemption .....	On or after June 10, 2008, we may redeem the Preferred Stock, in whole or in part, at any time or from time to time, at our option at the redemption price of \$50 per share plus an amount equal to the dividend for the then-current quarterly dividend period accrued to, but excluding the date of redemption (whether or not declared, but without accumulation of any dividends for prior dividend periods). Holders of Preferred Stock will have no right to require the redemption of the Preferred Stock.
Liquidation Rights .....	In the event of any dissolution or liquidation of Fannie Mae, holders of the Preferred Stock will be entitled to receive, out of any assets available for distribution to stockholders, \$50 per share plus the dividend for the then-current quarterly dividend period accrued through the liquidation payment date.

Voting Rights .....	None, except with respect to certain changes in the terms of the Preferred Stock
Preemptive and Conversion Rights....	None
Rating.....	The Preferred Stock has been rated “AA—” by Standard & Poor’s Ratings Group, a Division of the McGraw-Hill Companies, “Aa3” by Moody’s Investors Service, Inc. and AA by Fitch, Inc.
Use of Proceeds .....	To be added to the working capital of Fannie Mae and used for general corporate purposes, including the repurchase of outstanding shares of our stock.
Transfer Agent, Dividend Disbursing Agent and Registrar .....	EquiServe Trust Company, N.A.
NYSE Listing .....	We will apply to list the Preferred Stock on the NYSE under the symbol “FNMprM”. If approved for listing, we expect trading on the NYSE to commence within a thirty-day period after the initial delivery of the Preferred Stock.
CUSIP Number .....	313586836

## FANNIE MAE

Fannie Mae is a federally chartered and stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act, 12 U.S.C. § 1716 *et seq.* (the “Charter Act”). See “Government Regulation and Charter Act” in this Offering Circular and in our Annual Report on Form 10-K for the fiscal year ended December 31, 2002, filed with the SEC on March 31, 2003 (“Form 10-K”) and “Additional Information About Fannie Mae” in this Offering Circular. We are the largest investor in home mortgage loans in the United States. We were established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market and were transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968.

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

Fannie Mae also issues mortgage-backed securities (“MBS”), receiving guaranty fees for our guarantee of timely payment of principal and interest on MBS certificates. We issue MBS primarily in exchange for pools of mortgage loans from lenders. The issuance of MBS enables us to further our statutory purpose of increasing the liquidity of residential mortgage loans.

In addition, Fannie Mae offers various services to lenders and others for a fee. These services include issuing certain types of MBS and credit enhancements and providing technology services for originating and underwriting loans. See “Business” in the Form 10-K and “Additional Information About Fannie Mae” in this Offering Circular.

Fannie Mae’s principal office is located at 3900 Wisconsin Avenue, NW, Washington, D.C. 20016 (telephone: (202) 752-7000).

## USE OF PROCEEDS

We will add the net proceeds from the sale of the Preferred Stock to our working capital and use them for general corporate purposes, including the repurchase of shares of our stock. We anticipate the need for additional financing from time to time, including financing through various types of equity and debt securities. The amount and nature of such financings will depend upon a number of factors, including the volume of our maturing debt obligations, the volume of mortgage loan prepayments, the volume and type of mortgage loans we purchase, and general market conditions.

## CAPITALIZATION

The following table sets forth our capitalization as of March 31, 2003, and it is adjusted to give effect to the issuance of the Preferred Stock (before giving effect to the payment of estimated offering expenses and underwriting discount, and assuming that the Underwriters' over-allotment option is not exercised), and the issuance of the 5.125% Non-Cumulative Preferred Stock, Series L, on April 29, 2003 (the "Series L Preferred Stock").

	<u>Average Maturity</u>	<u>Average Cost(1)</u>	<u>Actual Outstanding at March 31, 2003</u>	<u>Adjusted</u>
(Dollars in millions)				
Debentures, notes, and bonds, net:				
Due within one year:				
Short-term notes .....	2 mos.	1.36%	\$307,452	\$307,452
Universal Benchmark .....	6 mos.	5.11	43,966	43,966
Universal Retail .....	0 mos.	7.65	186	186
Universal Short-term .....	6 mos.	1.18	2,750	2,750
Universal Standard .....	5 mos.	2.22	32,923	32,923
Other(2) .....	—	0.98	8,254	8,254
Total due within one year .....			<u>395,531</u>	<u>395,531</u>
Due after one year:				
Universal Benchmark .....	5 yrs. 9 mos.	5.32%	\$292,801	\$292,801
Universal Retail .....	10 yrs. 8 mos.	5.43	10,730	10,730
Universal Standard .....	4 yrs. 4 mos.	3.87	160,463	160,463
Other .....	13 yrs. 4 mos.	7.94	14,395	14,395
Total due after one year .....			<u>478,389</u>	<u>478,389</u>
Total debentures, notes, and bonds .....			<u>\$873,920</u>	<u>\$873,920</u>
Stockholders' equity:				
Preferred stock, \$50 stated value;				
100,000,000 shares authorized—				
61,550,000 shares issued				
at March 31, 2003;				
76,450,000 shares issued as adjusted .....				
Series D, 3,000,000 shares issued .....			\$ 150	\$ 150
Series E, 3,000,000 shares issued .....			150	150
Series F, 13,800,000 shares issued .....			690	690
Series G, 5,750,000 shares issued .....			288	288
Series H, 8,000,000 shares issued .....			400	400
Series I, 6,000,000 shares issued .....			300	300
Series J, 14,000,000 shares issued .....			700	700
Series K, 8,000,000 shares issued .....			400	400
Series L, 6,900,000 shares issued .....			—	345
Series M, 8,000,000 shares issued .....			—	400
Common stock, \$.525 stated value, no maximum				
authorization—980,969,533 shares outstanding .....			593	593
Additional paid-in capital .....			1,835	1,835
Retained earnings .....			30,909	30,909
Accumulated other comprehensive loss .....			(11,612)	(11,612)
Less treasury stock, at cost—148,120,887 shares(3) .....			<u>24,803</u>	<u>25,548</u>
Total stockholders' equity .....			<u>6,899</u>	<u>6,899</u>
Total stockholders' equity .....			<u>\$ 17,904</u>	<u>\$ 18,649</u>

- (1) Represents weighted-average cost, which includes the amortization of discounts, premiums, issuance costs, hedging results, and the effects of currency and debt swaps.
- (2) Average maturity is indeterminate because the outstanding amount includes investment agreements that have varying maturities.
- (3) Does not reflect any repurchases of our stock that may be made using proceeds from the sale of the Series L Preferred Stock or the Preferred Stock. See "Use of Proceeds."

We frequently issue debentures, notes, and other debt obligations, and from time to time we redeem such debt obligations. The amount of debentures, notes, other debt obligations outstanding, and stockholders' equity on any date subsequent to March 31, 2003 may differ from that shown in the table above.

## SELECTED FINANCIAL INFORMATION

The following selected financial data includes performance measures and ratios based on our reported results and core business earnings, a supplemental non-GAAP (generally accepted accounting principles) measure used by management in operating our business. Our core business earnings measures are not defined terms within GAAP and may not be comparable to similarly titled measures presented by other companies. Refer to Appendix A of this Offering Circular for a reconciliation of our non-GAAP financial measures to GAAP results. 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 for a discussion of how we use core business earnings measures and why we believe they are helpful to investors.

The following selected financial data for the years 1998 through 2002 and for the three-month periods ended March 31, 2003 and 2002 (which data are not covered by the independent auditors’ report) have been summarized or derived from our audited financial statements for 1998 through 2002 and from our unaudited financial statements for the three-month periods and other financial information for such periods. The data for the three-month periods is unaudited and includes, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. We have reclassified certain prior period amounts to conform to our current presentation. Results reported for the interim periods are not necessarily indicative of the results that may be expected for the full year. The data for the year ended periods should be read in conjunction with the audited financial statements and notes to financial statements contained in the Form 10-K incorporated herein by reference.

	Three Months Ended March 31,		Year Ended December 31,				
	2003	2002	2002	2001	2000	1999	1998
	(Dollars and shares in millions, except per common share amounts)						
<b>Income Statement Data:</b>							
Interest income .....	\$ 12,896	\$ 12,576	\$ 50,853	\$ 49,170	\$ 42,781	\$ 35,495	\$ 29,995
Interest expense .....	(9,528)	(10,146)	(40,287)	(41,080)	(37,107)	(30,601)	(25,885)
Net interest income .....	3,368	2,430	10,566	8,090	5,674	4,894	4,110
Guaranty fee income .....	547	408	1,816	1,482	1,351	1,282	1,229
Fee and other income (expense), net .....	114	4	232	151	(44)	191	275
Provision for losses .....	(23)	(28)	(128)	(94)	(122)	(151)	(245)
Foreclosed property income (expense) .....	3	6	36	16	28	24	(16)
Administrative expenses .....	(344)	(290)	(1,219)	(1,017)	(905)	(800)	(708)
Special contribution .....	—	—	—	(300)	—	—	—
Purchased options expense(1) .....	(625)	(787)	(4,545)	(37)	—	—	—
Debt extinguishments, net .....	(392)	(172)	(710)	(524)	49	(14)	(40)
Income before federal income taxes and cumulative effect of change in accounting principle .....	2,648	1,571	6,048	7,767	6,031	5,426	4,605
Provision for federal income taxes .....	(707)	(362)	(1,429)	(2,041)	(1,583)	(1,514)	(1,187)
Income before cumulative effect of change in accounting principle .....	1,941	1,209	4,619	5,726	4,448	3,912	3,418
Cumulative effect of change in accounting principle, net of tax effect(2) .....	—	—	—	168	—	—	—
Net income .....	<u>\$ 1,941</u>	<u>\$ 1,209</u>	<u>\$ 4,619</u>	<u>\$ 5,894</u>	<u>\$ 4,448</u>	<u>\$ 3,912</u>	<u>\$ 3,418</u>
Preferred stock dividends .....	(30)	(33)	(99)	(138)	(121)	(78)	(66)
Net income available to common stockholders ...	<u>\$ 1,911</u>	<u>\$ 1,176</u>	<u>\$ 4,520</u>	<u>\$ 5,756</u>	<u>\$ 4,327</u>	<u>\$ 3,834</u>	<u>\$ 3,352</u>
<b>Basic earnings per common share:</b>							
Earnings before cumulative effect of change in accounting principle .....	\$ 1.94	\$ 1.18	\$ 4.56	\$ 5.58	\$ 4.31	\$ 3.75	\$ 3.26
Cumulative effect of change in accounting principle .....	—	—	—	.17	—	—	—
Net earnings .....	<u>\$ 1.94</u>	<u>\$ 1.18</u>	<u>\$ 4.56</u>	<u>\$ 5.75</u>	<u>\$ 4.31</u>	<u>\$ 3.75</u>	<u>\$ 3.26</u>

	Three Months Ended		Year Ended December 31,				
	March 31,						
	2003	2002	2002	2001	2000	1999	1998
(Dollars and shares in millions, except per common share amounts)							
Diluted earnings per common share:							
Earnings before cumulative effect of change in accounting principle .....	\$ 1.93	\$ 1.17	\$ 4.53	\$ 5.55	\$ 4.29	\$ 3.72	\$ 3.23
Cumulative effect of change in accounting principle .....	—	—	—	.17	—	—	—
Net earnings .....	\$ 1.93	\$ 1.17	\$ 4.53	\$ 5.72	\$ 4.29	\$ 3.72	\$ 3.23
Cash dividends per common share .....	\$ .39	\$ .33	\$ 1.32	\$ 1.20	\$ 1.12	\$ 1.08	\$ .96

	March 31,		December 31,				
	2003	2002	2002	2001	2000	1999	1998
<b>Balance Sheet Data:</b>							
Mortgage portfolio, net .....	\$ 823,329	\$731,877	\$ 797,693	\$705,324	\$607,551	\$522,921	\$415,355
Liquid assets .....	61,142	57,290	61,554	76,072	55,585	41,850	59,258
Total assets .....	913,264	808,122	887,515	799,948	675,224	575,308	485,146
Borrowings:							
Due within one year .....	395,531	339,793	382,412	343,492	280,322	226,582	205,413
Due after one year .....	478,389	429,982	468,570	419,975	362,360	321,037	254,878
Total liabilities .....	895,360	787,369	871,227	781,830	654,386	557,679	469,693
Preferred stock .....	3,078	1,928	2,678	2,303	2,278	1,300	1,150
Stockholders' equity .....	17,904	20,753	16,288	18,118	20,838	17,629	15,453

	Three Months Ended		Year Ended December 31,				
	March 31,						
	2003	2002	2002	2001	2000	1999	1998
<b>Core Business Earnings Data(3):</b>							
Core business earnings(4) .....	\$ 1,851	\$ 1,519	\$ 6,394	\$ 5,367	\$ 4,448	\$ 3,912	\$ 3,418
Core taxable-equivalent revenues(5) .....	3,604	2,840	11,896	10,187	7,825	6,975	6,272
Net interest margin, taxable-equivalent basis .....	1.25%	1.15%	1.15%	1.11%	1.01%	1.01%	1.03%
Core return on average assets(6) .....	.81	.74	.76	.71	.71	.73	.78
Core return on average realized common equity(7) .....	28.0	25.8	26.1	25.4	25.2	25.0	25.2

	Three Months Ended		December 31,				
	March 31,						
	2003	2002	2002	2001	2000	1999	1998
<b>Other Data:</b>							
Average effective guaranty fee rate(8) .....	.203%	.186%	.191%	.190%	.195%	.193%	.202%
Credit loss ratio(9) .....	.004	.005	.005	.006	.007	.011	.027
Administrative expense ratio(10) .....	.073	.073	.072	.071	.072	.071	.074
Efficiency ratio(11) .....	9.5	10.2	10.2	10.0	11.6	11.5	11.3
Dividend payout ratio .....	20.2	28.0	29.0	20.9	26.0	28.8	29.5
Ratio of earnings to combined fixed charges and preferred stock dividends(12) .....	1.27:1	1.15:1	1.15:1	1.19:1	1.16:1	1.17:1	1.17:1
Mortgage purchases .....	\$ 132,005	\$ 90,946	\$ 370,641	\$270,584	\$154,231	\$195,210	\$188,448
MBS issues acquired by others(13) .....	203,934	106,804	478,260	344,739	105,407	174,850	220,723
Outstanding MBS(14) .....	1,107,520	896,310	1,029,456	858,867	706,684	679,169	637,143
Weighted-average diluted common shares outstanding .....	990	1,002	997	1,006	1,009	1,031	1,037
Return on average assets .....	.85%	.59%	.55%	.78%	.71%	.73%	.78%
Average equity to average assets .....	1.9	2.3	2.1	2.3	3.1	3.1	3.3
Return on common equity .....	53.6	29.1	30.2	39.8	25.6	25.2	25.2
Core capital(15) .....	\$ 29,517	\$ 25,500	\$ 28,079	\$ 25,182	\$ 20,827	\$ 17,876	\$ 15,465
Total capital(16) .....	30,309	26,290	28,871	25,976	21,634	18,677	16,257

(1) Represents the change in the fair value of the time value of purchased options under FAS 133, "Accounting for Derivative Instruments and Hedging Activities" (FAS 133).

(2) Represents the after-tax effect on income of the adoption of FAS 133 on January 1, 2001.



- (3) Core business earnings data are non-GAAP measures management uses to track and analyze our financial 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 for additional discussion of these measures.
- (4) Core business earnings is a non-GAAP measure 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 the transition adjustment from the adoption of FAS 133 and unrealized gains and losses on purchased options recorded under FAS 133, and includes purchased options premiums amortized on a straight-line basis over the original estimated life of the option.
- (5) Includes revenues net of operating losses on low-income housing tax credit limited partnerships (accounted for using the equity method of accounting) and amortization expense of purchased options premiums, plus taxable-equivalent adjustments for tax-exempt income and investment tax credits using the applicable federal income tax rate. This is a non-GAAP measure.
- (6) Core business earnings less preferred stock dividends divided by average assets. This is a non-GAAP measure.
- (7) Core business earnings less preferred stock dividends divided by average realized common stockholders’ equity (common stockholders’ equity excluding accumulated other comprehensive income). This is a non-GAAP measure.
- (8) Calculated based on guaranty fee and related income from outstanding MBS.
- (9) Charge-offs, net of recoveries, and foreclosed property income (expense) as a percentage of average mortgage portfolio (on an amortized cost basis) and average outstanding MBS.
- (10) Administrative expenses as a percentage of average net mortgage portfolio and average outstanding MBS.
- (11) Administrative expenses as a percentage of taxable-equivalent revenues.
- (12) “Earnings” consists of (a) income before federal income taxes and cumulative effect of accounting changes and (b) fixed charges. Fixed charges represent interest expense.
- (13) Includes MBS and other mortgage-related securities guaranteed by Fannie Mae.
- (14) Includes MBS and other mortgage-related securities guaranteed by Fannie Mae and held by investors other than Fannie Mae.
- (15) The sum of (a) the stated value of common stock, (b) the stated value of outstanding noncumulative perpetual preferred stock, (c) paid-in capital, and (d) retained earnings, less treasury stock. Core capital represents a regulatory measure of capital. Refer to Note 11 of the financial statements, “Dividend Restrictions and Regulatory Capital Ratios,” in the Form 10-K for a discussion of core capital.
- (16) The sum of (a) core capital and (b) the total allowance for loan losses and guaranty liability for MBS, less (c) the specific loss allowance. Total capital represents a regulatory measure of capital. Specific loss allowance totaled \$16 million at March 31, 2003 and 2002, respectively. Specific loss allowances totaled \$19 million, \$13 million, \$2 million, \$3 million, and \$10 million for the years ended December 31, 2002, 2001, 2000, 1999, and 1998, respectively. Refer to Note 11 of the financial statements, “Dividend Restrictions and Regulatory Capital Ratios,” in the Form 10-K for a discussion of total capital.

## GOVERNMENT REGULATION AND CHARTER ACT

### Charter Act

We were established in 1938 under Title III of the National Housing Act as a government-owned entity. In 1954, under the Federal National Mortgage Association Charter Act, the entity became a mixed-ownership corporate instrumentality of the United States. Under the Housing and Urban Development Act of 1968, the entity was divided into two separate institutions, the present Fannie Mae and Ginnie Mae. Fannie Mae became an entirely stockholder-owned corporation, organized and existing under the Charter Act. The Charter Act provides that the corporation will continue until dissolved by an act of Congress. The Charter Act was further amended by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (the “1992 Act”).

Under the Charter Act, our purpose is:

“to (1) provide stability in the secondary market for residential mortgages, (2) respond appropriately to the private capital market, (3) provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing, [and] (4) promote access to mortgage credit throughout the nation (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.”

The Charter Act authorizes us to “deal in” conventional mortgage loans, and “purchase,” “sell,” “service,” and “lend on the security of” such mortgages, subject to limitations on the quality of mortgages purchased and credit enhancement requirements. Fannie Mae can act as a depository, custodian, or fiscal agent “for its own account or as fiduciary, and for the account of others.” The Charter Act expressly enables Fannie Mae “to lease, purchase, or acquire any property, real, personal, or mixed, or any interest therein, to hold, rent, maintain, modernize, renovate, improve, use, and operate such property, and to sell, for cash or credit, lease, or otherwise dispose of the same, at such time and in such manner as and to the extent that it may deem necessary or appropriate.” The Charter Act also permits Fannie Mae to “purchase,” “service,” “sell,” “lend on the security of” and otherwise deal in loans or advances of credit for the purchase and installation of home improvements (so long as the loans are secured by a lien against the property to be improved).

Under the Charter Act, we may not originate mortgage loans or advance funds on an interim basis pending the sale of a mortgage in the secondary market. We may not purchase loans in excess of the amount of the current loan limits. (See “Business—Fannie Mae Business Standards—Principal Balance Limits” in the Form 10-K). We may conduct business only in the United States, its territories and possessions, the District of Columbia and the Commonwealth of Puerto Rico. Our activities must relate to housing, mortgages and related financial products.

Thirteen members of our eighteen-member Board of Directors are elected by the holders of our common stock. The President of the United States appoints the remaining five members. The appointed directors must include one person from the home building industry, one person from the mortgage lending industry, one person from the real estate industry, and one person from a consumer or community interest organization or who has demonstrated a career commitment to providing low-income housing. Any member of the Board of Directors that is appointed by the President of the United States may be removed by the President for good cause. All members of the Board of Directors are elected or appointed annually.

In general, the U.S. Department of Housing and Urban Development (“HUD”) and the Office of Federal Housing Enterprise Oversight (“OFHEO”) oversee the activities of Fannie Mae. HUD has “general regulatory power” over Fannie Mae. The 1992 Act established OFHEO to ensure that Fannie Mae is adequately capitalized and is operating safely.

The Secretary of the Treasury has the authority to approve Fannie Mae's issuance of debt obligations and mortgage-related securities. At the discretion of the Secretary of the Treasury of the United States, the U.S. Treasury may purchase obligations of Fannie Mae up to a maximum of \$2.25 billion outstanding at any one time. This facility has not been used since our transition from government ownership in 1968. Neither the United States nor any agency thereof is obligated to finance our operations or to assist us in any other manner. The Federal Reserve Banks are authorized to act as depositories, custodians, and fiscal agents for Fannie Mae, for the Bank's own account, or as fiduciary.

Securities we issue are "exempt securities" under laws administered by the SEC to the same extent as securities that are obligations of, or guaranteed as to principal and interest by, the United States. Registration statements with respect to offerings of our securities are not required to be filed with the SEC. In July 2002, we announced our voluntary initiative to register our common stock with the SEC under Section 12(g) of the Exchange Act. The registration of our common stock became effective on March 31, 2003. As a result, we will file periodic reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q, and current reports on Form 8-K, together with any required exhibits. These filings will be available on the SEC's Electronic Data Gathering, Analysis, and Retrieval ("EDGAR") system at [www.sec.gov](http://www.sec.gov). Registration of our common stock with the SEC will not impact the status of our securities (including equity, debt and MBS) as "exempt securities" within the meaning of the laws administered by the SEC.

We are exempt from taxation by states, counties, municipalities, or local taxing authorities, except for taxation by those authorities on our real property. We are not exempt from payment of federal corporate income taxes. We also may conduct our business without regard to any qualification or similar statute in any state of the United States, including the District of Columbia, the Commonwealth of Puerto Rico, and the territories and possessions of the United States.

### **Regulatory Approval and Oversight**

As a federally chartered corporation, Fannie Mae is subject to Congressional legislation and oversight and is regulated for various purposes by HUD, OFHEO and the U.S. Department of the Treasury, to the extent authorized by statute. In addition, the financial institutions with whom we do business are subject to extensive federal and state law and regulation. Changes to legislation, regulations or policy that impact us or our business partners could adversely or favorably affect the performance, development, or results of our business.

OFHEO, an independent office within HUD, is responsible for ensuring that we are adequately capitalized and operating safely in accordance with the 1992 Act. OFHEO conducts on-site examinations of Fannie Mae for purposes of ensuring our financial safety and soundness. We are required to submit annual and quarterly reports of our financial condition and operations to OFHEO. OFHEO is authorized to levy annual assessments on Fannie Mae and the Federal Home Loan Mortgage Corporation ("Freddie Mac"), pursuant to annual Congressional appropriations, to cover OFHEO's reasonable expenses. OFHEO's formal enforcement powers include the power to impose temporary and final cease-and-desist orders and civil monetary penalties on us and on our directors and executive officers, provided certain conditions are met. OFHEO may use other informal supervisory tools of the type that are generally used by agencies with authority to regulate other financial institutions. In accordance with OFHEO regulation, Fannie Mae has elected to follow the applicable corporate governance practices and procedures of the Delaware General Corporation Law, as it may be amended from time to time. On January 21, 2003, OFHEO proposed regulations that would require Fannie Mae to file with the SEC all reports, statements and forms relating to our common stock that are required to be filed under Sections 14(a) and (c) of the Exchange Act and the rules and regulations under those sections and require Fannie Mae's directors and officers to file all reports and forms relating to our common stock that are required to be filed under Section 16 of the Exchange Act and the rules and regulations under that section.

The Secretary of the Treasury has the authority to approve Fannie Mae's issuance of debt obligations and mortgage-related securities. The General Accounting Office is authorized to audit the programs, activities, receipts, expenditures, and financial transactions of Fannie Mae. The Secretary of HUD has general regulatory authority to promulgate rules and regulations to carry out the purposes of the Charter Act,

excluding authority over matters granted exclusively to OFHEO. The Secretary of HUD has authority to approve any new conventional mortgage program that is significantly different from those approved or engaged in prior to the 1992 Act. The Secretary must approve any new program unless it is not authorized by the Charter Act or the Secretary finds that it is not in the public interest. The Secretary has adopted regulations related to the program approval requirement. We are also required to meet certain goals established by the Secretary of HUD to promote affordable housing and to serve the housing needs of those in underserved areas. See “Business—Housing Goals” in the Form 10-K.

### **Capital Requirements**

The 1992 Act established minimum capital, risk-based capital, and critical capital requirements for Fannie Mae. See also “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Resources—Regulatory Environment” in the Form 10-K. OFHEO issued a final rule in 1996 that sets forth the minimum capital requirements for Fannie Mae and Freddie Mac, which are to be calculated, reported, and classified on a quarterly basis. We were in compliance with the minimum capital rule as of December 31, 2002, and have been in compliance for every reporting period since the rule became effective. OFHEO issued regulations in September 2001, as subsequently amended, to establish a risk-based capital test to be used to determine the amount of total capital Fannie Mae must hold to meet the risk-based capital standard. Fannie Mae and Freddie Mac are required to hold enough capital to withstand a severe 10-year stress period, characterized by extreme interest-rate movements and credit losses occurring simultaneously, plus 30 percent of that amount for management and operations risk. The risk-based capital test evaluates combined interest-rate and credit stress for both rising and declining interest-rate scenarios. The more stringent of these two scenarios determines the required risk-based capital. The test assumes that (1) interest rates increase or decrease by up to 600 basis points over the first year, and remain constant at this new level for the remaining 9 years of the test; (2) severe credit conditions apply nationwide; and (3) we acquire no new business during this period except to meet outstanding mortgage commitments. The regulations specify that “benchmark loss experience” will be combined with other assumptions and applied each quarter to our book of business to establish expected credit losses based on the stress assumptions under the risk-based capital standard. The regulations also specify the housing price index that OFHEO will use in connection with the standard and how the test will be used to determine Fannie Mae’s risk-based capital requirements. On March 31, 2003, OFHEO announced that Fannie Mae complied with the risk-based capital rule as of December 31, 2002. See “Item 7—Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Resources—Regulatory Environment” in the Form 10-K.

If we fail to meet the capital standards, OFHEO is permitted or required to take remedial measures, depending on the standards we fail to meet. Compliance with the capital standards could limit operations that require intensive use of capital and restrict our ability to repay debt or pay dividends on our common stock. We are required to submit a capital restoration plan if we fail to meet any of the capital standards. If OFHEO determines that we are engaging in conduct not approved by the Director of OFHEO (the “Director”) that could result in a rapid depletion of core capital or that the value of the property subject to mortgages we hold or have securitized has decreased significantly, or if OFHEO does not approve the capital restoration plan or determines that we have failed to make reasonable efforts to comply with the plan, OFHEO may take remedial measures as if we were not meeting the capital standards we otherwise meet. The 1992 Act gives OFHEO authority, after following prescribed procedures, to appoint a conservator if we do not meet the critical capital level.

### **Dividend Restrictions**

The Charter Act as amended by the 1992 Act restricts the ability of our Board of Directors to make capital distributions, including any dividends, in the following circumstances:

- Fannie Mae may not pay any dividend, without the approval of OFHEO, if the dividend payment would decrease our total capital below the risk-based capital level or our core capital below the minimum capital level.

- If we do not meet the risk-based capital standard but do meet the minimum capital standard, we may not make any dividend payment that would cause us to fail to meet the minimum capital standard.
- If we meet neither the risk-based capital standard nor the minimum capital standard but do meet the critical capital standard established under the 1992 Act, we may make a dividend payment only if we would not fail to meet the critical capital standard as a result of the payment and the Director approves the payment after finding that the payment satisfies certain statutory conditions.

The Director has the authority to require us to submit a report to the Director regarding any capital distribution we declare before we make the distribution.

## DESCRIPTION OF THE PREFERRED STOCK

We are authorized by the Charter Act to have preferred stock on such terms and conditions as our Board of Directors may prescribe. On December 27, 1995, our Board of Directors amended our bylaws to authorize us to issue up to 100,000,000 shares of preferred stock. To date, we have issued the following:

- on March 1, 1996, 7,500,000 shares of 6.41% Non-Cumulative Preferred Stock, Series A (stated value \$50 per share) (the “Series A Preferred Stock”);
- on April 12, 1996, 7,500,000 shares of 6.50% Non-Cumulative Preferred Stock, Series B (stated value \$50 per share) (the “Series B Preferred Stock”);
- on September 20, 1996, 5,000,000 shares of 6.45% Non-Cumulative Preferred Stock, Series C (stated value \$50 per share) (the “Series C Preferred Stock”);
- on September 30, 1998, 3,000,000 shares of 5.25% Non-Cumulative Preferred Stock, Series D (stated value \$50 per share) (the “Series D Preferred Stock”);
- on April 15, 1999, 3,000,000 shares of 5.10% Non-Cumulative Preferred Stock, Series E (stated value \$50 per share) (the “Series E Preferred Stock”);
- on March 20, 2000, 13,800,000 shares of Variable Rate Non-Cumulative Preferred Stock, Series F (stated value \$50 per share) (the “Series F Preferred Stock”);
- on August 8, 2000, 5,750,000 shares of Variable Rate Non-Cumulative Preferred Stock, Series G (stated value \$50 per share) (the “Series G Preferred Stock”);
- on April 6, 2001, 8,000,000 shares of 5.81% Non-Cumulative Preferred Stock, Series H (stated value \$50 per share) (the “Series H Preferred Stock”);
- on October 28, 2002, 6,000,000 shares of 5.375% Non-Cumulative Preferred Stock, Series I (stated value \$50 per share) (the “Series I Preferred Stock”);
- on November 26, 2002, 14,000,000 shares of Variable Rate Non-Cumulative Preferred Stock, Series J (stated value \$50 per share) (the “Series J Preferred Stock”);
- on March 18, 2003, 8,000,000 shares of Variable Rate Non-Cumulative Preferred Stock, Series K (stated value \$50 per share) (the “Series K Preferred Stock”); and
- on April 29, 2003, 6,900,000 shares of Series L Preferred Stock.

We redeemed all of our outstanding Series A Preferred Stock on March 1, 2001, all of our outstanding Series B Preferred Stock on February 28, 2002, and all of our outstanding Series C Preferred Stock on July 31, 2002. In this Offering Circular, we refer to the Series D Preferred Stock through the Series L Preferred Stock as the “Outstanding Preferred Stock.”

The terms of the Preferred Stock will be established by a Certificate of Designation of Terms of 4.75% Non-Cumulative Preferred Stock, Series M (the “Certificate of Designation”), adopted by a duly authorized committee of our Board of Directors, which will be substantially in the form attached as Appendix B to this Offering Circular. The following is a brief description of the terms of the Preferred Stock; you also should read the Certificate of Designation for a full description of the Preferred Stock.

### General

We have the right to create and issue additional shares of Preferred Stock and additional classes or series of stock that rank, as to dividends, liquidation or otherwise, prior to, on parity with or junior to the Preferred Stock, without the consent of holders of the Preferred Stock. As of the date hereof, the shares of Outstanding Preferred Stock are the only shares of our preferred stock outstanding. The Preferred Stock will rank equally as to the payment of dividends and the distribution of assets upon our dissolution, liquidation or winding up with the Outstanding Preferred Stock.

The Preferred Stock has no par value, has a stated value and liquidation preference of \$50 per share, and, upon issuance against full payment of the purchase price therefor, will be fully paid and nonassessable.

The Preferred Stock will not be subject to any mandatory redemption, sinking fund, or other similar provisions. In addition, holders of Preferred Stock will have no right to require redemption of any shares of Preferred Stock.

The Preferred Stock will not be convertible into or exchangeable for any of our other stock or obligations and will have no preemptive rights.

EquiServe Trust Company, N.A., will be the transfer agent, dividend disbursing agent, and registrar for the shares of Preferred Stock.

**The obligations of Fannie Mae under the terms of the Preferred Stock are obligations of Fannie Mae only and are not those of the United States or of any instrumentality thereof other than Fannie Mae.**

### **Dividends**

Dividends on shares of the Preferred Stock will not be mandatory. Holders of record of Preferred Stock as they appear on our books and records (the "Holders") will be entitled to receive, when, as and if declared by our Board of Directors, or a duly authorized committee thereof, in its sole discretion out of funds legally available for dividend payments, non-cumulative, quarterly cash dividends that will accrue from and including June 10, 2003 and will be payable on March 31, June 30, September 30, and December 31 of each year (each a "Dividend Payment Date"), commencing September 30, 2003, at the annual rate of \$2.375 per share. We will pay dividends on the Preferred Stock to the Holders on the relevant record date fixed by the Board of Directors, or a duly authorized committee thereof, which may not be earlier than 45 days or later than 10 days prior to the applicable Dividend Payment Date. If declared, the initial dividend, which will be for the period from and including June 10, 2003 to but excluding September 30, 2003, will be \$0.7257 per share and, thereafter, if declared, quarterly dividends will be \$0.5938 per share. After the initial dividend, the dividend period relating to a Dividend Payment Date will be the period from and including the preceding Dividend Payment Date to but excluding the Dividend Payment Date. If a Dividend Payment Date is not a Business Day, we will pay dividends (if declared) on the Preferred Stock on the succeeding Business Day, without interest from that Dividend Payment Date to the date of actual payment. A "Business Day" is any day other than a Saturday, Sunday, or other day on which banking institutions in New York, New York are authorized or required by law to close. We will compute dividends payable on the Preferred Stock for any period greater or less than a full dividend period on the basis of a 360-day year consisting of twelve 30-day months. The amount of dividends per share payable at redemption will be rounded to the fourth digit after the decimal point. (If the fifth digit to the right of the decimal point is five or greater, the fourth digit will be rounded up by one.)

The Preferred Stock will rank prior to our common stock with respect to the payment of dividends to the extent provided in the Certificate of Designation. As a result, unless dividends have been declared and paid or set apart (or ordered to be set apart) on the Preferred Stock for the then current quarterly dividend period, no dividend may be declared or paid or set apart for payment on our common stock (or on any of our other stock ranking, as to the payment of dividends, junior to the Preferred Stock), other than dividends or distributions paid in shares of, or options, warrants or rights to subscribe for or purchase shares of, our common stock or any of our other stock ranking junior to the Preferred Stock as to the payment of dividends and the distribution of assets upon our dissolution, liquidation or winding up. When dividends are not paid in full upon the Preferred Stock and all of our other classes or series of stock, if any, ranking on a parity as to the payment of dividends with the Preferred Stock, all dividends declared upon shares of Preferred Stock and all of our other such stock will be declared pro rata so that the amount of dividends declared per share on the Preferred Stock and all such other stock will in all cases bear to each other the same ratio that accrued dividends per share on the shares of Preferred Stock (but without, in the case of any non-cumulative preferred stock, accumulation of unpaid dividends for prior dividend periods) and each other stock bear to each other.

Dividends on the Preferred Stock will not be cumulative. If we do not pay a dividend on the Preferred Stock, the Holders of Preferred Stock will have no claim in respect of such non-payment so long as no dividend (other than those referred to in the preceding paragraph) is paid on our common stock (or any of our other stock ranking, as to the payment of dividends, junior to the Preferred Stock) for the then-current quarterly dividend period.

The Board of Directors, or a duly authorized committee thereof, may, in its discretion, choose to pay dividends on the Preferred Stock without the payment of any dividends on our common stock (or any of our other stock ranking, as to the payment of dividends, junior to the Preferred Stock).

No dividends may be declared or paid or set apart for payment on any shares of the Preferred Stock if at the same time any arrears exist or default exists in the payment of dividends on any outstanding class or series of our stock ranking prior to the Preferred Stock with respect to the payment of dividends. At the time of issuance of the Preferred Stock, there will be no class or series of our stock which ranks prior to the Preferred Stock with respect to the payment of dividends.

Holder of Preferred Stock will not be entitled to any dividends, whether payable in cash or property, other than as described above and will not be entitled to interest, or any sum in lieu of interest, in respect of any dividend payment.

See also “Regulatory Matters” for a description of certain regulatory restrictions on our payment of dividends.

### **Optional Redemption**

The Preferred Stock will not be redeemable prior to June 10, 2008. On or after that date, subject to the notice provisions set forth below and subject to any further limitations which may be imposed by law, we, at our option, may redeem the Preferred Stock, in whole or in part, at any time or from time to time, out of funds legally available therefor, at the redemption price of \$50 per share plus an amount equal to the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of redemption, but without accumulation of unpaid dividends on the Preferred Stock for prior dividend periods. If less than all of the outstanding shares of the Preferred Stock are to be redeemed, we will select shares to be redeemed from the outstanding shares not previously called for redemption by lot or pro rata (as nearly as possible) or by any other method that the Board of Directors, or a duly authorized committee thereof, in its sole discretion deems equitable.

We will give notice of any such redemption by mail to Holders of Preferred Stock not less than 30 days prior to the date fixed by the Board of Directors, or duly authorized committee thereof, for such redemption. Each notice will state the number of shares of Preferred Stock to be redeemed and, if fewer than all of the shares of Preferred Stock held by the applicable Holder are to be redeemed, the number of shares to be redeemed from such Holder, the redemption price, the redemption date and the place at which such Holder’s certificate(s) representing shares of the Preferred Stock must be presented upon such redemption.

Under certain circumstances, we may need the approval of the Director prior to exercising our right to redeem shares of Preferred Stock. See “Regulatory Matters.”

Once proper notice has been given, from and after the redemption date, dividends on the Preferred Stock called for redemption will cease to accrue and such Preferred Stock called for redemption will no longer be deemed outstanding, and all rights of the Holders thereof as registered holders of the Preferred Stock will cease.

### **Liquidation Rights**

Upon any voluntary or involuntary dissolution, liquidation or winding up of Fannie Mae, after payment or provision for our liabilities and the expenses of such dissolution, liquidation or winding up, the Holders of the outstanding shares of the Preferred Stock will be entitled to receive the amount of \$50 per share plus an amount equal to the dividend (whether or not declared) for the then-current quarterly dividend period



accrued to but excluding the date of such liquidation payment, but without accumulation of unpaid dividends on the Preferred Stock for prior dividend periods, out of our assets or proceeds thereof available for distribution to stockholders, before any payment or distribution of assets is made to holders of our common stock (or any of our other stock ranking, as to the distribution of assets upon our dissolution, liquidation or winding up, junior to the Preferred Stock). If our assets available for distribution in such event are insufficient to pay in full the aggregate amount payable to Holders of the Preferred Stock and holders of all other classes or series of our stock, if any, ranking, as to the distribution of assets upon our dissolution, liquidation or winding up, equally with the Preferred Stock, the assets will be distributed to the Holders of Preferred Stock and holders of such other stock pro rata, based on the full respective preferential amounts to which they are entitled (but without, in the case of any noncumulative preferred stock, accumulation of unpaid dividends for prior dividend periods). After payment of the full amount of the distribution of assets upon our dissolution, liquidation or winding up to which they are entitled, the Holders of Preferred Stock will not be entitled to any further participation in any of our distributions of assets.

Notwithstanding the foregoing, Holders of Preferred Stock will not be entitled to be paid any amount in respect of our dissolution, liquidation or winding up until holders of any class or series of our stock ranking, as to the distribution of our assets upon dissolution, liquidation or winding up, prior to the Preferred Stock have been paid all amounts to which such classes or series are entitled. At the time of issuance of the Preferred Stock, there will be no class or series of our stock ranking prior to the Preferred Stock with respect to the distribution of assets upon our dissolution, liquidation or winding up.

Neither the sale, lease or exchange (for cash, shares of stock, securities or other consideration) of all or substantially all of our property and assets, nor our merger, consolidation or combination into or with any other corporation, nor the merger, consolidation or combination of any other corporation or entity into or with us, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of these provisions on liquidation rights.

## **Regulatory Matters**

Holders of Preferred Stock are entitled to receive cash dividends if, as and when declared by the Board of Directors. However, certain provisions of the 1992 Act may operate to restrict the ability of the Board of Directors to declare dividends in certain circumstances. The 1992 Act established our risk-based capital, minimum capital and critical capital requirements. OFHEO released risk-based capital regulations for us and Freddie Mac on September 13, 2001. Until one year after the final regulations establishing the risk-based capital test are in effect, a dividend may be paid without the prior approval of the Director if we meet the minimum capital level and the dividend payment would not decrease our core capital below such level. See “Government Regulation and Charter Act.”

One year after final regulations establishing the risk-based capital test take effect, a dividend may be paid without the prior approval of the Director if we meet both the risk-based capital and minimum capital levels and the dividend payment would not decrease our total capital below the risk-based capital level or our core capital below the minimum capital level. If we meet either the risk-based capital standard or the minimum capital standard, we may make a dividend payment without obtaining the approval of the Director only if the dividend payment would not cause us to fail to meet another capital standard. At any time when we do not meet the risk-based capital standard but meet the minimum capital standard, we are prohibited from making a dividend payment that would cause us to fail to meet the minimum capital standard. If we meet neither the risk-based capital standard nor the minimum capital standard but do meet the critical capital standard established under the 1992 Act, we may make a dividend payment only if we would not fail to meet the critical capital standard as a result of such payment and the Director approves the payment after finding that it satisfies certain statutory conditions. The Director has the authority to require us to submit a report to the Director regarding any capital distribution (including any dividend) declared by us before we make the distribution. See “Government Regulation and Charter Act” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Regulatory Environment” in the Form 10-K regarding our applicable capital standards.

### **Voting Rights; Amendments**

Except as provided below, the Holders of Preferred Stock will not be entitled to any voting rights.

Without the consent of the Holders of Preferred Stock, we may amend, alter, supplement, or repeal any terms of the Preferred Stock:

- to cure any ambiguity, or to cure, correct or supplement any provision contained in the Certificate of Designation that may be defective or inconsistent; or
- to make any other provision with respect to matters or questions arising with respect to the Preferred Stock that is not inconsistent with the provisions of the Certificate of Designation, so long as such action does not materially and adversely affect the interests of the Holders of Preferred Stock.

The following are deemed not to materially and adversely affect the interests of the Holders of Preferred Stock:

- any increase in the amount of authorized or issued Preferred Stock; or
- the creation and issuance, or an increase in the authorized or issued amount, of any other class or series of our stock, whether ranking prior to, on a parity with or junior to the Preferred Stock as to dividends or liquidation or otherwise.

Otherwise, the terms of the Preferred Stock may be amended, altered, supplemented, or repealed only with the consent of the Holders of at least two-thirds of the outstanding shares of Preferred Stock. On matters requiring their consent, Holders of Preferred Stock will be entitled to one vote per share.

### **New York Stock Exchange Listing**

We will apply to list the Preferred Stock on the NYSE under the symbol “FNMprM”. If approved for listing, we expect trading of the Preferred Stock on the NYSE to commence within a thirty-day period after the initial delivery of the Preferred Stock.

## **LEGALITY OF INVESTMENT**

National banks may purchase, hold, and invest in for their own accounts the shares of Preferred Stock without regard to limitations generally applicable to investment securities. The Preferred Stock would be subject to a 100% risk weighting for capital adequacy purposes.

Federal savings associations and federal savings banks may invest in the shares of Preferred Stock without regard to limitations generally applicable to investments. Preferred Stock held by a federal savings association or federal savings bank would be subject to a 100% risk weighting for capital adequacy purposes.

Federally insured state-chartered banks, state-chartered savings banks, and state-chartered savings and loan associations may invest in the shares of Preferred Stock to the extent permitted by the Secondary Mortgage Market Enhancement Act of 1984 (“SMMEA”) and by applicable state law, after complying with any procedures imposed by the state. Preferred Stock held by such an institution would be subject to a 100% risk weighting for federal capital adequacy purposes.

Federal credit unions may purchase the shares of Preferred Stock without regard to limitations generally applicable to investments.

The shares of Preferred Stock are “stock . . . of a corporation which is an instrumentality of the United States” within the meaning of § 7701(a)(19)(C)(ii) of the Internal Revenue Code of 1986, as amended (the “Code”) for purposes of the 60 percent of assets limitation applicable to domestic building and loan associations

In addition to the specific authorizations discussed above, § 106(a)(1) of SMMEA provides that any person, trust, corporation, partnership, association, business trust or business entity created pursuant to or existing under the laws of the United States or any state (including the District of Columbia and Puerto Rico)

(an “investor”) is authorized to purchase, hold and invest in securities issued or guaranteed by us (including the shares of Preferred Stock) to the same extent that such investor is authorized to purchase, hold or invest in obligations issued or guaranteed as to principal and interest by the United States or any agency or instrumentality thereof. Prior to October 4, 1991, states were authorized by SMMEA to enact legislation that either prohibited or limited an investor’s authority to purchase, hold or invest in securities issued or guaranteed by us. To the best of our knowledge, 18 states currently have legislation limiting to varying extents the ability of certain entities (in most cases, insurance companies) to invest in securities issued or guaranteed by us, including the shares of Preferred Stock.

Notwithstanding the above, investors should consult their legal advisors to determine whether and to what extent the shares of Preferred Stock constitute legal investments for such investors or are eligible to be used as security for borrowings. The foregoing does not take into consideration the application of statutes, regulations, orders, guidelines or agreements generally governing investments made by a particular investor, including but not limited to “prudent investor” provisions, safety and soundness conditions and percentage-of-assets limits. The regulatory authorities that administer the legal provisions referred to above generally reserve discretion whether securities, such as the Preferred Stock, that are otherwise acceptable for investment may be purchased or pledged by the institutions subject to their jurisdiction. An institution under the jurisdiction of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, the National Credit Union Administration, or any other federal or state agency with similar authority should review any applicable regulations, policy statements and guidelines before purchasing the Preferred Stock.

## UNITED STATES TAXATION

The Preferred Stock and payments thereon generally are subject to taxation. Therefore, you should consider the tax consequences of owning Preferred Stock before acquiring it.

In the opinion of Dewey Ballantine LLP, our special tax counsel, the following discussion correctly describes the principal aspects of the U.S. federal income tax treatment of U.S. Persons (as defined below) that are beneficial holders of the Preferred Stock (“Shareholders”). This discussion does not address the U.S. federal income tax treatment of Shareholders that are not U.S. Persons. This discussion is based on the Code, its legislative history, existing and proposed Treasury regulations, revenue rulings and judicial decisions, changes to any of which subsequent to the date of this Offering Circular may affect, possibly on a retroactive basis, the tax consequences described herein.

This summary discusses only the Preferred Stock purchased in this offering and held as a capital asset (within the meaning of federal tax law). This discussion does not purport to address all of the U.S. federal income tax consequences that may be applicable to particular investors in light of their individual circumstances or to Shareholders subject to special rules, such as dealers in securities, tax-exempt organizations, life insurance companies, persons liable for alternative minimum tax, persons that hold the Preferred Stock as part of a straddle or a hedging or conversion transaction, certain financial institutions and certain securities traders. In addition, this discussion does not address taxes imposed by any state, local or foreign taxing jurisdiction. In all cases, investors are advised to consult their own tax advisors regarding the U.S. federal tax consequences to them of holding, owning and disposing of Preferred Stock, as well as any tax consequences arising under the laws of any state or other taxing jurisdiction.

For purposes of this discussion, “U.S. Person” generally means (1) a citizen or individual resident of the United States, (2) a corporation or partnership created or organized in or under the laws of the United States or any political subdivision thereof, (3) an estate the income of which is includible in its gross income for U.S. federal income tax purposes without regard to its source, or (4) a trust if a court within the United States is able to exercise primary supervision over its administration and at least one U.S. Person has the authority to control all substantial decisions of the trust.

## **Dividends**

Dividends declared and paid on the Preferred Stock will be dividends for U.S. federal income tax purposes to the extent paid out of our current or accumulated earnings and profits, as determined for federal income tax purposes, and will be taxable as ordinary income. Although we expect that our current and accumulated earnings and profits will be such that all dividends paid with respect to the Preferred Stock will qualify as dividends for federal income tax purposes, we cannot guarantee that result. Our accumulated earnings and profits and our current earnings and profits in future years will depend in significant part on our future profits or losses, which we cannot accurately predict. To the extent that the amount of any dividend paid on a share of Preferred Stock exceeds our current or accumulated earnings and profits for federal income tax purposes attributable to that share, the dividend will be treated first as a return of capital (rather than as ordinary income) and will be applied against and reduce the Shareholder's adjusted tax basis in that share of Preferred Stock. The amount of any such dividend in excess of the Shareholder's adjusted tax basis will then be taxed as capital gain. For purposes of the remainder of this discussion, it is assumed that dividends paid with respect to the Preferred Stock will constitute dividends for U.S. federal income tax purposes.

Dividends received by Shareholders that are corporations generally will be eligible for the 70-percent dividends-received deduction under section 243 of the Code. The 70-percent dividends-received deduction will not be available with respect to a dividend received on Preferred Stock that a Shareholder has held for 45 days or less (including the day of disposition, but excluding the day of acquisition) during the 90-day period beginning on the day which is 45 days before the date on which the Preferred Stock becomes ex-dividend. If the dividend is attributable to a period or periods aggregating more than 366 days, the dividends-received deduction will be available only if the Shareholder has held the Preferred Stock for more than 90 days (including the day of disposition, but excluding the day of acquisition) during the 180-day period beginning 90 days before the date on which the Preferred Stock becomes ex-dividend. The length of time that a corporate shareholder is deemed to have held stock for these purposes is reduced by periods during which the shareholder's risk of loss with respect to the stock is diminished by reason of the existence of certain options, contracts to sell, short sales or other similar transactions. The aggregate dividends-received deduction allowed a corporate shareholder cannot exceed 70 percent of its taxable income (with certain adjustments). Moreover, the dividends-received deduction may be reduced if the stock is "debt financed." Stock is "debt financed" if a corporate shareholder incurs indebtedness "directly attributable" to a "portfolio stock" investment in another company, which would include an investment in the Preferred Stock.

Under recently enacted tax legislation, dividends received by individual U.S. Shareholders generally are subject to a reduced maximum tax rate of 15 percent through December 31, 2008, after which date the rate applicable to dividends is scheduled to return to the rate generally applicable to ordinary income. The rate reduction does not apply to dividends received to the extent that the individual U.S. holder elects to treat the dividends as "investment income," which may be offset against investment expense. Furthermore, the rate reduction does not apply to dividends that are paid to Shareholders with respect to Preferred Stock that is held by the Shareholder for 60 days or less during the 120-day period beginning on the date which is 60 days before the date on which the Preferred Stock becomes ex-dividend. Investors are advised to consult their own tax advisors regarding the implications of these rules in light of their particular circumstances.

## **Dispositions, Including Redemptions**

Any sale, exchange, redemption (except as discussed below) or other disposition of the Preferred Stock generally will result in taxable gain or loss equal to the difference between the amount realized upon the disposition and the Shareholder's adjusted tax basis in the Preferred Stock. Such gain or loss will be capital gain or loss and will be long-term capital gain or loss if the holding period for the Preferred Stock exceeds one year. Tax rates on capital gain for individual Shareholders vary depending on each Shareholder's income and holding period for the Preferred Stock. Under recently enacted tax legislation, long-term capital gain realized by individual U.S. Shareholders is subject to a reduced maximum tax rate of 15 percent through December 31, 2008, after which date the maximum rate is scheduled to return to the previously effective 20 percent rate. Shareholders that are individuals should contact their own tax advisors for more information or

for the capital gains tax rate applicable to specific shares of Preferred Stock. The deduction of capital losses is subject to certain limitations.

A redemption of Preferred Stock may be treated as a dividend, rather than as payment in exchange for the Preferred Stock, unless the redemption is “not essentially equivalent to a dividend” with respect to the Shareholder within the meaning of section 302(b)(1) of the Code, “is in complete redemption of all of the stock” of Fannie Mae held by the Shareholder as described in section 302(b)(3) of the Code or otherwise meets the requirements of one of the other exceptions from dividend treatment provided in section 302(b) of the Code. In applying these rules, the Shareholder must take into account not only the Preferred Stock and our other stock that it owns directly, but also the Preferred Stock and our other stock that it constructively owns within the meaning of section 318 of the Code. Because of the complex nature of these rules, each Shareholder should consult its tax advisor to determine whether a redemption of Preferred Stock will be treated as a dividend or as payment in exchange for the Preferred Stock. If the redemption payment is treated as a dividend, the rules discussed above under “Dividends” apply.

### **Information Reporting and Backup Withholding**

Payments of dividends on shares of Preferred Stock and payments of proceeds upon the sale or redemption of Preferred Stock generally are required to be reported to the Internal Revenue Service except in the case of a beneficial holder that is an “exempt recipient.” Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Backup withholding of U.S. federal income tax may apply to payments made with respect to shares of Preferred Stock, as well as to payments of proceeds from the sale of shares of Preferred Stock, to Shareholders that are not exempt recipients and that fail to provide certain identifying information (such as the taxpayer identification number of the Shareholder) in the manner required.

**The U.S. federal income tax discussion set forth above is included for general information only and may not be applicable depending upon a Shareholder’s particular situation. Each Shareholder should consult its own tax advisor with respect to the tax consequences to it of the ownership and disposition of the Preferred Stock, including the tax consequences under the tax laws of the United States, states, localities, countries other than the United States and any other taxing jurisdiction and the possible effects of changes in such tax laws.**

## UNDERWRITING

Subject to the terms and conditions set forth in the underwriting agreement (the “Underwriting Agreement”), we have agreed to sell to each of the underwriters named below (collectively, the “Underwriters”), and each of the Underwriters, for whom Lehman Brothers Inc. (the “Representative”) is acting as representative, has severally agreed to purchase, the number of shares of Preferred Stock set forth opposite its name below:

<u>Underwriter</u>	<u>Number of Shares</u>
Lehman Brothers Inc. ....	3,200,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated.....	2,400,000
First Tennessee Bank National Association.....	600,000
Pryor, Counts & Co., Inc. ....	600,000
Sandler O’Neill & Partners, L.P. ....	600,000
Vining-Sparks IBG, L.P. ....	<u>600,000</u>
Total .....	<u>8,000,000</u>

In the Underwriting Agreement, the Underwriters have severally agreed, subject to the terms and conditions set forth therein, to purchase all the Preferred Stock offered hereby if any is purchased.

The Representative has advised us that the Underwriters propose initially to offer the Preferred Stock to the public at the initial public offering price set forth on the cover page of this Offering Circular, and to certain dealers at such price less a concession not in excess of \$0.2875 per share. The Underwriters may allow, and such dealers may reallow, a discount not in excess of \$0.20 per share on sales to certain other dealers. After the initial public offering, the public offering price, concession and discount may be changed.

We have granted the Underwriters an option exercisable for 30 days after the date of this Offering Circular to purchase up to an aggregate of 1,200,000 additional shares of Preferred Stock solely to cover overallocments, if any. If the Underwriters exercise their overallocation option, the Underwriters have severally agreed, subject to certain conditions, to purchase approximately the same percentage thereof that the number of shares to be purchased by each of them, as shown in the foregoing table, bears to the 8,000,000 shares of Preferred Stock offered.

Prior to this offering, there has been no public market for the Preferred Stock. We will apply to list the Preferred Stock on the NYSE under the symbol “FNMprM.” If accepted for listing, we expect that trading of the Preferred Stock on the NYSE will commence within a thirty-day period after the initial delivery of the Preferred Stock. The Representative has advised us that it intends to make a market in the Preferred Stock prior to the commencement of trading on the NYSE, but are not obligated to do so and may discontinue any such market making at any time without notice.

In the Underwriting Agreement, we and the Underwriters have agreed to indemnify each other against and contribute toward certain liabilities.

The Underwriters and certain affiliates thereof engage in transactions with and perform services for us in the ordinary course of business.

The Underwriters may engage in certain transactions that stabilize the price of the Preferred Stock. These transactions may include entering stabilizing bids, which means the placing of a bid or the effecting of a purchase for the purpose of pegging, fixing or maintaining the price of the Preferred Stock. Neither we nor the Underwriters make any representation or prediction as to the direction or magnitude of any effect that the transactions described above may have on the price of the Preferred Stock. The Underwriters are not required to engage in any of these transactions. When so doing, the Underwriters act on their own behalf and not as our representatives. Any such transactions, if commenced, may be discontinued at any time.

## RATING

Standard & Poor's Ratings Group, a Division of the McGraw-Hill Companies, has assigned the Preferred Stock a rating of "AA-", Moody's Investors Service, Inc. has assigned a rating of "Aa3," and Fitch, Inc. has assigned a rating of "AA". A security rating is not a recommendation to buy, sell or hold securities and may be subject to revision or may be withdrawn at any time by the assigning rating organization.

## ACCOUNTANTS

The audited financial statements of Fannie Mae as of December 31, 2002 and for each of the years in the three-year period ended December 31, 2002, included in the Form 10-K, incorporated herein by reference, have been included in reliance upon the report of KPMG LLP, independent certified public accountants, and upon the authority of that firm as experts in accounting and auditing. The audit reports covering the December 31, 2001 and 2002 financial statements refer to a change in the accounting for derivative financial instruments.

## VALIDITY OF THE PREFERRED STOCK

The validity of the Preferred Stock will be passed upon for us by Sidley Austin Brown & Wood LLP, New York, New York, and for the Underwriters by Sullivan & Cromwell LLP, Washington, D.C. Certain U.S. federal income tax matters will be passed upon for us by Dewey Ballantine LLP, Washington, D.C.

## ADDITIONAL INFORMATION ABOUT FANNIE MAE

We are incorporating by reference in this Offering Circular the documents listed below that we publish from time to time. This means that we are disclosing information to you by referring you to those documents. The documents incorporated by reference are considered part of this Offering Circular, so you should read this Offering Circular, and any applicable supplements or amendments, together with those documents.

You should rely only on the information provided or incorporated by reference in this Offering Circular, and you should rely only on the most current information.

The following documents are incorporated by reference in this Offering Circular:

- our most recent Form 10-K;
- our Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2003; and
- any Form 10-K's, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K ("Form 8-K") that we file with the SEC after the date of this Offering Circular and prior to the termination of the offering of the Preferred Stock. Information we "furnish" to the SEC on Form 8-K shall not be incorporated by reference in this Offering Circular.

You may read our SEC filings and other information about Fannie Mae at the offices of the New York Stock Exchange, the Chicago Stock Exchange and the Pacific Exchange. Our SEC filings also will be available at the SEC's website at [www.sec.gov](http://www.sec.gov). You also may read and copy any document we file with the SEC by visiting the SEC's Public Reference Room at 450 Fifth Street, NW, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information about the operation of the Public Reference Room. We are providing the address of the SEC's internet site solely for the information of prospective investors. We do not intend the internet address to be an active link. This means that information which appears on the SEC's website is not incorporated into this Offering Circular, except as specifically stated in this Offering Circular.

You can obtain copies of the periodic reports we file with the SEC and a copy of this Offering Circular without charge from our Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, NW, Washington, D.C. 20016, telephone: (202) 752-7115. The periodic reports that we file with the SEC and this Offering Circular will be also available on our website at [www.fanniemae.com](http://www.fanniemae.com).

Other than the documents specifically incorporated by reference herein, the information on our website is not part of or incorporated by reference in this Offering Circular.

Appendix A

Reconciliation of Core Business Earnings to GAAP Reported Results

Dollars and shares in millions, except per share amounts

	Three Months Ended March 31, 2003			Three Months Ended March 31, 2002		
	Core Business Earnings	Reconciling Items	Reported Results	Core Business Earnings	Reconciling Items	Reported Results
Net interest income	\$3,368	\$ —	\$3,368	\$2,430	\$ —	\$2,430
Purchased options amortization expense(1)	(764)	764	—	(310)	310	—
Core net interest income	2,604	764	3,368	2,120	310	2,430
Guaranty fee income (expense)	547	—	547	408	—	408
Fee and other income (expense), net	114	—	114	4	—	4
Credit-related expenses	(20)	—	(20)	(22)	—	(22)
Administrative expenses	(344)	—	(344)	(290)	—	(290)
Purchased options expense under FAS 133(2)	—	(625)	(625)	—	(787)	(787)
Debt extinguishments, net	(392)	—	(392)	(172)	—	(172)
Income before federal income taxes	2,509	139	2,648	2,048	(477)	1,571
Provision for federal income taxes(3)	(658)	(49)	(707)	(529)	167	(362)
<b>Net income</b>	<b>\$1,851</b>	<b>\$ 90</b>	<b>\$1,941</b>	<b>\$1,519</b>	<b>\$ (310)</b>	<b>\$1,209</b>
Preferred stock dividends	\$ (30)	\$ —	\$ (30)	\$ (33)	\$ —	\$ (33)

	Reported Results		Core Business Earnings	
	Three Months Ended 3/31/03	Three Months Ended 3/31/02	Three Months Ended 3/31/03	Three Months Ended 3/31/02
Net interest income	\$ 3,368	\$ 2,430	\$ 3,368	\$ 2,430
Taxable-equivalent adjustment on tax-exempt investments(4)	123	123	123	123
Taxable-equivalent net interest income	<u>\$ 3,491</u>	<u>\$ 2,553</u>	\$ 3,491	\$ 2,553
Purchased options amortization expense			(764)	(310)
Taxable-equivalent core net interest income			<u>\$ 2,727</u>	<u>\$ 2,243</u>
Average net investment balance	\$871,939	\$780,769	\$871,939	\$780,769
Average investment yield	5.94%	6.49%	5.94%	6.49%
Average borrowing cost	4.51%	5.36%	4.51%	5.36%
Purchased options amortization expense			0.37%	0.16%
Average core borrowing cost(5)			4.88%	5.52%
Net interest yield, taxable-equivalent basis(6)	1.60%	1.31%		
Net interest margin, taxable-equivalent basis(7)			1.25%	1.15%
Net interest income	\$ 3,368	\$ 2,430	\$ 3,368	\$ 2,430
Guaranty fee income	547	408	547	408
Fee and other income (expense), net	114	4	114	4
Total revenues	<u>4,029</u>	<u>2,842</u>	<u>4,029</u>	<u>2,842</u>
Investment tax credits(8)	216	185	216	185
Tax-exempt investments(4)	123	123	123	123
Total taxable-equivalent adjustments	<u>339</u>	<u>308</u>	<u>339</u>	<u>308</u>
Taxable-equivalent revenues	<u>\$ 4,368</u>	<u>\$ 3,150</u>	4,368	3,150
Purchased options amortization expense			(764)	(310)
Core taxable-equivalent revenues			<u>\$ 3,604</u>	<u>\$ 2,840</u>



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- (1) This amount represents the straight-line amortization of purchased options expense allocated to interest expense over the original expected life of the options. Included in core business earnings instead of the unrealized gains and losses on purchased options to make it consistent with the accounting for the embedded options in our callable debt and the vast majority of our mortgages.
  - (2) This amount represents unrealized gains and losses on purchased options recorded in accordance with FAS 133.
  - (3) The reconciling item represents the net federal income tax effect of core business earnings adjustments based on the applicable federal income tax rate of 35 percent.
  - (4) Reflects non-GAAP adjustments to permit comparison of yields on tax-exempt and taxable assets based on a 35 percent marginal tax rate.
  - (5) Includes the effect of purchased options amortization expense allocated to interest expense over the original expected life of the options.
  - (6) Annualized taxable-equivalent net interest income divided by the weighted average net investment balance.
  - (7) Annualized taxable-equivalent core net interest income divided by the weighted average net investment balance.
  - (8) Represents non-GAAP adjustments for tax credits related to losses on certain affordable housing tax-advantaged equity investments and other investment tax credits using a 35 percent marginal tax rate.

**CERTIFICATE OF DESIGNATION OF TERMS OF  
4.75% NON-CUMULATIVE PREFERRED STOCK, SERIES M**

**1. Designation, Par Value and Number of Shares.**

The designation of the series of preferred stock of the Federal National Mortgage Association (“Fannie Mae”) created by this resolution shall be “4.75% Non-Cumulative Preferred Stock, Series M” (the “Series M Preferred Stock”), and the number of shares initially constituting the Series M Preferred Stock is 8,000,000\*. Shares of Series M Preferred Stock will have no par value and a stated value and liquidation preference of \$50 per share. The Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion, may reduce the number of shares of Series M Preferred Stock, provided such reduction is not below the number of shares of Series M Preferred Stock then outstanding.

**2. Dividends.**

(a) Holders of record of Series M Preferred Stock (each individually a “Holder”, or collectively the “Holders”) will be entitled to receive, when, as and if declared by the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion out of funds legally available therefor, non-cumulative quarterly cash dividends which will accrue from and including June 10, 2003 and will be payable on March 31, June 30, September 30 and December 31 of each year (each, a “Dividend Payment Date”), commencing September 30, 2003 at the annual rate of \$2.375 per share or 4.75% of the stated value and liquidation preference of \$50 per share (without taking into account any adjustments referred to in clause (b) below). If a Dividend Payment Date is not a Business Day, the related dividend (if declared) will be paid on the next succeeding Business Day with the same force and effect as though paid on the Dividend Payment Date, without any increase to account for the period from such Dividend Payment Date through the date of actual payment. A “Business Day” shall mean any day other than a Saturday, Sunday, or a day on which banking institutions in New York, New York are authorized by law to close. Dividends will be paid to Holders on the record date fixed by the Board of Directors or a duly authorized committee thereof, which may not be earlier than 45 days or later than 10 days prior to the applicable Dividend Payment Date. If declared, the initial dividend, which will be for the period from and including June 10, 2003 to but excluding September 30, 2003, will be \$0.7257 per share and will be payable on September 30, 2003 and, thereafter, if declared, quarterly dividends will be \$0.5938 per share. After the initial dividend, the dividend period relating to a Dividend Payment Date will be the period from and including the preceding Dividend Payment Date to but excluding the related Dividend Payment Date. If Fannie Mae redeems the Series M Preferred Stock, the dividend that would otherwise be payable for the then-current quarterly dividend period accrued to but excluding the date of redemption will be included in the redemption price of the shares redeemed and will not be separately payable. Dividends payable on the Series M Preferred Stock for any period greater or less than a full dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. The amount of dividends per share payable at redemption will be rounded to the fourth digit after the decimal point. (If the fifth digit to the right of the decimal point is five or greater, the fourth digit will be rounded up by one.)

(b) No dividend (other than dividends or distributions paid in shares of, or options, warrants or rights to subscribe for or purchase shares of, the common stock of Fannie Mae or any other stock of Fannie Mae ranking, as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, junior to the Series M Preferred Stock) may be declared or paid or set apart for payment on Fannie Mae’s common stock (or on any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series M Preferred Stock) unless dividends have been declared and paid or set apart (or ordered to be set apart) on the Series M Preferred Stock for the then-current quarterly dividend period; provided, however, that the foregoing dividend preference shall not be cumulative and shall not in any way create any claim or right in favor of the Holders of Series M Preferred Stock in the event that dividends have not been

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\* Plus up to 1,200,000 additional shares pursuant to the Underwriters’ overallotment option.

declared or paid or set apart (or ordered to be set apart) on the Series M Preferred Stock in respect of any prior dividend period. If the full dividend on the Series M Preferred Stock is not paid for any quarterly dividend period, the Holders of Series M Preferred Stock will have no claim in respect of the unpaid amount so long as no dividend (other than those referred to above) is paid on Fannie Mae's common stock (or any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series M Preferred Stock) for such dividend period.

(c) The Board of Directors of Fannie Mae, or a duly authorized committee thereof, may, in its discretion, choose to pay dividends on the Series M Preferred Stock without the payment of any dividends on Fannie Mae's common stock (or any other stock of Fannie Mae ranking, as to the payment of dividends, junior to the Series M Preferred Stock).

(d) No full dividends shall be declared or paid or set apart for payment on any stock of Fannie Mae ranking, as to the payment of dividends, on a parity with the Series M Preferred Stock for any period unless full dividends have been declared and paid or set apart for payment on the Series M Preferred Stock for the then-current quarterly dividend period. When dividends are not paid in full upon the Series M Preferred Stock and all other classes or series of stock of Fannie Mae, if any, ranking, as to the payment of dividends, on a parity with the Series M Preferred Stock, all dividends declared upon shares of Series M Preferred Stock and all such other stock of Fannie Mae will be declared pro rata so that the amount of dividends declared per share of Series M Preferred Stock and all such other stock will in all cases bear to each other the same ratio that accrued dividends per share of Series M Preferred Stock (but without, in the case of any noncumulative preferred stock, accumulation of unpaid dividends for prior dividend periods) and such other stock bear to each other.

(e) No dividends may be declared or paid or set apart for payment on any shares of Series M Preferred Stock if at the same time any arrears exist or default exists in the payment of dividends on any outstanding class or series of stock of Fannie Mae ranking, as to the payment of dividends, prior to the Series M Preferred Stock.

(f) Holders of Series M Preferred Stock will not be entitled to any dividends, whether payable in cash or property, other than as herein provided and will not be entitled to interest, or any sum in lieu of interest, in respect of any dividend payment.

### **3. Optional Redemption.**

(a) The Series M Preferred Stock shall not be redeemable prior to June 10, 2008. On or after that date, subject to the notice provisions set forth in Section 3(b) below and subject to any further limitations which may be imposed by law, Fannie Mae may redeem the Series M Preferred Stock, in whole or in part, at any time or from time to time, out of funds legally available therefor, at the redemption price of \$50 per share plus an amount equal to the amount of the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of such redemption, but without accumulation of unpaid dividends on the Series M Preferred Stock for prior dividend periods. If less than all of the outstanding shares of Series M Preferred Stock are to be redeemed, Fannie Mae will select the shares to be redeemed from the outstanding shares not previously called for redemption by lot or pro rata (as nearly as possible) or by any other method that the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its sole discretion deems equitable.

(b) In the event Fannie Mae shall redeem any or all of the Series M Preferred Stock as aforesaid, Fannie Mae will give notice of any such redemption to Holders of Series M Preferred Stock not less than 30 days prior to the date fixed by the Board of Directors of Fannie Mae, or duly authorized committee thereof, for such redemption. Each such notice will state: (1) the number of shares of Series M Preferred Stock to be redeemed and, if fewer than all of the shares of Series M Preferred Stock held by a Holder are to be redeemed, the number of shares to be redeemed from such Holder; (2) the redemption price; (3) the redemption date; and (4) the place at which a Holder's certificate(s) representing shares of Series M Preferred Stock must be presented upon such redemption. Failure to give notice, or any defect in the notice, to

any Holder of Series M Preferred Stock shall not affect the validity of the proceedings for the redemption of shares of any other Holder of Series M Preferred Stock being redeemed.

(c) Notice having been given as herein provided, from and after the redemption date, dividends on the Series M Preferred Stock called for redemption shall cease to accrue and such Series M Preferred Stock called for redemption will no longer be deemed outstanding, and all rights of the Holders thereof as registered holders of such shares of Series M Preferred Stock will cease. Upon surrender in accordance with said notice of the certificate(s) representing shares of Series M Preferred Stock so redeemed (properly endorsed or assigned for transfer, if the Board of Directors of Fannie Mae, or a duly authorized committee thereof, shall so require and the notice shall so state), such shares shall be redeemed by Fannie Mae at the redemption price aforesaid. Any shares of Series M Preferred Stock that shall at any time have been redeemed shall, after such redemption, be cancelled and not reissued. In case fewer than all the shares represented by any such certificate are redeemed, a new certificate shall be issued representing the unredeemed shares without cost to the Holder thereof.

(d) The Series M Preferred Stock will not be subject to any mandatory redemption, sinking fund or other similar provisions. In addition, Holders of Series M Preferred Stock will have no right to require redemption of any shares of Series M Preferred Stock.

#### **4. Liquidation Rights.**

(a) Upon any voluntary or involuntary dissolution, liquidation or winding up of Fannie Mae, after payment or provision for the liabilities of Fannie Mae and the expenses of such dissolution, liquidation or winding up, the Holders of outstanding shares of the Series M Preferred Stock will be entitled to receive out of the assets of Fannie Mae or proceeds thereof available for distribution to stockholders, before any payment or distribution of assets is made to holders of Fannie Mae's common stock (or any other stock of Fannie Mae ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, junior to the Series M Preferred Stock), the amount of \$50 per share plus an amount equal to the dividend (whether or not declared) for the then-current quarterly dividend period accrued to but excluding the date of such liquidation payment, but without accumulation of unpaid dividends on the Series M Preferred Stock for prior dividend periods.

(b) If the assets of Fannie Mae available for distribution in such event are insufficient to pay in full the aggregate amount payable to Holders of Series M Preferred Stock and holders of all other classes or series of stock of Fannie Mae, if any, ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, on a parity with the Series M Preferred Stock, the assets will be distributed to the Holders of Series M Preferred Stock and holders of all such other stock pro rata, based on the full respective preferential amounts to which they are entitled (but without, in the case of any noncumulative preferred stock, accumulation of unpaid dividends for prior dividend periods).

(c) Notwithstanding the foregoing, Holders of Series M Preferred Stock will not be entitled to be paid any amount in respect of a dissolution, liquidation or winding up of Fannie Mae until holders of any classes or series of stock of Fannie Mae ranking, as to the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, prior to the Series M Preferred Stock have been paid all amounts to which such classes or series are entitled.

(d) Neither the sale, lease or exchange (for cash, shares of stock, securities or other consideration) of all or substantially all of the property and assets of Fannie Mae, nor the merger, consolidation or combination of Fannie Mae into or with any other corporation or the merger, consolidation or combination of any other corporation or entity into or with Fannie Mae, shall be deemed to be a dissolution, liquidation or winding up, voluntary or involuntary, for the purposes of this Section 4.

(e) After payment of the full amount of the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae to which they are entitled pursuant to paragraphs (a), (b) and (c) of this Section 4, the Holders of Series M Preferred Stock will not be entitled to any further participation in any distribution of assets by Fannie Mae.

## **5. No Conversion or Exchange Rights.**

The Holders of shares of Series M Preferred Stock will not have any rights to convert such shares into or exchange such shares for shares of any other class or classes, or of any other series of any class or classes, of stock or obligations of Fannie Mae.

## **6. No Pre-Emptive Rights.**

No Holder of Series M Preferred Stock shall be entitled as a matter of right to subscribe for or purchase, or have any pre-emptive right with respect to, any part of any new or additional issue of stock of any class whatsoever, or of securities convertible into any stock of any class whatsoever, or any other shares, rights, options or other securities of any class whatsoever, whether now or hereafter authorized and whether issued for cash or other consideration or by way of dividend.

## **7. Voting Rights; Amendments.**

(a) Except as provided below, the Holders of Series M Preferred Stock will not be entitled to any voting rights, either general or special.

(b) Without the consent of the Holders of Series M Preferred Stock, Fannie Mae will have the right to amend, alter, supplement or repeal any terms of this Certificate or the Series M Preferred Stock (1) to cure any ambiguity, or to cure, correct or supplement any provision contained in this Certificate of Designation that may be defective or inconsistent with any other provision herein or (2) to make any other provision with respect to matters or questions arising with respect to the Series M Preferred Stock that is not inconsistent with the provisions of this Certificate of Designation so long as such action does not materially and adversely affect the interests of the Holders of Series M Preferred Stock; provided, however, that any increase in the amount of authorized or issued Series M Preferred Stock or the creation and issuance, or an increase in the authorized or issued amount, of any other class or series of stock of Fannie Mae, whether ranking prior to, on a parity with or junior to the Series M Preferred Stock, as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, or otherwise, will not be deemed to materially and adversely affect the interests of the Holders of Series M Preferred Stock.

(c) Except as set forth in paragraph (b) of this Section 7, the terms of this Certificate or the Series M Preferred Stock may be amended, altered, supplemented, or repealed only with the consent of the Holders of at least two-thirds of the shares of Series M Preferred Stock then outstanding, given in person or by proxy, either in writing or at a meeting of stockholders at which the Holders of Series M Preferred Stock shall vote separately as a class. On matters requiring their consent, Holders of Series M Preferred Stock will be entitled to one vote per share.

(d) The rules and procedures for calling and conducting any meeting of Holders (including, without limitation, the fixing of a record date in connection therewith), the solicitation and use of proxies at such a meeting, the obtaining of written consents, and any other aspect or matter with regard to such a meeting or such consents shall be governed by any rules that the Board of Directors of Fannie Mae, or a duly authorized committee thereof, in its discretion, may adopt from time to time, which rules and procedures shall conform to the requirements of any national securities exchange on which the Series M Preferred Stock are listed at the time.

## **8. Additional Classes or Series of Stock.**

The Board of Directors of Fannie Mae, or a duly authorized committee thereof, shall have the right at any time in the future to authorize, create and issue, by resolution or resolutions, one or more additional classes or series of stock of Fannie Mae, and to determine and fix the distinguishing characteristics and the relative rights, preferences, privileges and other terms of the shares thereof. Any such class or series of stock may rank prior to, on a parity with or junior to the Series M Preferred Stock as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, or otherwise.

## **9. Priority.**

For purposes of this Certificate of Designation, any stock of any class or series of Fannie Mae shall be deemed to rank:

(a) Prior to the shares of Series M Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in preference or priority to the Holders of shares of Series M Preferred Stock.

(b) On a parity with shares of Series M Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, whether or not the dividend rates or amounts, dividend payment dates or redemption or liquidation prices per share, if any, be different from those of the Series M Preferred Stock, if the holders of such class or series shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other, as between the holders of such class or series and the Holders of shares of Series M Preferred Stock.

(c) Junior to shares of Series M Preferred Stock, either as to the payment of dividends or the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae, if such class shall be common stock of Fannie Mae or if the Holders of shares of Series M Preferred Stock shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in preference or priority over the holders of such class or series.

(d) The shares of Preferred Stock of Fannie Mae designated “5.25% Non-Cumulative Preferred Stock, Series D” (the “Series D Preferred Stock”), “5.10% Non-Cumulative Preferred Stock, Series E” (the “Series E Preferred Stock”), “Variable Rate Non-Cumulative Preferred Stock, Series F” (the “Series F Preferred Stock”), “Variable Rate Non-Cumulative Preferred Stock, Series G” (the “Series G Preferred Stock”), “5.81% Non-Cumulative Preferred Stock, Series H” (the “Series H Preferred Stock”) , “5.375% Non-Cumulative Preferred Stock, Series I” (the “Series I Preferred Stock”), “Variable Rate Non-Cumulative Preferred Stock, Series J (the “Series J Preferred Stock”), “Variable Rate Non-Cumulative Preferred Stock, Series K” (the “Series K Preferred Stock”) and “5.125% Non-Cumulative Preferred Stock, Series L” (the “Series L Preferred Stock”) shall be deemed to rank on a parity with shares of Series M Preferred Stock as to the payment of dividends and the distribution of assets upon dissolution, liquidation or winding up of Fannie Mae. Accordingly, the holders of record of Series D Preferred Stock, the holders of record of Series E Preferred Stock, the holders of record of Series F Preferred Stock, the holders of record of Series G Preferred Stock, the holders of record of Series H Preferred Stock, the holders of record of Series I Preferred Stock, the holders of record of Series J Preferred Stock, the holders of record of Series K Preferred Stock, the holders of record of Series L Preferred Stock and the holders of record of Series M Preferred Stock shall be entitled to the receipt of dividends and of amounts distributable upon dissolution, liquidation or winding up of Fannie Mae, as the case may be, in proportion to their respective dividend rates or amounts or liquidation prices, without preference or priority, one over the other.

## **10. Transfer Agent, Dividend Disbursing Agent and Registrar.**

Fannie Mae hereby appoints EquiServe Trust Company, N.A., as its initial transfer agent, dividend disbursing agent and registrar for the Series M Preferred Stock. Fannie Mae may at any time designate an additional or substitute transfer agent, dividend disbursing agent and registrar for the Series M Preferred Stock.

## **11. Notices.**

Any notice provided or permitted by this Certificate of Designation to be made upon, or given or furnished to, the Holders of Series M Preferred Stock by Fannie Mae shall be made by first-class mail,

postage prepaid, to the addresses of such Holders as they appear on the books and records of Fannie Mae. Such notice shall be deemed to have been sufficiently made upon deposit thereof in the United States mail. Notwithstanding anything to the contrary contained herein, in the case of the suspension of regular mail service or by reason of any other cause it shall be impracticable, in Fannie Mae's judgment, to give notice by mail, then such notification may be made, in Fannie Mae's discretion, by publication in a newspaper of general circulation in The City of New York or by hand delivery to the addresses of Holders as they appear on the books and records of Fannie Mae.

**Receipt and acceptance of a share or shares of the Series M Preferred Stock by or on behalf of a Holder shall constitute the unconditional acceptance by such Holder (and all others having beneficial ownership of such share or shares) of all of the terms and provisions of this Certificate of Designation. No signature or other further manifestation of assent to the terms and provisions of this Certificate of Designation shall be necessary for its operation or effect as between Fannie Mae and the Holder (and all such others).**

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**8,000,000 Shares**



**4.75% Non-Cumulative Preferred Stock, Series M**  
(stated value \$50 per share)

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**OFFERING CIRCULAR**

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**Lehman Brothers**  
**Merrill Lynch & Co.**

**FTN Financial Capital Markets**  
**Pryor, Counts & Co., Inc.**  
**Sandler O'Neill & Partners, L.P.**  
**Vining-Sparks IBG, L.P.**

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