

Offering Circular Supplement, dated March 21, 2007  
(To Offering Circular, dated March 19, 2007)



## Fannie Mae Investment Notes Universal Debt Facility

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This Offering Circular Supplement relates to Fannie Mae Investment Notes (the “Notes”). You should read it together with the Offering Circular, dated March 19, 2007 (the “Offering Circular”), relating to our Universal Debt Facility and the applicable Pricing Supplement for the Notes. Capitalized terms used in this Offering Circular Supplement have the meanings we gave to them in the Offering Circular, unless we specify otherwise.

**The Notes, together with interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than Fannie Mae.**

**You should read and understand the discussion of risk factors that appears in the Offering Circular beginning on page 7 and in the applicable Pricing Supplement. The following discussion, the “Risk Factors” section in the Offering Circular, and the disclosure in the applicable Pricing Supplement may not describe all of the risks and investment considerations you should consider in light of your particular circumstances before you invest in the Notes.**

We will specify the final terms of each Note in the applicable Pricing Supplement.

This Offering Circular Supplement highlights information contained elsewhere in the Offering Circular and the applicable Pricing Supplement for the Notes. It does not contain all of the information you should consider before investing in the Notes. You should also read the more detailed information in the Offering Circular and the applicable Pricing Supplement.

*This Offering Circular Supplement replaces and supersedes the Offering Circular Supplement dated October 24, 2005 for Investment Notes issues settling upon original issuance on or after March 29, 2007.*

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**Merrill Lynch & Co.**

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## RISK FACTORS

You should refer to the “Risk Factors” section beginning on page 7 of the Offering Circular for a discussion of the principal risks with respect to our Debt Securities. You should consider all the risks involved before making an investment decision regarding the Notes or any other Fannie Mae Debt Securities. Persons interested in investing in the Notes should pay particular attention to our disclosure under the headings: “Lack of Current Financial Information about Fannie Mae,” and “Potential Legislative and Regulatory Developments” before making an investment decision.

## SUMMARY

**The Notes, together with interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than Fannie Mae.**

### **Q1: How does the Fannie Mae Investment Notes Program work?**

**A1:** Fannie Mae expects to offer several issues of Notes in the United States on a weekly basis. The Notes will have various interest rates, Interest Payment Dates, Maturity Dates and redemption provisions. Fannie Mae is offering the Notes to Merrill Lynch, Pierce, Fenner & Smith Incorporated (“Merrill Lynch”) as principal. Merrill Lynch may resell the Notes it has purchased from us as principal to investors, to members of the Selling Group (see Q&A #7 below) or to other dealers. Notes purchased from Merrill Lynch by the Selling Group may be resold to investors or to other dealers.

### **Q2: What are some of the features common to all Notes?**

**A2:** All Notes will be issued in minimum denominations of U.S.\$1,000 and additional increments of U.S.\$1,000. The Specified Payment Currency for all Notes will be U.S. dollars. Interest will be calculated on the basis of a 360-day year consisting of twelve 30-day months. If an Interest Payment Date or Principal Payment Date is not a Business Day, we will pay the interest or principal on the next Business Day. In that case, you will receive no interest on the delayed interest or principal payment for the period from and after the scheduled Interest Payment Date or Principal Payment Date to the actual date of payment.

### **Q3: Are the Notes redeemable at our option or at the option of Holders?**

**A3:** The Pricing Supplement for a particular issue of Notes will specify whether the Notes are redeemable at the option of Fannie Mae, in whole or in part, prior to maturity. The Pricing Supplement will describe the terms applicable to this redemption right. “Holders” will receive accrued and unpaid interest on the principal amount redeemed to the date fixed for redemption. (See Q&A #8 below.)

If we elect to redeem the Notes, we will give notice of our intention to Holders of Notes not less than 10 days prior to the date of redemption in the manner described in the Offering Circular under “Description of the Debt Securities – Notices.” If we redeem a portion of an issue of the Notes, we will redeem a pro rata portion of the outstanding principal amount of each Note of that issue.

In addition, the Pricing Supplement for a particular issue of Notes will specify whether the Notes contain a provision permitting the optional repayment of those Notes prior to maturity at the request of the authorized representative of the beneficial owner of the Notes, following the death of the beneficial owner of the Notes. This provision is referred to as a “Survivor’s Option.” Your Notes will not be entitled to a Survivor’s Option unless the applicable Pricing Supplement otherwise states. The Survivor’s Option may not be exercised until at least 12 months following the issue date of the applicable Note. In addition, the right to exercise the Survivor’s Option is subject to limits set by us on (1) the permitted dollar amount of exercises on behalf of all deceased beneficial owners of Notes in any calendar year, and (2) the permitted dollar amount of exercises on behalf of an individual deceased beneficial owner of a Note in any calendar year. Additional details on the Survivor’s Option are

described in Annex A to this Offering Circular Supplement, and the form to be used to exercise the Survivor's Option is attached as Annex B to this Offering Circular Supplement.

Unless a particular issue of Notes contains the Survivor's Option, the Notes will not be redeemable at the option of Holders of the Notes.

**Q4: Can a transfer of Notes with a Survivor's Option affect the ability to exercise the Survivor's Option?**

**A4:** Yes. The Survivor's Option is a limited right, and certain common transfers of Notes for estate planning or financial planning purposes may effectively eliminate a Survivor Representative's ability to exercise the Survivor's Option that may be present in an issue of Notes. The Survivor's Option can only be exercised upon the death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interests of ownership of the Notes. Certain common transfers of Notes for estate planning or financial planning purposes (*e.g.*, transfers to irrevocable trusts, limited partnerships, special purpose entities, etc.) may result in the transfer of substantially all of the beneficial interests of ownership of the Notes to another legal entity, such that the death of the purchaser of the Notes does not trigger the Survivor's Option because the purchaser no longer retained substantially all of the beneficial interests of ownership of the Notes at the time of his or her death. Investors should consult with their financial or legal advisor or other estate planning professional before making a transfer of any beneficial interests of ownership of the Notes.

**Q5: What investment risks are involved?**

**A5:** Investors should consult the Offering Circular and applicable Pricing Supplement for a description of the risk factors involved in purchasing the Notes. In addition, you should consult your own financial and legal advisors about:

- the risks of an investment in the Notes (for example, the risks associated with any redemption feature of the Notes);
- the suitability of your investing in the Notes in light of your particular situation (for example, if you need to receive the principal amount on the Maturity Date or need to receive fixed interest payments until the Maturity Date, redeemable Notes may not be an appropriate investment for you);
- the appropriate tools to analyze a possible investment in the Notes; and
- possible economic and interest rate scenarios and other factors that may affect your investment in the Notes.

We are likely to exercise any redemption right applicable to the Notes when interest rates are lower than when those Notes were issued. Accordingly, investors buying redeemable Notes face the risk of having to reinvest at less attractive terms in the event that we redeem the issue. Our ability to redeem the Notes before the Maturity Date is likely to affect the market value of the Notes. During any period when we might be likely to redeem the Notes, the Notes' market value generally will not rise substantially above the redemption price.

If your Notes are entitled to a Survivor's Option, we will have a discretionary right to limit the aggregate principal amount of Notes subject to that Survivor's Option that may be exercised in any calendar year. We also will have the discretionary right to limit the aggregate principal amount of Notes subject to the Survivor's Option that may be exercised in any calendar year on behalf of any individual deceased beneficial owner of Notes. Accordingly, we cannot assure you that exercise of a Survivor's Option for the desired amount will be permitted in any single calendar year. Furthermore, a Survivor's Option may not be exercised until at least twelve months following the issue date of the applicable Note.

**Q6: What are the Notes rated?**

**A6:** Our senior unsecured debt at the date of this Offering Circular Supplement is rated "Aaa" by Moody's Investors Service, Inc., "AAA" by Standard & Poor's Ratings Group, a Division of the

McGraw-Hill Companies and “AAA” by Fitch, Inc. The Notes are senior unsecured debt of Fannie Mae. 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. You should check the current rating before purchasing Notes.

**Q7: Who are the members of the Selling Group for the Notes?**

**A7:** Certain broker-dealers and/or securities firms have entered into dealer agreements with Merrill Lynch and have agreed to market and sell the Notes in accordance with the terms of these agreements and all other applicable laws and regulations (the “Selling Group”). You may call Merrill Lynch at (212) 449-5652 for a list of Selling Group members.

**Q8: Who are the Holders of record for the Notes?**

**A8:** We will register Global Book-Entry Securities in the name of Cede & Co., or other nominee of DTC. Accordingly, Cede & Co. will be the “Holder” of the related Global Book-Entry Securities. Beneficial interest in a Global Book-Entry Security will be represented, and transfers thereof will be effected, only through book-entry accounts of financial institutions acting on behalf of the beneficial owners of that Global Book-Entry Security, as a direct or indirect participant in the clearing system for that Global Book-Entry Security. We and The Bank of New York, as our Global Agent (the “Global Agent”), may treat the Holder as the absolute owner of Global Book-Entry Securities for the purpose of making payments and for all other purposes. Owners of beneficial interest in a Global-Book Entry Security are not the owners or Holders of that Global Book-Entry Security and, except under limited circumstances, are not entitled to have Notes registered in their names or to receive definitive Notes. Accordingly, any beneficial owner must rely on the procedures of the participant through which the beneficial owner owns its interest, to exercise any rights of a Holder of the Global Book-Entry Security. See “Description of the Debt Securities-Ownership of Debt Securities-Global Book-Entry Securities” in the Offering Circular.

**Q9: What are the clearance and settlement procedures for the Notes?**

**A9:** The Notes will clear and settle through the system operated by DTC. DTC holds securities for DTC participants and facilitates the clearance and settlement of transactions between DTC participants through electronic book-entry changes in accounts of DTC participants. Notwithstanding any statement to the contrary in the Offering Circular, we have agreed that our right (in our discretion) to elect to issue definitive securities in exchange for a Global Book-Entry Security will be suspended for so long as such election is inconsistent with DTC’s rules and procedures.

## UNITED STATES TAXATION

The Notes and payments thereon generally are subject to taxation. Therefore, you should consider the tax consequences of owning and receiving payments on the Notes before acquiring them.

We have engaged Dewey Ballantine LLP as special tax counsel to review the discussion in the Offering Circular under the heading “United States Taxation.” They have given us their opinion that the discussion correctly describes the principal aspects of the U.S. federal tax treatment of beneficial owners of the Notes. They have also given us their opinion that the following discussion is a correct summary of some of the tax rules described in the Offering Circular that are particularly important to individual investors who purchase the Notes. This discussion, and the discussion in the Offering Circular, are general discussions that may not apply to your particular circumstances.

The tax discussions contained in this Offering Circular Supplement were not intended or written to be used, and cannot be used, for the purpose of avoiding United States federal tax penalties. These discussions were written to support the promotion or marketing of the transactions or matters addressed in this Offering Circular Supplement. You should seek advice based on your particular circumstances from an independent tax advisor.

A beneficial owner of a Note generally will include interest on the Note as ordinary income in accordance with his or her method of accounting for federal income tax purposes. Beneficial owners using the cash method of accounting, including most individuals, generally must include interest in income in the year in which they receive payment. Beneficial owners using the accrual method of accounting generally must include interest in income during the year in which it is earned or accrued, without regard to when they receive payment.

When you sell, exchange, redeem (for example, upon exercising a Survivor’s Option) or otherwise dispose of a Note you generally will recognize gain or loss equal to the difference between the amount you paid for the Note and the sales price. Such gain or loss generally will be capital gain or loss, except to the extent attributed to accrued interest. Any capital gain or loss will be long-term capital gain or loss if at the time of disposition you have held the Note for more than one year. If you are considering purchasing a Note with a Survivor’s Option, you should consult your own tax advisor to determine the effect of such feature to you.

Payments of interest on, and proceeds from the sale of, a Note held by an individual and certain other non-exempt Holders generally must be reported to both the Internal Revenue Service and to the individual. Backup withholding of U.S. federal income tax may apply to payments made on a Note unless you provide your taxpayer identification number, certified under penalties of perjury, and certain other information. Generally, an individual’s taxpayer identification number is his or her Social Security number.

For a more detailed discussion of the tax rules applicable to beneficial owners of Notes, see “United States Taxation” in the Offering Circular. Different rules may apply to investors who are not U.S. persons, who do not hold the Note as capital assets, or to whom other special circumstances may apply. If you are considering purchasing a Note you should consult your own tax advisors to determine the tax consequences to you.

The Notes or interest thereon are not exempt from taxation by any state, locality or other governmental unit.

## SUPPLEMENTAL PLAN OF DISTRIBUTION

The following description supplements, and should be read in conjunction with, and to the extent inconsistent therewith replaces, the description under “Plan of Distribution” in the Offering Circular.

We are offering the Notes on a continuing basis for sale to Merrill Lynch. Merrill Lynch may sell the Notes to investors at the fixed offering price stated in the applicable Pricing Supplement or it may sell the Notes to members of the Selling Group at the concession stated in the applicable Pricing Supplement, which will not be in excess of the discount to be received by Merrill Lynch from us. Notes purchased from Merrill Lynch by the Selling Group may be resold to other dealers at the reallowance specified in the applicable Pricing Supplement. Merrill Lynch may also sell the Notes to other dealers at the reallowance price specified in the applicable Pricing Supplement.

We reserve the right to withdraw, cancel or modify the offer made hereby without notice and may reject offers in whole or in part. Merrill Lynch and members of the Selling Group will have the right, in their discretion reasonably exercised, to reject in whole or in part any offer to purchase Notes received by them.

Upon issuance, the Notes will not have an established trading market, and there can be no assurance that a secondary market for the Notes will develop or that there will be liquidity in the secondary market if one develops. The Notes will not be listed on any securities exchange. Merrill Lynch may from time to time purchase and sell Notes in the secondary market, but Merrill Lynch is not obligated to do so. From time to time, Merrill Lynch may make a market in the Notes, but Merrill Lynch is not obligated to do so and may discontinue any market-making activity at any time.

In connection with this offering, Merrill Lynch will be permitted to engage in certain transactions that stabilize the price of the Notes. These transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of Notes. If Merrill Lynch creates a short position in the Notes, *i.e.*, if it sells Notes in an amount exceeding the amount referred to in the applicable Pricing Supplement, it may reduce that short position by purchasing Notes in the open market. In general, purchases of Notes for the purpose of stabilization or to reduce a short position could cause the price of Notes to be higher than it might be in the absence of these purchases.

Neither we nor Merrill Lynch make any representation or prediction as to the direction or magnitude of any effect that the transactions described in the preceding paragraph may have on the price of Notes. In addition, neither we nor Merrill Lynch make any representation that Merrill Lynch will engage in any such transactions or that such transactions, once commenced, will not be discontinued without notice.

Members of the Selling Group have executed dealer agreements with Merrill Lynch and have agreed to market and sell the Notes in accordance with the terms of these agreements along with all other applicable laws and regulations. You may call Merrill Lynch at (212) 449-5652 for a list of Selling Group members.

In the ordinary course of its business, Merrill Lynch and their affiliates have engaged, and may in the future engage, in investment and commercial banking transactions with us and certain of our affiliates.

## SURVIVOR'S OPTION

A Pricing Supplement relating to an issue of Notes may provide that, subject to certain procedures and restrictions, the Survivor Representative of a beneficial holder (as defined below) may request that Fannie Mae repurchase the Notes from the estate of the beneficial holder. A "Survivor Representative" is a person with the authority under applicable law to act on behalf of a deceased beneficial holder of Notes. Such person will typically be the personal representative, executor, or surviving joint tenant of the deceased beneficial owner.

In the event that Fannie Mae repurchases Notes at the request of a Survivor Representative, the repurchase price will be equal to 100% of the principal amount of the beneficial ownership interest of the beneficial holder, plus any accrued interest from and including the date of the last interest payment on the Notes, to but excluding the date of the repurchase, subject to certain limitations and caps as described below. This limited right of a Survivor Representative to request that Fannie Mae repurchase the Notes of a beneficial owner is called the "Survivor's Option."

### Limitations

Any repurchase of Notes at the request of the Survivor Representative will be subject to the following limitations:

- the Survivor's Option may not be exercised until at least 12 months following the issue date of the applicable Notes.
- in any calendar year, Fannie Mae may limit the aggregate principal amount of an issue of Notes it repurchases to the greater of: (a) 1% of the aggregate principal amount of an outstanding issue of Notes, as of December 31 of the most recently completed year, or (b) U.S. \$1,000,000. We call this limitation the "Annual Put Limitation."

*Example.* If, in a given year, assume that an issue of Notes has U.S. \$5,000,000 in aggregate principal amount outstanding, and Fannie Mae has already repurchased U.S. \$1,000,000 in aggregate principal amount of Notes from the estates of other deceased beneficial holders. In that circumstance, Fannie Mae may properly refuse any requests from a Survivor Representative to repurchase any additional amounts of that issue of Notes for the remainder of the calendar year, notwithstanding the fact that the estate of the deceased beneficial holder requesting the repurchase has not had any Notes repurchased from Fannie Mae in that calendar year.

- in any calendar year, Fannie Mae may limit the aggregate principal amount of the Notes it repurchases that are attributable to a deceased beneficial holder to U.S. \$200,000. We call this limitation the "Individual Put Limitation."

*Example.* A Survivor Representative contacts Fannie Mae requesting that Fannie Mae repurchase the Notes of a beneficial holder, and the beneficial holder owned three different issues of Notes, each with an aggregate principal amount of U.S. \$500,000. Of the U.S. \$1,500,000 in aggregate principal amount of Notes owned by the beneficial holder, Fannie Mae may, subject to any other applicable limitations, repurchase up to U.S. \$200,000 in aggregate principal amount of the Notes requested by the Survivor Representative for the current calendar year.

Fannie Mae will not complete a repurchase of Notes pursuant to the exercise of the Survivor's Option if a beneficial holder is requesting the repurchase of less than U.S. \$1,000 in aggregate principal amount of Notes, and Fannie Mae will limit any repurchase of Notes pursuant to the exercise of the Survivor's Option so that, after the completion of the repurchase, the remaining

outstanding aggregate principal amount of an issue of Notes (to the extent there will be any remaining principal amount outstanding after completion of the repurchase ) is at least U.S. \$1,000.

As discussed in greater detail below, Fannie Mae will not repurchase Notes pursuant to the exercise of the Survivor's Option if the deceased person no longer held substantially all of the beneficial interests of ownership of the Notes. Certain common transfers of assets as part of estate planning or other financial management strategies can result in a transfer of substantially all of the beneficial interests of ownership of the Notes to another legal entity, which may result in the death of a person who purchased the Notes no longer triggering the Survivor's Option. Investors should consult with their financial or legal advisors or other estate planning professionals prior to any transfers of the beneficial interests of ownership of the Notes.

## **Timing**

Requests by a Survivor Representative for the repurchase of Notes will be reviewed promptly in the order such requests are received. Any repurchase request that would trigger the Annual Put Limitation or the Individual Put Limitation will not be accepted; *provided, however*, that in the event the aggregate principal amount of an issue of Notes repurchased by Fannie Mae pursuant to the Survivor's Option has not exceeded the Annual Put Limitation during a calendar year, requests for repurchase that were refused during that calendar year because of the Individual Put Limitation may be accepted by Fannie Mae in the order such repurchase requests were received, subject to the Annual Put Limitation for an issue of Notes for that calendar year.

Fannie Mae will only make payments on the repurchase of Notes pursuant to the exercise of the Survivor's Option on a quarterly basis. Payments for any Notes to be repurchased by Fannie Mae pursuant to the exercise of the Survivor's Option will be made by no later than the first January 15, April 15, July 15 or October 15 to occur at least 20 calendar days after the date the Notes are accepted for repurchase.

*Example.* If a request for repurchase pursuant to the Survivor's Option was accepted on September 1, Fannie Mae would be required to repurchase the Notes by no later than October 15; however, if the request for repurchase was accepted on October 1, Fannie Mae would be required to repurchase the Notes by no later than January 15 of the following year. If any date on which payment for Notes is scheduled to be made is not a Business Day, payment will be made on the next succeeding Business Day, and no interest on such payment shall accrue for the period from such scheduled repayment date to the actual date of payment.

Any request by a Survivor Representative for the repurchase of Notes pursuant to the Survivor's Option may not be withdrawn once it is received; *provided, however*, that in the event a request by a Survivor Representative for the repurchase of Notes is not accepted, such request may be withdrawn. Any notice denying a request for the repurchase of Notes will be delivered by first-class mail to the Survivor Representative, and will set forth the grounds for denial.

Any request to repurchase Notes from a Survivor Representative that is not accepted by Fannie Mae in a calendar year because of the Annual Put Limitation on an issue of Notes will be deemed to be delivered by the Survivor Representative in the following calendar year, using the order in which such requests were originally received, unless the request for repurchase has been withdrawn by the Survivor Representative.

## **Types of Ownership**

The death of a person owning Notes in **joint tenancy** or **tenancy by the entirety** will be deemed the death of the beneficial owner of the Notes, and the Survivor Representative may request that the entire principal amount of the Notes be subject to the exercise of the Survivor's Option.

The death of a person owning Notes by **tenancy in common** will be deemed the death of the beneficial owner only with respect to the deceased beneficial holder's interest in the Note so held by



tenancy in common; *provided, however*, that if the Notes are held by a husband and wife as tenants in common, then the death of either will be deemed the death of the beneficial owner of the Notes causing the entire principal amount of the Notes to be eligible to the exercise of the Survivor's Option.

The death of a person who, during his or her lifetime, **was entitled to substantially all of the beneficial interests of ownership of the Notes** will be deemed the death of the beneficial owner for purposes of the exercise of the Survivor's Option, regardless of the listed name of the Holder of the Notes, if the entitlement of the deceased person to the beneficial interests of ownership of the Notes can be established to our satisfaction (or that of our Global Agent).

Entitlement to substantially all of the beneficial interests of ownership generally will be deemed to exist in typical cases of nominee ownership, ownership under the Uniform Gifts to Minors Act, community property or other joint ownership arrangements where one person has substantially all of the beneficial ownership interest in the Notes during his or her lifetime.

*Note.* Certain common transfers of property and securities that individuals may undertake for estate planning or other financial planning purposes (*e.g.*, transfers of Notes to an irrevocable trust, limited partnership, or special purpose entity), may be deemed to be a transfer of substantially all of the beneficial interests of ownership of the Notes, and will result in the death of the transferor not triggering the Survivor's Option. Investors should consult with their financial or legal advisors or other estate planning professionals before making such a transfer of Notes, because if we (or our Global Agent) determine that a transfer of substantially all of the beneficial interests of ownership of the Notes has occurred, any requests for repurchase of the Notes pursuant to the Survivor's Option may be denied.

### **Exercise of the Survivor's Option**

In the event that the Notes are represented by a Global Book-Entry Security, the Holder of the Notes will be DTC or its nominee. In the event a Survivor Representative desires to exercise the Survivor's Option on behalf of a deceased beneficial holder, it will need to coordinate with DTC or its nominee to complete the exercise, as described below.

Subject to any applicable limitations, in order to validly exercise a Survivor's Option with respect to Notes represented by a Global Book-Entry Security, the Survivor Representative must tender to the broker or other financial institution through which the beneficial ownership interest in the Notes is held (each, a "Financial Institution"):

- a written instruction to the Financial Institution to notify DTC of the Survivor Representative's desire to have Fannie Mae repurchase the Notes pursuant to the exercise of the Survivor's Option;
- a written request for repurchase signed by the Survivor Representative, with the signature guaranteed by a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc. ("NASD") or a commercial bank or trust company having an office or correspondent in the United States;
- appropriate evidence that (a) the Survivor Representative has authority to act on behalf of the deceased beneficial owner, (b) the death of such beneficial owner has occurred, and (c) the deceased was the beneficial owner of the Notes at the time of death;
- if applicable, a properly executed assignment or endorsement;
- if the beneficial interest in the Notes is held by a nominee of the deceased beneficial owner, a certificate from such nominee attesting to the deceased's ownership of a beneficial interest in the Notes;

- tax waivers and any other instruments or documents that we or our Global Agent may reasonably require in order to establish the validity of the beneficial ownership interest in the Notes and the claimant's entitlement to payment; and
- any additional information that we or our Global Agent may reasonably require to evidence satisfaction of any conditions to the exercise of the Survivor's Option or to document beneficial ownership interest in, or authority to make the election and to cause the repurchase of, the Notes.

The applicable Financial Institution will deliver each of these items to the Global Agent, together with evidence satisfactory to us and our Global Agent from that Financial Institution stating that it represents the deceased beneficial owner. Upon the satisfaction of these requirements, DTC or its nominee will have the right to exercise any Survivor's Option for the Notes.

The applicable Financial Institution will be responsible for disbursing payments received from our Global Agent to the Survivor Representative. See "Description of the Debt Securities—Payments—Global Book-Entry Securities" in the Offering Circular.

We have attached as Annex B to this Offering Circular Supplement the forms to be used by a Survivor Representative's Financial Institution to exercise the Survivor's Option on behalf of a deceased beneficial owner of Notes. In addition, a representative may obtain these forms from the Bank of New York, the Global Agent, at Survivor Option Processing, PO Box 2320, Dallas, TX 75221, or call the Survivor Option helpline at 1-800-275-2048, during normal business hours.

Subject to the Annual Put Limitation and the Individual Put Limitation, all questions as to the eligibility or validity of any exercise of the Survivor's Option will be determined by Fannie Mae, either directly or through our Global Agent.

**REPAYMENT ELECTION FORM**  
**FANNIE MAE®**  
**FANNIE MAE INVESTMENT NOTES**  
**CUSIP NO. \_\_\_\_\_**

To: Fannie Mae

The undersigned financial institution (the “**Financial Institution**”) represents the following:

- The Financial Institution has received a written request for repayment from the executor or other survivor representative (the “**Survivor Representative**”) of the deceased beneficial owner listed below (the “**Deceased Beneficial Owner**”) of Fannie Mae Investment Notes (CUSIP No. \_\_\_\_\_) (the “**Notes**”).
- At the time of his or her death, the Deceased Beneficial Owner owned Notes in the principal amount listed below, and the Financial Institution currently holds such Notes as a direct or indirect participant in The Depository Trust Company.

The Financial Institution agrees to the following terms:

- The Financial Institution shall follow the instructions (the “**Instructions**”) accompanying this Repayment Election Form (the “**Form**”).
- The Financial Institution shall make all records specified in the Instructions supporting the above representations available to Fannie Mae for inspection and review within five Business Days of Fannie Mae’s request.
- If the Financial Institution or Fannie Mae, in either’s reasonable discretion, deems any of the records specified in the Instructions supporting the above representations unsatisfactory to substantiate a claim for repayment, the Financial Institution shall not be obligated to submit this Form, and Fannie Mae may deny repayment. If the Financial Institution cannot substantiate a claim for repayment, it shall notify Fannie Mae immediately.
- Other than as described in the Offering Circular Supplement in the limited situation involving tenders of Fannie Mae Investment Notes that are not accepted during one calendar year as a result of the “Annual Put Limitation,” repayment elections may not be withdrawn.
- The Financial Institution agrees to indemnify and hold harmless Fannie Mae (and its Global Agent indicated in paragraph 14 of the Instructions to this Form) against and from any and all claims, liabilities, costs, losses, expenses, suits and damages resulting from the Financial Institution’s above representations and request for repayment on behalf of the Survivor Representative.

**REPAYMENT ELECTION FORM**

CUSIP No. \_\_\_\_\_

- (1) \_\_\_\_\_  
Name of Deceased Beneficial Owner
- (2) \_\_\_\_\_  
Date of Death
- (3) \_\_\_\_\_  
Name of Survivor Representative Requesting Repayment
- (4) \_\_\_\_\_  
Name of Financial Institution Requesting Repayment
- (5) \_\_\_\_\_  
Signature of Representative of Financial Institution Requesting Repayment
- (6) \_\_\_\_\_  
Principal Amount of Requested Repayment
- (7) \_\_\_\_\_  
Date of Election
- (8) \_\_\_\_\_  
Date Requested for Repayment

- |   |  |
|---|--|
| (9) Financial Institution Representative: | (10) The Bank of New York's Delivery Versus Payment Instructions*: |
| Name:                                     | The Bank of New York, DTC Participant Account No.                  |
| Phone Number:                             | Wire instructions for payment:                                     |
| Fax Number:                               | Bank Name:   |
| Mailing Address (no P.O. Boxes):          | ABA Number:  |
| E-mail Address:                           | Account Name:  |
|   | Account Number:  |
|   | Reference (optional):  |

**TO BE COMPLETED BY FANNIE MAE:**  
(A) Election Number\*\*:  
(B) Delivery and Payment Date:  
(C) Principal Amount:  
(D) Accrued Interest:  
(E) Date of Receipt of Form by Fannie Mae:  
(F) Date of Acknowledgment by Fannie Mae:

\* Delivery of the Notes subject to repayment must be made on the repayment date and not prior to the repayment date. Delivery should be made in accordance with The Bank of New York's Delivery Versus Payment Instructions as provided on line (10) above. If the repayment date is not an Interest Payment Date, the repayment amount will include accrued interest.

\*\* To be assigned by Fannie Mae upon receipt of this Form. An acknowledgement, in the form of a copy of this document with the assigned Election Number, will be returned to the party and location designated on line (9) above.

**INSTRUCTIONS FOR COMPLETING REPAYMENT ELECTION FORM  
AND EXERCISING REPAYMENT OPTION**

Capitalized terms used and not defined herein have the meanings defined in the accompanying Repayment Election Form.

1. Collect and retain for a period of at least three years the following (1) satisfactory evidence of the authority of the Survivor Representative to act on behalf of the Deceased Beneficial Owner, (2) satisfactory evidence of death of the Deceased Beneficial Owner, (3) satisfactory evidence that the Deceased Beneficial Owner beneficially owned, at the time of his or her death, the Notes being submitted for repayment, (4) if the beneficial interest in the related Note is held by a nominee of the Deceased Beneficial Owner, a certificate from the nominee attesting to the Deceased Beneficial Owner's ownership of a beneficial interest in such Notes, (5) a written request for repayment signed by the Survivor Representative, with signature guaranteed by a member firm of a registered national securities exchange or of the National Association of Securities Dealers, Inc. or a commercial bank or trust company having an office or correspondent in the United States, (6) if applicable, a properly executed assignment or endorsement, (7) any necessary tax waivers and any other instruments or documents reasonably required in order to establish the validity of the ownership of the beneficial interest in the related Note and the Survivor Representative's entitlement to payment, and (8) any additional information reasonably required to document ownership or the authority to exercise the demand for repayment and to cause the repayment of the related Note. For purposes of determining whether Fannie Mae will deem Notes beneficially owned by an individual at the time of death, the following rules shall apply:
  - Notes beneficially owned by tenants by the entirety or joint tenants will be regarded as being beneficially owned by a single owner. The death of a tenant by the entirety or joint tenant will be deemed the death of the beneficial owner, and the entire principal amount of the Notes beneficially owned will become eligible for repayment. The death of a person beneficially owning a Note by tenancy in common will be deemed the death of an owner of a Note only with respect to the deceased owner's interest in the Note so held by tenancy in common, unless a husband and wife are the tenants in common, in which case the death of either will be deemed the death of the owner of the Note, and the entire principal amount of the Note so held will be eligible for repayment.
  - Notes beneficially owned by a trust may be regarded as beneficially owned by each beneficiary of the trust to the extent of that beneficiary's interest in the trust (however, a trust's beneficiaries collectively cannot be beneficial owners of more Notes than are owned by the trust). The death of a beneficiary of a trust may be deemed the death of the beneficial owner of the Notes beneficially owned by the trust only to the extent of that beneficiary's interest in the trust. The death of an individual who was a tenant by the entirety or joint tenant in a tenancy which is the beneficiary of a trust may be deemed the death of the beneficiary of the trust. The death of an individual who was a tenant in common in a tenancy which is the beneficiary of a trust may be deemed the death of the beneficiary of the trust only with respect to the deceased owner's beneficial interest in the Note, unless a husband and wife are the tenants in common, in which case the death of either will be deemed the death of the beneficiary of the trust.
  - The death of a person who, during his or her lifetime, was entitled to substantially all of the beneficial interest in a Note will be deemed the death of the beneficial owner of that Note, regardless of the registration of ownership, if such beneficial interest can be satisfactorily established. Such beneficial interest will exist in many cases of street name or nominee ownership, ownership by a trustee or a custodian, ownership under the Uniform Gift to Minors Act and community property or other joint ownership arrangements between spouses. Beneficial interest will be evidenced by such factors as the power

to sell or otherwise dispose of a Note, the right to receive the proceeds of sale or disposition and the right to receive interest and principal payments on a Note.

2. Provide CUSIP Number for the Notes to be repaid at top of both pages of the Repayment Election Form.
3. Indicate the name of the Deceased Beneficial Owner on line (1).
4. Indicate the date of death of the Deceased Beneficial Owner on line (2).
5. Indicate the name of the Survivor Representative requesting repayment on line (3).
6. Indicate the name of the Financial Institution requesting repayment on line (4).
7. Affix the authorized signature of the Financial Institution's representative on line (5). **THE SIGNATURE MUST BE MEDALLION SIGNATURE GUARANTEED.**
8. Indicate the principal amount of Notes to be repaid on line (6).
9. Indicate the date this Form was completed on line (7).
10. Indicate the date of requested repayment on line (8). The date of requested repayment may not be earlier than the first January 15, April 15, July 15 or October 15 to occur at least 20 calendar days after the date of Fannie Mae's acceptance of the Notes for repayment, unless such date is not a business day, in which case the date of requested payment may be no earlier than the next succeeding business day. For example, if the acceptance date for Notes tendered were September 1, 2007, the earliest repayment date you could elect would be October 15, 2007.
11. Indicate the name, mailing address (no P.O. boxes, please), e-mail address, telephone number and facsimile-transmission number of the party to whom the acknowledgment of this election may be sent on line (9).
12. Indicate the wire instructions for payment on line (10).
13. Leave lines (A), (B), (C), (D), (E) and (F) blank.
14. Mail or otherwise deliver an original copy of the completed Form to Fannie Mae's Global Agent as follows:

The Bank of New York  
WSS—Survivor Option Processing  
PO Box 2320  
Dallas, Texas 75221

**FACSIMILE TRANSMISSIONS OF THE REPAYMENT ELECTION FORM  
WILL NOT BE ACCEPTED.**

15. If the acknowledgement of Fannie Mae's receipt of this Form, including the assigned Election Number, is not received within 15 Business Days of the date such information is sent to the Global Agent, contact Fannie Mae toll free at (888) 266-3457.

For assistance with the Form or any questions relating thereto, please contact Fannie Mae toll free at (888) 266-3457.

## OFFERING CIRCULAR



### **Universal Debt Facility Debt Securities with maturities of one day or longer**

We, the Federal National Mortgage Association, or Fannie Mae, may issue an unlimited amount of Debt Securities from time to time under our Universal Debt Facility. We will designate some Debt Securities as Benchmark Securities<sup>®</sup>, which are U.S. dollar denominated issues in large principal amounts. Our current Benchmark Securities are:

- Benchmark Bills<sup>®</sup>
- Benchmark Bonds<sup>®</sup>
- Benchmark Notes<sup>®</sup>
- Callable Benchmark Notes
- Subordinated Benchmark Notes

We may issue other Debt Securities, denominated in U.S. dollars or other currencies, with maturities of one day or longer. The Debt Securities will have various terms, as described in this Offering Circular and any applicable pricing supplement. These Debt Securities will be:

- Short-Term Notes
- Notes
- Bonds

**The Debt Securities, together with interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than Fannie Mae.**

**An investment in Debt Securities may involve risks for some investors. It is important that you read the “Risk Factors” section beginning on page 7.**

We may sell Debt Securities to or through one or more Dealers as principal or otherwise, or directly to institutional investors. We cannot assure you that there will be a secondary market for the Debt Securities or how liquid the market will be if one develops.

We have made an application for certain of our Debt Securities issued under this Universal Debt Facility to be listed on the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the EuroMTF market. We also may issue unlisted Debt Securities, and Debt Securities listed on other exchanges.

*This Offering Circular replaces and supersedes the Offering Circular, dated October 17, 2005, for issues pricing on or after March 26, 2007.*

The date of this Offering Circular is March 19, 2007.

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“Benchmark Securities”, “Benchmark Notes”, “Benchmark Bonds” and “Benchmark Bills” are registered trademarks of Fannie Mae.

## Stabilization

In connection with any issue of Debt Securities, a Dealer identified as stabilizing manager in the applicable Pricing Supplement may, subject to applicable laws and regulations, overallocate or effect transactions which stabilize or maintain the market price of the Debt Securities of such issue at a level above that which might otherwise prevail in the open market. Such transactions may be effected on any exchange on which the Debt Securities may be listed, in an over-the-counter market or otherwise. Such stabilization, if commenced, may be discontinued at any time.

## Selling Restrictions

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

We may not communicate this Offering Circular, any Pricing Supplement, any Final Terms document, or any other supplement in the United Kingdom to any person unless that person falls within Article 19 or Article 49 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended, or is a person to whom we may otherwise lawfully communicate this Offering Circular, any Pricing Supplement, any Final Terms document, or any other supplement. We have not registered the Debt Securities under the Securities and Exchange Law of Japan (Law No. 25 of 1948, as amended) (the “Securities and Exchange Law”), and we may not make offers and sales, direct or indirect, of Debt Securities in Japan or to any resident of Japan or to any person for reoffering or resale, directly or indirectly, in Japan or to any resident of Japan except in compliance with, or pursuant to an exemption from, the registration requirements of the Securities and Exchange Law available thereunder and in compliance with other relevant laws of Japan. For a further description of restrictions on offers, sales and deliveries of the Debt Securities and on the distribution of this Offering Circular, any Pricing Supplement, any Final Terms document, or any other supplement hereto, see “Plan of Distribution—Selling Restrictions” and Appendix E.

The distribution of this Offering Circular, any Pricing Supplement, any Final Terms document, or any other supplement and the offer, sale, and delivery of Debt Securities in certain jurisdictions may be restricted by law. Persons who come into possession of this Offering Circular, any Pricing Supplement or any other supplement must inform themselves about and observe any applicable restrictions.

This Offering Circular, any Pricing Supplement, any Final Terms document, or any other supplement is not an offer to sell or a solicitation of an offer to buy any securities other than the Debt Securities or an offer to sell or a solicitation of an offer to buy Debt Securities in any jurisdiction or in any other circumstance in which an offer or solicitation is unlawful or not authorized.

## EuroMTF Market of the Luxembourg Stock Exchange

The operator of the EuroMTF market of the Luxembourg Stock Exchange (the “EuroMTF market”) assumes no responsibility for the correctness of any of the statements made or opinions expressed or reports contained or incorporated by reference in this Offering Circular. Admission to listing is made on the Official List of the Luxembourg Stock Exchange and trading on the EuroMTF market is not to be taken as an indication of the merits of Fannie Mae or the Debt Securities. This Offering Circular is a “Base Prospectus” under Luxembourg law regarding prospectuses for securities, effective July 10, 2005.

## Pricing Supplements and Final Terms documents Relating to Specific Debt Securities

When we offer Debt Securities other than Benchmark Bills or Short-Term Notes, we will provide you with a “Pricing Supplement” describing the terms of the specific issue of Debt Securities, including the offering price. If we intend to list an issue of Debt Securities (other than Benchmark Bills or Short-Term Notes) on the Official List of the Luxembourg Stock Exchange and admit them to the EuroMTF market, we will also provide the EuroMTF market with a “Final Terms” document describing the terms of the specific issue of Debt Securities, including the offering price. The Pricing Supplement also may amend or supplement this Offering Circular with respect to a specific issue of Debt Securities. You should read the Pricing Supplement and any other applicable supplement together with this Offering Circular.

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## SUMMARY

*This summary highlights information contained elsewhere in this Offering Circular, including in the Appendices. It does not contain all of the information you should consider before investing in the Debt Securities. You also should read the more detailed information in this Offering Circular and any applicable supplement, including any Pricing Supplement for a particular issue of Debt Securities. This Offering Circular sets forth the general terms of the Debt Securities; the applicable Pricing Supplement, or other supplement will describe the particular terms of any issue of Debt Securities (other than Benchmark Bills and Short-Term Notes), and the extent, if any, that any of the general terms will not apply to particular Debt Securities. You should read Appendix B for more specific information regarding Benchmark Bills and Short-Term Notes and Appendix C for more specific information regarding Subordinated Benchmark Notes and other Subordinated Debt Securities.*

### Fannie Mae

Fannie Mae is a government-sponsored enterprise (a “GSE”) chartered by the U.S. Congress under the name “Federal National Mortgage Association” and is aligned with national policies to support expanded access to housing and increased opportunities for homeownership. We are subject to government oversight and regulation, and our regulators include the Office of Federal Housing Enterprise Oversight (“OFHEO”), the Department of Housing and Urban Development (“HUD”), the SEC and the Department of the Treasury.

While Fannie Mae is a Congressionally-chartered enterprise, the U.S. government does not guarantee, directly or indirectly, our securities or other obligations. We are a stockholder-owned corporation, and our business is self-sustaining and funded exclusively with private capital. Our common stock is listed on the New York Stock Exchange and our debt securities are actively traded in the over-the-counter market.

### Description of the Debt Securities

Issuer .....	Fannie Mae
Benchmark Securities .....	We may issue Benchmark Securities, which are U.S. dollar denominated issues in large principal amounts, in the form of Benchmark Bills, Benchmark Notes, Callable Benchmark Notes, Benchmark Bonds and Subordinated Benchmark Notes. Issuances may consist of new issues of Benchmark Securities or the “reopening” of an existing issue.
Other Debt Securities .....	We plan to issue other Debt Securities from time to time denominated in U.S. dollars or other currencies with maturities of one day or longer. We will issue these Debt Securities as Short-Term Notes, Notes or Bonds.
Pricing Supplement/Final Terms .....	We will describe in a Pricing Supplement or other supplement specific terms, pricing information and other information for each issue of Debt Securities other than Benchmark Bills or Short-Term Notes.
Amount .....	We may issue an unlimited amount of Debt Securities.
Specified Currencies .....	Debt Securities may be denominated in, and principal and interest on Debt Securities may be paid in, U.S. dollars and other

currencies or currency units that we determine. Government or monetary authorities may require that debt securities denominated in certain currencies or currency units have certain denominations or have minimum or maximum maturities.

Denomination . . . . .	We will issue U.S. dollar denominated Debt Securities in minimum denominations of U.S. \$1,000 and additional increments of U.S. \$1,000, unless otherwise specified in the applicable Pricing Supplement. We will issue non-U.S. dollar denominated Short-Term Notes in the denominations listed in Appendix B.
Principal Amount . . . . .	The principal amount payable at maturity may be a fixed amount, which may be par or a specified amount above or below par. The principal amount payable at maturity also may be a variable amount determined by reference to one or more indices, such as interest or exchange rate indices, or other formulas. The principal may be amortized through periodic payments during the term of the Debt Securities.
Interest . . . . .	Debt Securities may bear interest at fixed or variable rates (or a combination of fixed and variable rates), or may bear interest that is indexed by reference to an interest or currency exchange rate or in some other manner, or may not bear interest.
Offering Price . . . . .	Debt Securities will be offered at fixed prices equal to par, or a discount to or premium over par, or at varying prices relating to prevailing market prices at the time of resale as determined by the applicable Dealer.
No Acceleration Rights . . . . .	The Debt Securities will not contain any provisions permitting the Holders to accelerate the maturity of the Debt Securities if a default or other event occurs.
Form . . . . .	We will issue Debt Securities in book-entry form either through the U.S. Federal Reserve Banks (“Fed Book-Entry Securities”) or through another depository. Except in the limited circumstances described in this Offering Circular, we will not issue Debt Securities in definitive form.
Eligibility for Stripping . . . . .	The Pricing Supplement will indicate whether Fed Book-Entry Securities will be eligible to be separated (“stripped”) into their separate interest and principal components on the book-entry records of the Federal Reserve Bank of New York.
Status . . . . .	The Debt Securities will be unsecured general obligations of Fannie Mae issued under Section 304(b) of the Federal National Mortgage Association Charter Act (the “Charter Act”) or unsecured subordinated obligations of Fannie Mae issued under Section 304(e) of the Charter Act. The Debt Securities, together with interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than Fannie Mae.
Redemption . . . . .	The Pricing Supplement for a particular issue of Debt Securities will specify whether the Debt Securities are subject to

mandatory or optional redemption, in whole or in part, prior to maturity and, if redeemable, will describe terms applicable to the redemption. Benchmark Bills and Short-Term Notes will not be redeemable prior to maturity.

Governing Law . . . . . Fed Book-Entry Securities (including rights and obligations) will be governed by, and construed in accordance with, regulations adopted by HUD or any other U.S. governmental body or agency that are applicable to the Fed Book-Entry Securities, and, to the extent that these regulations do not apply, the laws of the State of New York, U.S.A. Global Book-Entry Securities will be governed by, and construed in accordance with, the laws of the State of New York, U.S.A.

Tax Status . . . . . The Debt Securities and payments thereon generally are subject to taxation by the United States and generally are not exempt from taxation by other U.S. or non-U.S. taxing jurisdictions. Non-U.S. Persons generally will be subject to U.S. income and withholding tax unless they provide required certifications or statements.

Listing . . . . . The Pricing Supplement relating to each issue of Debt Securities will indicate the exchange, if any, on which we will list or apply to list the Debt Securities. We have made an application for certain Debt Securities issued under this Universal Debt Facility to be listed on the Official List of the Luxembourg Stock Exchange and to be admitted to trading on the EuroMTF market. The current minimum maturity for Debt Securities traded on the EuroMTF market is seven days. We also may issue unlisted Debt Securities and Debt Securities listed on other exchanges.

**Clearance and Settlement**

Clearance and Settlement . . . . . Depending on the terms of an issue of Debt Securities and where those Debt Securities are to be offered, Debt Securities may clear and settle through one or more of the following:

- the U.S. Federal Reserve Banks;
- DTC;
- Euroclear;
- Clearstream; or
- other designated clearing systems.

We expect most issues of Debt Securities denominated and payable in U.S. dollars, including all Benchmark Securities, to clear and settle through the Fed Book-Entry System. These Debt Securities generally may be held indirectly through other clearing systems, such as the systems operated by Euroclear and Clearstream.

We expect issues of Debt Securities denominated or payable in a Specified Currency other than U.S. dollars (and Debt Securities

denominated and payable in U.S. dollars not cleared and settled through the Fed Book-Entry System) to clear and settle through the systems operated by DTC, and indirectly through Euroclear and Clearstream. We expect issues of Debt Securities distributed solely outside of the United States to clear and settle through the systems operated by Euroclear, Clearstream or other designated clearing systems and, in some cases, DTC, irrespective of the Specified Currency in which the Debt Securities are denominated or payable.

**Fiscal and Global Agents**

Fiscal Agents ..... The Federal Reserve Bank of New York will act as fiscal agent for Benchmark Bills and for Short-Term Notes that are Fed Book-Entry Securities. The U.S. Federal Reserve Banks will act as fiscal agent for other Fed Book-Entry Securities.

Global Agent ..... The Bank of New York will act as global agent for Global Book-Entry Securities.

**Distribution of Debt Securities**

Method of Distribution/Dealers.. We generally will sell Debt Securities to Dealers acting as principal, whether individually or in a syndicate, for resale to investors either at a fixed price or at varying prices determined by the Dealers. Alternatively, Debt Securities may be sold through Dealers on a non-underwritten basis or may be sold by us directly to institutional investors.

Selling Restrictions ..... Restrictions exist in certain jurisdictions on the Dealers' offer, sale and delivery of Debt Securities and the distribution of offering materials relating to the Debt Securities.

Secondary Market Information .. Dealers have agreed to provide, for Benchmark Securities, indicative pricing information for posting on a designated screen page.

## 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 “Our Charter and Regulation of Our Activities” in our Annual Report on Form 10-K (the “Form 10-K”). We were established in 1938 as a United States government agency to provide stability and liquidity to the mortgage market and were transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968.

Our business operates within the U.S. residential mortgage market. The residential mortgage market comprises a major portion of the domestic capital markets and provides a vital source of financing for the housing segment of the U.S. economy, as well as one of the most important means for Americans to achieve their homeownership objectives. We operate an integrated business that contributes to providing liquidity to the U.S. residential mortgage market and increasing the availability and affordability of housing in the United States. See “Business” in the Form 10-K for further information.

Our principal customers are lenders that operate within the primary mortgage market by originating mortgage loans for homebuyers and for current homeowners refinancing their existing mortgage loans. Lenders originating mortgages in the primary market often sell them in the secondary market in the form of loans or mortgage-related securities. We operate in the secondary market, where we securitize mortgage loans originated by lenders into Fannie Mae mortgage-backed securities (“MBS”) and other mortgage-related securities and purchase mortgage loans (often referred to as “whole loans”) and mortgage-related securities for our mortgage portfolio. By selling loans to us, lenders replenish their funds and, consequently, are able to make additional loans. Pursuant to our charter, we do not lend money directly to consumers in the primary mortgage market.

On December 22, 2004, we reported that the Audit Committee of our Board of Directors (the “Board”) had determined that our previously filed interim and audited financial statements and the independent auditor’s reports thereon for the period from January 2001 through the second quarter of 2004 should no longer be relied upon because such financial statements were prepared using accounting principles that did not comply with U.S. generally accepted accounting principles (“GAAP”). On December 6, 2006, we filed our Form 10-K with the SEC, which included consolidated financial statements for 2004 and a restatement of previously issued financial information for 2002, 2003, and the first two quarters of 2004. Restatement adjustments relating to periods prior to January 1, 2002 are presented in our Form 10-K as adjustments to retained earnings as of December 31, 2001.

We have not filed Quarterly Reports on Form 10-Q for the first, second and third quarters of 2005, or the first, second and third quarters of 2006, nor have we filed our Annual Report on Form 10-K for the year ended December 31, 2005. See “Risk Factors — Lack of Current Financial Information about Fannie Mae”.

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

## RISK FACTORS

This section describes the principal risks with respect to the Debt Securities. There may be other risks not discussed below or discussed in a supplement to this Offering Circular that you should consider. These risks depend on a number of factors, including financial, economic and political events, that are beyond our control.

## **Lack of Current Financial Information about Fannie Mae**

In December 2004, Fannie Mae announced that previously filed interim and audited financial statements for the periods from January 2001 through the second quarter of 2004 should no longer be relied upon because they were prepared applying accounting practices that did not comply with GAAP. On December 6, 2006, Fannie Mae filed its Form 10-K, which included consolidated financial statements for 2004 and a restatement of previously issued financial information for 2002, 2003, and the first two quarters of 2004.

Investors should be aware that because current financial information about Fannie Mae may not be available to the public for a substantial period of time, they will be unable to ascertain the accurate financial status of Fannie Mae for the foreseeable future.

## **Potential Legislative and Regulatory Developments**

We expect that the U.S. Congress will consider various bills in the House of Representatives and Senate that address our business and regulatory environment. Any such bills will probably address various issues, including our regulatory structure, capital standards, potential receivership, scope of business activities, affordable housing goals, portfolio composition, and expanded oversight of our officers and directors. We cannot predict whether any legislation will be approved by Congress and signed into law by the President and, if so, the final form and effective date of such legislation. We also cannot predict the effect, if any, that any potential legislation or regulatory developments would have on our credit ratings or the credit ratings of the Debt Securities.

## **Credit Ratings**

One or more independent credit rating agencies may assign credit ratings to the Debt Securities. The ratings may not reflect the potential impact of all risks related to the structure of, or the market for, the Debt Securities, or the additional factors discussed herein and other factors that may affect the value of the Debt Securities. A credit rating is not a recommendation to buy, sell or hold securities and may be revised or withdrawn by the rating agency. Investors should be aware that legislative, regulatory or other events involving Fannie Mae could negatively impact the credit ratings of the Debt Securities.

## **Not Every Debt Security is a Suitable Investment for Every Investor**

As a potential investor in the Debt Securities, you must determine the suitability of that investment in light of your own circumstances.

- You should have sufficient knowledge and experience to make a meaningful evaluation of the Debt Securities, the merits and risks of investing in the Debt Securities and the information contained or incorporated by reference in this Offering Circular or any applicable supplement.
- You should have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of your particular financial situation, an investment in the Debt Securities and the impact the Debt Securities will have on your overall investment portfolio.
- You should have sufficient financial resources and liquidity to bear all of the risks of an investment in the Debt Securities, including Debt Securities with principal or interest payable in one or more currencies, or where the currency for principal or interest payments is different from your currency.
- You should understand thoroughly the terms of the Debt Securities and be familiar with the behavior of relevant indices and financial markets.

- You should be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect your investment and your ability to bear the applicable risks.

Some Debt Securities are complex financial instruments. Sophisticated institutional investors generally do not purchase complex Debt Securities as stand-alone investments. They purchase complex Debt Securities as a way to reduce risk or enhance yield with an understood, measured, appropriate addition of risk to their overall portfolios. You should not invest in complex Debt Securities unless you have the expertise (either alone or with a financial advisor) to evaluate how the Debt Securities will perform under changing conditions, the resulting effects on their value and the impact this investment will have on your overall investment portfolio.

## **Risks Related to the Structure of a Particular Issue of Debt Securities**

### ***Debt Securities Subject to Optional Redemption by Fannie Mae***

An optional redemption feature of Debt Securities is likely to limit their market value. During any period when we may elect to redeem Debt Securities, the Debt Securities' market value generally will not rise substantially above the price at which we can redeem the Debt Securities. This also may be true prior to any redemption period.

We may be expected to redeem Debt Securities when our cost of borrowing is lower than the interest rate on the Debt Securities. At those times, you generally would not be able to reinvest the redemption proceeds at an effective interest rate as high as the interest rate on the Debt Securities being redeemed. The reinvestment may be at a significantly lower rate. You should consider reinvestment risk in light of other investments available at that time.

### ***Debt Securities with Principal or Interest Linked to an Index or Formula***

We may issue Debt Securities with principal or interest determined by reference to one or more interest rate indices, currencies or currency units, or other indices or formulas (each, an "Applicable Index"). You should be aware that:

- the market price of a Debt Security may be very volatile,
- you may receive no interest,
- payment of principal may occur at a different time than you expect,
- you may lose all or a substantial portion of your principal,
- an Applicable Index may be subject to significant fluctuations that may not correlate with changes in interest rates, currencies or other indices,
- if an Applicable Index is applied to Debt Securities in conjunction with a Multiplier greater than one or contains some other leverage factor, the effect of changes in the Applicable Index on principal or interest payable likely will be magnified, and
- the timing of changes in an Applicable Index may affect your actual yield, even if the average level is consistent with your expectations. In general, the earlier the change in the Applicable Index, the greater the effect on yield.

### ***Fannie Mae's Obligations under Subordinated Debt Securities are Subordinated***

Fannie Mae's obligations under Subordinated Debt Securities will be issued under Section 304(e) of the Charter Act. Subordinated Debt Securities will be unsecured and subordinated and will rank junior in priority of payment to our "Senior Liabilities". "Senior Liabilities" means all existing and future liabilities of Fannie Mae, other than liabilities that by their terms expressly rank equal with or junior to Subordinated Debt Securities. Senior Liabilities include, but are not limited to, debt

obligations issued under Section 304(b) of the Charter Act, liabilities in respect of our guarantees on mortgage-backed securities and our 9% Subordinated Capital Debentures due 2019 and Zero Coupon Subordinated Capital Debentures due 2019 (together, the “Outstanding Capital Debentures”). We cannot make any payments of principal of or interest on the Subordinated Debt Securities if we default on any payment due in respect of Senior Liabilities. See “Description of the Debt Securities—Special Terms Relating to Subordinated Debt Securities” and Appendix C. In the event of a liquidation or dissolution of Fannie Mae, our assets would be available to pay obligations under the Subordinated Debt Securities only after all payments had been made of amounts then due in respect of all Senior Liabilities.

***Under Certain Conditions, Interest Payments under Subordinated Debt Securities Must be Deferred***

If (1) our core capital is below 125% of our critical capital requirement, or (2) (a) our core capital is below our minimum capital requirement and (b) the U.S. Secretary of the Treasury, acting on our request, exercises his or her discretionary authority under Section 304(c) of the Charter Act to purchase our debt obligations, then we must defer the payment of interest on the Subordinated Debt Securities for periods not to exceed five years. (The U.S. Secretary of the Treasury has discretionary authority to purchase obligations of Fannie Mae up to a maximum of \$2.25 billion outstanding at any one time). See “Description of the Debt Securities—Interest” and Appendix C of this Offering Circular.

We will pay all deferred interest, and interest on that deferred interest, on all Subordinated Debt Securities as soon as, after giving effect to such payments, we no longer would be required to defer interest under the terms described above, and we have repaid all debt obligations, if any, purchased by the U.S. Secretary of the Treasury as described above. We will make this payment in respect of all Subordinated Debt Securities on the next scheduled Interest Payment Date that occurs in respect of any issue of Subordinated Debt Securities, unless we elect to make the payment earlier.

If we have not resumed interest payments on an issue of Subordinated Debt Securities by their Maturity Date or have deferred interest on an issue of Subordinated Debt Securities for five consecutive years, then we must pay deferred interest, and interest on that deferred interest, on that issue of Subordinated Debt Securities regardless of our capital levels or our repayment of all debt obligations purchased by the U.S. Secretary of the Treasury. Even if we are required to make any payment on Subordinated Debt Securities, because Subordinated Debt Securities are subordinated, Holders of Subordinated Debt Securities will be entitled to receive payments only after we have made payment in full of all amounts then due in respect of any Senior Liabilities. In no event will Holders of Subordinated Debt Securities be able to accelerate the maturity of their Subordinated Debt Securities; such Holders will have claims only for amounts then due and payable on their Subordinated Debt Securities. After we have fully paid all deferred interest on any issue of Subordinated Debt Securities and if that issue of Subordinated Debt Securities remains outstanding, future interest payments on that issue of Subordinated Debt Securities will be subject to further deferral as described above.

Upon the deferral of interest payments, you generally will be required to accrue income, for United States federal income tax purposes, in respect of the accrued but unpaid interest on Subordinated Debt Securities held by you as further described under “United States Taxation” below. As a result, you generally will recognize income for United States federal income tax purposes in advance of the receipt of payment. Additionally, you will not receive payment of that interest if you dispose of your Subordinated Debt Securities prior to the record date for the payment of accrued interest. Even though any income with respect to deferred interest will constitute ordinary income, if you sell your Subordinated Debt Securities, you generally will recognize a capital loss to the extent that the selling price (which may not reflect the full amount of deferred interest) is less than your adjusted tax basis. Subject to certain limited exceptions, capital losses cannot be applied to offset ordinary income for U.S. federal income tax purposes. See “United States Taxation”.



Any deferral of interest payments will likely have an adverse effect on the market price of the Subordinated Debt Securities. In addition, as a result of the interest deferral provision of the Subordinated Debt Securities, the market price of the Subordinated Debt Securities may be more volatile than the market prices of other debt securities on which original issue discount or interest accrues that are not subject to such deferrals and may be more sensitive generally to adverse changes in Fannie Mae's financial condition.

## **Risks Related to Market, Liquidity and Yield**

### ***The Secondary Market Generally***

Debt Securities may have no established trading market when issued, and one may never develop. If a market does develop, it may not be very liquid. Therefore, you may not be able to sell your Debt Securities easily or at prices that will provide you with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Debt Securities that are especially sensitive to interest rate, currency or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Debt Securities generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Debt Securities.

### ***Variable Rate Securities with a Multiplier or Other Leverage Factor***

Variable Rate Securities can be volatile investments. If they are structured to include multipliers or other leverage factors, or caps or floors, or any combination of those features, their market values may be even more volatile than comparable securities that do not include those features.

### ***Inverse Variable Rate Securities***

Inverse Variable Rate Securities have an interest rate equal to a fixed rate minus a rate based upon an Applicable Index. The market values of inverse Variable Rate Securities typically are more volatile than market values of our conventional variable rate debt securities based on the same Applicable Index (and with otherwise comparable terms). Inverse Variable Rate Securities are more volatile because an increase in the Applicable Index not only decreases the interest rate of the Debt Security, but also reflects an increase in prevailing interest rates, which further adversely affects the market value of these Debt Securities.

### ***Fixed/Variable Rate Securities***

Fixed/Variable Rate Securities may bear interest at a rate that we may elect to convert from a fixed rate to a variable rate, or from a variable rate to a fixed rate. Our ability to convert the interest rate will affect the secondary market and the market value of the Debt Securities since we may be expected to convert the rate when it is likely to produce a lower overall cost of borrowing. If we convert from a fixed rate to a variable rate, the Spread on the fixed/variable rate securities may be less favorable than then prevailing spreads on our comparable variable rate debt securities tied to the same Applicable Index. In addition, the new variable rate at any time may be lower than the rates on other Debt Securities. If we convert from a variable rate to a fixed rate, the fixed rate may be lower than then prevailing rates on our Debt Securities.

### ***Debt Securities Eligible for Stripping***

Some issues of Fixed Rate Securities and Step Rate Securities will be eligible to be separated ("stripped") into Interest Components and Principal Components. The secondary market, if any, for the Components may be more limited and be less liquid than the secondary market for Debt Securities of the same issue that have not been stripped. The liquidity of an issue of Debt Securities also may be reduced if a significant portion of the Debt Securities are stripped. See "Description of the Debt Securities—Eligibility for Stripping of Fed Book-Entry Securities" for more information on stripping.

### ***Debt Securities Issued at a Substantial Discount or Premium***

The market values of securities issued at a substantial discount or premium from their principal amount tend to fluctuate more in relation to general changes in interest rates than do prices for conventional interest-bearing securities. Generally, the longer the remaining term of the securities, the greater the price volatility as compared to conventional interest-bearing securities with comparable maturities. The market values of Benchmark Bills, most Short-Term Notes, Zero-Coupon Securities, Interest Components and some Principal Components would be expected to behave this way.

### **Exchange Rate Risks and Exchange Controls**

As mentioned above, principal of or interest on Debt Securities may be determined by reference to one or more currencies or currency units (including exchange rates and swap indices between currencies or currency units). Governmental and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, you may receive less interest or principal than you expected, or no interest or principal.

We will pay principal and interest on the Debt Securities in the Specified Payment Currency. See “Description of the Debt Securities—Specified Currencies and Specified Payment Currencies.” This presents certain risks relating to currency conversions if your financial activities are denominated principally in a currency or currency unit (“Your Currency”) other than the Specified Payment Currency. These include the risk that exchange rates may significantly change (including changes due to devaluation of the Specified Payment Currency or revaluation of Your Currency) and the risk that authorities with jurisdiction over Your Currency may impose or modify exchange controls. An appreciation in the value of Your Currency relative to the Specified Payment Currency would decrease (1) Your Currency-equivalent yield on the Debt Security, (2) Your Currency-equivalent value of the principal payable on the Debt Security, and (3) Your Currency-equivalent market value of the Debt Security.

As mentioned above, governmental or monetary authorities may impose exchange controls that could adversely affect an applicable exchange rate. Even if there are no actual exchange controls, it is possible that the Specified Payment Currency for a particular Debt Security may no longer be used by the government issuing the Specified Payment Currency or used for settlement of transactions by public institutions of or within the international banking community, or that the Specified Payment Currency may not be available for any other reason when payments on the Debt Security are due. If the government that previously issued the Specified Payment Currency has issued a new legal currency, we will make payments in that new legal currency. If there is no new legal currency or the Specified Payment Currency is unavailable due to circumstances beyond our control (such as exchange controls), we will make payments in U.S. dollars.

### **Legal Investment Considerations**

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. You should consult your legal advisors to determine whether and to what extent (1) Debt Securities are legal investments for you, (2) Debt Securities can be used as collateral for various types of borrowing and (3) other restrictions apply to your purchase or pledge of any Debt Security. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of Debt Securities under any applicable risk-based capital or similar rules.

If you are subject to the jurisdiction of any of the following agencies of the United States or a governmental agency of the United States or any jurisdiction outside the United States with similar authority (for example, central banks), you should review and consider that regulator’s rules, guidelines, regulations and policy statements prior to purchasing or pledging Debt Securities:

- The Board of Governors of the Federal Reserve System;
- The Comptroller of the Currency;
- The Federal Deposit Insurance Corporation;
- The National Credit Union Administration; and
- The Office of Thrift Supervision.

## DESCRIPTION OF THE DEBT SECURITIES

*The description set forth below contains general provisions that apply to all Debt Securities, except as otherwise specified in this Offering Circular or a supplement to it. You should read Appendix B for a detailed description of Benchmark Bills and Short-Term Notes and Appendix C for a detailed description of Subordinated Benchmark Notes and other Subordinated Debt Securities, in particular for those provisions that, as noted below, differ from the following provisions. We will not prepare a Pricing Supplement for Benchmark Bills and other Short-Term Notes.*

**The Debt Securities, together with interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than Fannie Mae.**

### General

We may issue an unlimited amount of Debt Securities from time to time under the Universal Debt Facility. The Debt Securities may be issued as:

- Benchmark Securities, which are U.S. dollar denominated issues in large principal amounts. See Appendix A for a general description of our Benchmark Securities program. Our current Benchmark Securities are:
  - Benchmark Bills—non-callable Debt Securities with maturities of 360 days or less and sold at a discount from their principal amount payable at maturity;
  - Benchmark Notes—non-callable Debt Securities with maturities of one to ten years;
  - Callable Benchmark Notes—callable Debt Securities with maturities of one to ten years;
  - Benchmark Bonds—non-callable Debt Securities with maturities of more than ten years; and
  - Subordinated Benchmark Notes—non-callable Subordinated Debt Securities with maturities of one to ten years.

We may issue other Debt Securities, denominated in U.S. dollars or other currencies, with maturities of one day or longer. These Debt Securities will have various terms, as described in this Offering Circular and any applicable Pricing Supplement, and will be:

- Short-Term Notes—non-callable Debt Securities with maturities of 360 days or less which may be sold at a discount from their principal amount payable at maturity or may be interest-bearing;
- Notes—callable or non-callable Debt Securities with maturities of one to ten years; and
- Bonds—callable or non-callable Debt Securities with maturities of more than ten years.

We will sell the Debt Securities in one or more issues having (as applicable) the same interest rate or formula, Interest Payment Dates, Maturity Date, redemption provisions, amortization provisions, denominations and other variable terms referred to below.

We will issue Debt Securities in book-entry form:

- on the book-entry system of the U.S. Federal Reserve Banks (“Fed Book-Entry Securities”); or
- in registered global form (“Global Book-Entry Securities”).

Except under the limited circumstances described under “Description of the Debt Securities—Exchange of Global Book-Entry Securities for Definitive Debt Securities,” Debt Securities will not be

available in definitive form. We will establish terms of issues of Fed Book-Entry Securities pursuant to a “Statement of Terms.”

Fed Book-Entry Securities will be issued under the Fiscal Agency Agreement dated as of July 20, 2006, as it may further be amended or supplemented, between us and the U.S. Federal Reserve Banks, collectively acting as the Fiscal Agent. Global Book-Entry Securities will be issued under the Global Agency Agreement, dated as of December 21, 1999, as amended, as it may be further amended or supplemented, between us and The Bank of New York, as global agent and successor global agent to JP Morgan Chase Bank, N.A. Statements under this heading and in Pricing Supplements are subject to the detailed provisions of (1) any applicable Statement of Terms or other document establishing the terms of an issue of Fed Book-Entry Securities and the Fiscal Agency Agreement or (2) the Global Book-Entry Securities and the Global Agency Agreement.

You can review copies of any applicable Statement of Terms or other document establishing the terms of an issue of Fed Book-Entry Securities and the Fiscal Agency Agreement at our principal office in Washington, D.C. You also can review a copy of the Fiscal Agency Agreement at the Federal Reserve Bank of New York, 33 Liberty Street, New York, New York 10045. You can review a copy of the Global Agency Agreement at our principal office in Washington, D.C., the principal U.S. corporate trust office of the Global Agent at 101 Barclay Street, New York, New York 10004, and at Dexia Banque Internationale à Luxembourg at 69, route d’Esch, L-2953 Luxembourg. You can review a copy of the terms of any Global Book-Entry Securities at the same corporate trust office of the Global Agent.

### **Specified Currencies and Specified Payment Currencies**

Fed Book-Entry Securities will be denominated and payable only in U.S. dollars. Appendix B contains provisions relating to Short-Term Notes denominated and payable in a Specified Currency. We will set forth in the applicable Pricing Supplement any provisions relating to any non-U.S. dollar currency or currency unit (each a “Specified Currency”) in which any other Debt Security may be denominated or in which payments on such Debt Security may be made.

Except as described below, we will make interest payments in the Specified Currency designated for interest payments and principal payments in the Specified Currency designated for principal payments. (We refer to the specified interest currency and specified principal currency collectively in this Offering Circular as the “Specified Payment Currency.”) However, for Global Book-Entry Securities issued through DTC that are denominated and payable in a Specified Payment Currency other than U.S. dollars, we will make arrangements for the conversion of any payment in a non-U.S. dollar currency into U.S. dollars unless a Holder elects to receive payments in the Specified Payment Currency. We understand that Euroclear and Clearstream, unless specifically requested not to do so 15 days before the applicable Interest Payment Date or Principal Payment Date, will receive all payments of principal and interest for such Global Book-Entry Securities held through them in the applicable Specified Payment Currency if it is other than U.S. dollars. See “Description of the Debt Securities—Currency Conversions—Payment for Debt Securities.”

It is possible that the Specified Payment Currency for a particular Debt Security may no longer be used by the government issuing the Specified Payment Currency or used for settlement of transactions by public institutions of or within the international banking community, or that the Specified Payment Currency may not be available for any other reason, when payments on the Debt Security are due. If the government that previously issued the Specified Payment Currency has issued a new legal currency, we will make payments in that new legal currency. If there is no new legal currency or the Specified Payment Currency is unavailable due to circumstances beyond our control, such as exchange controls, we will make payments in U.S. dollars. In addition, in the circumstances and on the terms described in Appendix F, Debt Securities originally denominated in currencies that are replaced by the Euro may be redenominated to Euro.

## **Denomination**

We will issue U.S. dollar denominated Debt Securities in minimum denominations of U.S. \$1,000 and additional increments of U.S. \$1,000, unless otherwise specified in the applicable Pricing Supplement. We will issue non-U.S. dollar denominated Short-Term Notes in the denominations listed in Appendix B. We will express denominations of Zero-Coupon Securities in terms of the principal amount payable on the Maturity Date.

Debt Securities originally denominated in a currency that is issued by a member state of the European Union that adopts the Euro as its single currency may be redenominated to the Euro. Provisions relating to redenomination are set forth in Appendix F.

Any Debt Securities in respect of which the issue proceeds are received by us in the United Kingdom and which have a maturity of less than one year from the date of issue must (a) (i) have a minimum redemption value of £100,000 (or an amount of equivalent value denominated wholly or partly in another currency) and no part of any such Debt Security may be transferred unless the redemption value of that part is not less than £100,000 (or such equivalent amount) and (ii) be issued only to persons whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of their businesses; or who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses or (b) be issued in other circumstances which do not constitute a contravention of section 19 (the general prohibition) of the Financial Services and Markets Act 2000.

## **Reopenings**

We may issue additional Debt Securities with the same terms as previously issued Debt Securities (other than the date of issuance, interest commencement date and offering price, which may vary) that will form a single issue with the previously issued Debt Securities. This type of offering often is referred to as a “reopening”. We may issue additional Debt Securities in this manner from time to time and without the consent of any Holder of a Debt Security.

## **Maturity**

Each Debt Security will mature on a date (the “Maturity Date”) one day or longer from its issue date, unless redeemed prior to that date. The Maturity Date for any Benchmark Bill or Short-Term Note will be 360 days or less from the date of its issuance. We will specify the Maturity Date for other Debt Securities in the applicable Pricing Supplement.

The principal amount payable on the Maturity Date of a Debt Security will be either:

- a fixed principal repayment amount equal to 100% of the outstanding principal amount, or a specified amount above or below the principal amount; or
- a variable principal repayment amount determined by reference to one or more interest rate or exchange rate indices, or otherwise.

## **Interest**

Benchmark Bills and most Short-Term Notes will not bear interest but will be issued at a discount to their principal amount payable at maturity. Other Debt Securities may bear interest at one or more fixed rates or variable rates or may not bear interest. We will specify in the applicable Pricing Supplement whether these other Debt Securities are Fixed Rate Securities, Step Rate Securities,

Variable Rate Securities, Fixed/Variable Rate Securities, Zero-Coupon Securities or Range Accrual Debt Securities.

- “Fixed Rate Securities” are Debt Securities that bear interest at a fixed rate.
- “Step Rate Securities” are Debt Securities that bear interest at specified fixed rates for specified periods.
- “Variable Rate Securities” are Debt Securities that bear interest at a variable rate determined by reference to one or more interest rate indices, or otherwise. A detailed discussion of how rates are calculated is set forth below under “—Variable Interest Rates.”
- “Fixed/Variable Rate Securities” are Debt Securities that bear interest at a fixed rate for one or more periods and at a variable rate for one or more other periods or Debt Securities that bear interest at a rate that we may elect to convert from a fixed rate to a variable rate or from a variable rate to a fixed rate.
- “Zero-Coupon Securities” are Debt Securities that do not bear interest and are issued at a discount to their principal amount payable at maturity.
- “Range Accrual Debt Securities” are Variable Rate Securities that provide that no interest will accrue during periods when an applicable index is outside a specified range.

You can obtain the current interest rate on Variable Rate Securities and Fixed/Variable Rate Securities from Fannie Mae by accessing our website at [www.fanniemae.com](http://www.fanniemae.com) or calling the Fannie Mae fixed-income securities hotline at (888) 266-3457 (for international callers, (202) 752-8510). We may discontinue providing this information at any time without notice. If the rules of the EuroMTF market so require, the Calculation Agent will provide certain interest rate information on Variable Rate Securities admitted to trading on the EuroMTF market within two Business Days of having determined the information.

Descriptions of interest rate indices that may be used with respect to Variable Rate Securities, Fixed/Variable Rate Securities, or Range Accrual Debt Securities are contained in Appendix D to this Offering Circular.

We will specify in the applicable Pricing Supplement when interest will be paid on the related Debt Securities. We will pay interest in arrears on the Interest Payment Dates specified for the Debt Securities (each an “Interest Payment Date”) and on the Principal Payment Date.

Each issue of interest-bearing Debt Securities will bear interest from and including the most recent Interest Payment Date or, if no interest has been paid or made available for payment on that issue of Debt Securities, from and including the issue date of the Debt Securities (or any other date we may specify for the Debt Securities) to but excluding the next applicable Interest Payment Date or the applicable Principal Payment Date. In this Offering Circular, we refer to each of these periods as an “Interest Period.”

In this Offering Circular, we refer to the Maturity Date or any earlier date of redemption or principal repayment of an issue of Debt Securities as the “Principal Payment Date” with respect to the principal repayable on that date. No interest on the principal repaid will accrue on or after the Principal Payment Date.

Interest on any Debt Security accrues on the then outstanding principal amount. Payments on Debt Securities will be rounded, in the case of U.S. dollars, to the nearest cent or, in the case of a Specified Payment Currency other than U.S. dollars, to the nearest smallest transferable unit (with one-half cent or unit rounded upwards). We may issue securities where interest does not accrue under certain circumstances.

The terms of our Subordinated Debt Securities will require interest to be deferred for periods of up to five years under certain circumstances. See Appendix C for more information about this interest deferral feature of our Subordinated Debt Securities.

If any jurisdiction imposes a withholding or other tax on a payment on any Debt Security, we will not be obligated to pay additional interest or other amounts, or to redeem the Debt Securities prior to maturity.

Interest rates or yields with respect to Debt Securities may differ depending upon, among other things, the principal amount of Debt Securities the applicable Dealer expects to sell to an investor in a single transaction and the price at which the Dealer purchases the Debt Securities from us (or, in connection with sales on a non-underwritten basis, the Dealer's commission).

### *Variable Interest Rates*

Debt Securities that have a variable interest rate component may bear interest at a variable rate determined by reference to one or more interest rate indices, or otherwise, (1) plus or minus a Spread, if any, or (2) multiplied by a Multiplier, if any. We will specify the applicable interest rate index and any Spread or Multiplier in the Pricing Supplement for an issue of Debt Securities with a variable interest rate component. Debt Securities also may bear interest in any other manner described in the applicable Pricing Supplement.

“Spread” means a constant or variable amount to be added to or subtracted from the relevant index. “Multiplier” means a constant or variable number (which may be greater or less than 1) by which the relevant index will be multiplied. “Index Maturity” means the period to maturity of the instrument or obligation as to which the relevant index will be calculated.

Debt Securities with a variable interest rate component also may have either or both of the following:

- a maximum interest rate limitation, or “cap,” on the rate at which interest may accrue during any Interest Reset Period; and
- a minimum interest rate limitation, or “floor,” on the rate at which interest may accrue during any Interest Reset Period.

In addition, in no event will the effective rate of interest (determined on the basis of the actual number of days in the period and in the year) exceed 24% per annum for any Interest Reset Period, regardless of the accrual method used to compute interest on the Debt Security.

We may issue securities where the applicable interest rate may change, and/or no interest may accrue, based on the performance of one or more interest rate or exchange rate indices or otherwise.

We will specify in the applicable Pricing Supplement how frequently the rate of interest will reset, which may be daily, weekly, monthly, quarterly, semiannually, annually or any other frequency. We also will specify in the applicable Pricing Supplement the effective dates for new rates of interest, subject to the following sentence (each a “Reset Date”). If the interest rate will reset within an Interest Period, then:

- the interest rate in effect on the sixth Business Day preceding an Interest Payment Date or the Principal Payment Date will be the interest rate for the remainder of that Interest Period; and
- the first day of each Interest Period also will be a “Reset Date.” (Debt Securities may bear interest prior to the initial Reset Date at an initial interest rate specified in the applicable Pricing Supplement. If so, then the first day of the initial Interest Period will not be a Reset Date.)

Each period beginning on the applicable Reset Date and ending on the day preceding the next Reset Date is an “Interest Reset Period.” During each Interest Reset Period:

- If the Federal Funds Rate (Weekly Average) is an applicable interest rate index for a Debt Security, the rate of interest for each day in an Interest Reset Period will be determined as of a date indicated in Appendix D under “Federal Funds Rates—Federal Funds Rate (Weekly Average).”
- If the Treasury Bill Rate is an applicable interest rate index for a Debt Security, the rate of interest for each day in an Interest Reset Period will be determined as of a date indicated in Appendix D under “Treasury Bill Rate.”
- For all other interest rate indices, the rate of interest for each day in an Interest Reset Period will be determined as of the applicable Determination Date. The “Determination Date” will be:
  - for LIBOR, the LIBOR Determination Date;
  - for EURIBOR, the EURIBOR Determination Date;
  - for the Federal Funds Rate (Daily), the Federal Funds Rate (Daily) Determination Date;
  - for the Prime Rate, the Prime Rate Determination Date; and
  - for the CMS Rate, the CMS Determination Date
  - for the CMT Rate (Weekly Average), the CMT Determination Date.

If the rate of interest will reset within an Interest Period, accrued interest will be calculated by multiplying the principal amount of the Debt Security by an accrued interest factor. This accrued interest factor will be computed by totaling the interest factors calculated for all days in the Interest Period. The interest factor for each day will be computed by dividing the interest rate for that day by the number of days in the year referred to in the applicable accrual method.

*Example.* An interest rate of 3.12345% would be expressed in decimal format as .0312345. Assuming a year of 360 days, the applicable interest rate would be calculated by dividing .0312345 by 360 resulting in an interest factor of .0000868 for one day.

In calculating the interest rate, all numbers will be expressed as a decimal and rounded to the seventh digit after the decimal point. (If the eighth digit to the right of the decimal point is five or greater, the seventh digit will be rounded up by one.)

*Example.* 3.123445% would be expressed as 0.03123445, which would be rounded to 0.0312345 (which is equivalent to 3.12345%).

Numbers subject to this rounding convention include all value inputs into indexing formulas, intermediate calculations, numbers resulting from any calculation, interest rates, interest factors and accrued interest factors.

If the format of a page, screen, display, press release or other source related to an index to be used in determining the rate of interest on a Debt Security changes but, in the discretion of the Calculation Agent, the source continues to disclose the information necessary to determine the rate substantially as described in this section or in the applicable Pricing Supplement, then the procedure for obtaining information from the source shall be deemed to be amended as determined by the Calculation Agent.

We will specify the applicable interest rate index in the Pricing Supplement for an issue of Debt Securities. Only the provisions contained in Appendix D under the heading of the specified interest rate index will apply to the related Debt Securities.



The Calculation Agent's determination of the interest rate will be final and binding on all parties, absent manifest error. The "Calculation Agent" will be Fannie Mae or a bank or broker-dealer that we designate. We will be the initial Calculation Agent unless we specify otherwise in the applicable Pricing Supplement.

If the rules of the EuroMTF market so require, the Calculation Agent will provide to the EuroMTF market the interest rate, the amount of interest payable on the next Interest Payment Date and the dates of the current Interest Period with respect to Variable Rate Securities admitted to trading on the EuroMTF market, no later than the first day of each new Interest Period.

### **Amortizing Securities**

We may issue Debt Securities on which there are periodic payments of principal during the term of the Debt Securities ("Amortizing Securities"). Amortizing Securities may bear interest at fixed or floating rates. We will describe in the Pricing Supplement for an Amortizing Note how interest will be calculated and how principal will be paid.

### **Indexed Securities**

We may issue Debt Securities on which the amount of principal or interest (or both) payable will be determined by reference to the price or prices of specified commodities or stocks, to the exchange rate of one or more currencies or currency units (including swap indices between currencies or currency units) relative to one or more other currencies or currency units, to other prices or exchange rates, or in any other manner described in the Pricing Supplement ("Indexed Securities"). The Pricing Supplement will describe the method for determining the amount of principal and interest, if any, payable on Indexed Securities. In no event, however, will the effective rate of interest (determined on the basis of the actual number of days in the period and in the year) on an Indexed Security that bears interest at a floating rate exceed 24% per annum for any Interest Reset Period, regardless of the accrual method used to compute interest on the Indexed Security.

### **Accrual Methods**

Each interest-bearing Debt Security will have an accrual method (*i.e.*, day count convention) for calculating interest or any other relevant accrual factor on the related Debt Securities, which may incorporate one or more of the following methods. The numbers in the denominators of each term refer to the number of days in a year or an assumed year, as applicable.

- "30/360" means a calculation on the basis of a 360-day year consisting of twelve 30-day months using the International Swaps and Derivatives Association ("ISDA") day count convention.
- "Actual/360" means a calculation on the basis of the actual number of days elapsed divided by 360.
- "Actual/365 (Fixed)" means a calculation on the basis of the actual number of days elapsed divided by 365, regardless of whether accrual or payment occurs during a leap year.
- "Actual/Actual (Accrual Basis)" means a calculation on the basis of the actual number of days elapsed divided by 365, or 366 if the day for which interest is being calculated falls in a leap year.
- "Actual/Actual (Payment Basis)" means a calculation on the basis of the actual number of days elapsed divided by 365, or 366 if the applicable Interest Payment Date falls in a leap year.

The accrual method for Fixed-Rate Securities, Step Rate Securities and the fixed-rate component of Fixed/Variable Rate Securities will be "30/360" unless we specify otherwise in the applicable

Pricing Supplement. We will specify the accrual method for other Debt Securities in the applicable Pricing Supplement.

### **Business Day Convention**

If an Interest Payment Date or Principal Payment Date is not a Business Day, we will pay the interest or principal on the next Business Day. In that case, you will receive no interest on the delayed interest or principal payment for the period from and after the scheduled Interest Payment Date or Principal Payment Date to the actual date of payment.

For Fed Book-Entry Securities, “Business Day” means any day other than:

- a Saturday,
- a Sunday,
- a day on which the Federal Reserve Bank of New York is closed, or
- with respect to any required payment, a day on which the U.S. Federal Reserve Bank maintaining the book-entry account relating to the Fed Book-Entry Security is closed.

For Global Book-Entry Securities, “Business Day” means any day other than:

- a Saturday,
- a Sunday,
- a day on which banking institutions are closed in New York, New York,
- a day on which banking institutions are closed in the Principal Financial Center of the country issuing the Specified Payment Currency (in the case where the Specified Payment Currency is other than U.S. dollars or Euro), or
- a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (“TARGET”) System is not operating (in the case where the Specified Currency is Euro, whether or not pursuant to redenomination).

“Principal Financial Center” means the capital city of the country issuing the Specified Payment Currency, except that with respect to U.S. dollars, Australian dollars, British pounds sterling, Canadian dollars, Hong Kong dollars and Swiss francs, the Principal Financial Center will be the city of New York, Sydney, London, Toronto, Hong Kong and Zurich, respectively.

### **No Rights of Acceleration**

The Debt Securities will not contain any provisions permitting Holders to accelerate maturity of the Debt Securities upon the occurrence of any default or other event.

### **Limitation of Damages**

Fannie Mae will not be liable for incidental, indirect, special, consequential, or punitive damages of a Holder upon the occurrence of any default or other event.

### **Book-Entry Systems**

We will issue and maintain Debt Securities as either Fed Book-Entry Securities, which will be held only on the book-entry system of the U.S. Federal Reserve Banks (the “Fed Book-Entry System”), or Global Book-Entry Securities, which will be held through the facilities of one or more other depositories.

### ***Fed Book-Entry System***

The U.S. Federal Reserve Banks, as fiscal agents for Fannie Mae, will issue Fed Book-Entry Securities in book-entry form, maintain book-entry accounts with respect to the Fed Book-Entry Securities and make payments, on our behalf, of principal and interest on the Fed Book-Entry Securities in U.S. dollars on the applicable payment dates by crediting Holders' accounts at the U.S. Federal Reserve Banks.

Regulations that currently govern the use of the Fed Book-Entry System for our securities issued in book-entry form and the pledging and transfer of interests in the securities have been adopted by the U.S. Department of Housing and Urban Development and are contained in 24 CFR Part 81, Subpart H (which regulations, as they may be amended from time to time or replaced or supplemented by regulations adopted by any other U.S. governmental body or agency, are referred to in this Offering Circular as the "HUD Book-Entry Regulations"). The HUD Book-Entry Regulations apply to all Fed Book-Entry Securities. The HUD Book-Entry Regulations may be modified, amended, supplemented, superseded, eliminated or otherwise altered without the consent of any Holder of Fed Book-Entry Securities.

The accounts of Holders of Fed Book-Entry Securities also are governed by applicable operating circulars and letters of the U.S. Federal Reserve Banks.

### ***Other Book-Entry Systems***

We will issue Global Book-Entry Securities that are either registered in the name of a nominee of The Depository Trust Company ("DTC") in New York, New York, or registered in the name of the common depository (or a nominee of the common depository) for one of the following:

- Euroclear Bank S.A./N.V. ("Euroclear Bank"), as operator of the Euroclear System ("Euroclear");
- Clearstream Banking, société anonyme ("Clearstream"); or
- another clearing system specified in the applicable Pricing Supplement.

The Bank of New York will act as the custodian for Global Book-Entry Securities held by DTC and as the "Common Depository" for Global Book-Entry Securities held by Euroclear and Clearstream. We will exchange Global Book-Entry Securities for definitive Debt Securities only under the limited circumstances described under "Description of the Debt Securities—Exchange of Global Book-Entry Securities for Definitive Debt Securities."

### **Eligibility for Stripping of Fed Book-Entry Securities**

We may designate specific issues of Fed Book-Entry Securities that are Fixed Rate Securities or Step Rate Securities (the "Eligible Securities") as eligible to be separated ("stripped") into their separate Interest Components and Principal Components on the Fed Book-Entry System. We may designate Fed Book-Entry Securities as Eligible Securities either at the time of original issuance or at any other time during the period in which the securities may be stripped. We have no obligation, however, to designate any issue of Fed Book-Entry Securities as eligible to be stripped into Components.

The "Components" of an Eligible Security are:

- each future interest payment due on or prior to the Maturity Date or, if the Eligible Security is subject to redemption or principal repayment prior to the Maturity Date, the first date on which the Eligible Security is subject to redemption or repayment (in either case, the "Cut-off Date") (each an "Interest Component"); and
- the principal payment plus any interest payments due after the Cut-off Date (the "Principal Component").

After the last redemption date of an issue subject to redemption on one or more specified dates, if we do not redeem the issue, the Principal Component may be further stripped into Interest Components of each future interest payment due on or prior to the Maturity Date and a Principal Component of the principal payment due on the Maturity Date. The initial or final interest payment on a Fed Book-Entry Security will not be an Interest Component if the applicable Interest Period is shorter or longer than other Interest Periods, based on a 360-day year consisting of twelve 30-day months. In that case, the initial or final interest payment will remain with the Principal Component. Each Component will receive a CUSIP number.

To be stripped into Components, the principal amount of the Eligible Security must be in an amount that, based on the stated interest rate of the Eligible Security, will produce an interest payment of \$1,000 or an integral multiple thereof on each Interest Payment Date for the Fed Book-Entry Security. You currently may find out the minimum principal amount required to strip an Eligible Security by calling the Fannie Mae fixed-income securities hotline at (888) 266-3457 (for international callers (202) 752-8510). If a Fed Book-Entry Security is eligible to be stripped upon original issuance, we generally will disclose in the applicable Pricing Supplement the minimum principal amount required to strip the Fed Book-Entry Securities.

In some cases, Interest Components of two or more issues of Fed Book-Entry Securities may be due on the same day. These Interest Components may have the same or different CUSIP numbers. We currently expect that most Interest Components due on the same day (regardless of Fed Book-Entry Security issue) will have the same CUSIP number. However, we may designate them to receive different CUSIP numbers. We also may designate at any time that Interest Components of issues of Fed Book-Entry Securities originally issued on or after a specified time receive CUSIP numbers different than Interest Components of issues of Fed Book-Entry Securities originally issued prior to that time.

A Holder of an Eligible Security currently may request that the Fed Book-Entry Security be separated into its Components at any time from the date it becomes eligible to be stripped. The Holder must make a request for separation to the FRBNY and comply with any requirements and procedures, including payment of applicable fees, if any, of the FRBNY then in effect. It can take ten Business Days or longer from the date a Holder of an Eligible Security makes a request for a security to be separated for new CUSIP numbers to be assigned and the new Components to appear on the Fed Book-Entry System.

The Components may be maintained and transferred on the Fed Book-Entry System in integral multiples of \$1,000. Payments on Components will be made in U.S. dollars on the applicable payment dates (or the following Business Day if payment on the related Fed Book-Entry Security is or would be made on the following Business Day as described above in “Description of the Debt Securities—Business Day Convention” and below in “Description of the Debt Securities—Payments”) by credit to the account at a U.S. Federal Reserve Bank of the Holding Institutions whose names appear on the book-entry records of the U.S. Federal Reserve Banks as the entities to whose account the Components have been deposited (“Component Holders”).

If any modification, amendment or supplement of the terms of an issue of Fed Book-Entry Securities requires any consent of Holders, the consent for Fed Book-Entry Securities that have been stripped will be provided by the Component Holders of Principal Components. Component Holders of Interest Components will have no right to give or withhold consent. See “Description of the Debt Securities—Modification and Amendment.”

Currently, at the request of a Component Holder holding a Principal Component and all applicable unmatured Interest Components, the FRBNY will restore (“reconstitute”) the Principal Components of a stripped Fed Book-Entry Security and the applicable unmatured Interest Components (all in appropriate amounts) to the Fed Book-Entry Security in fully constituted form. The FRBNY charges a fee to reconstitute Fed Book-Entry Securities. Generally, for purposes of reconstituting a Debt Security, the Principal Component of an issue of Fed Book-Entry Securities may be

combined with either Interest Components of that issue or Interest Components, if any, with the same CUSIP numbers from other issues of Fed Book-Entry Securities. Component Holders wishing to reconstitute Components into a Fed Book-Entry Security also must comply with all applicable requirements and procedures of the FRBNY relating to the stripping and reconstitution of securities.

The preceding discussion is based on our understanding of the way the FRBNY currently strips and reconstitutes securities on the Fed Book-Entry System. The FRBNY may cease stripping or reconstituting Eligible Securities or may change the way this is done or the applicable requirements, procedures or charges at any time without notice.

## **Status**

The Debt Securities will be unsecured general obligations of Fannie Mae issued under Section 304(b) of the Charter Act or unsecured subordinated obligations issued under Section 304(e) of the Charter Act. Subordinated Debt Securities will be issued under Section 304(e) of the Charter Act. All Short-Term Notes will be issued under Section 304(b) of the Charter Act. All other Debt Securities will be issued under Section 304(b) of the Charter Act unless we specify otherwise in the applicable Pricing Supplement. The Debt Securities will not limit other indebtedness or securities that we may incur or issue. The Debt Securities will not contain any financial or similar restrictions on us or any restrictions on our ability to secure other indebtedness.

**The Debt Securities, together with interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than Fannie Mae.**

Debt Securities will not be issued under an indenture. There will be no trustee with respect to the Debt Securities.

## **Special Terms Relating to Subordinated Debt Securities**

The terms of certain of our subordinated Debt Securities require interest to be deferred for periods of up to five years under certain circumstances, as described in Appendix C. We refer in this Offering Circular to these subordinated Debt Securities and other Debt Securities with similar subordination and interest deferral provisions as “Subordinated Debt Securities.”

Subordinated Debt Securities will be unsecured subordinated obligations issued under Section 304(e) of the Charter Act. Subordinated Debt Securities will be unsecured and subordinated and will rank junior in priority of payment to our “Senior Liabilities”. “Senior Liabilities” means all existing and future liabilities of Fannie Mae, other than liabilities that by their terms expressly rank equal with or junior to Subordinated Debt Securities. Senior Liabilities include, but are not limited to, debt obligations issued under Section 304(b) of the Charter Act, liabilities in respect of our guarantees on mortgage-backed securities and Fannie Mae’s Outstanding Capital Debentures.

In the event and during the continuation of any default in the payment of any amount due in respect of Senior Liabilities beyond any applicable period of grace, then, unless and until such default shall have been cured or waived or shall have ceased to exist, we can pay no principal of or interest on Subordinated Debt Securities unless we have made adequate provision for the payment in full of such amounts then due in respect of all Senior Liabilities. All statements herein relating to the payment of principal of and interest on Subordinated Debt Securities are qualified in their entirety by reference to such subordination.

See Appendix C for more specific information about the Subordinated Debt Securities.

## **Redemption**

We may not redeem Debt Securities prior to maturity, unless we specify otherwise in the applicable Pricing Supplement. We will not redeem Benchmark Bills or Short-Term Notes prior to maturity.

The most common form of redemption is redemption at our option. If we specify redemption at our option in the applicable Pricing Supplement, we may redeem all the Debt Securities or a portion of the Debt Securities from time to time. We may have the option to redeem the Debt Securities on one or more specified dates, at any time on or after a specified date, or during one or more specified periods of time. The applicable Pricing Supplement will contain the redemption price, or describe the method of determining the redemption price. Holders will receive accrued and unpaid interest on the principal amount redeemed to the date fixed for redemption.

If we elect to redeem an issue of Debt Securities, we will give notice to Holders of the Debt Securities not less than 10 days prior to the date of redemption in the manner described under “Description of the Debt Securities—Notices.”

We may specify in the applicable Pricing Supplement that an issue of Debt Securities will be subject to mandatory redemption by us, in whole or in part, from time to time upon terms and at prices described in the Pricing Supplement. We will give no notice to Holders of a mandatory redemption.

If we redeem a portion of an issue of Fed Book-Entry Securities, we will redeem a pro rata portion of the then outstanding principal amount of each Fed Book-Entry Security of the issue. If we redeem a portion of an issue of Global Book-Entry Securities, the Global Agent will reduce the principal amount of one or more Global Book-Entry Securities by an aggregate amount equal to the amount of the redemption, ensuring that the principal amount of each Global Book-Entry Security of the issue remains in an authorized denomination. The actual impact of our redeeming a portion of an issue of Global Book-Entry Securities on the beneficial owners will depend on the procedures of the applicable clearing system. If the beneficial owner is not a participant with that clearing system, the effect also will depend on the procedures of the participant through which the beneficial owner owns its interest in the Global Book-Entry Security.

We also may issue Debt Securities that are redeemable at the option of the Holders upon terms and procedures described in the applicable Pricing Supplement.

## **Corrections**

All value inputs into indexing formulas, intermediate calculations, numbers resulting from any calculation, interest rates, interest factors, accrued interest factors, principal amounts or components used to determine principal or interest payable on an issue of Debt Securities are subject to correction within 30 days from the applicable Interest Payment Date or Principal Payment Date. The source of a corrected value input must be the same page, screen, display, press release or other source from which the previously-used value input was to be obtained. A correction might result in an adjustment to an amount paid to a Holder.

*Example.* Assume that the applicable Pricing Supplement for a Variable Rate Security specifies LIBOR as the applicable interest rate index for determining the rate of interest payable on the Debt Security. If LIBOR for a Reset Date is obtained from the Reuters Screen LIBO Page in accordance with Appendix D, the rate may be superseded only by a corrected rate for that Reset Date obtained from the Reuters Screen LIBO Page. The corrected rate would be used to determine the rate of interest payable in respect of the Variable Rate Security as of the applicable Interest Payment Date.

## **Repurchases**

We may purchase Debt Securities at any price or prices, in the open market or otherwise, at any time. We may hold, sell or cancel any Debt Securities that we repurchase.

## **Ownership of Debt Securities**

### ***Fed Book-Entry Securities***

The Fed Book-Entry Securities may be held of record only by entities eligible to maintain book-entry accounts with a U.S. Federal Reserve Bank (the “Holding Institutions”). The entities whose names appear on the book-entry records of a U.S. Federal Reserve Bank as the entities to whose accounts Fed Book-Entry Securities have been deposited are referred to as “Holders” of the Fed Book-Entry Securities. A Holder is not necessarily the beneficial owner of the Fed Book-Entry Security. Beneficial owners ordinarily hold Fed Book-Entry Securities through one or more financial intermediaries, such as banks, brokerage firms and securities clearing organizations. A Holder that is not the beneficial owner, and each other financial intermediary holding one or more Fed Book-Entry Securities directly or indirectly on behalf of the beneficial owner, will have the responsibility of establishing and maintaining accounts for their respective customers.

Beneficial owners of Fed Book-Entry Securities may exercise their rights with respect to Fannie Mae and the U.S. Federal Reserve Banks only through the Holders of the Fed Book-Entry Securities. Fannie Mae and the U.S. Federal Reserve Banks will have no obligation to a beneficial owner of a Fed Book-Entry Security (unless the beneficial owner is also the Holder). The U.S. Federal Reserve Banks will act only upon the instructions of Holders in recording transfers of interests in Fed Book-Entry Securities and will effect transfers of interests in Fed Book-Entry Securities only to Holding Institutions. Fannie Mae and the U.S. Federal Reserve Banks may treat the Holders as the absolute owners of Fed Book-Entry Securities for the purpose of making payments on the Fed Book-Entry Securities and for all other purposes, whether or not the Fed Book-Entry Securities are overdue and notwithstanding any notice to the contrary.

### ***Global Book-Entry Securities***

The person in whose name a Global Security is registered in the “Register” maintained by the Global Agent as registrar (in this capacity, the “Registrar”) will be the “Holder” of the Global Security. We will register Global Book-Entry Securities to be held by DTC in the name of Cede & Co. and Global Book-Entry Securities to be held by the Common Depositary in the name of The Bank of New York Depository (Nominees) Limited, or other nominee of DTC or the Common Depositary, as the case may be. Accordingly, Cede & Co. and The Bank of New York Depository (Nominees) Limited will be the Holders of the related Global Book-Entry Securities. Beneficial interests in a Global Book-Entry Security will be represented, and transfers thereof will be effected, only through book-entry accounts of financial institutions acting on behalf of the beneficial owners of that Global Book-Entry Security, as a direct or indirect participant in the applicable clearing system for that Global Book-Entry Security.

We and the Global Agent may treat the Holders as the absolute owners of Global Book-Entry Securities for the purpose of making payments and for all other purposes. Owners of beneficial interests in a Global Book-Entry Security are not the owners or Holders of that Global Book-Entry Security and, except under limited circumstances described under “Description of the Debt Securities—Exchange of Global Book-Entry Securities for Definitive Debt Securities,” are not entitled to have Debt Securities registered in their names or to receive definitive Debt Securities. Accordingly, any beneficial owner must rely on the procedures of the applicable clearing system or on the procedures of the participant through which the beneficial owner owns its interest, to exercise any rights of a Holder of the Global Security.

We understand that, if we request any action of Holders or if beneficial owners desire to take any action that a Holder is entitled to take, DTC, Euroclear or Clearstream, or their respective nominees, as the Holder of the related Global Book-Entry Security, would authorize the participants through which the relevant beneficial interests are held to take the action. The participants in turn would authorize beneficial owners owning through the participants to take the relevant action, in each case in accordance with the rules and procedures of the applicable system.

DTC, Euroclear and Clearstream can act only on behalf of their respective participants, who in turn act on behalf of indirect participants. Therefore, the ability of a beneficial owner to pledge its interest in the Global Book-Entry Securities to persons or entities that do not participate in the applicable system, or otherwise take actions in respect of that interest, may be limited by the lack of a definitive certificate. If the laws of a jurisdiction require that certain purchasers of securities take physical delivery of their securities in definitive form, this also may impair your ability to transfer beneficial interests in a Global Book-Entry Security.

## **Payments**

### ***Fed Book-Entry Securities***

We will make payments of principal and interest on Fed Book-Entry Securities in U.S. dollars on the applicable payment dates to Holders as of the end of the Business Day preceding the payment dates. See also “Description of Debt Securities—Business Day Convention.” Payments on Fed Book-Entry Securities will be made by credit of the payment amount to the Holders’ accounts at the U.S. Federal Reserve Banks. All payments to or upon the order of a Holder will be valid and effective to discharge the liability of Fannie Mae and the Fiscal Agent. The Holders and each other financial intermediary holding Fed Book-Entry Securities directly or indirectly on behalf of beneficial owners will have the responsibility of remitting payments for the accounts of their customers. All payments on the Fed Book-Entry Securities are subject to any applicable law or regulation.

### ***Global Book-Entry Securities***

We will make payments on the Global Book-Entry Securities to DTC, Euroclear, Clearstream, and any other applicable clearing system (or their nominees) as the Holders thereof. We will make payments in the Specified Payment Currency (except as described under “Description of the Debt Securities—Specified Currencies and Specified Payment Currencies” or as otherwise described in Appendix F). For certain currency conversion facilities with respect to Global Securities held by DTC see “Description of the Debt Securities—Currency Conversions—Payment on Debt Securities”. All payments to or upon the order of the Holder of a Global Book-Entry Security will be valid and effective to discharge our liability in respect of that Global Book-Entry Security. Normal conventions observed by the system will determine ownership positions within each system. Neither we nor the Global Agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in a Global Book-Entry Security or for maintaining, supervising or reviewing any records relating to the beneficial ownership interests.

DTC has advised us that, when DTC receives any payment of principal of or interest on a Global Book-Entry Security held by it, it will credit its participants’ accounts with payments proportionate to their respective beneficial interests in the principal amount of that Global Book-Entry Security. Payments by participants to owners of beneficial interests in that Global Book-Entry Security held through those participants are the responsibility of the participants, as is now the case with securities held for the accounts of customers registered in “street name.” Euroclear and Clearstream also have advised us that payments on Global Book-Entry Securities held through them will be credited to Euroclear participants or Clearstream participants in accordance with the applicable system’s rules and procedures.

We will pay interest on Global Book-Entry Securities on the applicable Interest Payment Date. We will make interest payments to the Holder of each Global Book-Entry Security at the close of business on the fifteenth day (whether or not a Business Day) (each, a “Record Date”) preceding the Interest Payment Date. (Owners of beneficial interests in a Global Book-Entry Security should be aware that the applicable clearing system may apply a different record date for the payment of interest to its participants on an Interest Payment Date.) We will make the first payment of interest on any Global Book-Entry Security originally issued between a Record Date and the related Interest Payment Date on the Interest Payment Date following the next Record Date to the Holder on the next Record



Date. We will owe the principal of each Global Book-Entry Security, together with accrued and unpaid interest thereon, on the Principal Payment Date for the Global Book-Entry Security (subject to the Holder's right on the related Record Date to receive interest due on an Interest Payment Date that is on or prior to the Principal Payment Date) and will pay the Holder when the Holder presents and surrenders the Global Book-Entry Security. See also "Description of the Debt Securities—Business Day Convention."

All payments on Global Book-Entry Securities are subject to any applicable law or regulation. If a payment outside the United States is illegal or effectively precluded by exchange controls or other similar restrictions, we will make payments on the related Global Book-Entry Securities at the office of any paying agent in the United States.

All money paid by us to the Global Agent or to any paying agent for principal and interest payments on any Global Book-Entry Security that remains unclaimed or undistributed at the end of one year after the principal or interest is due and payable will be subject to applicable escheat laws.

Additional provisions related to payments on non-U.S. dollar denominated Debt Securities appear under "Description of the Debt Securities—Currency Conversions."

## **Modification and Amendment**

### ***Fed Book-Entry Securities***

We may modify, amend or supplement the Statement of Terms which would modify, amend or supplement the terms of Fed Book-Entry Securities without the consent of Holders of any Fed Book-Entry Securities, in any manner that we determine will not adversely affect in any material way the interests of the Holders of Fed Book-Entry Securities, including:

- to cure, correct or supplement any ambiguous or defective provision in the Statement of Terms or to make any other provision with respect to the issue of Fed Book-Entry Securities that is not inconsistent with the provisions of the Statement of Terms,
- to conform the Statement of Terms to, or to cure any ambiguity or discrepancy due to changes in, the HUD Book-Entry Regulations or the Fiscal Agency Agreement or any regulation or document that the HUD Book-Entry Regulations or the Fiscal Agency Agreement make applicable to our book-entry securities, or
- to increase the amount of the issue of Fed Book-Entry Securities.

In addition, with either the written consent, or the affirmative vote at a meeting, of the Holders of at least a majority of the aggregate then outstanding principal amount of an issue of Fed Book-Entry Securities, we may modify, amend or supplement the Statement of Terms of such issue to add any provisions or change in any manner or eliminate any provisions of those Fed Book-Entry Securities or modify in any manner the rights of the Holders. However, without the written consent or affirmative vote of the Holder of the principal amount of that Fed Book-Entry Security, no modification, amendment or supplement may:

- change the Maturity Date of, or the due date of any installment of interest on, the Fed Book-Entry Security,
- materially modify any redemption provisions relating to the redemption price of, or any redemption date or period for, the Fed Book-Entry Security,
- reduce the principal amount of, or materially modify the rate of interest or the calculation of the rate of interest on, the Fed Book-Entry Security, or
- reduce the percentage of the then outstanding principal amount of the Fed Book-Entry Securities of which the Fed Book-Entry Security forms a part, the consent or affirmative vote of the Holders of which is necessary to modify, amend or supplement the related Statement of Terms.

Holder entitled to vote a majority of the then outstanding aggregate principal amount of an issue of Fed Book-Entry Securities will constitute a quorum at any meeting of Holders. Fed Book-Entry Securities that we own may not be counted toward establishing a quorum, or consenting to or voting for any matter presented to Holders.

Any instrument given by or on behalf of any Holder of a Fed Book-Entry Security in connection with any consent to a modification, amendment or supplement will be irrevocable once given and will be conclusive and binding on all subsequent Holders of that Fed Book-Entry Security. Except as set forth above, any modification, amendment or supplement of the terms of Fed Book-Entry Securities will be conclusive and binding on all Holders of Fed Book-Entry Securities, whether or not they have given consent or were present at any meeting.

### ***Global Book-Entry Securities***

We and the Global Agent may modify, amend or supplement the Global Agency Agreement and the terms of one or more issues of Global Book-Entry Securities without the consent of Holders of any Global Book-Entry Securities, in any manner that we and the Global Agent determine will not adversely affect in any material way the interests of the Holders, including:

- to cure, correct or supplement any ambiguous or defective provision in the Global Agency Agreement or to make any other provision with respect to the issue of Global Book-Entry Securities consistent with the provisions of the Global Book-Entry Securities,
- to increase the amount of the issue of Global Book-Entry Securities, or
- to redenominate the currency unit from the Original Specified Payment Currency to the Euro and to take all of the actions described in and contemplated by Appendix F, “Redenomination to the Euro.”

In addition, with the written consent, or the affirmative vote at a meeting, of the Holders of at least a majority of the aggregate then outstanding principal amount of Global Book-Entry Securities or an issue of Global Book-Entry Securities, we may modify, amend or supplement the Global Agency Agreement or the terms of an issue of Global Book-Entry Securities, respectively, to add any provisions or change in any manner or eliminate any provisions of Global Book-Entry Securities or modify in any manner the rights of the Holders. However, without the written consent or affirmative vote of the Holder of a Global Book-Entry Security, no modification, amendment or supplement may:

- change the Maturity Date of, or the due date of any installment of interest on, the Global Book-Entry Security,
- materially modify any redemption provisions relating to the redemption price of, or any redemption date or period for, the Global Book-Entry Security,
- reduce the principal amount of, or materially modify the rate of interest or the calculation of the rate of interest on, the Global Book-Entry Security,
- change the Specified Payment Currency of the Global Book-Entry Security (except as described in Appendix F), or
- reduce the percentage of the then outstanding principal amount of the Global Book-Entry Securities of which the Global Book-Entry Security forms a part, the consent or affirmative vote of the Holders of which is necessary to modify, amend or supplement the Global Agency Agreement or the terms of the related Global Book-Entry Securities.

Holder entitled to vote a majority of the aggregate principal amount of the Global Book-Entry Securities or applicable issue of Global Book-Entry Securities at the time outstanding will constitute a quorum at any meeting of Holders, except that at any reconvened meeting adjourned for lack of a quorum, 25% in aggregate principal amount of the Global Book-Entry Securities or applicable issue of Global Book-Entry Securities entitled to vote shall constitute a quorum. Global Book-Entry Securities that we own may not be counted toward establishing a quorum, or consenting to or voting for any matter presented to any Holder.

Special rules for determining the “principal amount” of Global Book-Entry Securities in specific circumstances are described below.

The “principal amount,” for purposes of this section, for a Global Book-Entry Security that is a Zero-Coupon Security or was issued at an “issue price” of 80% or less of its principal amount will be calculated as provided in the Global Agency Agreement by adding the “issue price” of the Global Book-Entry Security, plus the “original issue discount” that has accrued since the issue date of the Global Book-Entry Security, minus any part of the “stated redemption price at maturity” of the Global Book-Entry Security that has been paid since the issue date of the Global Book-Entry Security. See “United States Taxation—U.S. Persons—Debt Securities Issued at a Discount” for an explanation of terms used in this paragraph.

The “principal amount,” for purposes of this section, of a Global Book-Entry Security whose Specified Principal Currency is other than U.S. dollars will be the U.S. dollar equivalent, determined on the issue date, of the principal amount of the Global Book-Entry Security.

The “principal amount” of a Global Book-Entry Security with principal determined by reference to an index, exchange rate or formula will be described in the applicable Pricing Supplement.

As provided in the Global Agency Agreement, we may establish a record date for the determination of Holders entitled to vote at any meeting of Holders of Global Book-Entry Securities, to grant any consent in respect of Global Book-Entry Securities and to receive notice with respect to any meeting or consent of Holders.

Any instrument given by or on behalf of any Holder of a Global Book-Entry Security in connection with any consent to a modification, amendment or supplement will be irrevocable once given and will be conclusive and binding on all subsequent Holders of the Global Book-Entry Security. Except as set forth above, any modification, amendment or supplement of the terms of Global Book-Entry Securities will be conclusive and binding on all Holders of Global Book-Entry Securities, whether or not they have given consent or were present at any meeting.

## **Notices**

We will give notices to Holders of Fed Book-Entry Securities by broadcast through the communication system of the U.S. Federal Reserve Banks. Notice by broadcast will be considered given on the date of broadcast or, if broadcasted more than once, on the date of first broadcast. Instead of notice by broadcast, we may give notices to Holders in any reasonable manner that we determine. Notice by another manner will be considered given on the date of dissemination or, if disseminated more than once, on the date of first dissemination.

We, or the Global Agent, will give notices to Holders of Global Book-Entry Securities by mail to the addresses of the Holders as they appear in the Register. Notices by mail will be considered given on the date of mailing.

If an issue of Debt Securities is listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the EuroMTF market, and its rules so require, we also will give notices with respect to that issue of Debt Securities on the Luxembourg Stock Exchange website ([www.bourse.lu](http://www.bourse.lu)) or in a general circulation newspaper in Luxembourg (which is expected to be the *d'Wort*) or, if publication in Luxembourg is not practical, elsewhere in Europe. Notice by publication will be considered given on the date of publication or, if published more than once, on the date of first publication.

Failure to give notice or a defect in a notice to one Holder will not affect the validity of notice to other Holders.

## Exchange of Global Book-Entry Securities for Definitive Debt Securities

If we issue definitive Debt Securities in exchange for Global Book-Entry Securities as described below, the definitive Debt Securities will have the same terms as the Global Book-Entry Securities for which they were exchanged, except as described below.

*Issuance of Definitive Debt Securities.* A Holder can exchange beneficial interests in a Global Book-Entry Security for definitive Debt Securities only under the following circumstances:

- (1) the exchange is permitted by applicable law; and
- (2) • in the case of a Global Book-Entry Security held through DTC, DTC notifies us that it is no longer willing or able to act as a depository or ceases to be a “clearing agency” registered under the Exchange Act, and we cannot find a successor within 90 days after we receive notice;
- in the case of Global Book-Entry Securities held through another depository, if all of the clearing systems for those Global Book-Entry Securities are closed for business for 14 consecutive days, or are permanently closed and we cannot find a successor within 90 days;
- a Holder has initiated a judicial proceeding to enforce the Holder’s rights under the Global Security in court, and counsel has advised the Holder that it is necessary to have a definitive Debt Security; or
- except in the case of 183 Day Notes (as defined in Appendix B), we, either at a Holder’s request and expense or otherwise, in our own discretion, decide to issue definitive securities. Notwithstanding the foregoing, we have agreed that our right (in our discretion) to elect to issue definitive securities in exchange for a Global Book-Entry Security will be suspended for so long as such election is inconsistent with DTC’s rules and procedures.

In any of the above circumstances, we will execute and deliver definitive Debt Securities to the Global Agent for their delivery to the Holders as soon as practicable.

*Title.* The person in whose name a definitive Debt Security is registered in the Register will be the “Holder” of the definitive Debt Security. We and the Global Agent may treat the Holders as the absolute owners of definitive Debt Securities for the purpose of making payments and for all other purposes whether or not any payments on the definitive Debt Securities are overdue.

*Payments.* We will pay interest on a definitive Debt Security on each applicable Interest Payment Date. We will pay by check mailed to the Holder at the close of business on the Record Date preceding the Interest Payment Date at the Holder’s address appearing in the Register. We will pay the principal of each definitive Debt Security, together with accrued and unpaid interest, on the Principal Payment Date against presentation and surrender of the definitive Debt Security by check at the appropriate office of the Global Agent or other paying agent or mailed by the Global Agent to the Holder of the definitive Debt Security. We will use a United States bank for checks in U.S. dollars and a bank office located outside the United States for checks in other Specified Payment Currencies. If an issue of Debt Securities of which definitive Debt Securities form a part is admitted to trading on the EuroMTF market and the rules of the EuroMTF market so require, we will appoint and maintain a paying agent in Luxembourg with respect to that issue of Debt Securities. See “Description of the Debt Securities—Notices” for a description of how we will notify the Holders of definitive Debt Securities of the appointment and location of the paying agent.

The Holder of an aggregate principal amount of at least \$10,000,000 (or the equivalent in the Specified Currency) of an issue of Debt Securities of which definitive Debt Securities form a part may elect to receive payments by wire transfer of immediately available funds in the Specified Payment Currency to an account with a bank designated by the Holder that is acceptable to us. In order for the Holder to receive the payments, the Global Agent or other paying agent, if applicable, must receive the

following by mail, hand or telex at its principal U.S. corporate trust office or its specified office, respectively:

- for interest payments, a written request by the close of business on the related Record Date
- for payments on the Principal Payment Date, a written request by the close of business 15 days prior to the Principal Payment Date and the definitive Debt Security two Business Days prior to the Principal Payment Date

All payments on definitive Debt Securities are subject to any applicable law or regulation. If a payment outside the United States is illegal or effectively precluded by exchange controls or similar restrictions, payments in respect of the related definitive Debt Securities may be made at the office of any paying agent in the United States.

*Partial Redemption.* If we redeem a portion of an issue of definitive Debt Securities, the Global Agent will select by lot, or in any other manner that the Global Agent deems fair and appropriate, those definitive Debt Securities to be redeemed, ensuring that the principal amount of each outstanding definitive Debt Security after the redemption is in an authorized denomination.

*Transfer and Exchange.* Holders may present definitive Debt Securities for transfer or exchange at the office of the Registrar or any other transfer agent, with transfer documentation completed and payment of any taxes and other governmental charges. If an issue of Debt Securities of which definitive Debt Securities form a part is admitted to trading on the EuroMTF market and the rules of the EuroMTF market so require, we will appoint and maintain a transfer agent in Luxembourg for that issue of Debt Securities.

Holders may transfer or exchange definitive Debt Securities in whole or in part only in the authorized denominations of the Global Book-Entry Securities for which they were exchanged. See “Description of the Debt Securities—Denomination.” In the case of a transfer of a definitive Debt Security in part, the Registrar will issue a new definitive Debt Security for the balance not transferred.

## **Currency Conversions**

### ***Payment for Debt Securities***

Purchasers of Debt Securities must pay for the Debt Securities in the applicable Specified Currency. Dealers to whom or through whom Debt Securities are sold may arrange for the conversion of the investor’s currency into the Specified Currency to enable purchasers to pay for the Debt Securities if purchasers so request no later than the day determined by that Dealer. We will not be involved in any manner in, and will have no responsibility for, that conversion. Each Dealer will make the conversion on terms and subject to any conditions, limitations and charges that the Dealer may establish. The purchasers of the Debt Securities will bear all costs of conversion.

### ***Payment on Debt Securities***

Except as described above, we must make payments of principal of and any interest on all Debt Securities in the Specified Payment Currency. At the present time, there are limited facilities in the United States for the conversion of foreign currencies or currency units into U.S. dollars, and commercial banks generally do not offer non-U.S. dollar checking or savings account facilities. Accordingly, in the case of Global Book-Entry Securities whose Specified Payment Currency is other than U.S. dollars, the currency exchange bank specified in the applicable Pricing Supplement (the “Currency Exchange Bank”), for the Holders of the Global Book-Entry Securities, will convert any amounts paid by us in the Specified Payment Currency into U.S. dollars, unless the Holders elect to receive payments in the Specified Payment Currency as hereinafter described. We will not be involved in any manner in, and will have no responsibility for, the conversion of the Specified Payment Currency for the Global Book-Entry Securities into U.S. dollars.

The U.S. dollar amount to be received by a Holder of a Global Book-Entry Security in respect of which payments are to be converted from the Specified Payment Currency into U.S. dollars will be determined by the Currency Exchange Bank in the morning of the day that would be considered the date for “spot” settlement of the Specified Payment Currency on the applicable payment date in accordance with market convention (generally two New York business days prior to the payment date) at the market rate determined by the Currency Exchange Bank to accomplish the conversion on the payment date of the aggregate amount of the Specified Payment Currency payable in respect of Global Book-Entry Securities scheduled to receive payments converted into U.S. dollars. All currency exchange costs will be borne by the Holders of the Global Book-Entry Securities (and, accordingly, by the related beneficial owners) by deductions from the payments. Holders of Global Book-Entry Securities are subject to the risk of market disruption and the risk that all or any portion of the Specified Payment Currency will not be convertible into U.S. dollars. In those cases, Holders of the Global Book-Entry Securities will receive payment in the Specified Payment Currency.

The Holder of a Global Book-Entry Security held through DTC to be paid in a Specified Payment Currency other than U.S. dollars will have the option to receive payments of the principal of and any interest on the Global Book-Entry Security in the Specified Payment Currency by notifying DTC no later than the third New York business day after the related Record Date, in the case of payments on an Interest Payment Date, or the date 12 days prior to the Principal Payment Date, in the case of payments on the Principal Payment Date. We understand that Euroclear and Clearstream, unless specifically requested not to do so by a participant prior to the 15th day preceding the applicable Interest Payment Date or Principal Payment Date, will elect to receive all payments of principal and interest in respect of Global Book-Entry Securities held through them in the applicable Specified Payment Currency if it is other than U.S. dollars.

## **Governing Law and Judgments**

### ***Fed Book-Entry Securities***

The Fed Book-Entry Securities (including our rights and obligations with respect to the Fed Book-Entry Securities) will be governed by, and construed in accordance with, (1) regulations adopted by the U.S. Department of Housing and Urban Development or any other U.S. governmental body or agency, as from time to time in effect, that apply to our Fed Book-Entry Securities, currently the HUD Book-Entry Regulations, and (2) to the extent the regulations identified in clause (1) do not apply, the laws of the State of New York, U.S.A.

### ***Global Book-Entry Securities***

The Global Book-Entry Securities will be governed by, and construed in accordance with, the laws of the State of New York, U.S.A.

Courts in the United States customarily have not rendered judgments for money damages denominated in any currency other than U.S. dollars. New York law currently provides, however, that a judgment or decree based upon an obligation denominated in a currency other than U.S. dollars will be rendered in the foreign currency of the underlying obligation and converted into U.S. dollars at a rate of exchange prevailing on the date of the entry of the judgment or decree. As a result, the Holder of a Global Book-Entry Security would be subject to exchange rate fluctuations between the date of entry of the judgment or decree and the time the foreign currency judgment or decree is paid to the Holder in U.S. dollars (whether or not the Holder then converts any amounts paid into the Specified Payment Currency).

## **Fiscal Agent and Global Agent**

### ***Other Fed Book-Entry Securities***

The U.S. Federal Reserve Banks will be the fiscal agents for Fed Book-Entry Securities. The U.S. Federal Reserve Banks currently act as Fiscal Agent under the Fiscal Agency Agreement with Fannie Mae, dated as of July 20, 2006, as it may further be amended and supplemented. Fannie Mae and the U.S. Federal Reserve Banks may amend, modify or supplement in any respect, or may terminate, substitute or replace, the Fiscal Agency Agreement without the consent of any Holder of Fed Book-Entry Securities. Where we refer in this Offering Circular to the “Fiscal Agency Agreement,” we mean the agreement in effect from time to time under which the U.S. Federal Reserve Banks act as the Fiscal Agent for the Fed Book-Entry Securities. We have engaged in, and in the future may engage in, other business relationships with them.

In acting under the Fiscal Agency Agreement, the Fiscal Agent acts solely as our fiscal agent and does not assume any obligation or relationship of agency or trust for or with any Holder.

### ***Global Book-Entry Securities***

We have appointed The Bank of New York (as successor global agent to JP Morgan Chase Bank, N.A.) as the global agent for the Global Book-Entry Securities. The Bank of New York acts as Global Agent under an agreement with Fannie Mae, dated as of December 21, 1999, as amended, as it may be further amended and supplemented. The Bank of New York, which has its principal U.S. corporate trust office at 101 Barclay Street, New York, NY 10004, is the fiscal agent under some of our debt securities and has other business relationships with us.

In acting under the Global Agency Agreement, the Global Agent acts solely as our fiscal agent and does not assume any obligation or relationship of agency or trust for or with any Holder of a Global Book-Entry Security, except that any moneys held by the Global Agent for payment on a Global Book-Entry Security will be held in trust for the Holder (as provided in the Global Agency Agreement).

We have appointed initially the Global Agent as Registrar, Transfer Agent and Paying Agent for the Global Book-Entry Securities. We may vary or terminate the appointment of the Global Agent as the Registrar, Transfer Agent or Paying Agent or appoint additional or other transfer agents or paying agents or approve any change in the office through which the Registrar or any transfer agent or paying agent acts.

If any of the Debt Securities admitted to trading on the EuroMTF market, and the rules of the EuroMTF market so require, notice of any such change in appointments shall be published for the information of the Holders of Debt Securities in a daily newspaper of general circulation in Luxembourg.

## **CLEARANCE AND SETTLEMENT**

### **General**

Debt Securities may be held through organizations participating in one or more international and domestic clearing systems, principally the systems operated by the U.S. Federal Reserve Banks and DTC, in the United States, and Euroclear and Clearstream, in Europe. Electronic securities and payment transfer, processing, depository and custodial arrangements among these systems and others, either directly or indirectly through custodians and depositories, may enable Debt Securities to be issued, held and transferred among the systems as described below. Special procedures among these systems allow clearance and settlement of certain Debt Securities traded across borders in the secondary market. Cross-market transfers of Debt Securities denominated in some Specified Currencies may be cleared and settled using these procedures. However, there can be no assurance that cross-market transfers of any Debt Securities will be possible at any particular point in the future.

Each relevant system has its own separate operating procedures and arrangements with participants or accountholders that govern the relationship between them and the system and in respect of which we are not and will not be a party. The clearing systems may impose fees for the maintenance and operation of the accounts in which beneficial interests in the Debt Securities are maintained.

We expect that:

(1) most Debt Securities denominated and payable in U.S. dollars will clear and settle through the Fed Book-Entry System and indirectly through other clearing systems, such as Euroclear or Clearstream,

(2) Debt Securities denominated or payable in a Specified Currency other than U.S. dollars (and Debt Securities denominated and payable in U.S. dollars that are not cleared and settled in accordance with clause (1) above) will clear and settle through the system operated by DTC and indirectly through other clearing systems, such as Euroclear or Clearstream, and

(3) Debt Securities, irrespective of the Specified Currency in which they are denominated or payable, distributed solely outside of the United States will clear and settle through the systems operated by Euroclear, Clearstream or other clearing system indicated in the applicable Pricing Supplement and, in certain cases, DTC.

### **The Clearing Systems**

*Fed Book-Entry System.* The U.S. Federal Reserve Banks operate a book-entry system, which provides book-entry holding and settlement for U.S. dollar denominated securities issued by the U.S. Government, some of its agencies and instrumentalities and international organizations of which the United States is a member. The system enables Holding Institutions to hold, make payments and transfer securities and funds through the U.S. Federal Reserve Banks' Fedwire system.

*DTC.* DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities for DTC participants and facilitates the clearance and settlement of transactions between DTC participants through electronic book-entry changes in accounts of DTC participants.

*Euroclear and Clearstream.* Euroclear was created in 1968 to hold securities for its participants and to clear and settle transactions between its participants through simultaneous electronic book-entry delivery against payment. Euroclear is operated by Euroclear Bank S.A./N.V., as operator of the Euroclear System, and all Euroclear securities clearance and cash accounts are with Euroclear Bank, S.A./N.V. They are governed by the Terms and Conditions Governing Use of Euroclear and the related Operating Procedures of the Euroclear System, and applicable Belgian law. Euroclear Bank, S.A./N.V. acts only on behalf of Euroclear participants and has no record of, or relationship with, persons holding through Euroclear participants. Clearstream is incorporated under the laws of Luxembourg as a limited company. A participant's overall contractual relations with Clearstream are governed by the General Terms and Conditions, related operating rules and procedures and applicable Luxembourg law. Clearstream acts only on behalf of its participants and has no record of, or relationship with, persons holding through its participants.

Clearstream and Euroclear each hold securities for their participants and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer in their participant accounts. Euroclear and Clearstream have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

*Other.* We will describe in the applicable Pricing Supplement or other supplement any other clearing system that is available for a particular issue of Debt Securities.



## **Clearance and Settlement Procedures—Primary Distribution**

Upon original issuance, Debt Securities will be credited through one or more of the systems described above or any other system specified in the applicable Pricing Supplement. Payment from the applicable Dealer for Fed Book-Entry Securities will be on a delivery versus payment basis and for Global Book-Entry Securities will be on a delivery versus payment or free delivery basis, as agreed to by us. Clearance and settlement procedures may vary according to the Specified Currency in which the Debt Securities are denominated or payable. The customary clearance and settlement procedures of certain systems are described below.

*U.S. Federal Reserve Banks.* Fed Book-Entry Securities will be issued and settled through the Fed Book-Entry System in same-day funds and will be held by designated Holding Institutions. After initial issue, all Fed Book-Entry Securities will continue to be held by those Holding Institutions in the Fed Book-Entry System unless arrangements are made for the transfer thereof to another Holding Institution.

*DTC.* DTC participants acting on behalf of investors holding Global Book-Entry Securities through DTC will follow the delivery practices applicable to securities eligible for DTC's Same-Day Funds Settlement System. Global Book-Entry Securities held through DTC will be credited to DTC participants' securities accounts following confirmation of receipt of payment to us on the relevant issue date.

*Euroclear and Clearstream.* Investors holding Global Book-Entry Securities through Euroclear and Clearstream will follow the settlement procedures applicable to conventional eurobonds. These Global Book-Entry Securities will be credited to Euroclear and Clearstream participants' securities clearance accounts either on the relevant issue date or on the settlement day following the relevant issue date against payment in same-day funds, for value on the relevant issue date.

## **Clearance and Settlement Procedures—Secondary Market Transfers**

*Fed Book-Entry Securities.* Transfers of Fed Book-Entry Securities can take place only in book-entry form on the Fed Book-Entry System. These transfers will occur between Holding Institutions in accordance with the rules of the Fed Book-Entry System.

*Global Book-Entry Securities.* Transfers of beneficial interests in Global Book-Entry Securities within the various systems that may be clearing and settling interests therein will be made in accordance with the usual rules and operating procedures of the relevant system applicable to the Specified Currency in which the Global Book-Entry Securities are denominated or payable and the nature of the transfer.

*General.* For issues of Debt Securities that are cleared and settled through more than one system, time zone differences may result in the securities account of an investor in one system being credited during the settlement processing day immediately following the settlement date of the other system and the cash account being credited for value on the settlement date but only being available as of the day following the settlement date.

Although the U.S. Federal Reserve Banks, DTC, Euroclear, Clearstream and other clearing systems have procedures to facilitate transfers of beneficial interests in Debt Securities among their respective Holding Institutions, participants and accountholders, they are under no obligation to perform or continue to perform those procedures, and those procedures may be modified or discontinued at any time. None of us, the Fiscal Agent, the Global Agent or any other agent will have any responsibility for the performance by any system (other than the Fiscal Agent with respect to the Fed Book-Entry System) or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

## UNITED STATES TAXATION

The Debt Securities and payments thereon generally are subject to taxation. Therefore, you should consider the tax consequences of owning a Debt Security, Interest Component or Principal Component before acquiring one.

We have engaged Dewey Ballantine LLP as special tax counsel to review the following discussion. They have given us their opinion that the discussion correctly describes the principal U.S. federal income tax consequences to beneficial owners of Debt Securities.

The tax discussions contained in the Offering Circular, any Pricing Supplement, or any other document referenced herein were not intended or written to be used, and cannot be used, for the purpose of avoiding United States federal tax penalties. These discussions were written to support the promotion or marketing of the transactions or matters addressed in this Offering Circular. You should seek advice based on your particular circumstances from an independent tax advisor.

The following discussion is general and may not apply to your particular circumstances for any of the following (or other) reasons:

- This summary is based on federal tax laws in effect as of the date of this Offering Circular. Changes to any of these laws after this date may affect the tax consequences described below.
- This summary discusses only Debt Securities acquired by beneficial owners at original issuance and held as capital assets (within the meaning of federal tax law). It does not discuss all of the tax consequences that may be relevant to beneficial owners subject to special rules, such as banks, thrift institutions, real estate investment trusts, regulated investment companies, tax-exempt organizations, brokers and dealers in securities or currencies, certain securities traders and certain other financial institutions. This discussion also does not discuss tax consequences that may be relevant to a beneficial owner in light of the beneficial owner's particular circumstances, such as a beneficial owner holding a Debt Security as a position in a straddle, hedging, conversion or other integrated investment or a beneficial owner whose functional currency is not the U.S. dollar. In addition, if a partnership holds the Debt Securities, the U.S. federal income tax treatment of a partner will generally depend on the status of the partner and the tax treatment of the partnership. A partner in a partnership holding the Debt Securities should consult its tax advisor regarding the consequences to the U.S. federal income tax treatment of an investment in the Debt Securities.
- The tax consequences of owning any Debt Securities with special characteristics may be set forth in a Pricing Supplement.
- The Debt Securities also are subject to taxes imposed by states and possessions of the United States and by local taxing authorities. If you reside in a state of the United States that imposes intangible property or income taxes, you should consult your own tax advisors as to the consequences of such laws.

**Because the following discussion may not apply to you, we advise you to consult your own tax advisors regarding the tax consequences of purchasing, owning and disposing of Debt Securities (or Interest Components or Principal Components), including the advisability of making any of the elections described below.**

We sell many different types of Debt Securities. The federal income tax rules that will apply to a Debt Security will depend on the terms of that Debt Security and whether the beneficial owner is a U.S. Person. For purposes of the following discussion, a “U.S. Person” means:

- a citizen or individual resident of the United States,
- a corporation or partnership created or organized in or under the laws of the United States or any state thereof or the District of Columbia,
- an estate the income of which is includible in its gross income for U.S. federal income tax purposes without regard to its source,
- 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, or
- certain trusts in existence on August 20, 1996, and treated as United States persons (within the meaning of section 7701(a)(30) of the federal income tax code) prior to such date, that elect to continue to be treated as United States persons, as provided in Treasury Regulations.

The first part of the following discussion is addressed to beneficial owners who are U.S. Persons, the second part is addressed to beneficial owners who are not U.S. Persons (“non-U.S. Persons”) and the last part addresses rules concerning information reporting to the U.S. Internal Revenue Service (the “IRS”) and backup withholding.

Special rules governing Debt Securities targeted to foreign markets are described in Appendix G.

## **U.S. Persons**

The following discussion applies to you if you are a U.S. Person.

If you are a U.S. Person and own a Debt Security, income from that Debt Security is subject to U.S. federal income taxation, and if you own the Debt Security when you die, the Debt Security will be included in your estate subject to U.S. federal estate tax.

### ***Tax Status of Debt Securities for Building and Loans, Savings Banks and REITs***

The IRS has ruled that Fannie Mae is an instrumentality of the United States for purposes of section 7701(a)(19) of the federal income tax code. Therefore, domestic building and loan associations and savings banks may treat investments in our securities as part of the percentage of total assets they must invest in specified assets, which includes “stock or obligations of a corporation which is an instrumentality of the United States.” Further, the IRS permits real estate investment trusts (REITs) to treat holdings of Fannie Mae securities as “government securities” for purposes of the requirement that 75 percent of the value of their total assets consists of real estate assets, cash and cash items (including receivables), and government securities.

### ***Reopenings of Debt Securities***

Final tax regulations address whether additional debt instruments issued in a reopening will be considered part of the same issue as the original debt instruments for tax purposes. Unless otherwise specified in the applicable Pricing Supplement, a reopening of Debt Securities will comply with those regulations.

### ***Payments of Interest***

Interest paid on a Debt Security generally is taxable as ordinary interest income. You must report this income when it accrues or you receive it, depending on your method of accounting for U.S. federal

income tax purposes. You may have to follow special reporting rules, however, if your Debt Security has “original issue discount” (“OID”), as described in the following paragraphs.

### ***Debt Securities Issued at a Discount***

If you purchase a Debt Security at original issuance at a price below its principal amount, the federal income tax laws generally treat the difference between the amount you paid and the Debt Security’s principal amount as OID. In addition, if you purchase at original issuance a Debt Security that matures one year or less from its issuance date, that Debt Security has OID as described below under “United States Taxation—U.S. Persons—Debt Securities with a Term of One Year or Less.” Rules in the federal tax laws (the “OID Regulations”) define OID as the excess of the “stated redemption price at maturity” (defined below) of each such Debt Security over its “issue price” (defined below) if such excess equals or exceeds a *de minimis* threshold amount. If all of the principal to be paid on a Debt Security is to be paid in a single payment, as is the case with Zero Coupon Debt Securities, the *de minimis* threshold amount is defined as one-quarter of one percent of such Debt Security’s stated redemption price at maturity multiplied by the number of complete years to its maturity. The “stated redemption price at maturity” of a Debt Security is the sum of all payments on the Debt Security other than interest based on a fixed rate (or, generally, a variable rate, unless an applicable Pricing Supplement states otherwise) and payable unconditionally at least annually. The “issue price” of a Debt Security is the first price at which a substantial amount of that issue of Debt Securities is sold to the public for cash (ignoring sales to bond houses, underwriters, placement agents and other wholesalers).

If you own a Debt Security with OID less than the *de minimis* threshold amount, you must include that OID in income, as capital gain, on a *pro rata* basis as principal payments are made on the Debt Security.

If your Debt Security has OID equal to or greater than the *de minimis* threshold amount, you must include the OID in income as it accrues, which may be before you receive cash attributable to such income. You must include OID in income using the yield to maturity of the Debt Security (as defined in the OID Regulations), which is computed based on a constant annual rate of interest and compounding at the end of each accrual period. The OID Regulations permit you to use accrual periods of any length from one day to one year to compute accruals of OID, provided each scheduled payment of principal or interest occurs either on the first or the last day of an accrual period. Under these rules, you must include in income increasingly greater amounts of OID in successive accrual periods, unless payments that are part of the stated redemption price at maturity of a Debt Security are made before its final maturity.

### ***Debt Securities Issued with Fixed/Variable Interest***

If you purchase a Debt Security that bears interest at a rate that may be converted from a fixed rate to a variable rate, or from a variable rate to a fixed rate, the OID regulations generally treat such Debt Securities as “variable rate debt instruments” (VRDIs). The rules applicable to VRDIs generally require that, for OID purposes, a VRDI be treated as an equivalent fixed rate debt instrument. For this purpose, the rules assume a fixed rate substitute for each variable rate equal to the value of the variable rate index as of the issue date of the VRDI. Based on our assumption of the value of the applicable variable rate index for the Debt Securities as of the issue date of the Debt Securities and taking into account the actual fixed rate payable on the Debt Securities, the Debt Securities for OID purposes ordinarily would be treated as paying one fixed rate of interest for one or more periods and as paying a higher fixed rate of interest for subsequent periods. The date the higher fixed rate becomes effective coincides with the date that we may redeem (“call”) the Debt Securities. The OID regulations contain additional rules that apply to Debt Securities that we may redeem before their final maturity. See “Debt Securities That We May Redeem Before Maturity” below. Under these rules, we will be presumed, solely for OID purposes, to exercise the call right with respect to the Debt Securities, because doing so would lower the yield to maturity of the Debt Securities. If we do not

exercise the call right, the Debt Securities will be deemed to be retired and reissued at the call price for purposes of determining subsequent accruals of interest and OID. As a result of these rules, the Debt Securities will not have OID solely as a result of the structure of their interest rates, because the Debt Securities will not be treated as bearing interest at more than one fixed rate.

### ***Range Accrual Debt Securities***

If you purchase a Debt Security that provides that no interest will accrue during periods when an applicable index is outside a specified range, we intend to treat such Debt Securities as VRDIs under the OID Regulations and the interest payable on the Debt Security as qualified stated interest under the VRDI rules. Accordingly, you will include interest with respect to the Debt Security as ordinary income in accordance with your method of accounting for U.S. federal income tax purposes. If you are a cash method taxpayer, you will include interest in income in the year in which you receive an interest payment. If you are an accrual method taxpayer, you will include interest in income during the year in which it is earned or accrued, without regard to when an actual interest payment is received. Upon disposition of the Debt Security by sale, exchange, redemption, or repayment of principal at maturity, you will generally recognize taxable gain or loss.

Although unlikely, it is possible that the Debt Security will be taxed in some other manner. You should consult your tax advisor regarding alternative treatments of the Debt Security, including the possible application of the contingent payment debt regulations.

### ***Subordinated Debt Securities***

Under the OID Regulations, a debt instrument will generally be treated as issued with OID if the stated interest on the debt instrument does not constitute “qualified stated interest.” Qualified stated interest is generally any one of a series of stated interest payments on a debt instrument that are unconditionally payable at least annually at a single fixed rate. In determining whether stated interest on a debt instrument is unconditionally payable and thus constitutes qualified stated interest, remote contingencies as to the timely payment of stated interest are ignored.

In the case of a Subordinated Debt Security, we may be required to defer the payment of interest as described in Appendix C. Thus, interest on a Subordinated Debt Security would not be unconditionally payable at least annually for purposes of the OID Regulations, unless the likelihood of the deferral of interest payments was remote. Under the OID Regulations, this determination must be made at the time of issuance of each Subordinated Debt Security.

If the likelihood (as of the time of the issuance of a Subordinated Debt Security) of a deferral of any payment of interest was determined not to be remote or if any payment of interest on a Subordinated Debt Security was actually deferred, the Subordinated Debt Security would be treated as issued with OID at the time of issuance or at the time of such deferral, as the case may be, and all stated interest would thereafter be treated as OID as long as the Subordinated Debt Security remained outstanding. In that event, all of a beneficial owner’s taxable interest income in respect of the Subordinated Debt Security would constitute OID that generally would have to be included in income as described under “Debt Securities Issued at a Discount” above.

### ***Debt Securities That We May Redeem Before Maturity***

The OID Regulations contain additional rules that apply to Debt Securities that we may call prior to their final maturity date. Under these rules, we will be presumed to exercise a call right if doing so would lower the yield to maturity of the callable Debt Security. If this presumption applies, but we do not exercise the call right, the Debt Security will be deemed reissued at its adjusted issue price for purposes of determining subsequent accruals of interest and OID. The “adjusted issue price” of a Debt Security is defined as the sum of the issue price of the Debt Security and the aggregate amount of previously accrued OID, if any, less any prior payments of amounts included in its stated redemption price at maturity.

The rules concerning callable Debt Securities are especially important for determining the OID treatment of “Step-Up Debt Securities.” Step-Up Debt Securities are Debt Securities that have an initial fixed interest rate that increases to a higher fixed rate on a specified date, and are redeemable at par on the date the rate changes (including Debt Securities that also may be redeemable prior to that date or that may increase to a higher fixed rate at a later date).

If the Step-Up Debt Securities are issued at par, because the yield to maturity on Step-Up Debt Securities would be lower if they were called prior to an increase in the stated interest rate, each issue of Step-Up Debt Securities will be treated as maturing on the first permissible call date. If an issue of Step-Up Debt Securities is not in fact called on that date, or is called only in part, the Step-Up Debt Securities (to the extent of their remaining outstanding principal amount) will be deemed to be called and reissued at its call price. The above rules also apply to any deemed reissued Debt Securities that would be a Step-Up Debt Security if issued on the deemed reissue date. As a result of these special rules, Step-Up Debt Securities do not have any OID solely as a result of the structure of their interest rates. Thus, if you own Step-Up Debt Securities you should take stated interest on such Debt Securities into account under your regular method of accounting.

If the Step-Up Debt Securities are issued at a discount and if the yield to maturity of the Debt Securities will be lowered if they are called on the date the rate changes, they will be treated for federal income tax purposes as maturing on that date. As a result, the Notes may have more than the de minimis threshold amount of OID and, in that case, will be treated as issued with OID.

If a principal purpose in structuring a Debt Security is to achieve a result that is unreasonable in light of the purpose of the rules relating to OID, then the OID Regulations provide that the IRS can apply or depart from the OID Regulations, including the rules relating to the exercise of call rights described above, as necessary or appropriate to achieve a reasonable result. We intend to report income on any Step-Up Debt Security with the features described above assuming this anti-abuse rule does not apply.

### ***Debt Securities with a Term of One Year or Less***

All stated interest payments on a Debt Security that matures one year or less from the date it is issued (a “Short-Term Obligation”) are included in the stated redemption price at maturity of the Debt Security and, therefore, are treated as OID.

Unless you either are required or elect (as described below) to include OID on a Short-Term Obligation in income currently, if you use the cash method of accounting, which most individual taxpayers do, you must with respect to OID on a Short-Term Obligation:

- include OID in income when received;
- include in ordinary income any gain realized upon the sale, exchange or retirement of a Short-Term Obligation to the extent of accrued OID (determined on a straight-line basis, unless you make an irrevocable election to determine such accrued OID on the basis of the Debt Security’s yield to maturity and daily compounding); and
- defer deductions for interest expense on any indebtedness you incurred or continued to purchase or carry the Short-Term Obligation, in an amount not exceeding the deferred interest income, until you recognize the deferred interest income.

A beneficial owner of a Short-Term Obligation who uses the cash method and who is not otherwise required to account for interest or OID on a Short-Term Obligation as it accrues may elect to include in income OID as it accrues (as if the beneficial owner used the accrual method of accounting, under the rules described in the following paragraph). This election will apply to all debt obligations having a maturity of one year or less that the beneficial owner holds in the taxable year of the election and in all subsequent years. A beneficial owner may revoke the election described in this paragraph only with the consent of the IRS.

If you use the accrual method of accounting, or if you are a bank, regulated investment company or are described in section 1281(b) of the federal income tax code, you are required to include OID on a Short-Term Obligation in income as it accrues on a straight-line basis, regardless of your method of accounting. Alternatively, you may make an irrevocable election to accrue such OID on the basis of the Debt Security's yield to maturity and daily compounding.

In addition, any beneficial owner may make the election described below under "United States Taxation—U.S. Persons—Accrual Method Election" for a Short-Term Obligation. That election is independent of the elections described in the preceding paragraphs.

In certain cases, Step-Up Debt Securities may provide for a fixed interest rate that increases to a higher fixed interest rate exactly one year (or less) after the date of issuance. In such cases, the Step-Up Debt Securities would not be characterized as Short-Term Obligations under the OID Regulations, even though it is presumed for purposes of computing accruals of interest and OID that we will call the Step-Up Debt Securities one year or less after they are issued.

The federal income tax laws are unclear concerning how to determine the amount of interest or OID income accruing on a variable rate Debt Security with a term of one year or less. One method would be to treat the stated interest on such a Debt Security as interest that is taxable as ordinary interest income. Alternatively, the stated interest on a variable rate Debt Security that is also a Short-Term Obligation could be treated as OID under the rules described above for Short-Term Obligations. Generally, the two methods will not produce materially different results.

### ***Debt Securities Purchased at a Premium***

If you purchase a Debt Security for an amount (net of accrued interest) in excess of its principal amount (or, in the case of a Debt Security with OID, its stated redemption price at maturity) you will have premium with respect to such Debt Security in the amount of such excess. A beneficial owner who purchases a Debt Security at a premium may elect to treat such premium as "amortizable bond premium." If you make this election, the amount of interest that you must include in income for each accrual period (where such Debt Security is not optionally redeemable prior to its Maturity Date) is reduced by the portion of the premium allocable to such period based on the Debt Security's yield to maturity. If the amortizable bond premium allocable to an accrual period exceeds the interest allocable to the accrual period, you treat the excess as a bond premium deduction for the accrual period. However, the amount treated as a bond premium deduction is limited to the amount by which your total interest income on the Debt Security in prior accrual periods exceeds the total amount treated by you as a bond premium deduction on the Debt Security in prior accrual periods. If a Debt Security may be called prior to maturity, but after you acquired it, you generally may not assume that the call will be exercised and must amortize premium to the Maturity Date. If the Debt Security is in fact called, you may deduct any unamortized premium in the year of the call. If you make the election described above, the election will apply to all debt instruments the interest on which is not excludible from gross income ("Fully Taxable Bonds") that you hold at the beginning of the first taxable year to which the election applies and to all Fully Taxable Bonds you later acquire. You may revoke this election only with the consent of the IRS.

If you do not make this election, you must include the full amount of each interest payment in income in accordance with your regular method of accounting and you will receive a tax benefit from the premium only in computing your gain or loss upon the sale or other disposition or retirement of the Debt Security. In the case of a Short-Term Obligation, the election is available only to those cash-method beneficial owners that neither are required nor have elected to account for interest or OID on the Short-Term Obligation as it accrues.

If you purchase a Debt Security with OID at a premium, you are not required to include in income any OID with respect to such Debt Security.

### ***OID Debt Securities Purchased at an Acquisition Premium***

If you purchase a Debt Security with OID for an amount in excess of its adjusted issue price (as defined below) but less than its stated redemption price at maturity, you will have acquisition premium with respect to such Debt Security in the amount of such excess. If you purchase a Debt Security with OID at an acquisition premium, the amount of OID you will include in income in each taxable year will be reduced by that portion of the acquisition premium properly allocable to such year. Unless you make the accrual method election described below in “United States Taxation—U.S. Persons—Accrual Method Election,” acquisition premium is allocated on a *pro rata* basis to each accrual of OID, so that you are allowed to reduce each accrual of OID by a constant fraction.

### ***Debt Securities Purchased at a Market Discount***

If you purchase a Debt Security (other than a Short-Term Obligation) at a price less than its stated redemption price at maturity (or, in the case of a Debt Security with OID, its adjusted issue price) you will have market discount with respect to such Debt Security in the amount of the shortfall. If you purchase a Debt Security with market discount you are required (unless such market discount is less than a *de minimis* amount) to treat any principal payments on, or any gain realized upon the disposition or retirement of such Debt Security, as interest income to the extent of the market discount that accrued while you held such Debt Security, unless you elect to include such market discount in income on a current basis. Market discount is considered to be *de minimis* if it is less than one-quarter of one percent of a Debt Security’s stated redemption price at maturity multiplied by the number of complete years to maturity after the beneficial owner acquired such Debt Security. If you dispose of a Debt Security with more than a *de minimis* amount of market discount in a nontaxable transaction (other than a nonrecognition transaction described in section 1276(d) of the federal income tax code), accrued market discount is includible as ordinary income as if you had sold the Debt Security at its then fair market value.

If you acquire a Debt Security at a market discount and you do not elect to include market discount in income on a current basis, you may be required to defer the deduction of a portion of the interest expense on any indebtedness you incurred or continued to purchase or carry the Debt Security until the deferred income is realized.

### ***Accrual Method Election***

You may elect to include in gross income your entire return on a Debt Security (*i.e.*, the excess of all remaining payments to be received on the Debt Security over the amount you paid for the Debt Security) based on the compounding of interest at a constant rate. Such an election for a Debt Security with amortizable bond premium (or market discount) will result in a deemed election for all your debt instruments with amortizable bond premium to amortize the premium (or currently include the market discount). You may revoke the accrual method election only with the permission of the IRS.

### ***Disposition or Retirement of Debt Securities***

When you sell, exchange or otherwise dispose of a Debt Security, or when we retire a Debt Security (including by redemption), you will recognize gain or loss equal to the difference, if any, between the amount you realize upon the disposition or retirement and your tax basis in the Debt Security. Your tax basis for determining gain or loss on the disposition or retirement of a Debt Security generally is your U.S. dollar cost of such Debt Security, increased by the amount of OID and any market discount includible in your gross income with respect to such Debt Security, and decreased by the amount of any payments under the Debt Security that are part of its stated redemption price at maturity and by the portion of any premium previously taken into account.

Gain or loss you realize on a disposition or retirement of a Debt Security is capital gain or loss (except to the extent the gain represents accrued interest, OID or market discount on the Debt



Security not previously included in gross income, to which extent such gain or loss would be treated as ordinary income). Any capital gain or loss is long-term capital gain or loss if at the time of disposition or retirement you held the Debt Security for more than one year. The deductibility of capital losses is subject to limitations. Tax rates on capital gain for individuals vary depending on the individual's income and the holding period for the Debt Security. Beneficial owners who are individuals should contact their own tax advisors for information regarding the capital gains tax applicable to an investment in a Debt Security.

If you own redeemable Debt Securities, such as Step-Up Debt Securities, and if a call right that is presumed exercised is not in fact exercised, the deemed reissuance of the Debt Securities for purposes of computing subsequent accruals of interest and OID will not result in a deemed disposition or retirement of the Step-Up Debt Securities.

### ***Debt Securities with Payments Based on a Non-U.S. Currency***

Special rules govern the taxation of Debt Securities whose interest and principal payments are made in a currency other than U.S. dollars (a "Non-U.S. Currency") or are determined by reference to a Non-U.S. Currency. This discussion addresses only Debt Securities whose interest or principal payments are made in or determined by reference to a single Non-U.S. Currency. Generally, a beneficial owner first will compute its interest or OID income on such a security in the Non-U.S. Currency and then will translate that income into U.S. dollars. The method and timing of the translation will depend on the beneficial owner's usual method of accounting and whether the Debt Security has OID.

#### *Debt Securities without OID*

If you are a cash method taxpayer and your interest payment is made in or determined by reference to a Non-U.S. Currency, the amount of income you recognize will be the U.S. dollar value of the interest payment you receive, based on the spot exchange rate on the date you receive it, regardless of whether the payment is in fact converted to U.S. dollars.

If you are an accrual method taxpayer, you may determine the amount of income recognized on your interest payment using either of two methods, in either case regardless of whether the payments are in fact converted into U.S. dollars. Under the first method, the amount of income you recognize will be based on the average exchange rate during the interest accrual period. When an accrual period includes parts of two taxable years, the exchange rate you will use to determine your income for that portion of the accrual period in each of the years will be the average exchange rate for the portion of the accrual period in that year.

Under the second method, an accrual method taxpayer may elect to use the exchange rate in effect on the last day of the accrual period to translate interest income into U.S. dollars. When an accrual period includes parts of two taxable years, you will determine your income for that portion of the accrual period in the first taxable year based on the exchange rate in effect at the end of the year, and you will use the exchange rate in effect at the end of the accrual period to determine your income for that portion of the accrual period in the second year. If the payment of interest is made or received within five business days of the last day of the accrual period or taxable year, that taxpayer instead may use the exchange rate in effect on the day the payment is received to translate such accrued interest into U.S. dollars. If you make this election, it will apply to all debt instruments you hold at the beginning of the first taxable year to which the election applies or thereafter acquired. You may revoke the election only with the consent of the IRS.

When you receive an interest payment denominated in or determined by reference to a Non-U.S. Currency (including a payment attributable to accrued but unpaid interest you receive when you sell a Debt Security or we retire it), you will recognize ordinary income or loss due to changes in exchange rates, which will be measured by the difference between the amount of interest income accrued and the value of the interest payment received. If all payments on a Debt Security are payable in or determined

by reference to a single Non-U.S. Currency, amortizable premium will, if you so elect, reduce the amount of foreign currency interest income on such Debt Security. You will be required to recognize ordinary exchange gain or loss attributable to movements in exchange rates between the time premium is paid to acquire the Debt Security and the time it offsets interest income by treating the amount of premium as a return of principal.

#### *Debt Securities with OID*

If a Debt Security whose payments are denominated in or determined by reference to a Non-U.S. Currency is issued with OID, a beneficial owner will compute the accruals of OID in that Non-U.S. Currency. The accruals then will be translated into U.S. dollars under the rules described above for accrual method beneficial owners. The rules in this paragraph apply to both cash method beneficial owners and accrual method beneficial owners.

#### *Disposition or Retirement of Debt Securities*

When you sell, exchange or otherwise dispose of a Debt Security, or when we retire a Debt Security (including by redemption), you will recognize gain or loss equal to the difference, if any, between the amount you realize upon the disposition or retirement and your tax basis in the Debt Security. The amount you realize on a disposition or retirement when you are paid an amount in a Non-U.S. Currency will be the U.S. dollar value of that amount either on the date of disposition or retirement or on the settlement date, the latter applying only in the case of a Debt Security traded on an established securities market and sold by a cash method taxpayer or an electing accrual method taxpayer. If you are paid in U.S. dollars upon the disposition or retirement of a Debt Security payable by its terms in a Non-U.S. Currency, that amount may not be the same as the amount you realize for tax purposes, which is described in the preceding sentence.

Your tax basis for determining gain or loss on the disposition or retirement of a Debt Security will be your U.S. dollar cost of such Debt Security, increased by the amount of OID and market discount includible in your gross income from the Debt Security, and decreased by the amount of any payments under the Debt Security that are part of its stated redemption price at maturity and by the portion of any premium previously taken into account. The U.S. dollar cost of Debt Securities purchased with Non-U.S. Currency generally will be the U.S. dollar value of the purchase price either on the date of purchase or on the settlement date for the purchase, the latter applying only in the case of Debt Securities traded on an established securities market and purchased by a cash method taxpayer or an electing accrual method taxpayer. If you purchase a Debt Security by converting U.S. dollars into the Non-U.S. Currency in which that Debt Security is payable, the U.S. dollar amount so converted may not be the same as the U.S. dollar value of the purchase price on the date of purchase or settlement, which, as described in the preceding sentence, is used to calculate your tax basis.

Gain or loss you realize on a disposition or retirement of a Debt Security will be capital gain or loss, with two exceptions: (1) to the extent the gain represents accrued interest, OID or market discount on the Debt Security not previously included in gross income or (2) to the extent the gain or loss is attributable to changes in exchange rates. To the extent gain or loss falls into these exceptions, such gain or loss would be ordinary income. More information about the treatment of capital gains and losses is described above under “U.S. Persons—Disposition or Retirement of Debt Securities.”

#### *Exchanges of Non-U.S. Currency*

Non-U.S. Currency you receive as interest on a Debt Security or on the disposition or retirement of a Debt Security will have a tax basis equal to its U.S. dollar value at the time you receive the interest or at the time of the disposition or retirement. Non-U.S. Currency you purchase generally will have a tax basis equal to the U.S. dollar value of such Non-U.S. Currency on the date of purchase. Any gain or loss recognized on a sale or other disposition of a Non-U.S. Currency (for example, if you use it to purchase Debt Securities or exchange it for U.S. dollars) will be ordinary income or loss.

## *Conversion to the Euro*

A conversion of an amount payable on a Debt Security from a national currency of a participating member state of the European Union (“legacy currencies”) to the Euro will not be treated as an event giving rise to the recognition of gain or loss for federal income tax purposes. Similarly, the conversion of an amount paid on a Debt Security from a legacy currency into Euro will not be a recognition event.

## ***Interest and Principal Components of Eligible Securities***

### *Beneficial Owners of Interest and Principal Components*

Under federal income tax law, each time an Interest or Principal Component of an Eligible Debt Security is bought, that Component will be treated as if it had been issued to the new beneficial owner on the date of the ownership change for an issue price equal to the purchase price paid by the new beneficial owner for the Component. Accordingly, the tax consequences to a beneficial owner of an Interest or Principal Component are determined as if the Component were a Debt Security issued on the date of acquisition or, in the case of a Component maturing one year or less from the date of acquisition, a Short-Term Obligation issued on that date. The stated redemption price at maturity of an Interest or Principal Component is the amount payable on that Component (or the sum of all amounts payable, in the case of certain Principal Components calling for more than one payment).

Special rules apply to Principal Components of Eligible Debt Securities, such as Step-Up Debt Securities, that we may redeem before they mature (“Callable Principal Components”). As described above in “United States Taxation—U.S. Persons—Debt Securities That We May Redeem Before Maturity,” if a debt instrument may be called prior to its maturity, a presumption is made that the call will be exercised if the yield to the call date is less than the yield to maturity. In applying this rule to a Callable Principal Component, it is not clear whether this determination is to be made separately for the Callable Principal Component or with respect to the underlying Eligible Debt Securities. If the call is presumed to be exercised, but is not exercised in fact, the Callable Principal Component is treated, solely for purposes of accruing OID, as if the call had been exercised and a new Eligible Debt Security issued on the presumed exercise date for an amount equal to the call price. In such event, the interest payments on the new Debt Security should be treated as interest in accordance with the beneficial owner’s normal method of accounting. If, conversely, the call is presumed not exercised and in fact is exercised, then the Callable Principal Component is considered to have been redeemed prior to maturity.

### *Tax Consequences of Stripping an Eligible Debt Security*

A beneficial owner of an Eligible Debt Security is taxed on income from the Debt Security as if the ability to “strip” the Debt Security did not exist, unless and until both the Eligible Debt Security is stripped and the beneficial owner disposes of some or all of the resulting Components. The mere exchange of an Eligible Debt Security for Interest and Principal Components, without the disposition of any of those Components, should not be treated as a taxable event. If you exchange an Eligible Debt Security for Interest and Principal Components and dispose of all of those Components, you effectively will be treated as if you had disposed of the Eligible Debt Security. See “United States Taxation—U.S. Persons—Disposition or Retirement of Debt Securities.” If you dispose of less than all the Components resulting from the stripping transaction, you will be required to take the following steps:

- include as income all interest and market discount accrued on the Eligible Debt Security not previously included as income,
- increase your basis in the Debt Security by the same amount,
- allocate your adjusted basis in the Debt Security among the Components in proportion to the respective fair market values of those Components, and

- recognize gain or loss with respect to each disposition of a Component equal to the difference between the amount realized and the basis allocated to that Component.

Generally, any gain or loss on the disposition of an Interest or Principal Component is capital gain or loss.

You will be taxed on each retained Component as if you had purchased the retained Component for an amount equal to the basis allocated to that Component.

#### *Ownership of Pro Rata Share of Outstanding Interest and Principal Components*

If you purchase the same *pro rata* share of Principal Components and the related unmatured Interest Components, while the matter is not free from doubt, it appears that you should treat each Component separately, rather than as a combined Eligible Debt Security. You may purchase the same *pro rata* share of Principal Components and the related Interest Components and request the FRBNY to reconstitute such Components as an Eligible Debt Security. While the matter again is not free from doubt, it appears that you should not treat the reconstitution as a taxable exchange and you should continue to treat each Component separately. The IRS could assert, however, that combined treatment as an Eligible Debt Security should apply to an investor owning a *pro rata* share of all outstanding Components or that combined treatment applies once there has been a reconstitution.

#### **Non-U.S. Persons**

The following discussion applies to you if you are a non-U.S. person.

#### ***Interest and OID***

If you own a Debt Security and are a non-U.S. Person, each payment of interest (including OID, if any) on the Debt Security generally will be subject to a 30 percent U.S. withholding tax, unless

- you meet the general exemption for non-U.S. Persons described below,
- you meet the requirements for a reduced rate of withholding under a treaty, or
- the interest is “effectively connected” to a business you conduct in the United States, in each case as further described below.

In certain circumstances, you may be able to claim amounts that are withheld as a refund or as a credit against your U.S. federal income tax.

*General Exemption for Non-U.S. Persons.* Payments of interest on a Debt Security to any non-U.S. Person generally are exempt from U.S. withholding taxes if you satisfy the following conditions:

- (1) the appropriate payor in the chain of payment (the “Withholding Agent”) has received prior to payment in the year in which such payment occurs, or in either of the two preceding years, a statement signed by you under penalties of perjury that certifies that you are not a U.S. Person and provides your name, address and taxpayer identification number, if any;
- (2) the Withholding Agent and all intermediaries between you and the Withholding Agent do not know or have reason to know that your non-U.S. beneficial ownership statement is false; and
- (3) you are not (a) a bank that receives payments on the Debt Securities that are described in section 881(c)(3)(A) of the federal income tax code, (b) a 10 percent shareholder of Fannie Mae within the meaning of section 871(h)(3)(B) of the federal income tax code, or (c) a “controlled foreign corporation” related to Fannie Mae within the meaning of section 881(c)(3)(C) of the federal income tax code.

You may make the non-U.S. beneficial ownership statement on an IRS Form W-8BEN or a substantially similar substitute form. You must inform the Withholding Agent (or the last intermedi-

ary in the chain between you and the Withholding Agent) of any change in the information on the statement within 30 days of the change. If you hold a Debt Security through a securities clearing organization or certain other financial institutions, the organization or institution may provide a signed statement to the Withholding Agent on your behalf. In such case, however, the signed statement must be accompanied by a copy of a Form W-8BEN or substitute form provided by you to the organization or institution. The U.S. Treasury Department is empowered to publish a determination that a beneficial ownership statement from any person or class of persons will not be sufficient to preclude the imposition of U.S. federal withholding tax with respect to payments of interest made at least one month after the publication of such determination.

*Exemption or Reduced Withholding Rate for Non-U.S. Persons Entitled to the Benefits of a Treaty.* If you are entitled to the benefit of an income tax treaty to which the United States is a party you can obtain an exemption from or reduction of income and withholding tax (depending on the terms of the treaty) by providing to the Withholding Agent a properly completed IRS Form W-8BEN, or any successor form, before interest is paid. However, neither exemption nor reduced withholding will be available if the Withholding Agent has actual knowledge or reason to know that the form is false.

*Exemption for Non-U.S. Persons with Effectively Connected Income.* If the interest you earn on a Debt Security is “effectively connected” to a business you conduct in the United States, you can obtain an exemption from withholding tax by providing to the Withholding Agent a properly completed IRS Form W-8ECI, or any successor form, prior to the payment of interest, unless the Withholding Agent has actual knowledge or reason to know that the form is false. Payments of interest on a Debt Security exempt from the withholding tax as effectively-connected income nevertheless may be subject to graduated U.S. federal income tax as if such amounts were earned by a U.S. Person.

*Short-Term Notes.* Special rules may apply to certain Short-Term Notes payable in full within 183 days after the date of original issue which are sold under arrangements reasonably designed to ensure that they will be sold only to persons who are not U.S. persons. See Appendix B, “Benchmark Bills and Short-Term Notes—United States Taxation.”

*Partnerships and Other Pass-through Entities.* A payment to a foreign partnership is treated, with some exceptions, as a payment directly to the partners, so that the partners are required to provide any required certifications. If you hold a Debt Security through a partnership or other pass-through entity, you should consult your own tax advisors regarding the application of these rules to your situation.

### ***Disposition or Retirement of Debt Securities***

Except as provided below in “United States Taxation—Information Reporting and Backup Withholding,” a non-U.S. Person (other than certain nonresident alien individuals present in the United States for a total of 183 days or more during his or her taxable year) will not be subject to U.S. federal income tax, and no withholding of such tax will be required, with respect to any gain that is realized on the disposition or retirement of a Debt Security, provided that the gain is not effectively connected with the conduct by the non-U.S. Person of a U.S. trade or business.

### ***Federal Estate Tax***

If you are a non-U.S. Person and are not domiciled in the United States, the Debt Securities will not be includible in your estate if interest paid (including OID, if any) on the Debt Securities to you at the time of your death would have been exempt from U.S. federal income and withholding tax as described above under “United States Taxation—Non-U.S. Persons—Interest and OID—General Exemption for Non-U.S. Persons” (without regard to the requirement that a non-U.S. beneficial ownership statement be received).

## Information Reporting and Backup Withholding

Payments of principal of and interest (including OID, if any) on Debt Securities held by U.S. Persons other than corporations and other exempt holders are required to be reported to the IRS.

Backup withholding of U.S. federal income tax may apply to payments made in respect of the Debt Securities, as well as payments of proceeds from the sale of Debt Securities. Backup withholding will apply on such payments to holders or beneficial owners that are not “exempt recipients” and that fail to provide certain identifying information (such as their taxpayer identification numbers) in the manner required. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

If a Debt Security is sold before its Maturity Date to (or through) a broker, the broker may be required to withhold a portion of the sale price. The broker will not withhold if either the broker determines that the seller is a corporation or other exempt recipient or the seller provides, in the required manner, certain identifying information and, in the case of a non-U.S. Person, certifies that such seller is a non-U.S. Person (and certain other conditions are met). The broker must report such a sale to the IRS unless the broker determines that the seller is an exempt recipient or the seller certifies its non-U.S. status (and certain other conditions are met). Certification of the beneficial owner’s non-U.S. status normally would be made on IRS Form W-8BEN under penalties of perjury, although in certain cases it may be possible to submit certain other signed forms. For these purposes, the term “broker” includes all persons who, in the ordinary course of business, stand ready to effect sales made by others. This information reporting requirement generally will apply to a U.S. office of a broker and to a foreign office of a U.S. broker, as well as to a foreign office of a foreign broker (i) that is a “controlled foreign corporation” within the meaning of section 957(a) of the federal income tax code, (ii) 50 percent or more of whose gross income from all sources for the three-year period ending with the close of its taxable year preceding the payment (or for such part of the period that the foreign broker has been in existence) was effectively connected with the conduct of a trade or business within the United States, or (iii) that is a foreign partnership with certain connections to the United States, unless such foreign office has both documentary evidence that the seller is a non-U.S. Person and no actual knowledge, or reason to know, that such evidence is false.

A payment to a foreign partnership is treated, with some exceptions, for backup withholding purposes as a payment directly to the partners, so that the partners are required to provide any required certifications. If you hold a Debt Security through a partnership or other pass-through entity, you should consult your own tax advisors regarding the application of these rules to your situation.

A beneficial owner may claim any amounts withheld under the backup withholding rules as a refund or a credit against the beneficial owner’s U.S. federal income tax, provided that the required information is furnished to the IRS. Furthermore, the IRS may impose certain penalties on a holder or beneficial owner who is required to supply information but who does not do so in the proper manner.

Payments of interest (including payments of OID, if any) on a Debt Security that is beneficially owned by a non-U.S. Person will be reported annually on IRS Form 1042-S, which the Withholding Agent must file with the IRS and furnish to the beneficial owner.

In the event that any withholding or backup withholding tax shall be imposed, Fannie Mae has no obligation to pay additional interest or other amounts as a consequence thereof or to redeem the Debt Securities before their stated maturity.

## **Reportable Transactions**

Recently-promulgated Treasury Regulations require U.S. taxpayers to report certain transactions that give rise to a loss in excess of certain thresholds (a “Reportable Transaction”). Under these regulations, if the Debt Securities are denominated in a foreign currency, a U.S. holder (or a U.S. alien holder that holds the Debt Securities in connection with a U.S. trade or business) that recognizes a loss with respect to the Debt Securities that is characterized as an ordinary loss due to changes in currency exchange rates would be required to report the loss on IRS Form 8886 (Reportable Transaction Statement) if the loss exceeds the thresholds set forth in the regulations. For individuals and trusts, this loss is \$50,000 in any single taxable year. For other types of taxpayers and other types of losses, the thresholds are higher. You should consult your own tax advisor regarding any tax filing and reporting obligations that may apply in connection with your purchase, ownership and disposition of the Debt Securities.

## **General Information**

**The U.S. federal tax discussion set forth above is included for your general information only and may not apply in your particular situation. You should consult your own tax advisors with respect to the tax consequences of your purchase, ownership and disposition of the Debt Securities, including the tax consequences under the tax laws of the United States, states, localities, countries other than the United States and any other taxing jurisdictions and the possible effects of changes in such tax laws.**

## PLAN OF DISTRIBUTION

We will offer the Debt Securities to or through the Dealers under the terms and conditions set forth in a Dealer Agreement, dated as of December 21, 1999, as amended, and as it may be further amended or supplemented (the “Dealer Agreement”), among us and the Dealers party to the Dealer Agreement. Under the terms of the Dealer Agreement, we may add other securities dealers or banks in connection with the distribution of the Debt Securities or any particular issue of Debt Securities. Those securities dealers or banks, together with the Dealers party to the Dealer Agreement, are referred to in this Offering Circular collectively as the “Dealers.” Any applicable Pricing Supplement or Final Terms document will identify any applicable Dealer or Dealers for an issue of Debt Securities.

### **Benchmark Bills and Short-Term Notes**

We will offer and sell Benchmark Bills and Short-Term Notes through the Dealers as described under “Distribution of Benchmark Bills and Short-Term Notes” in Appendix B.

### **Other Benchmark Securities and Debt Securities**

#### ***Sales to Dealers as Principal***

We will sell Debt Securities primarily to Dealers as principal, either individually or as part of a syndicate. We may sell Debt Securities to Dealers by auction or other methods. Dealers will resell Debt Securities to investors at a fixed offering price or at variable offering prices related to market prices prevailing at the time of resale. Except in certain circumstances, Dealers may sell the Debt Securities to other securities dealers at a concession, in the form of a discount, to be received by the other Dealers. The concession may be all or a portion of the underwriting compensation. Dealers will advise us whether an offering is on a fixed price or variable price basis and of any concessions or reallowances that will be provided to other dealers. We will include that information, as provided by the Dealers, in the applicable Pricing Supplement. After an initial offering of Debt Securities, the offering price (in the case of a fixed price offering), the concession and the reallowance may change.

#### ***Sales Through Dealers to Customers***

We may authorize Dealers to solicit customer offers to purchase Debt Securities on a non-underwritten basis on terms we determine. Dealers have agreed to use their best efforts when soliciting non-underwritten sales. Dealers also may approach us on behalf of investors and other purchasers with offers to purchase Debt Securities on a non-underwritten basis. We will sell Debt Securities on a non-underwritten basis at 100% of the principal amount, unless we specify otherwise in the applicable Pricing Supplement. We will pay the Dealers through whom a Debt Security is sold a commission in an amount specified in the applicable Pricing Supplement. The commission will be expressed as a percentage of the principal amount of the Debt Securities (or the initial offering price for Zero-Coupon Debt Securities and certain other Debt Securities sold at a discount). We will have the sole right to accept offers to purchase Debt Securities and may reject all or a portion of any offer. Each Dealer will have the right, using reasonable discretion, to reject all or a portion of any offer to purchase Debt Securities solicited on a non-underwritten basis.

#### ***Sales Directly to Investors***

We also may sell Debt Securities directly to institutional investors on our own behalf. We will not pay a commission to any Dealer on direct sales.

### **Trading Markets and Secondary Market Information**

We have applied for certain Debt Securities issued under the Universal Debt Facility to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the EuroMTF market. We also may issue unlisted Debt Securities and Debt Securities listed on other exchanges. The



Pricing Supplement will identify any exchange to which an initial listing application of Debt Securities will be made.

There may be no established trading market for Debt Securities when issued. Dealers have agreed to use their best efforts to facilitate secondary market transactions in each issue of Debt Securities for which they were a participating Dealer, but a secondary market may not develop. If a secondary market develops, it may not be very liquid. See “Risk Factors—Risks Related to Market, Liquidity and Yield.”

Dealers have agreed to provide certain indicative pricing information to Bloomberg L.P. or another information service designated by us for Benchmark Securities. Dealers will be solely responsible for the indicative information so provided, which is indicative of, but may not reflect actual, secondary market prices.

### **Market Transactions**

When Dealers purchase Debt Securities as principal for resale on a fixed price basis they may engage in certain transactions that stabilize the price of the Debt Securities. Such transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Debt Securities. Such transactions with respect to the Debt Securities may also include over-allotment transactions and purchases to cover short positions created by the Dealers in connection with an offering.

If the Dealers create a short position in the Debt Securities in connection with an offering, *i.e.*, if they sell a greater aggregate principal amount of the Debt Securities than is set forth in the applicable Pricing Supplement, the Dealers must reduce that short position by purchasing Debt Securities in the open market. A short position is more likely to be created if the Dealers are concerned that there may be downward pressure in the price of the Debt Securities in the open market after pricing that could adversely affect investors who purchase Debt Securities in an offering. In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases.

In connection with any particular issue of Debt Securities, we may enter into swaps, other hedging transactions or reverse repurchase transactions with, or arranged by, the applicable Dealer or an affiliate of the Dealer. The Dealer or other parties may receive compensation, trading gain, temporary funding or other benefits from these transactions. We also may from time to time engage in other hedging activities or reverse repurchase transactions involving Debt Securities, in the open market or otherwise. We are not required to engage in any of these transactions. If we commence these transactions, we may discontinue them at any time. Counterparties to these hedging activities also may engage in market transactions involving Debt Securities.

Neither we nor the Dealers make any representation or prediction as to the direction or magnitude of any effect that the transactions described in the three preceding paragraphs may have on the price of Debt Securities.

### **Additional Information**

Neither we nor the Dealers have authorized anyone to give you any information or to make any representation not contained in this Offering Circular or an applicable Pricing Supplement, or other applicable supplement. Neither delivery of this Offering Circular, any Pricing Supplement, or any other supplement, nor any sale of Debt Securities, shall imply that there has been no change in our affairs since the dates of those documents. Information in those documents may not be correct as of any time subsequent to the date of the information.

The purchase price of Debt Securities must be paid to us in immediately available funds. Your payment will be effective only upon our receipt of the funds. In a non-underwritten sale, the Dealer will act on behalf of the purchaser of Debt Securities in transmitting the purchaser’s funds to us.

We and the Dealers have agreed to indemnify each other against, and contribute toward, certain liabilities.

Purchasers of Debt Securities may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase. We do not, and any Dealer does not, represent that the Debt Securities may be sold lawfully at any time in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to an available exemption, nor do we or any Dealer assume any responsibility for facilitating those sales.

From time to time, Fannie Mae may request, and the Dealers may disclose to Fannie Mae, the identity of the purchasers of Debt Securities and volume and pricing information for secondary market transactions, including repurchase transactions. Fannie Mae will use the information for internal purposes only, and make no further disclosure of it.

The Dealers and their affiliates engage in transactions with us and perform services for us in the ordinary course of business.

### **Selling Restrictions**

The Debt Securities may be offered or sold only where it is legal to do so. The Dealers have represented and agreed that they will comply with all applicable laws and regulations in each jurisdiction in which they may purchase, offer, sell or deliver Debt Securities or distribute this Offering Circular, any Pricing Supplement, or any other offering material. The Dealers also have agreed to comply with certain selling restrictions relating to certain countries. A description of some of those restrictions, as in effect as of the date of this Offering Circular, is set forth in Appendix E. We and the Dealers may modify selling restrictions at any time.

### **Extended Settlement**

Debt Securities may be issued against payment more than three business days following the date on which such Debt Securities are priced, which we refer to as extended settlement. We will specify the settlement date for each issuance in the applicable Pricing Supplement. Trades in the secondary market generally settle three business days after the date the securities are priced, unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Debt Securities that are subject to extended settlement on the day of pricing or any succeeding business day prior to the third business day preceding delivery of such Debt Securities will be required, by virtue of the fact that such Debt Securities will settle on an extended basis, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Such purchasers should consult their own advisors in this regard.

## **VALIDITY OF THE DEBT SECURITIES**

Sidley Austin LLP, New York, New York, will pass upon the validity of the Debt Securities for Fannie Mae. Sullivan & Cromwell LLP, Washington, D.C., will pass upon the validity of the Debt Securities for the Dealers. Dewey Ballantine LLP, Washington, D.C., will pass upon U.S. federal income tax matters for Fannie Mae.

## **USE OF PROCEEDS**

We will use the net proceeds from the sale of the Debt Securities to retire our outstanding debt securities or add the proceeds to our working capital and use them for general corporate purposes. We anticipate the need for additional financing from time to time, including financing through various types of debt securities. The amount and nature of the financing 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.

## GENERAL INFORMATION

An application has been made for certain Debt Securities issued under this Universal Debt Facility to be listed on the Official List of the Luxembourg Stock Exchange and admitted to trading on the EuroMTF market. The Luxembourg Stock Exchange has allocated the number 9170 to the Universal Debt Facility for listing purposes. As of the date of this Offering Circular, Debt Securities with maturities of less than seven days may not be traded on the EuroMTF market. Holders may obtain, free of charge, the documents incorporated in this Offering Circular by reference from the Luxembourg Listing Agent. Copies of the Fiscal Agency Agreement, the Global Agency Agreement, our Charter Act and our bylaws will be available for inspection by Holders at the office of the Luxembourg Listing Agent during the term of the Debt Securities.

So long as Debt Securities remain traded on the EuroMTF market, we will maintain in Luxembourg an intermediary to respond to inquiries from Holders of Debt Securities. Dexia Banque Internationale à Luxembourg initially has been appointed as the intermediary.

Our issuance of the Debt Securities is authorized pursuant to the actions of our Board of Directors effective December 19, 2006.

We have given an undertaking in connection with the listing of the Debt Securities on the Official List of the Luxembourg Stock Exchange to the effect that, so long as any Debt Securities remain outstanding and traded on the EuroMTF market, in the event of any material adverse change in our business or our financial position that is not reflected in our most recent Form 10-K or subsequent Quarterly Reports on Form 10-Q (“Form 10-Q”), we will prepare a Current Report on Form 8-K (“Form 8-K”) for use in connection with any subsequent offering and listing by us of the Debt Securities.

This Offering Circular is a Base Prospectus under Luxembourg law.

## ADDITIONAL INFORMATION ABOUT FANNIE MAE

We are incorporating by reference in this Offering Circular 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. Those documents 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 any applicable supplement, and you should rely only on the most current information.

We incorporate by reference the following documents we have filed, or may file with the SEC:

- our Form 10-K for the year ended December 31, 2004, filed with the SEC on December 6, 2006;
- all Current Reports on Form 8-K from December 31, 2004 until (and including) the date of this Offering Circular, excluding any information “furnished” to the SEC on Form 8-K; and
- all proxy statements that we file with the SEC, and all documents that we file with the SEC pursuant to Section 13(a) or 14 of the Exchange Act, after the date of this Offering Circular and before the completion of the offering of Debt Securities, excluding any information we “furnish” to the SEC on Form 8-K.

You may read our SEC filings and other information about us at the offices of the New York Stock Exchange and the Chicago Stock 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 100 F Street, N.E., 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 that appears on the SEC’s website is not incorporated into the Offering Circular, except as specifically stated in this Offering Circular.

You can obtain copies of this Offering Circular, pricing supplements, and other supplements or amendments to this Offering Circular, periodic reports and current reports we file with the SEC and all documents incorporated in this Offering Circular by reference without charge from our Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: (202) 752-7115) and, if and so long as any Debt Securities are traded on the EuroMTF market, from Dexia Banque Internationale à Luxembourg, 69, route d’Esch, L-2953 Luxembourg (telephone: (352) 45 90 1).

You can obtain copies of this Offering Circular and any supplements or amendments from the Dealers where lawful to do so. In connection with the initial distribution of an issue of Debt Securities other than Benchmark Bills and Short-Term Notes, you also should obtain the applicable Pricing Supplement from the Dealers for the issue.

The following information is available from Fannie Mae by accessing our website at [www.fanniemae.com](http://www.fanniemae.com) or calling the Fannie Mae fixed-income securities hotline at (888) 266-3457 (for international callers, (202) 752-8510):

- This Offering Circular;
- Pricing Supplements; and
- The current interest rate on variable rate Debt Securities.

The periodic reports that we file with the SEC will also be available on our website.

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

We supply this material only for informational purposes. You should contact a Dealer or other appropriate securities dealer or bank to obtain the appropriate Offering Circular, Pricing Supplement, and other information.

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## BENCHMARK SECURITIES

Set forth below, only for informational purposes, is a general description of our Benchmark Securities program. We may change the details of the program from time to time, and any changes may not be reflected in an amendment or supplement to the Offering Circular. The specific terms of Benchmark Securities are contained in the Offering Circular of which this Appendix forms a part, and any applicable Pricing Supplements or other supplements to the Offering Circular.

We currently issue Benchmark Securities in the following forms:

- Benchmark Bills—non-callable Debt Securities with maturities of 360 days or less and sold at a discount from their principal amount payable at maturity;
- Benchmark Notes—non-callable Debt Securities with maturities of one to ten years;
- Callable Benchmark Notes—callable Debt Securities with maturities of one to ten years;
- Subordinated Benchmark Notes—non-callable Subordinated Debt Securities with maturities of one to ten years; and
- Benchmark Bonds—non-callable Debt Securities with maturities of more than ten years.

All Benchmark Securities are U.S. dollar denominated. Issuances may be new issues or reopenings of existing issues. The schedule of anticipated Benchmark Securities issuances, as well as more recently announced updates of our financing plans, are available on our website, [www.fanniemae.com](http://www.fanniemae.com).

Settlement of Benchmark Securities issues is made through the Fed Book-Entry System, on the same basis as for other Fed Book-Entry Securities. See “Clearance and Settlement” in the Offering Circular.

We expect that the offering price for our Callable Benchmark Notes will be determined using a valuation methodology published by the Securities Industry and Financial Markets Association (SIFMA). This methodology is expected to be available on Bloomberg L.P. and TradeWeb LLC to investors, dealers and other market participants for use in valuation analysis and secondary market trading of Callable Benchmark Notes. Although TradeWeb and Bloomberg provide this information, they are under no obligation to provide or continue to provide such information. Neither Fannie Mae nor the Dealers will have any responsibility for the information provided by TradeWeb or Bloomberg.

Benchmark Notes, Callable Benchmark Notes and Benchmark Bonds may be strip-eligible. See “Description of the Debt Securities—Eligibility for Stripping of Fed Book-Entry Securities” in the Offering Circular.

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**BENCHMARK BILLS AND SHORT-TERM NOTES**

Set forth below is information about our Benchmark Bills and Short-Term Notes. (See also Appendix A for a more general description of our Benchmark Securities program). Except as set forth in this Appendix, the general description of Debt Securities set forth in the Offering Circular applies to Benchmark Bills and Short-Term Notes. Unless otherwise specified, cross-references are to sections in the Offering Circular of which this Appendix forms a part and capitalized terms are used as defined in the Offering Circular. This Appendix is hereby incorporated in and made a part of the Offering Circular. Pricing Supplements will not be prepared for Benchmark Bills or Short-Term Notes.

**Summary Description of Benchmark Bills and Short-Term Notes**

Specified Currencies . . . . .	Benchmark Bills will be denominated only in U.S. dollars. Short-Term Notes may be denominated in U.S. dollars or non-U.S. dollar currencies.
Denomination . . . . .	<p>Benchmark Bills and Short-Term Notes other than 183 Day Notes (as defined under “United States Taxation” in this Appendix B) denominated in U.S. dollars generally will have minimum denominations of \$1,000 and additional increments of \$1,000.</p> <p>We will establish denominations for Short-Term Notes denominated in British pounds sterling, Swiss francs, Canadian dollars, Euros, yen or other non-U.S. dollar currencies at the time we issue those Short-Term Notes.</p> <p>183 Day Notes will have minimum denominations of \$500,000 or, in the case of non-U.S. dollar denominated 183 Day Notes, the foreign currency equivalent (determined using the spot rate on the date of issuance).</p>
Maturity . . . . .	360 days or less
Principal Amount . . . . .	The amount payable at maturity of Benchmark Bills and Short-Term Notes will be their face amount. See also “Description of the Debt Securities—Payments.”
Interest . . . . .	Benchmark Bills and most Short-Term Notes will not bear interest but will be sold at a discount from their principal amount at maturity. We also may issue interest-bearing Short-Term Notes, the terms of which we will establish at the time of issuance.
Business Day Convention . . . . .	<p>For Fed Book-Entry Securities, “Business Day” means any day other than a Saturday, a Sunday, a day on which the Federal Reserve Bank of New York is closed, or, with respect to any required payment, a day on which the U.S. Federal Reserve Bank maintaining the book-entry account relating to the Fed Book-Entry Security is closed.</p> <p>For Global Book-Entry Securities, “Business Day” means any day other than a Saturday, a Sunday, a day on which banking institutions are closed in New York, New York, a day on which banking institutions are closed in the Principal Financial Center of the country issuing the Specified Payment Currency (in the case where the Specified Payment Currency is other than U.S.</p>

dollars or Euro), or a day on which banking institutions are required or permitted by law to close in the place of payment to the Holder (in the case where the Specified Payment Currency is Euro, whether or not pursuant to redenomination).

If an Interest Payment Date or Principal Payment Date is not a Business Day, we will pay the interest or principal on the next Business Day. In that case, you will receive no interest on the delayed interest or principal payment for the period from and after the scheduled Interest Payment Date or Principal Payment Date to the actual date of payment.

Form.....	We will issue Benchmark Bills and most U.S. dollar-denominated Short-Term Notes as Fed Book-Entry Securities. We will issue other Short-Term Notes as Global Book-Entry Securities through DTC, Euroclear, Clearstream or other book-entry systems. See “Description of the Debt Securities—Book-Entry Systems” and “—Ownership of Debt Securities.”
	We will issue 183 Day Notes as Global Book-Entry Securities.
Targeted Registered Securities ..	We may issue Short-Term Notes that are Targeted Registered Securities. See Appendix G of the Offering Circular for additional information about Targeted Registered Securities.
Redemption.....	Benchmark Bills and Short-Term Notes will not be redeemable prior to maturity.
Tax Matters .....	Benchmark Bills and Short-Term Notes and payments thereon generally are subject to taxation by the United States and generally are not exempt from taxation by other U.S. or non-U.S. taxing jurisdictions. Non-U.S. Persons generally will be subject to U.S. income and withholding tax unless they provide required certifications or statements. See “United States Taxation” below and in the Offering Circular for additional information.
Listing .....	We do not intend to list Benchmark Bills and Short-Term Notes on any exchange.
Offering Price .....	Benchmark Bills and non-interest bearing Short-Term Notes will be offered at a discount to par. See “Distribution of Benchmark Bills and Short-Term Notes” below for additional information.
Clearance and Settlement .....	Depending on the terms of an issue of Benchmark Bills or Short-Term Notes and where they are to be offered, Benchmark Bills or Short-Term Notes may clear and settle through one or more of the following: <ul style="list-style-type: none"> <li>• the U.S. Federal Reserve Banks</li> <li>• DTC</li> <li>• Euroclear</li> <li>• Clearstream</li> <li>• other designated clearing systems</li> </ul> <p>We expect issues of Benchmark Bills and most Short-Term Notes denominated and payable in U.S. dollars, to clear and settle through the Fed Book-Entry System. These Debt Securities</p>

generally may be held indirectly through other clearing systems, such as the systems operated by Euroclear and Clearstream.

We expect issues of Short-Term Notes denominated and payable in U.S. dollars not cleared and settled through the Fed Book-Entry System to clear and settle through the systems operated by DTC, and indirectly through Euroclear and Clearstream. We expect issues of Short-Term Notes denominated or payable in a specified currency other than U.S. dollars to clear and settle through the systems operated by Euroclear, Clearstream or other designated clearing systems.

- Governing Law . . . . . Benchmark Bills and Short-Term Notes issued as Fed Book-Entry Securities (including rights and obligations) will be governed by, and construed in accordance with, regulations adopted by the U.S. Department of Housing and Urban Development or any other U.S. governmental body or agency that are applicable to the Fed Book-Entry Securities, and, to the extent that these regulations do not apply, the laws of the State of New York, U.S.A. Benchmark Bills and Short-Term Notes issued as Global Book-Entry Securities will be governed by, and construed in accordance with, the laws of the State of New York, U.S.A.
- Fiscal and Global Agents . . . . . The Federal Reserve Bank of New York will act as fiscal agent for Benchmark Bills and Short-Term Notes issued as Fed Book-Entry Securities, under a Fiscal Agency Agreement effective as of July 20, 2006, between Fannie Mae and the Federal Reserve Bank of New York. The Bank of New York will act as global agent for Global Book-Entry Securities. See “Description of the Debt Securities—Fiscal Agent and Global Agent.”
- Selling Restrictions . . . . . Restrictions exist in certain jurisdictions on the Dealers’ offer, sale and delivery of Benchmark Bills and Short-Term Notes and the distribution of offering materials relating to Benchmark Bills and Short-Term Notes. See “Distribution of Benchmark Bills and Short-Term Notes—183 Day Notes Selling Restriction” below and Appendix E to the Offering Circular for a description of these restrictions.

## United States Taxation

The tax discussions contained in the Offering Circular were not intended or written to be used, and cannot be used, for the purpose of avoiding United States federal tax penalties. These discussions were written to support the promotion or marketing of the transactions or matters addressed in this Offering Circular. You should seek advice based on your particular circumstances from an independent tax advisor.

The principal aspects of U.S. federal income tax treatment of Benchmark Bills and Short-Term Notes are set forth in the Offering Circular. However, some Short-Term Notes having a maturity of 183 days or less will be sold under arrangements reasonably designed to ensure that they will be sold (or resold in connection with their original issuance) only to persons who are not U.S. Persons (“183 Day Notes”). This section provides a discussion of the U.S. federal income tax treatment of 183 Day Notes held by non-U.S. Persons.

Payments of principal of, and interest (including original issue discount) on, a 183 Day Note to any person who is not a U.S. Person will not be subject to United States federal withholding or income tax.

Backup withholding and information reporting will not apply to payments on 183 Day Notes provided, in each case, that we, our paying agent and certain intermediaries in the chain of payment do not have actual knowledge or reason to know that the payee is a U.S. Person and certain other requirements are met. Accordingly, payments on 183 Day Notes will be made only outside the United States or its possessions. In addition, 183 Day Notes will be registered in the name of an exempt recipient, generally Euroclear or Clearstream, and 183 Day Notes will bear the following legend: “By accepting this obligation, the holder represents and warrants that it is not a United States person (other than an exempt recipient described in section 6049(b)(4) of the Internal Revenue Code and the regulations thereunder) and that it is not acting for or on behalf of a United States person (other than an exempt recipient described in section 6049(b)(4) of the Internal Revenue Code and the regulations thereunder).”

## Distribution of Benchmark Bills and Short-Term Notes

### General

Benchmark Bills and Short-Term Notes typically will be offered initially at fixed prices representing a discount from the principal amount payable at maturity, with the amount of the discount based, in part, on the maturity of the Benchmark Bills or Short-Term Notes. We may sell Debt Securities to Dealers acting as principal or through Dealers on a non-underwritten basis. We also may sell Debt Securities directly to institutional investors. Benchmark Bills and Short-Term Notes sold to Dealers as principal may be resold to investors at a fixed offering price or at varying prices related to market prices prevailing at the time of resale or otherwise as determined by the applicable Dealer. Offering prices may be established through the posting of rates, negotiations with dealers, auctions (which may include standard electronic auctions, Dutch auctions and other formats) or otherwise.

We will post discount rates for Short-Term Notes, and the range of maturities offered, on market information screens. We generally will offer Short-Term Notes each business day through the Dealers, and there may be more than one sale on a given day.

In order to facilitate overnight confirmation of sales to investors abroad, Short-Term Notes also generally are sold before and after our business hours (except holidays and weekends) to one or more of the Dealers as principal. The Dealers may resell the Short-Term Notes to investors or to other dealers we may authorize from time to time.

Dealers will receive compensation (in the form of a discount or commission) on the Short-Term Notes confirmed and delivered to them equal to .02% per annum of the principal amount due at

maturity. With respect to Benchmark Bills, Dealers will purchase the securities at the initial offering price.

In transactions where they are acting as principal, the Dealers will purchase the Short-Term Notes from us at a discount from the principal amount due at maturity. In these transactions, their compensation will be equal to the difference between the price at which they sell the Short-Term Notes and their purchase price. With respect to non-underwritten sales, the Dealers' compensation will take the form of a commission.

### **Trading Markets and Secondary Market Information**

There may be no established trading market for Benchmark Bills and Short-Term Notes when issued. Dealers have agreed to use their best efforts to facilitate secondary market transactions in each issue of Benchmark Bills and Short-Term Notes for which they were an applicable Dealer, but a secondary market may not develop. If a secondary market develops, it may not be very liquid. See "Risk Factors—Risks Related to Market, Liquidity and Yield" in the Offering Circular.

Dealers may provide indicative pricing information to Bloomberg L.P. or another information service designated by us for Benchmark Bills and Short-Term Notes. Dealers will be solely responsible for the indicative information so provided, which may not reflect actual secondary market prices.

### **Market Transactions**

When Dealers purchase Benchmark Bills and Short-Term Notes as principal for resale on a fixed price basis they may engage in certain transactions that stabilize the price of the Benchmark Bills and Short-Term Notes. Such transactions may consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the Benchmark Bills and Short-Term Notes. Such transactions with respect to the Benchmark Bills and Short-Term Notes may also include over-allotment transactions and purchases to cover short positions created by the Dealers in connection with an offering.

If the Dealers create a short position in the Benchmark Bills and Short-Term Notes in connection with an offering, the Dealers must reduce that short position by purchasing Debt Securities in the open market. A short position is more likely to be created if the Dealers are concerned that there may be downward pressure in the price of the Benchmark Bills and Short-Term Notes in the open market after pricing that could adversely affect investors who purchase Benchmark Bills and Short-Term Notes in an offering. In general, purchases of a security for the purpose of stabilization or to reduce a short position could cause the price of the security to be higher than it might be in the absence of such purchases.

In connection with any particular issue of Benchmark Bills and Short-Term Notes, we may enter into swaps, other hedging transactions or reverse repurchase transactions with, or arranged by, the applicable Dealer or an affiliate. The Dealer or other parties may receive compensation, trading gain, temporary funding or other benefits from these transactions. We also may from time to time engage in other hedging activities or reverse repurchase transactions that involve Benchmark Bills and Short-Term Notes, in the open market or otherwise. We are not required to engage in any of these transactions. If we commence these transactions, we may discontinue them at any time. Counterparties to these hedging activities may also engage in market transactions involving Benchmark Bills and Short-Term Notes.

### **183 Day Notes Selling Restriction**

Each Dealer who will sell 183 Day Notes has represented and agreed that, except to the extent permitted by relevant United States tax law, it has not offered or sold, and will not offer or sell, the 183 Day Notes to a person who is within the United States or its possessions or to a U.S. Person during the "restricted period," as defined in U.S. tax regulations, and it has not delivered and will not deliver 183 Day Notes within the United States or its possessions in connection with sales of the 183 Day

Notes during such restricted period. The Dealer will also represent that it has and will continue to have in effect procedures reasonably designed to ensure that its employees or agents who are directly engaged in selling 183 Day Notes are aware that the 183 Day Notes may not be offered or sold to a person who is within the United States or its possessions or to a U.S. Person during the restricted period, except as permitted by relevant United States federal tax law. If the Dealer is a U.S. Person, it must represent that it is acquiring the 183 Day Notes for purposes of resale in connection with their original issuance and, if it retains any 183 Day Notes for its own account, it will do so only in accordance with the requirements of relevant United States federal tax law. Each Dealer has also represented and agreed that any affiliate that acquires the 183 Day Notes from it or another affiliate for purposes of offering or selling the 183 Day Notes during the restricted period will make the same representations.

### **Dealers**

The securities dealers and banks who are party to the Dealer Agreement may act as Short-Term Note Dealers under the Universal Debt Facility. Other securities dealers and banks may be added from time to time in connection with the distribution of Benchmark Bills and Short-Term Notes or any particular issue of such securities.

See also “Plan of Distribution—Additional Information” in the Offering Circular for further information about the distribution of Debt Securities, including Benchmark Bills and Short-Term Notes.

**SUBORDINATED BENCHMARK NOTES AND  
OTHER SUBORDINATED DEBT SECURITIES**

Set forth below is information about our Subordinated Benchmark Notes and other Subordinated Debt Securities. Except as set forth in this Appendix, the general description of Debt Securities set forth in this Offering Circular applies to Subordinated Debt Securities, which may have terms related to specified currencies, denominations, business day conventions, and clearance and settlement similar to other Debt Securities. This Appendix is hereby incorporated in and made a part of the Offering Circular.

Status; Subordination . . . . . The Subordinated Debt Securities will be unsecured subordinated obligations of Fannie Mae issued under Section 304(e) of the Charter Act. The Subordinated Debt Securities will rank junior in priority of payment to our “Senior Liabilities.” “Senior Liabilities” means all existing and future liabilities of Fannie Mae, other than liabilities that by their terms expressly rank equal with or junior to Subordinated Debt Securities. Senior Liabilities include, but are not limited to, debt obligations issued under Section 304(b) of the Charter Act, liabilities in respect of our guarantees on mortgage-backed securities and Fannie Mae’s Outstanding Capital Debentures. The Subordinated Debt Securities, together with interest thereon, are not guaranteed by the United States and do not constitute a debt or obligation of the United States or of any agency or instrumentality thereof other than Fannie Mae.

Redemption . . . . . Unless otherwise specified in an applicable Pricing Supplement, the Subordinated Debt Securities will not be subject to redemption by us prior to maturity.

Interest:

Deferral of Interest . . . . . We will defer the payment of interest on all outstanding Subordinated Debt Securities if, as of the fifth Business Day prior to an Interest Payment Date on any Subordinated Debt Securities (each, a “Deferral Determination Date”):

- our “core capital” is below 125% of our “critical capital” requirement,

**or**

- (1) our “core capital” is below our “minimum capital” requirement and (2) the U.S. Secretary of the Treasury, acting on our request, exercises his or her discretionary authority pursuant to Section 304(c) of the Charter Act to purchase our debt obligations.

We will use the core, critical and minimum capital levels most recently announced by the Office of Federal Housing Enterprise Oversight (“OFHEO”) or a successor regulator, pursuant to its then current methodology for calculating those levels, prior to any

such Deferral Determination Date to determine whether we must defer interest on all outstanding Subordinated Debt Securities.

If legislation is enacted that revises the definition of core, critical or minimum capital, or if OFHEO (or a successor regulator) ceases to announce any of these capital levels, Fannie Mae will calculate any revised or no longer announced capital levels on a monthly basis in accordance with the current statutory definitions and the then-current OFHEO requirements. An independent third party will verify any capital levels that we are required to calculate. Upon such third party verification, we will publicly announce the results.

“Core capital” is the sum of:

- the stated value of our outstanding common stock (common stock less treasury stock),
- the stated value of our outstanding non-cumulative perpetual preferred stock,
- paid in capital, and
- retained earnings.

“Critical capital” is the sum of:

- 1.25% of on-balance sheet assets,
- .25% of the unpaid principal balance of outstanding Fannie Mae mortgage-backed securities held by third parties, and
- .25% of other off-balance sheet obligations, which may be adjusted by the Director of OFHEO under certain circumstances.

“Minimum capital” is the sum of:

- 2.50% of on-balance sheet assets,
- .45% of the unpaid principal balance of outstanding Fannie Mae mortgage-backed securities held by third parties, and
- .45% of other off-balance sheet obligations, which may be adjusted by the Director of OFHEO under certain circumstances. (See 12 CFR §1750.4 for existing adjustments made by the Director of OFHEO.)

We may not defer interest on any Subordinated Debt Securities for more than five consecutive years nor beyond their Maturity Date.

Accrual of Interest on Deferred  
Amounts .....

If we defer the payment of interest on the Subordinated Debt Securities, interest will continue to accrue on the Subordinated Debt Securities and compound at the stated coupon rates of such Subordinated Debt Securities.

Resumption of Interest  
Payments .....

We will pay all deferred interest, and interest thereon, on all Subordinated Debt Securities as soon as, after giving effect to such payments, we no longer would be required to defer interest under



the terms described above, and we have repaid all debt obligations, if any, purchased by the U.S. Secretary of the Treasury as described above. We will make this payment in respect of all Subordinated Debt Securities on the next scheduled Interest Payment Date that occurs in respect of any issue of Subordinated Debt Securities, unless we elect to make the payment earlier.

If we have not resumed interest payments on an issue of Subordinated Debt Securities by its Maturity Date or have deferred interest on an issue of Subordinated Debt Securities for five consecutive years, then we must pay deferred interest, and interest thereon, on that issue of Subordinated Debt Securities regardless of our core capital levels or our repayment of all debt obligations purchased by the U.S. Secretary of the Treasury. Even if we are required to make any payment on Subordinated Debt Securities, because Subordinated Debt Securities are subordinated, Holders of Subordinated Debt Securities will be entitled to receive payments only after we have made payment in full of all amounts then due in respect of Senior Liabilities. In no event will Holders of Subordinated Debt Securities be able to accelerate the maturity of their Subordinated Debt Securities; such Holders will have claims only for amounts then due and payable on their Subordinated Debt Securities. After we have fully paid all deferred interest on any issue of Subordinated Debt Securities and if that issue of Subordinated Debt Securities remains outstanding, future interest payments on that issue of Subordinated Debt Securities will be subject to further deferral as described above.

No Dividends during Deferral Periods .....	During periods when we defer the payment of interest on the Subordinated Debt Securities, we may not declare or pay dividends on, or redeem, purchase or acquire, our common stock or our preferred stock.
No Acceleration Right .....	The Subordinated Debt Securities will not contain any provisions permitting the Holders to accelerate the maturity thereof on the occurrence of any default or other event.
Form .....	Subordinated Benchmark Notes will be issued as Fed Book-Entry Securities. Other Subordinated Debt Securities may be issued as Fed Book-Entry Securities or Global Book-Entry Securities.
Notices .....	We will give prompt notice of any event that would require deferral of the payment of interest on the Subordinated Debt Securities. We will also give notice of the resumption of the payment of interest on the Subordinated Debt Securities. See “Description of the Debt Securities — Notices” in the Offering Circular.
Listing .....	We may apply to list Subordinated Benchmark Notes on the Official List of the Luxembourg Stock Exchange and admit them to trading on the EuroMTF market. We may apply to list other Subordinated Debt Securities on other exchanges.

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**INDEX DESCRIPTIONS**

This Appendix is incorporated in and made a part of the Offering Circular.

**General**

The Pricing Supplement for any Debt Securities will indicate which index, as described below, applies to the Debt Securities, or may designate a different index, which will be described in the Pricing Supplement.

Several sources for indices are pages or screens provided by Reuters Monitor Money Rates Service (“Reuters”). If a page or screen, or its provider, is replaced, the Calculation Agent will select the appropriate successor page, screen or provider, if any.

**LIBOR**

If we specify LIBOR as the applicable interest rate index for determining the interest rate for the related Debt Securities, the following provisions will apply:

“LIBOR” means, with respect to any Reset Date:

(1) the rate that appears, at 11:00 a.m. (London time) on the LIBOR Determination Date, on Reuters Page 3750 for Deposits in the Index Currency having the Index Maturity;

(2) if the rate specified in (1) above does not so appear, then the Calculation Agent will request the principal London offices of five leading banks (which may include affiliates of the Dealers) in the London interbank market selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide those banks’ offered quotations to prime banks in the London interbank market for Deposits in the Index Currency having the Index Maturity as of 11:00 a.m. (London time) on the LIBOR Determination Date and in a Representative Amount. If at least two quotations are provided, then LIBOR will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest));

(3) if fewer than two quotations are so provided, then the Calculation Agent will request five major banks (which may include affiliates of the Dealers) in the applicable Principal Financial Center selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide those banks’ offered quotations to leading European banks for loans, commencing on the applicable Reset Date, in the Index Currency having the Index Maturity as of approximately 11:00 a.m. (London time) in the applicable Principal Financial Center on the LIBOR Determination Date and in a Representative Amount. If at least two quotations are provided, then LIBOR will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest)); and

(4) if fewer than two quotations are so provided, then LIBOR as of such LIBOR Determination Date will be LIBOR determined for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date, then LIBOR will be the rate for deposits in the Index Currency having the Index Maturity that appeared, as of 11:00 a.m. (London time) on the most recent London Banking Day preceding the LIBOR Determination Date for which the rate was displayed on Reuters Page 3750 with respect to deposits commencing on the second London Banking Day following that date.

The following definitions apply only to the preceding description of LIBOR (additional definitions on page D-3 also apply).

- “Reuters Page 3750” means the display designated as “Page 3750” provided by Reuters.
- “LIBOR Determination Date” means the second London Banking Day preceding the applicable Reset Date unless the Index Currency is (i) Sterling, in which case it means the applicable Reset Date or (ii) Euro, in which case it means the second TARGET Business Day preceding the applicable Reset Date (unless LIBOR is determined in accordance with paragraph (3) above, in which case it means the applicable Reset Date).
- “London Banking Day” means any day on which commercial banks are open for business (including dealings in foreign exchange and deposits in the Index Currency) in London.
- “Index Currency” means the currency or currency unit specified in the applicable Pricing Supplement with respect to which LIBOR will be calculated. If we do not specify a currency or currency unit in the applicable Pricing Supplement, the Index Currency will be U.S. dollars.
- “Principal Financial Center” means the capital city of the country issuing the Specified Payment Currency, or solely with respect to the calculation of LIBOR, the Index Currency, as the case may be, except, in each case, that with respect to U.S. dollars, Australian dollars, British pounds sterling, Canadian dollars, Hong Kong dollars and Swiss francs, the Principal Financial Center will be the city of New York, Sydney, London, Toronto, Hong Kong and Zurich, respectively, provided however, that with respect to Euro, the Principal Financial Center will be determined by the Calculation Agent (after consultation with Fannie Mae).
- “Representative Amount” means a principal amount of not less than U.S. \$1,000,000 (or, if the Index Currency is other than U.S. dollars, a principal amount not less than the equivalent in the Index Currency).

## **EURIBOR**

If we specify EURIBOR as the applicable interest rate index for determining the interest rate for the related Debt Securities, the following provisions will apply:

“EURIBOR” means, with respect to any Reset Date:

(1) the rate that appears at 11:00 a.m. (Brussels time) on the EURIBOR Determination Date, on Reuters Page 248 under the caption “EURIBOR” for Deposits in Euro having the Index Maturity;

(2) if a rate does not so appear, then the Calculation Agent will request five major banks (which may include affiliates of the Dealers) in the Euro-Zone selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide those banks’ offered quotations to prime banks in the Euro-Zone interbank market for Deposits in Euro having the Index Maturity as of 11:00 a.m. (Brussels time) on the EURIBOR Determination Date and in a Representative Amount. If at least two quotations are provided, then EURIBOR will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest));

(3) if fewer than two quotations are so provided, then the Calculation Agent will request five major banks (which may include affiliates of the Dealers) in the Euro-Zone selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide those banks’ offered quotations to leading European banks for

loans, commencing on the applicable Reset Date, in Euro having the Index Maturity as of approximately 11:00 a.m. (Brussels time) on the EURIBOR Determination Date and in a Representative Amount. If at least two quotations are provided, then EURIBOR will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest)); and

(4) if fewer than two quotations are so provided, then EURIBOR as of such EURIBOR Determination Date will be EURIBOR determined for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date, then EURIBOR will be the rate for deposits in Euro having the Index Maturity that appeared, as of 11:00 a.m. (Brussels time) on the most recent TARGET Business Day preceding the EURIBOR Determination Date for which the rate was displayed, on Reuters Page 248 under the caption “EURIBOR” with respect to deposits commencing on the second TARGET Business Day following that date.

The following definitions apply only to the preceding description of EURIBOR.

- “EURIBOR Determination Date” means the second TARGET Business Day preceding the applicable Reset Date, unless EURIBOR is determined in accordance with paragraph (3) above, in which case it means the applicable Reset Date.
- “Reuters Page 248” means the display designated as “Page 248” provided by Reuters.
- “Euro-Zone” means the region consisting of member states of the European Union that adopt the single currency in accordance with the Treaty establishing the European Community, as amended by the Treaty on European Union.

#### **Additional Definitions Related to LIBOR and EURIBOR Descriptions**

With respect to the preceding descriptions of LIBOR and EURIBOR:

- “TARGET Business Day” means a day on which the Trans-European Automated Real-time Gross Settlement Express Transfer (“TARGET”) System is operating;
- “Representative Amount” means a principal amount of not less than the equivalent of U.S. \$1,000,000 in Euro;
- “Deposits” means deposits commencing on the applicable Reset Date;
- “Index Maturity” means the maturity specified in the applicable Pricing Supplement with respect to which LIBOR or EURIBOR, as the case may be, will be calculated; and
- all rates will be obtained from sources expressed as a percentage rate per annum.

#### **Federal Funds Rates**

##### ***Federal Funds Rate (Daily)***

If we specify Federal Funds Rate (Daily) as the applicable interest rate index for determining the interest rate for the related Debt Securities, the following provisions will apply:

The “Federal Funds Rate (Daily)” means, with respect to any Reset Date:

(1) the rate that appears by 5:00 p.m. on the Federal Funds Rate (Daily) Determination Date on Reuters US/FEDRATES1 Page for the Business Day preceding the Federal Funds Rate (Daily) Determination Date;

(2) if the rate specified in (1) above does not so appear, the Calculation Agent will request five leading brokers (which may include the Dealers or their affiliates) of federal funds transactions in the city of New York selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide a quotation of those

brokers' effective rate for transactions in overnight federal funds arranged by the broker settling on the Business Day preceding the Federal Funds Rate (Daily) Determination Date. If at least two quotations are provided, then the Federal Funds Rate (Daily) will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest));

(3) if fewer than two quotations are so provided, then the Calculation Agent will request five leading brokers (which may include the Dealers or their affiliates) of federal funds transactions in the city of New York selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide a quotation of those brokers' rates for the last transaction in overnight federal funds arranged by the broker as of 11:00 a.m. on the Business Day preceding the Federal Funds Rate (Daily) Determination Date. If at least two quotations are provided, then the Federal Funds Rate (Daily) will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest)); and

(4) if fewer than two quotations are so provided, then the Federal Funds Rate (Daily) as of such Federal Funds Rate (Daily) Determination Date will be the Federal Funds Rate (Daily) determined for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date, then the Federal Funds Rate (Daily) will be the daily federal funds rate that appeared by 5:00 p.m. on the most recent Business Day preceding the Reset Date for which the rate was displayed on Reuters US/FEDRATES1 Page.

#### ***Federal Funds Rate (Weekly Average)***

If we specify Federal Funds Rate (Weekly Average) as the applicable interest rate index for determining the interest rate for the related Debt Securities, the following provisions will apply:

The "Federal Funds Rate (Weekly Average)" means, with respect to any Reset Date:

(1) the rate published in the latest H.15(519) available by 5:00 p.m. on the Reset Date, opposite the caption "Federal funds (effective)" and under the caption "Week Ending" for the Friday immediately preceding the Reset Date. (As described in the footnotes to the H.15(519), the rate shown for the week ending on a Friday preceding a Reset Date actually will be the rate for the week ending on (and including) the Wednesday preceding the Reset Date (the "Seven-Day Period").);

(2) if a rate is not so published, then the Federal Funds Rate (Weekly Average) will be the arithmetic mean determined by the Calculation Agent of the rate, determined in the manner described in subclauses (y) and (z) below (as applicable), for each day in the Seven-Day Period (each a "Day Rate"), provided that the Calculation Agent determines a Day Rate for each day in the Seven-Day Period;

(y) The Day Rate for a Business Day will be the rate that appears, by 5:00 p.m. on the Reset Date, on Reuters US/FEDRATES1 Page for that Business Day. If a rate for that Business Day does not appear on Reuters US/FEDRATES1 Page by 5:00 p.m. on the Reset Date, the Calculation Agent will request five leading brokers (which may include the Dealers or their affiliates) of federal funds transactions in the city of New York selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide a quotation of those brokers' rates for the last transaction in overnight federal funds arranged by the broker as of 11:00 a.m. on that Business Day. If at least two quotations are provided, then the Day Rate will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided,

eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest)); and

(z) The Day Rate for a day other than a Business Day will be the rate for the preceding Business Day, whether or not the Business Day falls within the relevant Seven-Day Period, determined in accordance with the provisions of subclause (y) above; and

(3) if the Day Rate for each day in the Seven Day Period is not so determined, then the Federal Funds Rate (Weekly Average) as of such Reset Date will be the Federal Funds Rate (Weekly Average) determined for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date, then the Federal Funds Rate (Weekly Average) will be the rate published in the latest H.15(519) available by 5:00 p.m. on the Reset Date, opposite the caption “Federal funds (effective)” and under the caption “Week Ending” for the Friday most recently preceding the Reset Date.

Please note that the Federal Funds Rate (Weekly Average) as published in the H.15(519) is a weekly average, while the Federal Funds Rate (Weekly Average) as calculated under clause (2) is based on an average of daily rates.

### **Additional Definitions Related to Federal Funds Rate Descriptions**

- “Federal Funds Rate (Daily) Determination Date” means the applicable Reset Date; provided, however, that if the Reset Date is not a Business Day, then the Federal Funds Rate (Daily) Determination Date means the Business Day immediately following the applicable Reset Date.
- “H.15(519)” means the official weekly statistical release designated as the H.15(519), published by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”). We understand that the Federal Reserve Board’s current method of official publication is by hard copy release, although the Federal Reserve Board does provide unofficial rates through its website and possibly other means.
- “Reuters US/FEDRATES1 Page” means the display designated as page “US/FEDRATES1” on Reuters.
- All times in the Federal Funds Rate descriptions refer to New York City time.

### **Prime Rate**

If we specify Prime Rate as the applicable interest rate index for determining the interest rate for the related Debt Securities, the following provisions will apply:

The “Prime Rate” means, with respect to any Reset Date:

(1) the arithmetic mean determined by the Calculation Agent of the rates (after eliminating certain rates, as described below in this clause (1)) that appear by 5:00 p.m. on the Prime Rate Determination Date, on Reuters USPRIME1 Page as the U.S. dollar prime rate or base lending rate of each bank appearing thereon, provided that at least three rates appear. In determining the arithmetic mean:

- if 20 or more rates appear, the highest five rates (or in the event of equality, five of the highest) and the lowest five rates (or in the event of equality, five of the lowest) will be eliminated,
- if fewer than 20 but 10 or more rates appear, the highest two rates (or in the event of equality, two of the highest) and the lowest two rates (or in the event of equality, two of the lowest) will be eliminated, or

- if fewer than 10 but five or more rates appear, the highest rate (or in the event of equality, one of the highest) and the lowest rate (or in the event of equality, one of the lowest) will be eliminated;

(2) if fewer than two rates so appear, then the Calculation Agent will request five major banks (which may include affiliates of the Dealers) in the city of New York selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide a quotation of those banks' U.S. dollar prime rates or base lending rates on the basis of the actual number of days in the year divided by 360 as of the close of business on the Prime Rate Determination Date. If at least two quotations are provided, then the Prime Rate will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest));

(3) if fewer than two quotations are so provided, the Calculation Agent will request five banks or trust companies (which may include affiliates of the Dealers) organized and doing business under the laws of the United States or any state thereof, each having total equity capital of at least U.S. \$500,000,000 and being subject to supervision or examination by federal or state authority, selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent), to provide a quotation of those banks' or trust companies' U.S. dollar prime rates or base lending rates on the basis of the actual number of days in the year divided by 360 as of the close of business on the Prime Rate Determination Date. (In making the selection of five banks or trust companies, the Calculation Agent will include each bank, if any, that provided a quotation as requested in clause (2) above and exclude each bank that failed to provide a quotation as requested in clause (2) above.) If at least two quotations are provided, then the Prime Rate will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or in the event of equality, one of the highest) and the lowest quotation (or in the event of equality, one of the lowest)); and

(4) if fewer than two quotations are so provided, then the Prime Rate as of such Prime Rate Determination Date will be the Prime Rate determined for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date, then the Prime Rate will be the rate calculated pursuant to clause (1) for the most recent New York Banking Day preceding the Reset Date for which at least two rates appeared by 5:00 p.m. on Reuters USPRIME1 Page.

### **Additional Definitions Related to Prime Rate Description**

- “New York Banking Day” means any day other than (a) a Saturday, (b) a Sunday, (c) a day on which banking institutions in the city of New York are required or permitted by law or executive order to close or (d) a day on which the Federal Reserve Bank of New York is closed.
- “Prime Rate Determination Date” means the New York Banking Day preceding the applicable Reset Date.
- “Reuters USPRIME1 Page” means the display designated as page “USPRIME1” on Reuters.
- All times in the Prime Rate description refer to New York City time.

### **Treasury Bill Rate**

If we specify Treasury Bill Rate as the applicable interest rate index for determining the interest rate for the related Debt Securities, the following provisions will apply:



The “Treasury Bill Rate” means, with respect to any Reset Date:

(1) the auction average rate for direct obligations of the United States (“Treasury Bills”) having the Index Maturity, as specified in the applicable Pricing Supplement, obtained from Reuters Page USAUCTION10 or USAUCTION11, under the heading “INVEST RATE,” by 3:00 p.m. on the Reset Date;

(2) if the rate is not so announced, the Treasury Bill Rate will be the auction average rate for Treasury Bills having the Index Maturity, as specified in the applicable Pricing Supplement, obtained from the most recent auction of Treasury Bills prior to the Reset Date (the “Reference T-Bill Auction”) as announced by the United States Department of the Treasury in the form of a press release under the heading “Investment Rate” by 3:00 p.m. on the Reset Date;

(3) if the rate is not so announced, then the Treasury Bill Rate will be the auction average rate for Treasury Bills having the Index Maturity, as specified in the applicable Pricing Supplement, obtained from the Reference T-Bill Auction as otherwise announced by the United States Department of the Treasury by 3:00 p.m. on the Reset Date as determined by the Calculation Agent;

(4) if the rates specified in (1), (2) or (3) above are not so announced, the Calculation Agent will request five leading primary United States government securities dealers (which may include the Dealers or their affiliates) in the city of New York selected by the Calculation Agent (after consultation with Fannie Mae, if Fannie Mae is not then acting as Calculation Agent) to provide a quotation of those dealers’ secondary market bid yield, as of 3:00 p.m. on that Reset Date, for Treasury Bills with a remaining maturity closest to the Index Maturity, as specified in the applicable Pricing Supplement (or, in the event that the remaining maturity is equally close, the longer remaining maturity). If at least two quotations are provided, then the Treasury Bill Rate will be the arithmetic mean determined by the Calculation Agent of the quotations obtained (and, if five quotations are provided, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)); and

(5) if fewer than two quotations are so provided, the Treasury Bill Rate as of such Reset Date will be the Treasury Bill Rate for the immediately preceding Reset Date. If the applicable Reset Date is the first Reset Date, the Treasury Bill Rate will be the auction average rate for Treasury Bills having the Index Maturity, as specified in the applicable Pricing Supplement, from the most recent auction of Treasury Bills prior to the Reset Date for which the rate was announced by the United States Department of the Treasury in the form of a press release under the heading “Investment Rate”.

The auction average rate for Treasury Bills and the secondary market bid yield for Treasury Bills will be obtained expressed as a bond equivalent on the basis of a year of 365 or 366 days, as applicable (or, if not so expressed, will be converted by the Calculation Agent to a bond equivalent yield).

All times in the Treasury Bill description refer to New York City time.

#### **Additional Definitions Related to Treasury Bill Rate Description**

“Reuters Page USAUCTION10 or USAUCTION11” means the display designated as USAUCTION10 or USAUCTION11 on Reuters.

## **CMS Rate**

If we specify CMS Rate as the applicable interest rate index for determining the interest rate for the related Debt Securities, the following provisions will apply:

The “CMS Rate” means, with respect to any Reset Date:

(1) the rate for U.S. dollar swap transactions for the applicable Index Currency and applicable Index Maturity, as specified in the applicable Pricing Supplement for the Debt Securities, expressed as a percentage, which appears on the Reuters page “ISDAFIX1” (or such other page that may replace that page on that service or a successor service) at 11:00 a.m. (New York City Time) on the applicable CMS Determination Date;

(2) if the latest CMS Rate as described in clause (1) above was first available prior to ten calendar days before the applicable CMS Determination, then the CMS Rate shall be determined by the Calculation Agent on the basis of the mid-market semi-annual swap rate quotations provided by the five leading swaps dealers in the New York City interbank market (which may include Dealers and their affiliates), and for this purpose, “mid-market semi-annual swap rate” means the arithmetic mean of the bid and offered rate quotations for the semi-annual fixed leg, calculated on a 30/360 day count basis, of a fixed-for-floating United States dollars denominated interest rate swap transaction with the applicable Index Currency and Index Maturity, as specified in the applicable Pricing Supplement for the Debt Securities, commencing on the Reset Date for the relevant Interest Period, and for a relevant representative amount in the relevant market at the relevant time, with an acknowledged dealer of good credit in the swap market, where the floating leg, calculated on an Actual/360 day count basis, is equivalent to USD-LIBOR-BBA (as defined in the Annex to the ISDA Definitions published by the International Swap and Derivatives Association) with a designated maturity of three months. The Calculation Agent will request the principal New York City office of each of the five leading swaps dealers selected by the Calculation Agent to provide a quotation of its rate. If at least five quotations are provided, the rate for that CMS Determination Date will be the arithmetic mean of the quotations, eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest).

(3) If two, three or four (and not five) of such swaps dealers are quoting as described in clause (2) above, then the CMS Rate will be based on the arithmetic mean of the bid prices obtained and neither the highest nor lowest of such quotes will be eliminated.

(4) If fewer than two rate quotations are provided, then the CMS Rate for the Reset Date shall be the CMS Rate in effect on the preceding Reset Date.

## **Additional Definitions Related to CMS Rate Description**

“CMS Determination Date” means the second Business Day preceding the applicable Reset Date.

## **CMT Rate (Weekly Average)**

If we specify CMT Rate (Weekly Average) as the applicable interest rate index for determining the interest rate for the related Debt Securities, the following provisions will apply:

The “CMT Rate (Weekly Average)” means, with respect to any Reset Date:

(1) the rate equal to the one-week average yield for two-year U.S. Treasury securities at “constant maturity” displayed as of 5:00 p.m. (New York City time) on Reuters Page 7052, appearing under the heading “Week Ending,” for the last Business Day of the week immediately preceding the CMT Determination Date;

(2) if a rate is not so displayed, the CMT Rate (Weekly Average) will be the one-week average yield on 2-year United States Treasury securities at “constant maturity” as estimated

from the United States Department of the Treasury's weekly yield curve, as published in the latest H.15(519) (as defined below) available on the applicable CMT Determination Date, provided that such H.15(519) was first available not earlier than ten calendar days before such CMT Determination Date, under the column "Week Ending" for the week most recently ended opposite the heading "U.S. government securities-Treasury constant maturities, 2-year";

(3) if the latest H.15(519) available on the applicable CMT Determination Date was first available prior to ten calendar days before such CMT Determination Date, the CMT Rate (Weekly Average) will be such 2-year United States Treasury constant maturity rate (or other 2-year United States Treasury rate) for such CMT Determination Date as may then be published by either the Board of Governors of the Federal Reserve System or the United States Department of the Treasury that the Calculation Agent determines to be comparable to the rate formerly published in H.15(519);

(4) if the CMT Rate (Weekly Average) as described in clause (3) above is not published by 10:00 a.m. (New York City time) on the applicable CMT Determination Date, the CMT Rate (Weekly Average) will be calculated by the Calculation Agent and will be a yield to maturity (expressed as a bond equivalent and as a decimal on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m. (New York City time) on such CMT Determination Date of three leading primary United States government securities dealers (which may include the Dealers or their affiliates) in the city of New York selected by the Calculation Agent (from five such dealers and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)) for direct noncallable fixed rate obligations of the United States ("Treasury Notes") most recently issued with an original maturity of approximately two years and a remaining term to maturity of not less than one year. If two, three or four (and not five) of such dealers are quoting as described in this clause (4), then the CMT Rate (Weekly Average) will be based on the arithmetic mean of the bid prices obtained and neither the highest nor lowest of such quotations will be eliminated;

(5) if fewer than two dealers selected by the Calculation Agent are quoting as described in clause (4) above, the CMT Rate (Weekly Average) will be calculated by the Calculation Agent and will be a yield to maturity (expressed as a bond equivalent and as a decimal on the basis of a year of 365 or 366 days, as applicable, and applied on a daily basis) based on the arithmetic mean of the secondary market bid prices as of approximately 3:30 p.m. (New York City time) on the applicable CMT Determination Date of three leading primary United States government securities dealers in the city of New York selected by the Calculation Agent (from five such dealers and eliminating the highest quotation (or, in the event of equality, one of the highest) and the lowest quotation (or, in the event of equality, one of the lowest)) for Treasury Notes with an original maturity of approximately ten years and a remaining term to maturity closest to two years. If two, three or four (and not five) of such dealers are quoting as described in this clause (5), then the CMT Rate (Weekly Average) will be based on the arithmetic mean of the bid prices obtained and neither the highest nor lowest of such quotations will be eliminated; and

(6) if fewer than two dealers selected by the Calculation Agent are quoting as described in clause (5) above, the CMT Rate (Weekly Average) as of such CMT Determination Date will be the CMT Rate (Weekly Average) determined on the immediately preceding CMT Determination Date.

In the case of clause (5), if two Treasury Notes with an original maturity of approximately ten years have remaining terms to maturity equally close to two years, the quotes for the Treasury Note with the shorter remaining term to maturity will be used.

**Additional Definitions Related to CMT Rate (Weekly Average) Description**

“H.15(519)” means the official weekly statistical release designated as the H.15(519), as published by the Board of Governors of the Federal Reserve System (the “Federal Reserve Board”). We understand that the Federal Reserve Board’s method of official publication is by hard copy release, although the Federal Reserve Board does provide unofficial rates through its website and possibly other means.

“CMT Determination Date” means the second Business Day preceding the applicable Reset Date.

“Reuters Page 7052” means the display designated as page “7052” on Reuters.

## SELLING RESTRICTIONS

This Appendix is incorporated in and made a part of the Offering Circular.

### General

The Debt Securities may be offered or sold only where it is legal to do so. The Dealers have represented and agreed that they will comply with all applicable laws and regulations in each jurisdiction in which they may purchase, offer, sell or deliver Debt Securities or distribute this Offering Circular, any Pricing Supplement, or any other offering material. The Dealers also have agreed to comply with selling restrictions relating to specific countries. We and the Dealers may modify selling restrictions at any time. Some of the restrictions that may be applicable to the offer and sale of Debt Securities are set forth below.

### Australia

Each Dealer acknowledges that no prospectus or other disclosure document (as defined in the Corporations Act) in relation to the Debt Securities has been lodged with the Australian Securities and Investments Commission. Each Dealer has represented and agreed that it has not and must not:

- (A) (1) offer a Debt Security for issue, or invite applications for the issue of a Debt Security; or
- (2) offer a Debt Security for sale, or invite offers to purchase a Debt Security, in, or to or from a person that receives the offer or invitation in, Australia; or
- (B) distribute or publish the Offering Circular or any offering material or advertisement or statement relating to any Debt Securities in Australia, unless:
  - (i) the offer or invitation is an offer or invitation which does not need disclosure to investors under Part 6D.2 of the Corporations Act because section 708 of the Corporations Act says otherwise and the offeree or invitee is not a “retail client” for the purposes of Chapter 7 of the Corporations Act;
  - (ii) the making of the offer or invitation, and the distribution or publication of the Offering Circular and any other offering material or advertisement or statement in relation to the Debt Securities, are each in compliance, and the issue or sale of the Debt Securities in accordance with the offer or invitation would be in compliance, with the Corporations Act, the Corporations Regulations and all other applicable laws and regulations; and
  - (iii) such action does not require any document to be lodged with the Australian Securities and Investments Commission.

For purposes of this paragraph:

“Corporations Act” means the Corporations Act 2001 of the Commonwealth of Australia;

“Corporations Regulations” means the Corporations Regulations of the Commonwealth of Australia; and

“Debt Security” includes a legal or equitable right or interest in, or an option to acquire, a Debt Security.

## **Belgium**

The Dealers have represented, warranted and agreed that the Offering will not be a public offering in Belgium. The Offering Circular may not be distributed to the public in Belgium and the Debt Securities referred to herein may not be publicly offered for sale in Belgium and no steps may be taken which would constitute or result in a public offering in Belgium. Further, the Debt Securities may not be offered to any person qualifying as a consumer within the meaning of Article 1.7 of the Belgian law of 14 July 1991 on consumer protection and trade practices unless such sale is made in compliance with such law and with its implementing legislation. Any Subscription to the Debt Securities within Belgium should be (i) for a minimum amount of EUR 250,000 each or (ii) made in the name and for the account of qualified investors mentioned in article 10 of the Law of 16 June 2006.

## **Canada (Ontario)**

The Dealers have represented and agreed that they have not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell Debt Securities in Ontario (i) by means of any document other than this Offering Circular, as supplemented, or (ii) to any person or company other than an “accredited investor”, as defined in National Instrument 45-106, purchasing as principal. Securities legislation in Ontario provides a purchaser of Debt Securities with rights of action against the Issuer for rescission or damages if this Offering Circular, as supplemented, contains a misrepresentation as defined in securities legislation in Ontario without regard to whether the purchaser relied on the misrepresentation, subject to a number of limitations and defenses. Purchasers should refer to such legislation for particulars of these rights or consult with a legal adviser.

## **China**

The Dealers acknowledge that the Debt Securities have not been and will not be registered under the relevant laws of the People’s Republic of China. Accordingly, the Dealers represent, warrant and agree to and with Fannie Mae that they have not made, and will not make, any offer, promotion, solicitation for sales or sale of or for, as the case may be, any Debt Securities in the People’s Republic of China, except where permitted by the China Securities Regulatory Commission or where the activity otherwise is permitted under the laws of the People’s Republic of China.

## **European Economic Area**

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a “Relevant Member State”), each Dealer has represented and agreed, and each further Dealer appointed under the Universal Debt Facility will be required to represent and agree, that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the “Relevant Implementation Date”) it has not made and will not make an offer of Debt Securities to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Debt Securities to the public in that Relevant Member State:

- (a) in (or in Germany, where the offer starts within) the period beginning on the date of publication of a prospectus in relation to those Debt Securities which has been approved by the competent authority in that Relevant Member State or, where appropriate, approved in another Relevant Member State and notified to the competent authority in that Relevant Member State, all in accordance with the Prospectus Directive and ending on the date which is 12 months after the date of such publication;
- (b) at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

- (c) at any time to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000 and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; or
- (d) at any time in any other circumstances which do not require the publication by the Issuer of a prospectus pursuant to Article 3 of the Prospectus Directive.

For the purposes of this provision, the expression an “offer of Debt Securities to the public” in relation to any Debt Securities in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Debt Securities to be offered so as to enable an investor to decide to purchase or subscribe for the Debt Securities, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State, and the expression “Prospectus Directive” means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

### **France**

Fannie Mae and each Dealer represents and agrees that it has not offered or sold, and will not offer or sell, directly or indirectly, any Debt Securities to the public in the Republic of France, and offers and sales of Debt Securities in the Republic of France will be made only to (i) providers of investment services relating to portfolio management for the account of third party (*personnes fournissant le service d'investissement de gestion de portefeuille pour compte de tiers*), and/or (ii) qualified investors (*investisseurs qualifiés*), all as defined in and in accordance with Articles L.411-1, L.411-2 and D.411-1 to D.411-3 of the French *Code monétaire et financier*. This Offering Circular has not been submitted to the clearance procedures of the *Autorité des Marchés Financiers*.

### **Germany**

Each Dealer has represented, warranted to, and agreed with Fannie Mae that it has not offered or sold and will not offer or sell any Debt Securities in Germany other than in accordance with the provisions of the German Securities Prospectus Act (*Wertpapierprospektgesetz*) and any other legal and regulatory requirements applicable in Germany governing the issue, offering and the sale of securities.

### **Hong Kong**

Each of the Dealers has represented and agreed that:

- (1) it has not offered or sold and will not offer or sell in Hong Kong, by means of any document, any Debt Securities other than (i) to “professional investors” as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong and any rules made under that Ordinance; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies Ordinance (Cap. 32) of Hong Kong or which do not constitute an offer to the public within the meaning of that Ordinance; and
- (2) it has not issued or had in its possession for the purposes of issue and will not issue or have in its possession for the purposes of issue any advertisement, invitation or document relating to the Debt Securities, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the securities laws of Hong Kong) other than with respect to Debt Securities which are or are intended to be disposed of only to persons outside Hong Kong or only to “professional investors” as defined by of the Securities and Futures Ordinance and any rules made under that Ordinance.

## **Italy**

The Dealers have represented, warranted and agreed to and with Fannie Mae that the Debt Securities will be issued outside Italy and that such Dealer and its Affiliates have not offered or sold, and will not offer or sell, directly or indirectly, any Debt Securities to the public in Italy, and the Offering Circular or any other offering material relating to such Debt Securities will not be distributed or caused to be distributed to the public in Italy. Each Dealer agrees that no offer, sale or solicitation will be made in Italy without prior notification to and clearance from the Bank of Italy or, if required, the Italian Commission for Companies and Exchange.

## **Japan**

The Dealers have represented and agreed that they will not offer or sell any Debt Securities, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan except in compliance with or pursuant to an exemption from, the registration requirements of the Securities and Exchange Law and in compliance with any other applicable laws and regulations of Japan.

## **Korea**

The Debt Securities have not been and will not be registered with the Financial Supervisory Service of Korea for public offering in Korea under the Securities and Exchange Act. The Debt Securities may not be offered, sold and delivered directly or indirectly, or offered or sold to any person for re-offering or resale, directly or indirectly, in Korea or to any resident of Korea except pursuant to the applicable laws and regulations of Korea, including the Securities and Exchange Act and the Foreign Exchange Transaction Law and the decrees and regulations thereunder. For a period of one year from the issue date of the Debt Securities, no holder of the Debt Securities who is in Korea or a resident of Korea may transfer the Debt Securities in Korea or to any resident of Korea unless such transfer involves all of the Debt Securities held by it. Furthermore, the Debt Securities may not be re-sold to Korean residents unless the purchaser of the Debt Securities complies with all applicable regulatory requirements (including but not limited to government approval requirements under the Foreign Exchange Transaction Law and its subordinate decrees and regulations) in connection with the purchase of the Debt Securities.

## **New Zealand**

The Dealers have represented, warranted and agreed to and with Fannie Mae that they (i) have not offered or sold, and will not offer or sell, directly or indirectly, any Debt Securities and (ii) have not distributed and will not distribute, directly or indirectly, any offering materials or advertisement in relation to any offer of Debt Securities, in each case in New Zealand other than (x) to persons whose principal business is the investment of money or who, in the course of and for the purposes of their business, habitually invest money or who in all the circumstances can properly be regarded as having been selected otherwise than as members of the public or (y) in other circumstances where there is no contravention of the Securities Act 1978 of New Zealand (or any statutory modification or re-enactment of, or statutory substitution for, the Securities Act 1978 of New Zealand).

## **Portugal**

The Dealers have represented and agreed that offers and sales, direct or indirect, of Debt Securities have not been and will not be made in Portugal, except to the extent that said offers and sales do not qualify as public offerings of securities (“oferta pública de valores mobiliários”) for the purposes of the Portuguese Securities Code and relevant ancillary legislation and are made in compliance with other relevant laws of Portugal. The recipients of this Offering Circular and other offering materials in respect of the Debt Securities are qualified investors, targeted exclusively on the basis of a private placement, all as defined in and in accordance with articles 30, 109 and 110 of the



Portuguese Securities Code. Accordingly, the Debt Securities must not be, and are not being, offered or advertised, and no offering or marketing materials relating to the Debt Securities must be made available or distributed in any way that would constitute a public offer under the Portuguese Securities Code (whether at present or in the future).

## **Singapore**

The Dealers have acknowledged that this Offering Circular has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, the Dealers have represented, warranted and agreed that they have not offered or sold any Debt Securities or caused the Debt Securities to be made the subject of an invitation for subscription or purchase, and will not offer or sell, any Debt Securities or cause the Debt Securities to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will they circulate or distribute this Offering Circular, or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the Debt Securities, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the “SFA”), (ii) to a relevant person pursuant to Section 275(1), or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

### *Note*

Where the Debt Securities are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor, or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

shares, debentures and units of shares and debentures of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Debt Securities pursuant to an offer made under Section 275 of the SFA except:

- (1) to an institutional investor (for corporations, under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interest in that trust are acquired at a consideration of not less than \$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;
- (2) where no consideration is or will be given for the transfer; or
- (3) where the transfer is by operation of law.

## **Spain**

The Dealers have acknowledged that this Offering Circular has not been approved by, or registered with the administrative registries of, the Spanish Securities Market Commission (*Comisión Nacional del Mercado de Valores*) and, therefore, this Offering Circular is not intended for the offering or sale of the Debt Securities in the Kingdom of Spain. Accordingly, the Dealers have represented and

agreed that this Offering Circular has not been and will not be distributed in Spain to any person, except in circumstances which do not constitute a public offer of securities in accordance with Spanish regulations regarding public offerings and issuance of securities (*Ofertas públicas de ventas y suscripciones de valores*). The Dealers also have represented and agreed that they have not offered, distributed or sold and will not offer, distribute or sell any Debt Securities to the public in Spain, and have not made and will not make any kind of advertisement of the Debt Securities to the public in Spain, except in accordance with Spanish regulations regarding public offerings and issuance of securities (*Ofertas públicas de ventas y suscripciones de valores*), or in circumstances which do not constitute a public offer of securities in accordance with those regulations.

### **Sweden**

The Dealers have represented, warranted and agreed to and with Fannie Mae that such Dealer and its Affiliates have not offered or sold and will not offer or sell any Debt Securities to any investor in Sweden except in circumstances that will not result in a requirement to prepare a prospectus pursuant to the provisions of the Swedish Financial Instruments Trading Act (*lag (1991:980) om handel med finansiella instrument*).

### **Switzerland**

The Debt Securities are not being offered to the public in Switzerland. This document is being communicated in Switzerland to a limited circle of selected investors only. Each copy of this document is addressed to a specifically named recipient and shall not be passed on to a third party.

### **Taiwan**

The Dealers have acknowledged that the Debt Securities have not and will not be registered with the Financial Supervisory Commission of Taiwan, the Republic of China pursuant to relevant securities laws and regulations of Taiwan, the Republic of China. Accordingly, the Dealers have represented and agreed that they have not made, and will not make, any offers, promotion, solicitation for sales and sales of any Debt Securities in Taiwan, the Republic of China, through a public offering or in circumstances which constitute an offer within the meaning of the Securities and Exchange Law of Taiwan, the Republic of China that requires a registration or approval of the Financial Supervisory Commission of Taiwan, the Republic of China. No person or entity in Taiwan, the Republic of China has been authorized to offer or sell the Debt Securities in Taiwan, the Republic of China.

### **United Kingdom**

Each Dealer has represented and agreed, and each further Dealer appointed under the Universal Debt Facility will be required to represent and agree, that:

- (a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any Debt Securities in circumstances in which Section 21(1) of the FSMA does not apply to Fannie Mae; and
- (b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Debt Securities in, from or otherwise involving the United Kingdom.

### **United States**

Please see “Distribution of Benchmark Bills and Short-Term Notes—183 Day Notes Selling Restriction” in Appendix B to the Offering Circular for the selling restriction that applies to 183 Day Notes and “Targeted Registered Debt Securities—Supplemental Plan of Distribution” in Appendix G to the Offering Circular for the selling restrictions that apply to Targeted Registered Securities.

## REDENOMINATION TO THE EURO

This Appendix is incorporated in and made a part of the Offering Circular.

The following provisions govern redenomination to the Euro of Debt Securities originally denominated in currencies expected to be replaced by the Euro, the currency of the European economic and monetary union.

### Definitions

The following definitions refer to terms used in this Appendix:

- “cent” means the sub-unit of the Euro (which is equal to 1/100 of a Euro).
- “Euro(s)” means the currency introduced at the start of the third stage of European economic and monetary union pursuant to the Treaty.
- “Fixed Conversion Rate” means the fixed rate for the conversion of the Specified Payment Currency into Euro established by the Treaty.
- “Original Specified Payment Currency” means the original national currency unit of a Participating Member State in which a Debt Security is denominated and payable.
- “Participating Member State” means a member state of the European Union that adopts the Euro as its single currency in accordance with the Treaty.
- “Redenomination Notice” means the notice we will give to Holders and the applicable clearing system of our intention to redenominate an Original Specified Payment Currency to Euro.
- “Selected Redenomination Date” means the Interest Payment Date that is specified in a Redenomination Notice as the date on which redenomination of Debt Securities will occur.
- “Treaty” means the Treaty establishing the European Community, as amended.

### Redenomination

With respect to any Debt Security originally denominated in an Original Specified Payment Currency, on the Selected Redenomination Date, we may change the currency unit in which these applicable Debt Securities (the “Applicable Debt Securities”) are denominated and payable from the Original Specified Payment Currency to the Euro. In order to change the currency unit, we must give the Holders of the Applicable Debt Securities and the applicable clearing system at least 30 days’ prior notice by sending the Redenomination Notice. We also will notify the Global Agent in writing of our intention to change the currency unit at least 45 days prior to the Selected Redenomination Date. We may change the currency unit, however, without the consent of the Holders or beneficial owners of the Applicable Debt Securities, the Global Agent, or the applicable clearing system.

The Redenomination Notice given by us will state the Selected Redenomination Date and describe the manner in which the redenomination will be effected. The Redenomination Notice also will describe the rounding convention to be used by us when redenominating the Applicable Debt Securities and the effect of that rounding convention. See “Description of the Debt Securities—Notices” for certain other general provisions regarding notices to Holders of Debt Securities.

If we elect to redenominate an issue of Applicable Debt Securities into Euro, we will redenominate all, not just a part, of the outstanding issue of Applicable Debt Securities. We will effect redenomination by converting the aggregate outstanding principal amount of the Applicable Debt Securities, as stated in the Original Specified Payment Currency, into Euro by using the Fixed Conversion Rate and

by rounding in compliance with rules regarding rounding set forth in applicable European Community regulations. However, if we determine, in consultation with the Global Agent, that the manner of the redenomination and/or rounding is not consistent with existing or anticipated market practice for the redenomination into Euro of debt obligations issued in the euromarket (regardless of the original currency in which the debt obligations were denominated) and held in any international clearing system, or is not practicable given the manner in which the Applicable Debt Securities are held and cleared through the applicable clearing system, we may, in consultation with the Global Agent, adopt another method which is, or we reasonably believe will be, so consistent or practicable.

Immediately after redenomination on the Selected Redenomination Date, Euro will be deemed the new Specified Payment Currency in which we will make payments of any amounts on the Applicable Debt Securities after the Selected Redenomination Date. On the Selected Redenomination Date, however, we may pay any interest or principal then due on the Debt Securities either in the Original Specified Payment Currency or in Euro, as we may decide in our sole discretion and as we will describe in the Redenomination Notice.

In the event that we do not redenominate Debt Securities denominated in an Original Specified Payment Currency prior to the end of the relevant transitional period, if any, the Treaty provides that references in the Debt Securities to the Original Specified Payment Currency will be deemed references to the Euro unit, according to the relevant Fixed Conversion Rate. The Redenomination Date may be after the end of the relevant transitional period, if any.

In connection with the redenomination that occurs on the Selected Redenomination Date, we may determine, in consultation with the Global Agent, that additional changes to the terms of the Applicable Debt Securities are advisable in order to conform the Applicable Debt Securities to conventions then applicable to the issue or trading of instruments denominated or payable in Euro (“Additional Conforming Changes”). The Additional Conforming Changes may include changes to Minimum Denominations and Additional Increments of the Applicable Debt Securities, accrual methods, the definition of “Business Day”, and/or certain other terms of the Applicable Debt Securities. We may amend and/or replace any related Applicable Debt Securities, definitive Debt Securities, and/or the Global Agency Agreement in order to reflect the changes described in the Redenomination Notice and all Additional Conforming Changes.

Any Additional Conforming Changes will not take effect until we have given at least 30 days prior notice to the Holders of the Applicable Debt Securities and the applicable clearing system and at least 45 days prior notice to the Global Agent (unless we and the Global Agent mutually agree to a shorter time for notice to the Global Agent).

Notwithstanding any provisions contained in this Offering Circular under “Description of the Debt Securities—Modification and Amendment”, we will be able to take all of the actions described in and contemplated by this section without the consent of any Holders or beneficial owners of the Applicable Debt Securities.

There is a discussion of the tax consequences of redenominating a Debt Security to Euro in this Offering Circular under “United States Taxation—U.S. Persons—Debt Securities with Payments Based on a Non-U.S. Currency—Conversion to the Euro.”

**TARGETED REGISTERED DEBT SECURITIES**

This Appendix is incorporated in and made a part of the Offering Circular. Except as set forth in this Appendix, the general description of Debt Securities set forth in the Offering Circular (and, if applicable, Appendix B) applies to Targeted Registered Securities.

Certain issues of Debt Securities (“Targeted Registered Securities”) may be “targeted to foreign markets” under U.S. tax regulations. These regulations generally do not allow Targeted Registered Securities, in connection with their original issuance, to be offered or sold to persons who are within the United States or its territories or possessions or to or for the account of U.S. Persons (as defined under “United States Taxation—U.S. Persons—In General”). Such regulations also require Holders, and in certain cases beneficial owners, of Targeted Registered Securities to comply with certain periodic certification requirements, including certification of non-U.S. beneficial ownership. In addition, these regulations generally prohibit the delivery of Debt Securities representing Targeted Registered Securities within the United States or its territories or possessions. Only the Dealers named in the Offering Circular (and those Dealers identified in an applicable Pricing Supplement to the Offering Circular relating to Targeted Registered Securities (the “Targeted Registered Supplement”) that have represented and warranted as to those matters summarized below and certain other matters) may offer or sell Targeted Registered Securities.

The IRS and Treasury Department have announced their intention to issue tax regulations providing that the rules governing Targeted Registered Securities will not apply to Debt Securities issued after December 31, 2006, except in limited circumstance set forth in the next sentence. When issued, the tax regulations will provide that the rules governing Targeted Registered Securities will continue to apply to Debt Securities issued after December 31, 2006 and before January 1, 2009, but only if those Debt Securities have a stated maturity of not more than 10 years from the date of issuance. Such Debt Securities will continue to be treated as Targeted Registered Securities until maturity.

**Form**

We will issue Targeted Registered Securities in registered global form under the Global Agency Agreement. The Targeted Registered Securities will clear and settle through Euroclear and Clearstream. We will issue Targeted Registered Securities as Global Book-Entry Securities.

Initially, a temporary global Targeted Registered Security (a “Temporary Global Security”) will be deposited with the Common Depository for Euroclear and Clearstream for each issue of Targeted Registered Securities. This Temporary Global Security (or portions thereof) can be exchanged for a Global Security representing Targeted Registered Securities of the same issue no earlier than 41 days after the applicable Settlement Date. To make such an exchange, Euroclear or Clearstream must present to the Global Agent, after the Restricted Period and on the date of and before such exchange, certification that the Targeted Registered Securities are not beneficially owned by U.S. Persons (other than Foreign Branches of U.S. Financial Institutions). Such a certification from Euroclear or Clearstream is to be based on certifications dated and received by it no earlier than 10 days prior to the date of such exchange from the persons shown on its records as the owners of the portion of the Temporary Global Security to be exchanged.

If the Global Agent knows or has reason to know, or is notified by us that we know or have reason to know, that any certificate presented in connection with the exchange of a Temporary Global Security for a Global Security representing Targeted Registered Securities is false or insufficient, the exchange will not be made until a correct certificate is provided. The Global Agency Agreement describes additional conditions on such exchange.

Each Targeted Registered Security will contain on its face the following legend: “This security has been “targeted to foreign markets” under United States Treasury regulations and therefore has been sold or resold in connection with its original issuance in accordance with procedures reasonably designed to ensure that it will be sold only outside the United States and its territories and possessions (with certain exceptions) to a person that is not a United States person, other than a foreign branch of a United States financial institution, pursuant to sections 871(h) and 881(c) of the United States Internal Revenue Code of 1986, as amended, and Treasury regulations promulgated thereunder.”

## **Payments**

The Global Agent will pay interest on a Temporary Global Security (or portion thereof) to the Holder only if Euroclear or Clearstream has delivered to the Global Agent on the applicable Interest Payment Date and before the interest payment a certificate of non-U.S. beneficial ownership or ownership by a Foreign Branch of a U.S. Financial Institution with respect to such Temporary Global Security (or portion thereof). Such a certificate from Euroclear or Clearstream must be based on certifications dated and received by it no earlier than 10 days prior to the applicable Interest Payment Date from the persons shown on its records as the owners of the Temporary Global Security (or portion thereof). Euroclear and Clearstream have agreed to credit such interest to the accounts of or for the persons shown on their records as the owners thereof only if they have received the certifications described above.

If the Global Agent knows or has reason to know, or we notify the Global Agent that we know or have reason to know, that any certificate presented in connection with an interest payment on a Temporary Global Security is false or insufficient, the Global Agent will not make the interest payment until a correct certificate is provided. Additional conditions on such an interest payment are set forth in the Global Agency Agreement.

Additional certification requirements apply to payments of principal of and interest on any Targeted Registered Security. We may require the Holder of a Targeted Registered Security, as a condition of full payment of principal of or interest on the Targeted Registered Security without the imposition of U.S. withholding tax, to present at such place and time as we designate certificates in such form as we designate, to enable Fannie Mae, the Global Agent and any paying agent (1) to determine their duties and liabilities with respect to any taxes or other charges that may be required to be deducted or withheld from payments on such Targeted Registered Security under any present or future law or regulation of the United States or any present or future law or regulation of any political subdivision thereof or taxing authority therein or (2) to comply with any reporting or other requirements under any such law or regulation.

Certifications made to avoid the imposition of U.S. withholding tax on payments of principal of or interest on a Targeted Registered Security may be treated as ineffective and tax may be withheld if such certifications are received by the Global Agent:

- after the Record Date for such payment of interest,
- in the case of the first payment of interest on an issue of Targeted Registered Securities, after 30 days before the first Interest Payment Date,
- after presentation of the Targeted Registered Security for such payment of principal,
- after such other date specified in the Targeted Registered Security or
- after an earlier date established by law.

The tax implications and certification requirements with respect to payments on Targeted Registered Securities are discussed below under “United States Taxation.”

## United States Taxation

The tax discussions contained in the Offering Circular were not intended or written to be used, and cannot be used, for the purpose of avoiding United States federal tax penalties. These discussions were written to support the promotion or marketing of the transactions or matters addressed in this Offering Circular. You should seek advice based on your particular circumstances from an independent tax advisor.

Targeted Registered Securities and payments thereon generally are subject to taxation by the U.S. or other U.S. or non-U.S. taxing jurisdictions. Therefore, you should consider the tax consequences of owning and receiving payments on the Targeted Registered Securities before acquiring them.

We have engaged Dewey Ballantine LLP as special tax counsel to review the following discussion. They have given us their written legal opinion that the discussion, accompanied by the discussion of tax matters in the Offering Circular under “United States Taxation” and under this Appendix G “Targeted Registered Securities,” correctly describes the principal aspects of the U.S. federal tax consequences to beneficial owners of Targeted Registered Securities described herein.

The following discussion is general and may not apply to your particular circumstances for any of the following (or other) reasons:

- This summary is based on U.S. federal tax laws in effect as of the date of this Offering Circular. Changes to any of these laws after this date may affect the tax consequences described below.
- This summary does not discuss all the tax considerations that may be relevant to an investor in light of the investor’s particular circumstances. It also does not discuss the tax considerations relevant to investors that may be subject to special rules, such as controlled foreign corporations, personal holding companies, and insurance companies, nor does it discuss the tax considerations applicable to U.S. Persons (including Foreign Branches of U.S. Financial Institutions), U.S. expatriates or certain former U.S. residents, Non-U.S. Persons (as defined below) whose holding of Targeted Registered Securities is effectively connected with their conduct of a trade or business within the U.S., or Non-U.S. Persons who own, either directly or through attribution, 10 percent or more of the combined voting power of all classes of voting stock of Fannie Mae.
- The Targeted Registered Securities may also be subject to taxes imposed by states and possessions of the U.S. and by local taxing authorities. If you reside in a state of the U.S. that imposes intangible property or income taxes, you should consult your own tax advisors as to the consequences of such laws.

**Because the following discussion may not apply to you, we advise you to consult your own tax advisors regarding the tax consequences of purchasing, owning and disposing of Targeted Registered Securities.**

This discussion assumes that all parties will comply with the procedures set forth in the Dealer Agreement and described below under “Supplemental Plan of Distribution” concerning restrictions on offers, sales and deliveries of Targeted Registered Securities.

In the event that any withholding or backup withholding tax should be imposed, Fannie Mae has no obligation to pay additional interest or other amounts as a consequence thereof or to redeem the Targeted Registered Securities before their stated maturity.

### *Definitions*

For purposes of this Appendix G:

“Clearing Organization” means a securities clearing organization that is in the business of holding obligations for member organizations and transferring obligations among such members by credit or debit to the account of a member without the necessity of physical delivery of the obligation.

“Code” means the U.S. Internal Revenue Code of 1986, as amended.

“Foreign Branch of a U.S. Financial Institution” means a permanent office (engaged in the active conduct of a trade or business), located at an address outside the U.S. and its territories and its possessions, of a corporation, partnership or other entity created or organized in or under the laws of the U.S. or any political subdivision thereof that, (1) is a financial institution as defined in Treasury Regulation Section 1.165-12(c)(1)(v) and (2) in connection with any acquisition by it of an interest in a Targeted Registered Security during the Restricted Period for its own account or for resale, provides a written statement or blanket certification to the Targeted Registered Dealer or Participating Affiliate from whom (or through whom) it purchases the Targeted Registered Security that it will comply with the applicable provisions of subparagraph (A), (B) or (C) of section 165(j)(3) of the Code and the rules and regulations thereunder (these provisions generally require that it obey rules concerning holding and selling the Targeted Registered Security outside the U.S. and reporting to the U.S. tax authorities certain information with respect to the Targeted Registered Security).

“IRS” means the U.S. Internal Revenue Service.

“Qualified Clearing Organization Member” means a Clearing Organization member that is a Non-U.S. Person and a beneficial owner of the Targeted Registered Security on which a payment is being made.

“Qualified Financial Institution” means a Non-U.S. Person that is (1) a securities clearing organization, (2) a bank or (3) any other financial institution that holds customers’ securities in the ordinary course of its trade or business (within the meaning of section 871(h)(B) of the Code) at an address outside the U.S.

“U.S.” means the United States of America.

“Non-U.S. Person” means a corporation, partnership, individual or fiduciary that for U.S. federal income tax purposes, with respect to the U.S. (including its territories, possessions, all areas subject to its jurisdiction and the Commonwealth of Puerto Rico), is a foreign corporation, a nonresident alien individual (not treated as a resident of the U.S. or taxable in the manner provided in section 877(b) of the Code dealing with certain expatriates), a nonresident alien fiduciary of a foreign estate or trust, or a foreign partnership one or more of the members of which is, for U.S. federal income tax purposes, a foreign corporation, a nonresident alien individual (not treated as a resident of the U.S. or taxable in the manner provided in section 877(b) of the Code dealing with certain expatriates) or a nonresident alien fiduciary of a foreign estate or trust.

“U.S. Person” means a citizen or resident of the U.S., a corporation, partnership or other entity created or organized in or under the laws of the U.S. or any political subdivision thereof, an estate the income of which is subject to U.S. federal income tax regardless of the source of its income, or a trust if a court within the U.S. can exercise primary supervision over its administration and at least one U.S. Person has the authority to control all substantial decisions of the trust.

“U.S.-Related Person” means (1) a controlled non-U.S. corporation within the meaning of section 957(a) of the Code or (2) a Non-U.S. Person 50 percent or more of whose gross income from all sources for the three-year period ending with the close of the taxable year preceding the subject payment (or for such part of the period that such Non-U.S. Person has been in existence) was effectively connected with the conduct of a trade or business within the U.S.

“Withholding Agent” means either (1) a paying agent for an issuer of a Targeted Registered Security if the registered owner thereof is a Non-U.S. Person or (2) the last U.S. Person (including a Foreign Branch of a U.S. Financial Institution) in the chain of persons entitled to payment with respect to a Targeted Registered Security before the first Non-U.S. Person in such chain entitled to such payment.



## *Interest and Original Issue Discount*

### *Interest Payments to an Address Outside the U.S.*

Interest (including original issue discount, if any) paid on a Targeted Registered Security will be exempt from the 30 percent withholding tax (or lower tax treaty rate, if applicable) and backup withholding tax under section 3406 of the federal income tax code, if all of the following conditions are met:

- The Withholding Agent has received a certificate or statement of beneficial ownership (described below) from the recipient of such interest;
- The Withholding Agent does not have actual knowledge that such certificate or statement is false; and
- Payment of such interest is made outside the U.S. (A payment is generally not considered to be made outside the U.S. if it is made to a U.S. address or to a U.S. bank account).

If these conditions are not met, and if the recipient of interest (including original issue discount, if any) paid on the Targeted Registered Security does not certify that it is otherwise exempt, such interest may be subject to withholding or backup withholding tax.

The U.S. Treasury Department is empowered to publish a determination that a beneficial ownership certificate or statement received from certain persons or classes of persons will not be sufficient to preclude the imposition of U.S. federal withholding tax with respect to payments of interest (including original issue discount, if any) made at least one month after the publication of such determination.

### *Interest Payments to a Qualified Institution or a Qualified Clearing Organization Member at an Address Outside the U.S.*

If a Withholding Agent makes a payment on a Targeted Registered Security to a Qualified Financial Institution or a Qualified Clearing Organization Member at an address outside the U.S., the recipient of the payment must deliver a certificate to the Withholding Agent to avoid withholding. We will designate the form of the certificate. The certificate must state that with respect to each Targeted Registered Security held at the time of delivery of the certificate and each such Targeted Registered Security to be acquired in the next year by the payee that: (1) the beneficial owner on each Interest Payment Date will not be a U.S. Person; and (2) if, notwithstanding the foregoing, the beneficial owner is or becomes a U.S. Person, the payee holding for such U.S. Person will provide to the appropriate Withholding Agent the U.S. beneficial ownership notification (described below) within 30 days after such Interest Payment Date.

If the certificate is not the first one the payee provided to the Withholding Agent with respect to all of the payee's Targeted Registered Securities the certificate also must state with respect to all Targeted Registered Securities held by the payee during the immediately preceding calendar year that: (1) none of the Targeted Registered Securities were beneficially owned by a U.S. Person on any Interest Payment Date in the preceding year; or (2) if a U.S. Person did beneficially own such a Targeted Registered Security on any Interest Payment Date, the payee holding for such U.S. Person provided a U.S. beneficial ownership notification within 30 days after such Interest Payment Date to the appropriate Withholding Agent.

The U.S. beneficial ownership notification must identify the particular Targeted Registered Security and state that its beneficial owner was a U.S. Person on a specified Interest Payment Date who has furnished to the payee an IRS Form W-9 or a substantially similar form completed under penalties of perjury. If the person providing the beneficial ownership certificate is not a U.S.-Related Person, such person must forward the IRS Form W-9 to the Withholding Agent.

In general, if a payee that is a Qualified Financial Institution or Qualified Clearing Organization Member has not previously furnished a certificate to the Withholding Agent with respect to a Targeted Registered Security, the payee must provide the certificate within the period beginning 90 days before the date of the first payment of interest (including original interest discount, if any) on the Targeted Registered Security by the withholding agent to the payee. (If the payee provides the certificate to the Withholding Agent less than 30 days prior to the first Interest Payment Date, the Withholding Agent may withhold tax or not withhold tax as it chooses.) After the payee provides the first certificate, new certificates must be furnished during the period beginning on January 15 and ending on January 31 of each year.

If a Withholding Agent pays interest on a Targeted Registered Security to a Clearing Organization (that is not itself a Withholding Agent), the Clearing Organization must provide the certificate described above to the Withholding Agent, and the certificate also must state that the Clearing Organization has received a statement substantially similar to the certificate from each member on whose behalf a Targeted Registered Security is held (as if the Clearing Organization were a Withholding Agent).

A Qualified Financial Institution acting as a custodian, nominee or other agent for a customer with respect to a Targeted Registered Security (1) will be exempt from the backup withholding tax and (2) generally will be exempt from any information reporting requirements with respect to interest paid on such Targeted Registered Security. If, however, the Qualified Financial Institution is a U.S.-Related person it generally will not be exempt from such reporting requirements unless it has documentary evidence that the customer is not a U.S. Person and it has no actual knowledge that such evidence is false.

*Interest Payments to Other Non-U.S. Persons Outside the U.S.*

If a Withholding Agent makes a payment on a Targeted Registered Security to a Non-U.S. Person that is not a Qualified Financial Institution or Qualified Clearing Organization Member at an address outside the U.S., the Non-U.S. Person, in general must provide the Withholding Agent with a statement made on an IRS Form W-8BEN or a substantially similar form, certifying under penalties or perjury that the beneficial owner of the Targeted Registered Security is not a U.S. person and providing the name and address of the beneficial owner. An IRS Form W-8BEN is not required, however, if the Withholding Agent is a Foreign Branch of a U.S. Financial Institution that has documentary evidence in its files that the beneficial owner is not a U.S. Person and it has no actual knowledge that the evidence is false.

The Non-U.S. Person must provide the IRS Form W-8BEN (or substantially similar form) or documentary evidence to the Withholding Agent within the period beginning 90 days prior to and ending on the first Interest Payment Date on which the Withholding Agent pays interest on a Targeted Registered Security to the Non-U.S. Person. If the Withholding Agent receives such a Form W-8BEN (or substantially similar form) or documentary evidence less than 30 days before such payment of interest (including original issue discount, if any), the Withholding Agent may withhold tax or not withhold tax as it chooses. The Form W-8BEN must be renewed prior to the receipt of any payment in the third calendar year following the provision of the Form W-8BEN. A similar rule applies for purposes of confirming the validity of documentary evidence. If on any Interest Payment Date the beneficial owner of such Targeted Registered Security is a U.S. Person, the owner must inform the Withholding Agent of its status within 30 days after such Interest Payment Date and must provide the Withholding Agent with an IRS Form W-9 or substantially similar form.

An IRS Form W-8BEN or substantially similar form provided in respect of a Targeted Registered Security will be delivered to the IRS along with information concerning payments of interest (including original issue discount, if any). The backup withholding tax will not apply if an owner provides an IRS Form W-8BEN, provided the Withholding Agent or any other payor does not have actual knowledge that the payee is a U.S. Person.

### *Interest Payments to an Address within the U.S.*

Interest (including original issue discount, if any) paid to an address within the U.S. with respect to a Targeted Registered Security generally will be subject to information reporting. Such payments may be subject to a withholding tax unless the recipient provides the Withholding Agent with either an IRS Form W-9 or Form W-8BEN (or a substantially similar form to either of those forms) or otherwise certifies that it is exempt.

### *Taxation of Gains and Principal Payments to Non-U.S. Persons*

Gain realized by a beneficial owner who is a Non-U.S. Person upon the sale, exchange or retirement of a Targeted Registered Security will not be subject to U.S. federal income tax and no withholding of such tax will be required if the following conditions are met:

- the gain is not effectively connected with a U.S. trade or business;
- in the case of a beneficial owner who is a nonresident alien individual, the owner is not present in the U.S. for a total of 183 days or more during the taxable year in which such gain is realized or
  - 1) the owner does not have a “tax home” (as defined in section 911(d)(3) of the Code) in the U.S. and
  - 2) the gain or income is not attributable to an office or other fixed place of business maintained in the U.S. by such owner; and
- in the case of a beneficial owner that is a non-U.S. corporation, the corporation does not have a past or present status as a corporation that accumulates earnings to avoid U.S. federal income tax.

To the extent such gain is treated as original issue discount subject to withholding tax, the question of whether an exemption from withholding tax would apply to such original issue discount would be determined in accordance with the rules applicable to interest payments discussed above.

Backup withholding and information reporting will not apply with respect to the payment of principal on or sale or exchange of a Targeted Registered Security held by a Non-U.S. Person if the proceeds of such transaction are paid by a payor’s office located outside the U.S. and the payor is not a U.S. Person or a U.S.-Related Person acting as a custodian, nominee or other agent of such Non-U.S. Person. Backup withholding tax also will not apply with respect to proceeds paid by a payor’s office located outside the U.S. if the payor is a U.S. Person or a U.S.-Related Person, but information reporting generally will apply unless such payor has documentary evidence that the beneficial owner is not a U.S. Person and has no actual knowledge that such evidence is false. Proceeds paid by a payor’s office located within the U.S. may be subject to the backup withholding tax unless the Non-U.S. Person provides the payor with an IRS Form W-8BEN or substantially similar form.

### *Federal Estate Tax*

Any Targeted Registered Security owned by an individual who at the time of his or her death is a Non-U.S. Person who is not domiciled in the U.S. will not be included in the decedent’s gross estate for purposes of U.S. federal estate tax if interest paid on the Targeted Registered Security to the individual at the time of his or her death would have been eligible for exemption from the 30 percent withholding tax (or lower tax treaty rate), without regard to whether a certificate or statement of beneficial ownership has been received.

### **Supplemental Plan of Distribution**

The following description supplements, and should be read in conjunction with, and to the extent inconsistent therewith replaces, the description under “Plan of Distribution” in the Offering Circular.

In connection with their original issuance, Targeted Registered Securities may not be offered for sale or resale, contracted for sale or resale, sold or resold, directly or indirectly, to a person who is within the United States or its territories or possessions (with certain exceptions) or to or for the account of U.S. Persons other than Foreign Branches of U.S. Financial Institutions. In general, neither this Supplement nor the Combined Offering Document may be distributed in the United States or to U.S. Persons.

Only those Dealers that have agreed to follow the procedures governing the sale and distribution of Targeted Registered Securities summarized below and set forth in the Dealer Agreement (collectively, the “Targeted Registered Dealers”) may offer or sell Targeted Registered Securities. No Targeted Registered Dealer participating in the distribution of Targeted Registered Securities (whether as principal or agent) may allow any person (including an affiliate) to participate in the distribution of Targeted Registered Securities without our prior written consent and without entering into an agreement with us concerning the sale and distribution of the Targeted Registered Securities.

Each Targeted Registered Dealer has represented and agreed with us that:

- it has not entered and will not enter into a contract with any person, other than a Participating Affiliate (as defined below), for the purpose of allowing such person to offer, sell or deliver any Targeted Registered Securities during the Restricted Period;
- with respect to Targeted Registered Securities that the Targeted Registered Dealer purchases as principal, it has not transferred and will not transfer such Targeted Registered Securities to any person, other than a Participating Affiliate, if the Targeted Registered Dealer knows or has reason to know that such person may be acquiring the Targeted Registered Securities for the purpose of offering, selling or delivering the Targeted Registered Securities during the Restricted Period;
- with respect to any Targeted Registered Securities that the Targeted Registered Dealer offers or sells as agent, it has not offered, sold or delivered, and will not offer, sell or deliver the Targeted Registered Securities through any person, other than a Participating Affiliate; and
- it has identified and will identify to Fannie Mae each member of its “affiliated group” that intends to offer, sell or deliver Targeted Registered Securities during the Restricted Period, and has caused or will cause each such person to enter into a Participating Affiliate Selling Restrictions Agreement relating to Targeted Registered Securities with us, before such person offers, sells or delivers any Targeted Registered Securities.

The “Restricted Period” means the period that begins on the earlier of either the Settlement Date or the first day on which Targeted Registered Securities of the same issue are offered to persons other than a Targeted Registered Dealer or Participating Affiliate with respect to such issue of Targeted Registered Securities, and ends on the expiration of the period that runs 40 days from the Settlement Date. The Restricted Period will not expire, however, with respect to Targeted Registered Securities in any way acquired or offered by a Targeted Registered Dealer or Participating Affiliate until after the Targeted Registered Securities are sold to persons other than Targeted Registered Dealers or Participating Affiliates. “Settlement Date” means the date of settlement of the purchase of a Targeted Registered Security from Fannie Mae.

Each Participating Affiliate has represented and agreed with us that it has not and will not enter into a contract with any person, and has not transferred and will not transfer any Targeted Registered Securities to any person, for the purpose of allowing that person to offer, sell or deliver Targeted Registered Securities during the Restricted Period. Each Participating Affiliate also has represented and agreed that it has not offered, sold or delivered, and will not offer, sell or deliver, any Targeted Registered Securities through any person. “Participating Affiliate” means, with reference to a Targeted Registered Dealer, any member of such Targeted Registered Dealer’s “affiliated group” that has signed a Participating Affiliate Selling Restrictions Agreement with us. “Affiliated Group” is

defined in section 1504(a) of the Code, substituting “50 percent” for “80 percent” each time it appears in such section, but without regard to the exceptions in section 1504(b) of the Code.

Each Targeted Registered Dealer and Participating Affiliate has represented to us that if it purchases Targeted Registered Securities as principal, it will not purchase them for the account of any U.S. Person. Each Targeted Registered Dealer and Participating Affiliate has also represented to us that with respect to Targeted Registered Securities acquired by a Targeted Registered Dealer as principal, with respect to any Targeted Registered Securities otherwise acquired by a Targeted Registered Dealer or Participating Affiliate during the Restricted Period, and with respect to Targeted Registered Securities offered by a Targeted Registered Dealer or Participating Affiliate as agent, it has not offered for sale or resale, contracted to sell or resell, sold or resold, or otherwise transferred, directly or, with the knowledge of such Targeted Registered Dealer or Participating Affiliate, indirectly, and will not offer for sale or resale, contract to sell or resell, sell or resell, or otherwise transfer, directly or, with the knowledge of such Targeted Registered Dealer or Participating Affiliate, indirectly, any such Targeted Registered Securities either to a person who is within the United States or its territories or possessions or to or for the account of a U.S. Person. Lastly, each Targeted Registered Dealer and Participating Affiliate has also represented to us that in connection with the sale of Targeted Registered Securities during the Restricted Period, it has not delivered and will not deliver within the United States or its territories or possessions any such Targeted Registered Securities (other than Temporary Global Securities).

An offer or sale of a Targeted Registered Security will be treated as made to a person within the United States or its territories or possessions if the Targeted Registered Dealer or a Participating Affiliate (including any office or branch of the Targeted Registered Dealer or Participating Affiliate) has an address within the United States or its territories or possessions for such person with regard to such offer or sale. An offer or sale of a Targeted Registered Security will not be treated as made to a person within the United States or its territories or possessions or to a U.S. Person if the person to whom the offer or sale is made is:

- an “exempt distributor,” as that term is defined in Treasury Regulation Section 1.163-5(c)(2)(i)(D)(5), if the offer or sale is made to the U.S. office of such exempt distributor,
- an “international organization” (as defined in section 7701(a)(18) of the Code) or “foreign central bank” (as defined in section 895 of the Code and the regulations thereunder) if the offer or sale is made directly and specifically to the U.S. office of such international organization or foreign central bank,
- a Foreign Branch of a U.S. Financial Institution that supplies a written statement or blanket certification to the Targeted Registered Dealer or Participating Affiliate as described above in the definition of a Foreign Branch of a U.S. Financial Institution (see “United States Taxation—Definitions” in this Appendix G) or
- a person to whom an offer or sale is otherwise permitted under Treasury Regulation Section 1.163-5(c)(2)(i)(D)(1).

Each Targeted Registered Dealer and Participating Affiliate that is a U.S. Person, or is the U.S. office of a Targeted Registered Dealer or Participating Affiliate if it is not a U.S. Person, has represented to us that if it retains a Targeted Registered Security for its own account, it will comply with the applicable provisions of subparagraph (A), (B) or (C) of section 165(j)(3) of the Code and the rules and regulations thereunder.

Each Targeted Registered Dealer and Participating Affiliate further has represented to us that it has in effect procedures reasonably designed to ensure that its employees and agents who will be directly engaged in offering or selling Targeted Registered Securities are aware that no Targeted Registered Security can be offered or sold during the Restricted Period to a person who is within the United States or its territories or possessions (with certain exceptions) or who is a U.S. Person other than the Foreign Branch of a U.S. Financial Institution.



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**Fannie Mae Investment Notes  
Universal Debt Facility**

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**OFFERING CIRCULAR SUPPLEMENT**

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**Merrill Lynch & Co.**