Information Statement

Federal National Mortgage Association

This Information Statement describes the business and operations of the Federal National Mortgage Association ("Fannie Mae" or the "Corporation") as of the date hereof and its financial condition as of December 31, 1995. In conjunction with its securities offerings, the Corporation may incorporate this Information Statement by reference in one or more other documents describing the securities offered thereby, the selling arrangements therefor, and other relevant information. Such other documents may be called an Offering Circular, Prospectus, Guide to Debt Securities or otherwise. This Information Statement does not itself constitute an offer of such securities. Any incorporation of this Information Statement by reference shall be deemed to include all supplements hereto. Copies of the Corporation's current Information Statement, any supplements thereto, and other available information can be obtained as provided under "Documents Incorporated by Reference" and "Available Information."

This Information Statement contains audited financial statements with respect to the Corporation for the year ended December 31, 1995. Fannie Mae updates its Information Statement quarterly.

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

The Corporation's securities are not required to be registered under the Securities Act of 1933. At the close of business on January 31, 1996, 1,092 million shares of the Corporation's common stock (without par value) were outstanding.

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

February 22, 1996

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DOCUMENTS INCORPORATED BY REFERENCE

The Corporation's Proxy Statement for the 1995 Annual Meeting of Shareholders is incorporated by reference herein under "Management—Additional Information." Any later proxy statement published by the Corporation prior to the Corporation's publication of a new Information Statement is incorporated herein by this reference. This Information Statement will be supplemented to reflect quarterly financial results of the Corporation and as the Corporation otherwise determines. This Information Statement, together with any documents incorporated herein by reference and any applicable amendments or supplements hereto, are referred to herein collectively as the "Information Statement." Any statement contained herein or in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of the Information Statement to the extent that a statement contained herein or in any other subsequent document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of the Information Statement.

AVAILABLE INFORMATION

The Corporation periodically makes available statistical information on its mortgage purchase and mortgage-backed securities volumes as well as other relevant information about the Corporation. Copies of this Information Statement, any supplements relating hereto, as well as the Corporation's annual and quarterly reports to shareholders, the Federal National Mortgage Association Charter Act, the Corporation's bylaws, and other information regarding the Corporation can be obtained without charge from the Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, NW, Washington, DC 20016 (telephone (202) 752-7115). Reports and other information concerning the Corporation also may be inspected at the offices of the New York Stock Exchange, the Chicago Stock Exchange, and the Pacific Stock Exchange. The Corporation is not subject to the periodic reporting requirements of the Securities Exchange Act of 1934 and does not file reports or other information with the Securities and Exchange Commission.

BUSINESS

General

Fannie Mae is a federally chartered and stockholder-owned corporation and is the largest investor in home mortgage loans in the United States. The Corporation was originally established in 1938 as a United States government agency to provide supplemental liquidity to the mortgage market and was transformed into a stockholder-owned and privately managed corporation by legislation enacted in 1968.

The Corporation provides funds to the mortgage market by purchasing mortgage loans from lenders, thereby replenishing their funds for additional lending. The Corporation acquires funds to purchase loans from many capital market investors that ordinarily may not invest in mortgage loans, thereby expanding the total amount of funds available for housing. Operating nationwide, the Corporation helps to redistribute mortgage funds from capital-surplus to capital-short areas.

The Corporation also issues Mortgage-Backed Securities (''MBS''). The Corporation receives guaranty fees for its guarantee of timely payment of principal and interest on MBS certificates. The Corporation issues MBS primarily in exchange for pools of mortgage loans from lenders. The issuance of MBS enables the Corporation to further its statutory purpose of increasing the liquidity of residential mortgage loans.

In addition, the Corporation offers various services to lenders and others for a fee. These include issuing certain types of MBS and providing technology services for originating and underwriting mortgage loans.

For information regarding the Corporation's mortgage loan, MBS, and other activities in 1995, see ''Management's Discussion and Analysis of Financial Condition and Results of Operations.''

In this document, both whole loans and participation interests in loans are referred to as ''loans,'' ''mortgage loans,'' and ''mortgages.'' (The Corporation purchases participation interests that range from 50 to 99 percent.) The term ''mortgage'' also is used to refer to the security instrument securing a loan rather than the loan itself, and when so used also refers to a deed of trust. Mortgage loans secured by four or fewer dwelling units are referred to as ''single-family'' mortgage loans, and mortgage loans secured by more than four dwelling units are referred to as ''multifamily'' mortgage loans.

Mortgage Loan Portfolio

Mortgage Loans Purchased

The Corporation purchases primarily single-family, conventional, fixed- or adjustable-rate, first mortgage loans, but it also purchases other types of residential mortgage loans for its loan portfolio, including mortgage loans insured by the Federal Housing Administration (''FHA''), mortgage loans guaranteed by the Department of Veterans Affairs (''VA''), mortgage loans guaranteed by the Rural Housing Service, multifamily mortgage loans and second mortgage loans (*i.e.*, loans secured by second liens). The Corporation's purchases have a variety of maturities. The Corporation's purchases of adjustable-rate mortgage loans (''ARMs''), fixed-rate loans with intermediate terms of 20 years or less, and second mortgage loans are designed to provide a secondary market for a variety of loans that may be attractive to potential homeowners.

The composition of the Corporation's loan portfolio during the last five years is shown in the table in ''Mortgage Loan Portfolio Composition.'' The composition of its purchases during the last three years is shown in ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Mortgage Portfolio.'' Of the total single-family and multifamily mortgage loans that the Corporation purchased in 1995, including purchases of mortgage-backed securities, approximately 60 percent were from investment banking companies, 14 percent were from mortgage banking companies, 7 percent were from savings and loan associations, 8 percent

were from commercial and mutual savings banks, and 11 percent were from other institutions. All of the Corporation's mortgage loan purchases from investment banking companies were through purchases of mortgage-backed securities.

Principal Balance Limits. Maximum principal balance limits apply to the Corporation's mortgage loan purchases. For 1995, the Corporation could not purchase conventional mortgage loans on one-family dwellings if the loan's original principal balance exceeded $203,150, except for loans secured by properties in Alaska, Hawaii and the Virgin Islands. Higher principal balance limits apply to loans secured by properties in those areas or secured by two- to four-family dwelling units. The maximum principal balance limits applicable to such conventional mortgage loans secured by one- to four-family dwellings can be adjusted by the Corporation annually based on the national average price of a one-family dwelling as surveyed by the Federal Housing Finance Board. In January 1996, the Corporation increased its maximum principal balance limit to $207,000.

Under the Charter Act, maximum principal balance limits also apply to the Corporation's purchases of conventional multifamily mortgage loans. Such limits are affected by the location of the property and other factors.

Mortgage loans insured by the FHA or guaranteed by the Rural Housing Service are subject to statutory maximum amount limitations. The Corporation will not purchase VA-guaranteed mortgage loans that have principal amounts in excess of amounts the Corporation specifies from time to time.

Fixed-Rate/Adjustable-Rate. Substantially all fixed-rate mortgage loans purchased by the Corporation provide for level monthly installments of principal and interest. Some of these loans (2 percent of the single-family portfolio at December 31, 1995) have balloon payments due 5, 7 or 10 years after origination, but with monthly payments based on longer (in many cases 30-year) amortization schedules. Many of the 7-year balloon single-family mortgage loans permit the borrower to refinance the balloon payment at maturity with a 23-year fixed-rate mortgage loan if certain requirements are satisfied. Many of the multifamily mortgage loans have balloon payments due 5, 7, 10, or 15 years after origination, but with payments based on 25- or 30-year amortization schedules.

The interest rates on ARMs are determined by formulas providing for automatic adjustment, up or down, at specified intervals in accordance with changes in a specified index. Substantially all ARMs provide for adjustments (up or down) in the amount of monthly installments after the interest rate on the loan is adjusted because of changes in the applicable index. The Corporation currently purchases ARMs only if the ARMs have a cap on the amount the interest rate may change over the life of the loan. A substantial number of the ARMs purchased by the Corporation provide the mortgagor with the option, at specified times or during specified periods of time, to convert the ARM to a fixed-rate mortgage loan with payment of a small fee.

The Corporation also purchases single-family conventional mortgage loans that have one interest rate for the first 5 or 7 years and then adjust automatically to another interest rate for the next 25 or 23 years, respectively. Such loans, in the aggregate, represented less than one percent of its portfolio loan purchases in 1995.

Maturity. The Corporation currently purchases conventional, single-family fixed- and adjustable-rate mortgage loans with original maturities of up to 30 years and 40 years, respectively. Only a small portion of such ARMs purchased have maturities of more than 30 years. The multifamily mortgage loans that the Corporation currently purchases for its portfolio generally are conventional fixed-rate loans that have maturities of up to 30 years.

Repayments

The majority of the single-family mortgage loans in the Corporation's portfolio are prepayable by the borrower (in some cases with a small penalty). Therefore, the Corporation bears the risk that prepayments may increase when interest rates decline significantly or as a result of other factors. The

Corporation manages this risk as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Interest Rate Risk Management." Most multifamily loans in the Corporation's portfolio provide for a prepayment premium that is calculated under a formula that is intended to protect the Corporation from loss of yield on its investment in the mortgage loan being prepaid.

Portfolio Composition

The following table shows the composition of the Corporation's mortgage loan portfolio and the weighted-average yield (net of servicing) on the mortgage loan portfolio. The table includes mortgage loans that back MBS held in the Corporation's mortgage loan portfolio.

Mortgage Loan Portfolio Composition
(Dollars in millions)

	December 31,				
	1995	1994	1993	1992	1991
Unpaid Principal Balances ("UPB")					
Single-family:					
Government insured or guaranteed	$ 13,102	$ 11,659	$ 8,525	$ 9,025	$ 9,900
Conventional:					
Long-term, fixed-rate	140,466	109,079	82,170	66,949	57,643
Intermediate-term, fixed-rate	68,752	68,166	64,623	43,943	26,534
Adjustable-rate	15,108	16,718	19,439	23,278	20,941
Second	423	536	772	1,356	2,069
Multifamily	15,660	15,899	15,332	13,568	11,896
Total UPB	$253,511	$222,057	$190,861	$158,119	$128,983
Average yield	7.80%	7.80%	7.79%	8.68%	9.54%

Commitments

The Corporation issues commitments to purchase, during the term of the commitment, a specified dollar amount of mortgage loans. The Corporation purchases mortgage loans through standard product commitments with posted yields and through negotiated commitments.

The Corporation purchases most of its mortgage loans pursuant to mandatory delivery commitments. Under such commitments, lenders are obligated to sell loans to the Corporation at the commitment yield. Mandatory delivery commitments are available for standard product and negotiated transactions. If a lender is not able to deliver the mortgage loans required under a mandatory delivery commitment during its term, the lender may buy back the commitment at any time during the commitment term for a fee.

The Corporation issues master commitments to lenders to facilitate the delivery of mortgages into MBS pools or portfolio. In order to deliver under a master commitment, a lender must either deliver mortgages in exchange for MBS or enter into a mandatory delivery portfolio commitment with the yield established upon execution of the portfolio commitment.

The Corporation also issues to lenders negotiated standby commitments that commit the Corporation to purchase a designated dollar amount of single-family mortgage loans from the lenders if they convert their standby commitments to mandatory delivery commitments. Standby commitments do not obligate the lenders to sell the loans to the Corporation; they are obligated to do so only after such commitments are converted to mandatory delivery commitments. The yield on the mortgage loans is established at the time of the conversion in the case of standby commitments. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Liquidity and Capital Resources."

Underwriting Guidelines

The Corporation has established certain underwriting guidelines for purchases of conventional mortgage loans in an effort to reduce the risk of loss from mortgagor defaults. These guidelines are designed to assess the creditworthiness of the mortgagor as well as the value of the mortgaged property relative to the amount of the mortgage loan. The Corporation, in its discretion, accepts deviations from the guidelines, and also changes its guidelines from time to time. As part of its affordable housing initiatives, the Corporation continues to introduce new underwriting criteria that could make the mortgage finance system more accessible to minorities, low- and moderate-income families, central city and rural residents, and people with special housing needs. In addition, the Corporation is continuing its community-based experiments involving alternative methods of assessing the creditworthiness of potential borrowers and the acceptability of different property types, among other factors. The Corporation generally revalidates systematically the components of its underwriting guidelines. See "Affordable Housing Initiatives and Goals."

The Corporation generally relies on lender representations to ensure that the mortgage loans it purchases conform to its underwriting guidelines. However, the Corporation also performs post-purchase reviews of selected loans to monitor compliance with the guidelines. In the event that a lender is found to have breached its representations with respect to a loan's compliance with the guidelines, the Corporation can demand that the lender repurchase the loan.

The Corporation generally has required that the unpaid principal balance ("UPB") of each conventional single-family first mortgage loan it purchases not be greater than 80 percent of the value of the mortgaged property unless the excess over a specified level (up to 70 percent of the value of the property) is insured by a mortgage insurance company acceptable to the Corporation. The resulting rule for calculating required insurance coverage levels (expressed as a percentage of UPB) has been replaced by a system that classifies loans into groups by their loan-to-value ("LTV") ratio and specifies a coverage percentage for each such group. The change increased the coverage percentages for all loans except for fully amortizing fixed-rate loans with terms of 20 years or less and with LTV ratios of 90 percent or less, for which coverage percentages decreased. If mortgage insurance is required initially, it must be maintained as long as the UPB is greater than 80 percent of the original value (or of the appraised value as determined by a subsequent appraisal). The Corporation does not require mortgage insurance on conventional single-family loans with LTV ratios greater than 80 percent if the mortgage loan seller provides other acceptable credit enhancement. The Corporation bears the risk that in some cases parties assuming credit enhancement obligations may be unable to satisfy their obligations fully. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk Management."

Servicing

The Corporation does not service mortgage loans held in the portfolio, except for government-insured multifamily loans, for which the primary servicing functions are performed by a major servicing entity under a subservicing arrangement. However, the Corporation generally manages and markets properties acquired through foreclosure. Fannie Mae mortgage loans can be serviced only by a servicer approved by the Corporation. Lenders who sell single-family mortgage loans and conventional multifamily loans to the Corporation often retain the responsibility for servicing the mortgage loans sold, subject to the Corporation's guidelines. Servicing includes the collection and remittance of principal and interest payments, administration of escrow accounts, collection of insurance claims, and, if necessary, processing of foreclosures. In the case of multifamily loans, servicing also includes performing property inspections, evaluating the financial condition of owners and transfers of ownership interests, administration of various types of agreements (including agreements regarding replacement reserves, completion/repair and operations and maintenance), responding to requests for partial releases of security, granting of easements, and handling proceeds from casualty losses. The Corporation compensates servicers by permitting them to retain a specified

portion of each interest payment on a serviced mortgage loan. The Corporation reserves the right to remove servicing responsibility from a lender.

Mortgage-Backed Securities

MBS are mortgage pass-through trust certificates issued and guaranteed by the Corporation that represent beneficial interests in pools of mortgage loans or other MBS. The Corporation serves as trustee for each trust.

MBS are backed by loans from one of three sources: a single lender, multiple lenders, or the Corporation's portfolio. Single-lender MBS generally are issued through lender swap transactions in which a lender exchanges pools of mortgage loans for MBS. Multiple-lender MBS allow several lenders to pool mortgage loans together and, in return, receive MBS (called Fannie Majors®) representing a proportionate share of a larger pool. MBS may back other securities, including Fannie Megas® ("Megas"), Stripped MBS ("SMBS"), real estate mortgage investment conduit securities ("REMICs"), and other mortgage securities utilizing a "grantor trust" structure.

MBS are not assets of the Corporation, except when acquired for investment purposes, nor are MBS recorded as liabilities. The Corporation, however, is liable under its guaranty to make timely payments to investors of principal and interest on the mortgage loans in the pools, even if the Corporation has not received payments of principal or interest on the mortgage loans in the underlying pools. MBS enable the Corporation to further its statutory purpose of increasing the liquidity of residential mortgage loans and create a source of guaranty fee income to the Corporation without assuming any debt refinancing risk on the underlying pooled mortgages. Because of the Corporation's guarantees, it assumes the ultimate credit risk of borrowers' defaults on all mortgage loans underlying MBS, as it does for portfolio mortgage loans. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk Management."

The Corporation issues MBS backed by single-family or multifamily first or second mortgage loans, with fixed or adjustable rates. Generally, the mortgage loans are either conventional, FHA/VA, or Rural Housing Service-guaranteed mortgage loans. The conventional mortgage loans are subject to the maximum principal balance limits applicable to the Corporation's purchases as described under "Mortgage Loan Portfolio—Mortgage Loans Purchased—Principal Balance Limits." The mortgage loans also are subject to the same underwriting guidelines as those for mortgage loans purchased for portfolio as described under "Mortgage Loan Portfolio—Underwriting Guidelines." The substantial majority of the Corporation's MBS outstanding represent beneficial interests in conventional fixed-rate mortgage loans on single-family dwellings.

The Corporation issues and guarantees several forms of MBS, including Fannie Majors, that involve only a single class of certificates with each investor receiving a portion of the payments of principal and interest on the underlying mortgage loans equal to its undivided interest in the pool. With a standard MBS, an investor has an undivided interest in a pool of underlying mortgage loans that generally are provided either by one lender or by the Corporation out of the Corporation's mortgage loan portfolio. Megas represent undivided interests in a pool of MBS, REMIC tranches or pass-through certificates guaranteed by the Government National Mortgage Association ("Ginnie Mae certificates") of the same type. In addition, during 1995, the Corporation began to issue and guarantee MBS in the form of single-class "grantor trust" securities representing an undivided interest in a pool of MBS, Ginnie Mae certificates, mortgage loans or mortgage-backed securities.

The Corporation also issues and guarantees MBS that involve more than one class of certificates and, therefore, require special allocations of cash flows. SMBS are issued in series, with one or more classes that are each entitled to different cash flows and may represent (a) an undivided interest solely in the principal payments, (b) an undivided interest solely in the interest payments, or (c) different percentage interests in principal and interest payments, to be made on a pool of mortgage loans, MBS, REMICs, other SMBS, and/or Ginnie Mae certificates. REMICs represent beneficial interests in a

trust having multiple classes of certificates entitled to different cash flows from the underlying mortgage loans, MBS, SMBS, Ginnie Mae certificates and/or certificates from other REMICs. Pursuant to its guarantee of REMICs and SMBS, the Corporation is obligated to make timely distribution of required installments of principal and/or interest and, in the case of REMICs, to distribute the principal balance in full by a specified date, whether or not sufficient funds are available in the related REMIC trust.

The Corporation receives guaranty fees for a significant portion of its MBS (principally its standard MBS and Fannie Majors). Such fees are paid monthly until the underlying mortgage loans have been repaid or otherwise liquidated from the pool (generally as a result of delinquency). The aggregate amount of guaranty fees received by the Corporation depends upon the amount of MBS outstanding and on the guaranty fee rate. The amount of MBS outstanding is influenced by the repayment rates on the underlying mortgage loans and by the rate at which the Corporation issues new MBS. In general, when the level of interest rates declines significantly below the interest rates on loans underlying MBS, the rate of prepayments is likely to increase; conversely, when interest rates rise above the interest rates on loans underlying MBS, the rate of prepayments is likely to slow. In addition to interest rate changes, the rate of principal payments is influenced by a variety of economic, demographic and other factors. The Corporation also generally receives one-time fees for swapping SMBS, REMICs, Megas and grantor trust securities for MBS, mortgage loans, Ginnie Mae certificates, SMBS, REMIC certificates or other mortgage-backed securities.

In most instances, the lender or lenders that originated the loans in an MBS pool created from the Corporation's portfolio or the lender or lenders that exchanged the loans for the MBS (in the case of a "swap" transaction) initially service the loans. The Corporation, however, reserves the right to remove the servicing responsibility from a lender at any time if it considers such removal to be in the best interest of MBS certificate holders. In such event, the Corporation finds a replacement lender that will service the loans. Generally, the Corporation ultimately is responsible to MBS holders for the administration and servicing of mortgage loans underlying MBS, including the collection and receipt of payments from lenders, and the remittance of distributions and certain reports to holders of MBS certificates.

Affordable Housing Initiatives and Goals

In 1994, the Chairman of the Corporation announced that for the seven years from 1994 through the year 2000 the Corporation would commit $1 trillion to help finance over 10 million homes for families and communities most in need. This targeted housing finance will serve families with incomes below the median for their area, minorities, new immigrants, families who live in central cities and distressed communities, and people with special housing needs. Fannie Mae's commitment consists of the following initiatives: (i) the Corporation's commitment to seek to make the elimination of discrimination the number one priority of every participant in the mortgage finance system; (ii) an effort to eliminate any final "no" in the mortgage application process by encouraging second and third reviews of rejected applications, coupled with high quality home buyer counseling offered by local counseling agencies and the Corporation so prospective buyers whose applications are not approved are put on a path that can lead to approval; (iii) efforts to ensure that the Corporation's underwriting guidelines for lenders are clear, flexible, and applied equally to all applicants; (iv) the opening of 25 "Fannie Mae Partnership Offices" around the country that will work with cities, rural areas, and other underserved communities; (v) $5 billion in underwriting experiments to probe and test new underwriting criteria; (vi) an initiative to develop at least ten new financing tools to serve the full range of housing needs; (vii) a $50 billion commitment to multifamily housing finance; (viii) an initiative to develop and make available new technologies that will reduce the cost, complexity, paperwork, and time involved in obtaining mortgage credit; and (ix) a major increase in the size of the Fannie Mae Foundation to support housing and community development.

Under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, the Corporation has certain goals to promote affordable housing for low- and very low-income families and

to serve the housing needs of those in underserved areas such as central cities. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Housing Goals."

Delinquencies and REO

When a mortgage loan for which Fannie Mae bears the default risk is liquidated by foreclosure, the Corporation generally acquires the underlying property (such real estate owned is called "REO") and holds it for sale. The level of delinquencies and number of REO are affected by economic conditions, loss mitigation efforts (which include contacting delinquent borrowers to offer the options of a preforeclosure sale or modification), and a variety of other factors. The Corporation manages the risk of delinquencies and REO as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Credit Risk Management."

Fee-Based Services

The Corporation offers certain services to lenders and other customers in return for a fee. These include issuing REMICs, SMBS, Fannie Megas®, and grantor trust securities, technology services for originating and underwriting loans, and the facilitation of securities transactions.

The Corporation receives fee income from dealers in exchange for creating and issuing REMICs, SMBS, grantor trust securities and Megas. In addition to issuing these securities, the Corporation is responsible for all tax reporting and administration costs associated with these securities.

The Corporation also receives fee income in return for providing technology related services such as Desktop Underwriter™, Desktop Originator™, Desktop Trader®, and other on-line services. These services provide lenders the ability to underwrite mortgage loans electronically, communicate with third-party originators, access Fannie Mae loan pricing schedules, and enter into sale commitments with the Corporation on a real-time basis.

The Corporation also simultaneously purchases and sells MBS and certain other mortgage-related securities, such as Ginnie Mae certificates, with the intention of earning a spread on such trades or as a service to customers. In addition, the Corporation receives fee income through other activities, such as repurchase transactions, and by providing other investment alternatives for customers.

Competition

The Corporation competes, within the limits prescribed by its Charter Act, for the purchase of mortgage loans for portfolio and the issuance of mortgage-backed securities in the secondary mortgage market. For single-family products, the Corporation competes primarily with the Federal Home Loan Mortgage Corporation ("Freddie Mac"), another government-sponsored enterprise regulated by the Department of Housing and Urban Development ("HUD") and the Office of Federal Housing Enterprise Oversight with a mission and authority that is virtually identical to that of Fannie Mae. Fannie Mae competes to a lesser extent with savings and loan associations, savings banks, commercial banks, government-sponsored entities, and companies that purchase for their own portfolio or pool single-family mortgage loans for sale to investors as whole loans or mortgage-backed securities. In the case of multifamily products, the Corporation generally competes with government housing programs and with the same kinds of entities as in the case of single-family products, but Freddie Mac is just one among many competitors that vigorously compete in this market.

The Corporation's market share of loans purchased for cash or swapped for MBS is affected by the volume of mortgage loans offered for sale in the secondary market by loan originators and other market participants and the amount purchased by other market participants that compete with the Corporation.

The Corporation competes primarily on the basis of price, products, and services offered. Competition based on advances in technology-related and other fee-based services continues to increase as do the types and nature of the products offered by the Corporation and Freddie Mac and other market participants.

Since 1993, Freddie Mac has been adding to its mortgage portfolio significantly, which has increased the competition between the Corporation and Freddie Mac for mortgage loans. In addition, beginning in 1993, Freddie Mac, other traditional lenders, and new lenders began to acquire, or recommenced acquiring, multifamily mortgage loans. In 1994, rising interest rates prompted the origination of more adjustable-rate loans, which lenders are more likely to retain in their portfolios. In 1994, the Government National Mortgage Association ("Ginnie Mae") became a competitor in the market for REMICs backed by Ginnie Mae certificates. In addition, both Fannie Mae and Ginnie Mae issued pooled mortgage-backed securities (Megas and Platinums, respectively) backed by Ginnie Mae certificates. However, because the Ginnie Mae guaranty is directly backed by the full faith and credit of the United States, dealers are more likely to exchange their Ginnie Mae certificates for Ginnie Mae Platinums than for Fannie Mae Megas, except in limited situations. Fannie Mae continues to issue REMICs backed by Ginnie Mae certificates, although this activity is expected to dissipate as the Ginnie Mae REMIC continues to evolve.

Under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, the Secretary of HUD must approve any new Fannie Mae or Freddie Mac program that is significantly different from those approved or engaged in prior to that Act's enactment. The ability of Fannie Mae and Freddie Mac to compete with other competitors possibly could be affected by this requirement. See "Government Regulation and Charter Act."

Facilities

The Corporation owns its principal office, which is located at 3900 Wisconsin Avenue, NW, Washington, DC, an office at 3939 Wisconsin Avenue, NW, Washington, DC, and two facilities in Herndon, Virginia. In addition, the Corporation leases approximately 389,000 square feet of office space at 4000 Wisconsin Avenue, NW, which is adjacent to the Corporation's principal office, and approximately 87,000 square feet of office space at 2115 Wisconsin Avenue, NW. The present lease for 4000 Wisconsin Avenue expires in 2001, but the Corporation has options to extend the lease for up to 15 additional years, in 5-year increments. The lease for 2115 Wisconsin expires in 1998. The Corporation also maintains regional offices in leased premises in Pasadena, California; Atlanta, Georgia; Chicago, Illinois; Philadelphia, Pennsylvania; and Dallas, Texas. The regional offices negotiate mortgage loan and MBS business with lenders, assist in supervising the servicing of the Corporation's mortgage loan portfolio by lenders, assist in supervising or managing the handling and disposition of REO, and provide training to the staffs of lenders. In addition to the regional offices, the Corporation has opened 20 "Fannie Mae Partnership Offices" in leased premises around the country, and expects to establish a total of 25 such offices, which will work with cities, rural areas, and other underserved communities. There currently are Fannie Mae Partnership Offices in Los Angeles, California; Hartford, Connecticut; Washington, D.C.; Miami, Florida; Atlanta, Georgia; Chicago, Illinois; Kansas City, Kansas; New Orleans, Louisiana; Baltimore, Maryland; Boston, Massachusetts; St. Paul, Minnesota; St. Louis, Missouri; Las Vegas, Nevada; New York, New York; Charlotte, North Carolina; Cleveland, Ohio; Portland, Oregon; Houston, Texas; San Antonio/Colonias, Texas; and Seattle, Washington.

Employees

At December 31, 1995, the Corporation employed approximately 3,300 full-time personnel.

GOVERNMENT REGULATION AND CHARTER ACT

The Corporation is a federally chartered and stockholder-owned Corporation organized and existing under the Charter Act (12 U.S.C. § 1716 *et seq.*) whose purpose is to (1) provide stability in the secondary market for residential mortgages, (2) respond appropriately to the private capital market, (3) provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing, and (4) promote access to mortgage credit throughout the nation (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

The Federal National Mortgage Association originally was incorporated in 1938 pursuant to Title III of the National Housing Act as a wholly owned government Corporation and in 1954, under a revised Title III called the Federal National Mortgage Association Charter Act, became a mixed-ownership corporate instrumentality of the United States. From 1950 to 1968, it operated in the Housing and Home Finance Agency, which was succeeded by the Department of Housing and Urban Development (''HUD''). Pursuant to amendments to the Charter Act enacted in the Housing and Urban Development Act of 1968 (the ''1968 Act''), the then Federal National Mortgage Association was divided into two separate institutions, the present Corporation and the Government National Mortgage Association, a wholly owned corporate instrumentality of the United States within HUD, which carried on certain special financing assistance and management and liquidation functions. Under the 1968 Act, the Corporation was constituted as a federally chartered Corporation and the entire equity interest in the Corporation became stockholder-owned.

Although the 1968 Act eliminated all federal ownership interest in the Corporation, it did not terminate government regulation of the Corporation. Under the Charter Act, approval of the Secretary of the Treasury is required for the Corporation's issuance of its debt obligations and MBS. In addition, the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (the ''1992 Act'') established an independent Office of Federal Housing Enterprise Oversight (''OFHEO'') within HUD under the management of a Director (the ''Director'') who is responsible for ensuring that the Corporation is adequately capitalized and operating safely in accordance with the 1992 Act. The 1992 Act established risk-based capital, minimum capital and critical capital levels for the Corporation and required the Director to establish, by regulation, a risk-based capital test to be used to determine the amount of total capital the Corporation must have to exceed the risk-based capital level from time to time. Management understands that the Director expects to publish for comment in 1996 proposed regulations establishing the risk-based capital test. If the Corporation fails to meet one or more of these capital standards, the Director is required to take certain remedial measures and may take others, depending on the standards the Corporation fails to meet. See ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Capital Requirements.'' The Director is given enforcement powers that include the power to impose temporary and final cease-and-desist orders and civil penalties on the Corporation and on a director or executive officer of the Corporation. Prior approval of the Director is required for the Corporation to pay a dividend if the dividend would decrease the Corporation's capital below risk-based capital or minimum capital levels established under the 1992 Act. See ''Common Stock.'' The Director is authorized to levy, pursuant to annual Congressional appropriations, annual assessments on Fannie Mae and Freddie Mac to cover reasonable expenses of OFHEO.

The 1992 Act also gives the Director the authority to conduct annually an on-site examination of the Corporation for purposes of ensuring the Corporation's financial safety and soundness. The Director also has the discretion to conduct more frequent examinations if deemed necessary for safety and soundness. In addition, the Corporation is required to submit annual and quarterly reports of the financial condition and operations of the Corporation to the Director. Moreover, the Charter Act, as

amended by the 1992 Act, authorizes the General Accounting Office to audit the programs, activities, receipts, expenditures and financial transactions of the Corporation. The Corporation also is required to submit an annual report to the House and Senate Banking Committees and the Secretary of HUD regarding the Corporation's performance in meeting housing goals relating to the purchase of mortgages on housing for low- and moderate-income families, mortgages on rental and owner-occupied housing for low-income families in low-income areas or for very-low-income families, and mortgages on housing located in central cities, rural areas and other underserved areas.

Under the 1992 Act, the Secretary of HUD retains general regulatory authority to promulgate rules and regulations to carry out the purposes of the Charter Act, excluding authority over matters granted exclusively to the Director in the 1992 Act. The Secretary of HUD also must approve any new conventional mortgage program that is significantly different from those approved or engaged in prior to the 1992 Act. The Secretary is required to approve any new program unless it is not authorized by the Charter Act of the Corporation or the Secretary finds that it is not in the public interest. However, until one year after the final regulations establishing the risk-based capital test are in effect, the Secretary must disapprove a new program if the Director determines that the program would risk significant deterioration of the financial condition of the Corporation. The Secretary has adopted regulations related to the program approval requirement.

Thirteen members of the Corporation's eighteen-member Board of Directors are elected by the holders of the Corporation's common stock, and the remaining five members are appointed by the President of the United States. The appointed directors must include one person from the home building industry, one person from the mortgage lending industry, and one person from the real estate industry. Under the 1992 Act, one appointed director also must be from an organization that has represented consumer or community interests for not less than two years or a person who has demonstrated a career commitment to the provision of housing for low-income households. Any member of the Board of Directors that is appointed by the President of the United States may be removed by the President for good cause.

In addition to placing the Corporation under federal regulation, the Charter Act also grants to the Corporation certain privileges. For instance, securities issued by the Corporation are deemed to be "exempt securities" under laws administered by the Securities and Exchange Commission ("SEC") to the same extent as securities that are obligations of, or guaranteed as to principal and interest by, the United States. Registration statements with respect to the Corporation's securities are not filed with the SEC. The Corporation also is not required to file periodic reports with the SEC.

The Secretary of the Treasury of the United States has discretionary authority to purchase obligations of the Corporation up to a maximum of $2.25 billion outstanding at any one time. This facility has not been used since the Corporation's transition from government ownership in 1968. Neither the United States nor any agency thereof is obligated to finance the Corporation's operations or to assist the Corporation in any other manner.

The Corporation is exempt from all taxation by any state or by any county, municipality, or local taxing authority except for real property taxes. The Corporation is not exempt from payment of federal corporate income taxes. Also, the Corporation may conduct its business without regard to any qualifications or similar statute in any state of the United States or the District of Columbia.

The Federal Reserve Banks are authorized to act as depositaries, custodians, and fiscal agents for the Corporation, for its own account, or as fiduciary.

The 1992 Act requires the Comptroller General of the United States, the Secretary of HUD, the Secretary of the Treasury, and the Director of Congressional Budget Office conduct and submit studies of issues associated with the further privatization of Fannie Mae and Freddie Mac to the House and Senate Banking Committees. The statutory deadline for the studies was October 1994 but they have not yet been completed. Management cannot predict the impact, if any, of such studies on the Corporation. Additional privatization of the Corporation would require legislation.

In December 1995, the Secretary of HUD issued final regulations regarding the Corporation's and Freddie Mac's housing goals for 1996 through 1999. See "Housing Goals" in "Management's Discussion and Analysis of Financial Condition and Results of Operations."

The December 1995 HUD regulations also included provisions that relate to Fannie Mae's and Freddie Mac's fair housing responsibilities under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, restate the statutory requirements for HUD approval of new programs of Fannie Mae and Freddie Mac, and describe the mortgage purchase data and reports that must be submitted to HUD. Management believes that these provisions will not have a material impact upon the Corporation's business.

LEGAL PROCEEDINGS

In the ordinary course of business, the Corporation is involved in legal proceedings that arise in connection with properties acquired by the Corporation, either through foreclosure on properties securing delinquent mortgage loans owned by the Corporation or by receiving deeds to such properties in lieu of foreclosure. For example, claims related to possible tort liability and compliance with applicable environmental requirements arise from time to time, primarily in the case of single-family REO.

The Corporation is a party to legal proceedings from time to time arising from its relationships with its seller/servicers. Disputes with lenders concerning their loan origination or servicing obligations to the Corporation, or disputes concerning termination by the Corporation (for any of a variety of reasons) of a lender's authority to do business with the Corporation as a seller and/or servicer, can result in litigation.

The Corporation also is a party to legal proceedings arising from time to time in connection with other aspects of its business.

Claims and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. However, in the case of the legal proceedings and claims that are currently pending against the Corporation, management believes that their outcome will not have a material adverse effect on the Corporation's financial condition or results of operations.

COMMON STOCK

Section 303(a) of the Charter Act provides that the Corporation shall have common stock, without par value. The common stock is vested with all voting rights. Each share of common stock is entitled to one vote at all elections of directors and on all other matters presented for common stockholder vote. The holders of the common stock elect thirteen directors, and the President of the United States appoints the remaining five directors. Any member of the Board of Directors that is appointed by the President of the United States may be removed by the President for good cause. The Charter Act, the Corporation's governing instrument, cannot be amended by the stockholders, but only by an Act of Congress.

The Corporation also is authorized by the Charter Act to have preferred stock on such terms and conditions as the Board of Directors of the Corporation may prescribe. No common stockholder approval is required to issue preferred stock. As of the date of this Information Statement, no preferred stock is issued or outstanding. However, in December 1995, the Board of Directors approved a capital restructuring plan that includes the issuance of $1 billion in preferred stock, the proceeds of which will be used to repurchase common stock. Management intends to issue this $1 billion of preferred stock in 1996.

The Charter Act contains no limitation on the amount of stock that may be issued, except that if the Corporation fails to meet certain minimum capital standards, the Director of the Federal Housing Enterprise Oversight Office (the "Director") could require that the Director approve the Corporation's issuance of stock or securities convertible into stock. At January 31, 1996, there were outstanding approximately 1,092 million shares of common stock, which were held by approximately

14,000 stockholders of record. Based on the number of requests for proxies and quarterly reports, the Corporation estimates that on January 31, 1996 there were approximately 160,000 additional stockholders who held shares through banks, brokers, and nominees.

Holders of the common stock are entitled to receive cash dividends if, as and when declared by the Board of Directors. However, certain provisions of the 1992 Act may operate to restrict the ability of the Board of Directors to declare dividends in certain circumstances. The 1992 Act established risk-based capital, minimum capital, and critical capital levels for the Corporation, and required the Director of OFHEO to establish, by regulation, a risk-based capital test to be used to determine the amount of total capital the Corporation must have to exceed the risk-based capital level from time to time. Management understands that the Director expects to publish for comment in 1996 proposed regulations establishing the risk-based capital test. Until one year after the final regulations establishing the risk-based capital test are in effect, a dividend may be paid without the prior approval of the Director if the Corporation meets the minimum capital level established under the 1992 Act and the dividend payment would not decrease the Corporation's base capital below such level.

One year after final regulations establishing the risk-based capital test take effect, a dividend may be paid without the prior approval of the Director if the Corporation meets both the risk-based capital and minimum capital levels and the dividend payment would not decrease the Corporation's total capital below the risk-based capital level or its core capital below the minimum capital level. If the Corporation meets either the risk-based capital standard or the minimum capital standard, it may make a dividend payment without obtaining the approval of the Director only if the dividend payment would not cause the Corporation to fail to meet another capital standard. At any time when the Corporation does not meet the risk-based capital standard but meets the minimum capital standard, the Corporation is prohibited from making a dividend payment that would cause the Corporation to fail to meet the minimum capital standard. If the Corporation meets neither the risk-based capital standard nor the minimum capital standard but does meet the critical capital standard established under the 1992 Act, it may make a dividend payment only if the Corporation would not fail to meet the critical capital standard as a result of such payment and the Director approves the payment after finding that it satisfies certain statutory conditions. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Capital Requirements" regarding the capital standards applicable to the Corporation. The Director has the authority to require the Corporation to submit a report to the Director regarding any capital distribution (including any dividend) declared by the Corporation before the Corporation makes the distribution.

If the Director determines that the Corporation is engaging in conduct not approved by the Director that could result in a rapid depletion of core capital or that the value of the property subject to mortgages held or securitized by the Corporation has decreased significantly, the Director is authorized to treat the Corporation as not meeting one of the capital standards that it otherwise meets. In addition, the Corporation is required to submit a capital restoration plan if it fails to meet any of the capital standards. If the Director does not approve the plan or determines that the Corporation has failed to make reasonable efforts to comply with the plan, then the Director may treat the Corporation as not meeting one of the capital standards that it otherwise meets. Also, if the Corporation fails to meet or is treated by the Director as not meeting one of the capital standards and the Director has reasonable cause to believe that the Corporation or any executive officer or director of the Corporation is engaging in or about to engage in any conduct that threatens to result in a significant depletion of the Corporation's core capital, then the Director is authorized to commence proceedings pursuant to which, after a hearing, the Director could issue a cease and desist order prohibiting such conduct. The Director could issue such an order without a hearing, which would be effective until completion of the cease-and-desist proceedings, if the Director determined that the conduct in question was likely to cause a significant depletion of core capital.

The payment of dividends on common stock also is subject to the payment of dividends on any preferred stock outstanding.

Dividends have been declared and paid for each quarter during the Corporation's two most recent fiscal years. See "Quarterly Results of Operations" on page 65 for quarterly dividends paid during 1995 and 1994.

In the event of liquidation of the Corporation, holders of common stock are entitled to share ratably, in accordance with their holdings, in the remaining assets of the Corporation after payment of all liabilities of the Corporation and amounts payable to the holders of preferred stock.

The common stock has no conversion or pre-emptive rights or redemption or sinking fund provisions. The outstanding shares of common stock are fully paid and nonassessable. There is no prohibition against the purchase by the Corporation of its own common stock, holding such common stock in its treasury, and reselling such stock.

This description is summarized from the Charter Act, the 1992 Act, the bylaws, and certain resolutions of the Board of Directors and stockholders of the Corporation. This description does not purport to be complete and is qualified in its entirety by reference to the Charter Act, the 1992 Act, bylaws of the Corporation, and such resolutions. Copies of the Charter Act, bylaws of the Corporation and any applicable resolutions may be obtained from the Corporation.

The Corporation's common stock is publicly traded on the New York, Pacific, and Chicago stock exchanges and is identified by the ticker symbol "FNM". The transfer agent and registrar for the common stock is Chemical Bank, Shareholder Services, 85 Challenger Road, Overpeck Centre, Ridgefield Park, NJ 07660.

The following table shows, for the periods indicated, the high and low prices per share of the Corporation's common stock on the New York Stock Exchange Composite Transactions as reported in the Bloomberg Financial Markets service.

Quarterly Common Stock Data

	1995		1994	
Quarter	**High**	**Low**	**High**	**Low**
1st	$20.91	$17.19	$22.38	$19.06
2nd	25.03	20.25	22.06	18.91
3rd	26.50	22.53	22.59	19.31
4th	31.50	25.00	19.97	17.03

The closing price of the Corporation's common stock on February 21, 1996, as so reported, was $32.63.

SELECTED FINANCIAL INFORMATION

The following selected financial data for the years 1991 through 1995 (which data are not covered by the independent auditors' report) have been summarized or derived from the audited financial statements and other financial information. These data should be read in conjunction with the audited financial statements and notes to the financial statements.

(Dollars in millions, except per share amounts)

	Year Ended December 31,				
Income Statement Data:	**1995**	**1994**	**1993**	**1992**	**1991**
Interest income	$ 21,071	$ 17,347	$ 14,833	$ 13,534	$ 12,593
Interest expense	18,024	14,524	12,300	11,476	10,815
Net interest income	3,047	2,823	2,533	2,058	1,778
Guaranty fees	1,086	1,083	961	834	675
Miscellaneous income, net	93	143	259	191	78
Income from tax settlement	—	—	—	—	239
Provision for losses	(140)	(155)	(175)	(320)	(370)
Foreclosed property expenses	(195)	(223)	(130)	—	—
Administrative expenses	(546)	(525)	(443)	(381)	(319)
Special contribution	(350)	—	—	—	—
Income before federal income taxes and extraordinary item	2,995	3,146	3,005	2,382	2,081
Provision for federal income taxes	(840)	(1,005)	(963)	(733)	(626)
Income before extraordinary item	2,155	2,141	2,042	1,649	1,455
Extraordinary loss: early extinguishment of debt, net of tax effect	(11)	(9)	(169)	(26)	(92)
Net income	$ 2,144	$ 2,132	$ 1,873	$ 1,623	$ 1,363
Per common share:(1)					
Earnings before extraordinary item	$ 1.96	$ 1.95	$ 1.86	$ 1.50	$ 1.33
Net earnings	1.95	1.94	1.71	1.48	1.24
Cash dividends	.68	.60	.46	.35	.26

	December 31,				
Balance Sheet Data:	**1995**	**1994**	**1993**	**1992**	**1991**
Mortgage portfolio, net	$252,588	$220,525	$189,892	$156,021	$126,486
Total assets	316,550	272,508	216,979	180,978	147,072
Borrowings:					
Due within one year	146,153	112,602	71,950	56,404	34,608
Due after one year	153,021	144,628	129,162	109,896	99,329
Total liabilities	305,591	262,967	208,927	174,204	141,525
Stockholders' equity	10,959	9,541	8,052	6,774	5,547
Capital(2)	11,754	10,367	8,893	7,554	6,251

	Year Ended December 31,				
Other Data:	**1995**	**1994**	**1993**	**1992**	**1991**
Net interest margin	1.16%	1.24%	1.38%	1.37%	1.42%
Return on average equity	20.9	24.3	25.3	26.5	27.7
Return on average assets	1.0	1.0	1.0	1.0	1.0
Ratio of earnings to fixed charges(3)	1.17:1	1.22:1	1.22:1	1.20:1	1.19:1
Dividend payout ratio	34.6%	30.8%	26.9%	23.2%	20.7%
Equity to assets ratio	3.6	3.6	3.8	3.8	3.6
Mortgage purchases	$ 56,598	$ 62,389	$ 92,037	$ 75,905	$ 37,202
MBS issued	110,456	130,622	221,444	194,037	112,903
MBS outstanding at year-end(4)	582,959	530,343	495,525	444,979	371,984

(1) Per share amounts and number of shares reflect a four-for-one stock split effective January 16, 1996.

(2) Stockholders' equity plus allowance for losses.

(3) For the purpose of calculating the ratio of earnings to fixed charges, "earnings" consists of (i) income before federal income taxes and extraordinary item and (ii) fixed charges. "Fixed charges" consists of interest expense and, for periods prior to 1993, interest capitalized on real estate owned.

(4) Includes $69.7 billion, $44.0 billion, $24.2 billion, $20.5 billion, and $16.7 billion of MBS in portfolio at December 31, 1995, 1994, 1993, 1992, and 1991, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

For Fannie Mae, 1995 was a year of solid financial achievement. The Corporation's total assets passed the $300 billion mark, ending the year at $316.6 billion. Net income increased to $2.144 billion from $2.132 billion in 1994, while earnings per share increased to $1.95 from $1.94 in 1994. Excluding the effect of a special fourth quarter contribution to the Fannie Mae Foundation discussed below, net income would have been $2.372 billion, or $2.15 per share, in 1995.

Fannie Mae's achievement of solid earnings growth in spite of significant volatility in interest rates is a testament to the Corporation's management of its key risks—interest rate risk and credit risk. The Corporation's success in managing interest rate risk under these conditions was a direct result of effective matching of the expected durations of its assets and liabilities. The Corporation's positive credit performance reflects prudent underwriting practices and an increased emphasis on loss mitigation over the past few years. At the same time, Fannie Mae has expanded its housing outreach efforts while exceeding the regulatory housing goals set by the Secretary of Housing and Urban Development.

The Corporation's capital base (stockholders' equity plus allowance for losses) grew 13 percent to $11.8 billion at December 31, 1995. This level exceeded the applicable regulatory capital standards at December 31, 1995. Management expects that continued growth in retained earnings will ensure compliance with all such standards in the future.

In December 1995, the Board of Directors approved a major capital restructuring program that includes a four-for-one split in the Corporation's common shares effective January 16, 1996; the issuance of $1 billion in preferred stock, the proceeds of which will be used to repurchase common stock; and a commitment to contribute $350 million in Fannie Mae common stock to the Fannie Mae Foundation ("Foundation"). The commitment to contribute shares resulted in a pretax charge to fourth quarter earnings of $350 million. The Board also authorized the repurchase of up to an additional 6 percent of the Corporation's outstanding common shares at the time the restructuring program was announced. Additional information on the Corporation's capital is presented under "Balance Sheet Analysis—Liquidity and Capital Resources."

The remainder of Management's Discussion and Analysis includes detailed information on the Corporation's results of operations, risk management, balance sheet analysis, MBS activity, and housing goals.

Results of Operations

Net Interest Income

Net interest income increased $224 million to $3.047 billion in 1995 ($301 million to $3.258 billion on a tax-equivalent basis) due primarily to a $26.6 billion, or 13 percent, increase in the average mortgage portfolio balance outstanding during 1995 and an increase in income from tax-advantaged investments, which offset the impact of compression in the net interest margin.

Despite an upward trend in the second half of the year, the average net interest margin decreased 8 basis points to 1.16 percent in 1995, compared with 1.24 percent in 1994. Two primary factors causing the decline were a substantial rise in the balance of shorter term nonmortgage securities with significantly lower margins than those earned on the mortgage portfolio, and lower MBS float balances due to a reduction in MBS prepayments in early 1995. For 1996, management believes that net interest income will continue to increase, principally as a result of growth in the average net mortgage portfolio, while the average net interest margin is expected to be relatively unchanged from 1995.

In 1994, net interest income increased $290 million, or 11 percent, to $2.823 billion, compared with $2.533 billion in 1993. This rise was due primarily to a $36.6 billion increase in the average mortgage portfolio balance outstanding during 1994, which offset a 14 basis point decrease in the average net interest margin.

Net interest income excludes interest receivable on nonperforming loans. Conventional (nongovernment insured or guaranteed) single-family and multifamily loans are classified as nonperforming and previously accrued interest is removed from income when a payment is 90 days or more past due. Nonperforming loans outstanding totaled $2.1 billion at the end of 1995 and 1994, compared with $1.3 billion at December 31, 1993. The increase in outstanding nonperforming loans from the 1993 level was due primarily to efforts to accelerate the purchase of seriously delinquent loans from MBS pools. Once a delinquent loan has been removed from an MBS pool, the Corporation no longer advances uncollected interest to investors and is able to proceed with loss mitigation efforts. If nonperforming assets had been fully performing, they would have contributed an additional $122 million to net interest income in 1995, $133 million in 1994, and $115 million in 1993.

Guaranty Fee Income

Guaranty fee income remained relatively flat in 1995 compared with 1994 as an increase in average net MBS outstanding was offset by a lower effective guaranty fee rate. The decline in the effective guaranty fee rate was due primarily to an increase in the percentage of lender risk or credit-enhanced MBS issued, which generally have lower guaranty fee rates, and to competitive pressures. Guaranty fees compensate the Corporation for its guarantee of timely payment of principal and interest to MBS investors and its assumption of credit risk on the loans underlying MBS.

The following table shows guaranty fee income as a percentage of the average balance of MBS outstanding, net of MBS held in portfolio, in 1995, 1994, and 1993.

	1995	1994	1993
	(Dollars in millions)		
Guaranty fee income	$ 1,086	$ 1,083	$ 961
Average balance of net MBS outstanding	494,689	481,987	450,412
Effective guaranty fee rate	.220%	.225%	.213%

The effective guaranty fee rate rose in 1994 compared with 1993 due primarily to faster amortization of deferred guaranty fees during 1994 in response to the high level of prepayments in 1993. Deferred guaranty fees result when a lender chooses to make an upfront payment at securitization in exchange for a lower guaranty fee over the life of the MBS.

Additional information on the Corporation's MBS and guaranty fees is presented under "Mortgage-Backed Securities."

Miscellaneous Income

Miscellaneous income is composed of REMIC and other MBS-related fees, net operating losses from equity investments in affordable housing projects, gain or loss on sales of mortgages, and other miscellaneous items. The 35 percent decline in miscellaneous income during 1995 was primarily the result of a $36 million decrease from a change in accounting method for equity investments in affordable housing projects and a $27 million decrease in REMIC fee income due to lower REMIC issuance volume. In response to an accounting pronouncement issued during the second quarter of 1995, the Corporation changed to the equity method of accounting, under which net operating losses are charged to miscellaneous income for its equity investments in affordable housing projects. Previously, the Corporation used the cost recovery method. The Corporation also defers a portion of REMIC fees and amortizes them over the life of the REMIC to match expected future administrative

costs. During 1995, the Corporation recognized substantial deferred REMIC fees due to lower than expected REMIC processing costs resulting from technological improvements. These deferred fees offset, in part, the decline in fee income from new REMIC issues. Additional information on REMIC activity is presented under "Mortgage-Backed Securities."

Miscellaneous income decreased during 1994 compared with 1993, due primarily to a 37 percent decline in REMIC fee income, lower MBS transaction fees, and lower prepayment fee income from multifamily refinancing transactions. The decrease in REMIC fees from $126 million in 1993 to $80 million in 1994 was attributable to lower REMIC issuances, reflecting a decline in the volume of fixed-rate MBS issued and reduced investor demand for certain REMIC securities.

Credit-Related Expenses

Credit-related expenses, which include foreclosed property expenses and the provision for losses, were $335 million in 1995, compared with $378 million and $305 million in 1994 and 1993, respectively. Credit-related expenses declined in 1995 in spite of an increase in the number of acquired properties due to a lower loss per case and a reduction in the provision for losses. Credit-related expenses increased in 1994 compared with 1993 primarily due to the higher level of acquisitions of foreclosed properties that resulted from the weak economies in the Northeast and California.

Management expects credit-related expenses to increase in 1996 as the high volume of loans acquired in 1992 and 1993 approach their peak default years and as the portfolio and MBS outstanding continue to increase. Management provides an allowance to cover estimated foreclosure losses.

Administrative Expenses

Administrative expenses totaled $546 million in 1995, compared with $525 million in 1994, and $443 million in 1993. Administrative expense growth in 1995 compared with 1994 was held to 4 percent, while the company still devoted additional resources to housing initiatives, loss mitigation activities, and continued investments in technology. Compensation expense was $312 million or 57 percent of administrative expenses in 1995, compared with $293 million (56 percent) in 1994 and $251 million (57 percent) in 1993. Management expects that the special contribution to the Foundation in 1995 will have a positive impact on administrative expenses in 1996 and for several years thereafter.

Administrative expenses increased in 1994 compared with 1993 primarily because of technology-related expenses and increased staffing for affordable housing initiatives.

The ratio of administrative expenses to the average net mortgage portfolio plus average net MBS outstanding was .075 percent in 1995, compared with .076 percent in 1994 and .072 percent in 1993. The ratio of administrative expenses to revenues (net interest income, guaranty fees, and miscellaneous income) was 12.9 percent in 1995, 13.0 percent in 1994, and 11.8 percent in 1993.

Special Contribution

In December 1995, the Corporation announced a commitment to contribute $350 million in Fannie Mae common stock to the Fannie Mae Foundation. This commitment resulted in a pretax charge to fourth quarter earnings of $350 million ($228 million after tax) and was intended to fund Foundation activities beyond the turn of the century. As a result of the contribution, the Foundation will be able to expand the scope of its activities, and beginning in 1996 will undertake public service and consumer outreach programs similar to those previously sponsored by Fannie Mae.

Income Taxes

The provision for federal income taxes, net of the tax benefit from extraordinary losses, was $834 million in 1995, compared with $999 million and $872 million in 1994 and 1993, respectively.

The effective federal income tax rate was 28 percent in 1995, a decrease from 32 percent in 1994 and 1993. The decrease from the previous two years was due to a favorable settlement with the IRS of several items relating to the 1986 and 1987 tax years, higher income on tax-advantaged investments, and the impact of net operating losses and tax credits from equity investments in affordable housing projects.

Extraordinary Loss

Both the repurchase and call of debt and the call of certain interest rate swaps are part of the Corporation's interest rate risk management strategy.

During 1995 the amount of long-term debt called or repurchased and the notional principal of interest rate swaps called were $19.7 billion with a weighted-average cost of 7.24 percent. The comparable amounts were $14.1 billion with a weighted-average cost of 8.42 percent in 1994 and $15.5 billion with a weighted-average cost of 7.70 percent in 1993.

As a result of repurchase and call activity, the Corporation recognized net extraordinary losses of $17 million ($11 million after tax) in 1995, compared with $15 million ($9 million after tax) for 1994, and $260 million ($169 million after tax) for 1993.

The decrease in the amount of debt repurchased from 1993 to 1994 was primarily the result of the Corporation taking advantage of low rates during 1993 to call or repurchase high-coupon debt.

For 1996, management expects losses from the repurchase or call of debt to be slightly higher than in 1995.

Risk Management

The active management of risk is an integral part of the Corporation's operations and a key determinant in its ability to maintain steady earnings growth. The Corporation employs various strategies to diversify and mitigate the major risks to which it is exposed. The following discussion highlights Fannie Mae's strategies for managing its two major risks: interest rate risk and credit risk.

Interest Rate Risk Management

Over the past few years, the Corporation has operated in a period of substantial interest rate volatility that tested the effectiveness of its interest rate risk management strategies. During 1992 and 1993, the housing finance system experienced a tremendous surge in mortgage prepayments, which then slowed significantly in 1994 and early 1995 in response to rising interest rates. In the second half of 1995, mortgage prepayments and refinancing activity accelerated modestly once again in response to declining rates. In spite of these interest rate swings, the Corporation has been able to generate continued growth in net income.

Fannie Mae's approach to managing interest rate exposure is to acquire and maintain a portfolio of assets and liabilities that have similar expected durations. Duration measures the weighted-average life of a financial instrument's discounted future cash flows, as well as the sensitivity of the market price of the instrument to changes in interest rates. To monitor the portfolio's sensitivity to interest rate changes, the Corporation frequently projects the effect of rising and falling interest rate scenarios on its income statement and balance sheet. In addition, the Corporation performs frequent "stress testing" of the portfolio's behavior under extreme interest rate environments to analyze its interest rate exposure, and to evaluate the level of capital required to support the portfolio. In assessing its interest rate risk profile, the Corporation analyzes and monitors the degree to which the durations of its assets and liabilities fluctuate as interest rates change, often referred to as convexity. When the convexity of a portfolio's assets is different from that of its liabilities, the Corporation's duration gap—the difference between its asset and liability durations—will change as interest rates change.

A principal element of duration gap management relates to the maturity profile and call features of long-term debt. Callable debt enables the Corporation to shorten the duration of its debt when

interest rates fall, and to lengthen the duration of that same debt when interest rates rise. When interest rates fall, as they did in 1993 and in the latter half of 1995, mortgages prepay at faster rates. By calling a portion of its outstanding long-term debt in such circumstances, the Corporation is able to adjust the duration of its debt to better match the duration of its mortgages. In addition to callable debt, the Corporation utilizes off-balance-sheet financial instruments, primarily interest rate swaps, to change the nature of the Corporation's debt and better match the prepayment risk of the mortgage portfolio. A goal of the Corporation is to maintain the duration gap close to zero through management of the durations of its assets and liabilities. By minimizing the duration gap, the Corporation reduces its exposure to interest rate risk.

At December 31, 1995, the Corporation had a negative duration gap of three months, compared with a positive gap of nine months at the end of 1994, and a negative gap of two months at the end of 1993. A negative duration gap results when the duration of mortgage assets is shorter than the duration of the related liabilities and indicates the Corporation has more interest rate exposure in a falling rate environment. The decline in the Corporation's duration gap from 1994 to 1995 was primarily due to the decline in the duration of mortgage assets that resulted from the drop in interest rates in the second half of 1995, and an increase in the issuance of longer duration debt, particularly during the first half of the year.

The increase in interest rates during 1994 caused the duration of the Corporation's mortgage assets to lengthen as prepayments slowed significantly compared to 1993.

In addition to analyzing on a regular basis the duration and convexity of assets and liabilities as a whole, the Corporation evaluates potential asset purchases to determine the optimal funding mix, given both the asset's and the overall portfolio's sensitivity to interest rate movements. To accomplish this, a model is used to simulate the performance, under a wide range of interest rate scenarios, of mortgage investments financed with a mixture of debt and equity.

Additional information on interest rate risk management is presented under "Balance Sheet Analysis—Financing Activities."

Credit Risk Management

The Corporation's primary exposure to credit risk results from the possibility it will not recover amounts due from borrowers. Management attempts to reduce this risk by requiring that seller/servicers follow specific underwriting guidelines and loan servicing practices. Ultimately, some loans will default regardless of the Corporation's underwriting and quality control requirements. In these instances, the Corporation attempts to minimize losses through loss mitigation efforts.

The Corporation also is subject to the credit risk that other counterparties to transactions may be unable to meet their contractual obligations to Fannie Mae. Additional information on these major exposures to credit risk is presented under "Balance Sheet Analysis—Financing Activities" and in the Notes to Financial Statements, "Financial Instruments with Off-Balance-Sheet Risk" and "Concentrations of Credit Risk." The discussion that follows addresses the major elements of credit risk management as they pertain to conventional single-family and multifamily mortgages.

Single-Family

In the past two years, loss mitigation has played a significant role in credit loss management. A key element of loss mitigation is early intervention in a delinquency. Experience has shown that once a borrower has missed three or more payments, it is less likely a loan will become current. To reduce the costs that are incurred when a loan goes through the foreclosure process, borrowers are contacted early in a delinquency to determine whether the loan might be worked out through temporary forbearance or a modification of terms. A modification allows a borrower to make lower payments in lieu of the loan servicer foreclosing on the property and incurring foreclosure costs. If neither forbearance nor modification is possible, the loan servicer may attempt to complete a preforeclosure sale. The benefits of a preforeclosure sale include a significant reduction in the amount of time the

Corporation retains a nonearning asset, avoidance of the costs of foreclosure, and a tendency for the property to sell at a better price because the home generally is occupied.

Charge-offs and foreclosed property expenses result from foreclosures and preforeclosure sales. Despite the increased volume of loans and MBS outstanding and an increase in foreclosed properties, credit-related losses were lower in 1995 than in 1994. This decrease was primarily the result of increased loss mitigation efforts and improvement in the housing market in the Northeast, which resulted in a significant reduction in the loss per case in that region. The increase in the number of properties acquired through foreclosure in 1995 was primarily due to continued weakness in the economy of California.

Increases in single-family credit-related losses and in the number of properties acquired through foreclosure in 1994 compared with 1993 were because of weakness in the economies of California and the Northeast, and a $15 million loss related to the Northridge, California earthquake.

The following table shows credit-related losses, the ratio of credit losses to average principal balances outstanding for single-family loans in portfolio and backing MBS, and the number of conventional single-family properties acquired and preforeclosure sales and loan modifications transacted during the past three years.

	Year Ended December 31,		
	1995	1994	1993
	(Dollars in millions)		
Charge-offs:			
Acquired properties	$ 95	$ 104	$ 64
Preforeclosure sales	51	41	23
	146	145	87
Foreclosed property expenses	199	228	140
Credit-related losses	$ 345	$ 373	$ 227
Credit loss ratio	.05%	.06%	.04%
Acquired properties:			
Northeast	3,296	3,490	3,353
Southeast	1,767	1,739	2,034
Midwest	660	670	709
Southwest	1,326	1,579	1,840
West	6,892	5,738	3,621
Total	13,941	13,216	11,557
Preforeclosure sales	4,030	3,417	2,323
Loan modifications	2,911	4,339	2,478

The total number of properties owned by Fannie Mae at December 31, 1995 was 6,600, compared with 6,200 and 5,300 for 1994 and 1993, respectively. These properties had net carrying amounts of $545 million, $485 million, and $379 million at December 31, 1995, 1994, and 1993, respectively.

In evaluating expected future credit performance, management analyzes the risk profile of the conventional single-family loans in the Corporation's portfolio and underlying outstanding MBS. The loan-to-value ("LTV") ratio is an important factor in credit performance because the amount of equity a borrower has in a home has proven to be a key determinant of the incidence and loss severity of default. For loans with LTV ratios over 80 percent, the Corporation requires private mortgage insurance or alternative credit protection, which reduces the potential risk to Fannie Mae.

Product mix also influences potential future credit losses because the credit risks associated with each product type vary. Adjustable-rate mortgages tend to have a higher incidence of default than

long-term, fixed-rate mortgages, while intermediate-term, fixed-rate mortgages tend to have a lower incidence of default.

The table below presents product distribution and LTV ratios of the Corporation's conventional loan purchases and MBS issuances in the years 1993 through 1995, and conventional loans outstanding at December 31, 1995 and 1994.

	Percentage of Business Volumes			Outstanding at December 31,	
	1995	1994	1993	1995	1994
Product:					
Long-term, fixed-rate	70%	65%	57%	60%	58%
Intermediate-term, fixed-rate(1)	19	26	38	29	31
Adjustable-rate	11	9	5	11	11
Total	100%	100%	100%	100%	100%
Loan-to-value ratio(2):					
Greater than 90%	19%	14%	7%	11%	9%
81% to 90%	18	18	16	17	17
71% to 80%	36	36	37	37	37
61% to 70%	12	14	17	15	16
Less than 61%	15	18	23	20	21
Total	100%	100%	100%	100%	100%
Average loan-to-value ratio	77%	75%	71%	73%	73%
Current loan-to-value ratio(3):					
Greater than 90%				6%	6%
81% to 90%				12	12
71% to 80%				18	19
61% to 70%				18	20
Less than 61%				46	43
Total				100%	100%
Average current loan-to-value ratio				60%	60%
Average loan amount (Maximum $203,150 in 1995)	$97,400	$95,100	$98,100	$81,800	$81,000

(1) Contractual maturities of 20 years or less at purchase for portfolio loans and 15 years or less at issue date for MBS issuances.

(2) Represents LTV ratios at time of origination.

(3) Derived by estimating home price appreciation using a repeat transactions index and adjusting the value of the property at the time the mortgage was originated by the estimated appreciation, and comparing it with the current unpaid principal balance of the mortgage.

Another indicator of future credit losses is the rate of serious delinquencies (90 or more days delinquent). The table below summarizes conventional single-family serious delinquencies by region as of December 31, 1995, 1994, and 1993. Single-family serious delinquency rates are based on the

number of loans in portfolio and underlying MBS for which the Corporation has primary risk of loss and that are delinquent 90 days or more or in the process of foreclosure.

	December 31,		
	1995	1994 (1)	1993 (1)
Northeast	.83%	.75%	.81%
Southeast	.45	.33	.35
Midwest	.28	.21	.23
Southwest	.36	.28	.33
West	.82	.69	.59
Total	.56%	.47%	.48%

(1) Restated for consistency with current definition of seriously delinquent, which includes loans three or more months delinquent or in foreclosure. Prior to 1995, loans less than 90 days delinquent but in relief or in bankruptcy were considered seriously delinquent.

Experience has shown that loan age is a major factor affecting delinquency rates, and that the incidence of default for a group of mortgages generally peaks in the third through fifth years after origination. Unless real estate values decline significantly, loans outstanding after five years tend to have lower default rates because borrowers have a history of being able to make their payments and most likely have built up additional equity in their properties. The Corporation acquired a significant portion of its portfolio and MBS outstanding between 1991 and 1993 (53 percent of total outstandings at December 31, 1995), as a result of the dramatic drop in mortgage rates. The increase in the Corporation's serious delinquency rate in 1995 reflected not only economic weakness in California but also the large volume of loans now reaching their peak default years.

The Corporation expects the serious delinquency rate and the number of acquired properties to continue to rise, which should result in a moderate increase in credit losses in 1996.

Multifamily

For the majority of multifamily loans, either held in portfolio or backing MBS, the Corporation has full or partial recourse to the lender or third parties (which may be secured by letters of credit or pledged collateral) or has FHA insurance. Such recourse frequently is through the Delegated Underwriting and Servicing (''DUS'') product line under which the lender generally bears losses up to 5 percent of the unpaid principal balance at the time of loss, with any remaining losses shared by the lender and Fannie Mae. The percentages of multifamily loans and MBS for which Fannie Mae has the primary risk of default (with no risk sharing) and for shared risk under DUS as of December 31, 1995, were 17 percent and 39 percent, respectively. The comparable percentages were 16 percent and 39 percent, respectively, at December 31, 1994, and 17 percent and 36 percent, respectively, at December 31, 1993. While the Corporation's Western Region had 39 percent of the conventional multifamily portfolio and MBS outstanding at December 31, 1995, 81 percent of those loans and MBS involved collateralized recourse or shared risk.

Multifamily serious delinquencies at December 31, 1995, 1994, and 1993 were 0.81 percent, 1.21 percent, and 2.34 percent, respectively. Multifamily serious delinquencies are those loans for which the Corporation has primary risk of loss (including those with shared risk) that are two months or more delinquent. Delinquency percentages are based on the dollar amount of such loans in portfolio and underlying MBS.

The level of serious delinquencies for multifamily loans has declined significantly in recent years, primarily as a result of better underwriting, improvements in the multifamily rental market, and continued emphasis on early loss mitigation efforts.

Multifamily foreclosed property acquisitions totaled 75 properties, 31 properties, and 36 properties during 1995, 1994, and 1993, respectively. During 1995, property acquisitions included 62 properties from a portfolio that transferred from lender risk to Fannie Mae risk. As part of the transaction the Corporation received substantial supplemental fees to help offset expected losses. At December 31, 1995, 1994, and 1993, the Corporation held 28 properties with an aggregate carrying value of $40 million, 26 properties with an aggregate carrying value of $66 million, and 46 properties with an aggregate carrying value of $115 million, respectively.

Credit-related losses and the ratio of credit losses to average principal balances outstanding for multifamily loans in portfolio and underlying MBS are summarized in the following table.

	Year Ended December 31,		
	1995	1994	1993
	(Dollars in millions)		
Charge-offs	$26	$24	$27
Foreclosed property income	(4)	(5)	(10)
Credit-related losses	$22	$19	$17
Credit loss ratio	.08%	.08%	.08%

Multifamily credit-related losses have remained relatively stable despite increased business volumes and foreclosed property acquisitions, due primarily to active management of delinquent multifamily assets and stability in the multifamily market. Stable market conditions have resulted in net operating income on foreclosed properties and net gains recorded at the disposition of certain properties. As a result, the Corporation has recorded net foreclosed property income in each of the past three years.

Allowance for Losses

In evaluating the risk of loss on portfolio loans and MBS outstanding, management considers current delinquency levels, historical loss experience, current economic conditions, geographic concentrations, estimates of future loan losses, and other pertinent factors. The allowance for losses is established by recording an expense for the provision for losses and is reduced through charge-offs. The Corporation's loss coverage ratio, measured as the ratio of the year-end allowance for losses to

charge-offs in that year, was 4.6:1 at December 31, 1995, compared with 4.9:1 for 1994. Changes in the allowance for losses for the years 1991 through 1995 are presented in the following table.

	Total (Dollars in millions)
Balance, January 1, 1991	$ 539
Provision for losses	370
Charge-offs:	
Single-family	(143)
Multifamily	(62)
Balance, December 31, 1991	704
Provision for losses	320
Charge-offs:	
Single-family	(202)
Multifamily	(42)
Balance, December 31, 1992	780
Provision for losses	175
Charge-offs:	
Single-family	(87)
Multifamily	(27)
Balance, December 31, 1993	841
Provision for losses	155
Charge-offs:	
Single-family	(145)
Multifamily	(24)
Balance, December 31, 1994	827
Provision for losses	140
Charge-offs:	
Single-family	(146)
Multifamily	(26)
Balance, December 31, 1995	$ 795

Balance Sheet Analysis

This section discusses the Corporation's mortgage portfolio and other investments and the financing activities that fund them. Also included is a discussion of liquidity and capital resources and regulatory capital requirements.

Mortgage Portfolio

As of December 31, 1995, the net mortgage portfolio totaled $252.6 billion. In comparison, the portfolio totaled $220.5 billion and $189.9 billion at December 31, 1994 and 1993, respectively. The yield on the net mortgage portfolio was 7.80 percent at December 31, 1995 and 1994, compared with 7.79 percent at December 31, 1993. The yield on the mortgage portfolio averaged 7.85 percent in 1995 and began to decline in the second half of 1995 in response to lower purchase yields relative to the yields on liquidations.

The following table summarizes mortgage purchases, sales, and repayments for the years 1993 through 1995.

	Purchases			Sales			Repayments (1)		
	1995	1994	1993	1995	1994	1993	1995	1994	1993
	(Dollars in millions)								
Mortgage type:									
Single-family:									
Government insured or guaranteed	$ 2,669	$ 4,751	$ 1,590	$ —	$ —	$ —	$ 1,226	$ 1,617	$ 2,084
Conventional:									
Long-term, fixed-rate	42,659	39,426	45,705	281	1,048	6,209	10,972	11,868	24,853
Intermediate-term, fixed-rate	9,235	15,378	38,940	126	726	684	8,545	11,110	17,712
Adjustable-rate	1,017	1,223	2,597	—	—	—	2,624	3,541	5,727
Second	11	8	29	—	—	—	125	248	617
Total single-family	55,591	60,786	88,861	407	1,774	6,893	23,492	28,384	50,993
Multifamily	1,007	1,603	3,176	11	28	42	1,235	1,008	1,372
Total	$56,598	$62,389	$92,037	$ 418	$1,802	$6,935	$24,727	$29,392	$52,365
Average net yield	7.75%	7.75%	6.89%				7.90%	8.11%	8.56%
Repayments as a percentage of average mortgage portfolio							10.6%	14.2%	30.5%

(1) Includes mortgage loan prepayments, scheduled amortization, and foreclosures.

The decrease in mortgage purchases in 1995 compared with 1994 was primarily due to higher interest rates in the first half of 1995, which caused lower mortgage originations and a reduction in secondary mortgage market supply. The rising interest rate environment also prompted the origination of more adjustable-rate loans, which lenders are more likely to retain or purchase for their portfolios. Management expects mortgage purchases to increase in 1996 compared with 1995 because of improvement in the mortgage market resulting from lower interest rates and an increased volume of fixed-rate originations.

The decrease in repayments during 1995 and 1994 was primarily due to a continued slowdown in refinancings that resulted from higher interest rates. Management expects increases in repayments during 1996 due to the lower rate environment in the latter half of 1995 and an expectation that this trend will continue into 1996. The lower sales level in 1995, compared with 1994 and 1993, primarily reflected the reduced volume of loan originations during the period, which resulted in a lower volume of conduit activity where the Corporation enters into forward sales commitments at the same time as it makes mortgage purchase commitments.

Investments

The Corporation maintains an investment portfolio consisting primarily of high-quality, short-term nonmortgage investments, such as federal funds, commercial paper and repurchase agreements, auction-rate preferred stock, municipal bonds, and other asset-backed securities for liquidity and to employ surplus capital. The balance in the investment account increased to $57.3 billion at December 31, 1995, compared with $46.3 billion and $21.4 billion at December 31, 1994 and 1993, respectively.

Additional information on investments is presented in the Notes to Financial Statements, "Investments."

Financing Activities

The average cost of debt outstanding at December 31, 1995 was 6.55 percent, compared with 6.78 percent and 6.53 percent at December 31, 1994 and 1993, respectively. The average cost of debt

outstanding at December 31, 1995 declined due to lower interest rates in the latter part of 1995 combined with an increase in short-term debt issued to support short-term investments. The increase in 1994 compared with 1993 was primarily the result of higher interest rates and the lengthening of debt to match an extension in the duration of mortgage assets. The average cost of debt outstanding during 1995 was 28 basis points higher than in 1994 due to the maturation of lower cost debt and higher interest rates on new debt issued during the first several months of 1995. The average maturity of effective long-term, fixed-rate debt outstanding at December 31, 1995 and 1994 was 64 months and 69 months, respectively.

The following table sets forth the amount and average cost of debt issued and repaid in 1995, 1994, and 1993, and of debt outstanding at the end of each of those years.

	1995	1994	1993
	(Dollars in millions)		
Issued during the year:			
Short-term(1):			
Amount	$699,311	$564,014	$289,904
Average cost	5.87%	4.58%	2.96%
Long-term(1):			
Amount	$ 49,922	$ 39,238	$ 46,425
Average cost	6.55%	6.19%	5.19%
Repaid during the year:			
Short-term(1):			
Amount	$678,989	$523,656	$275,992
Average cost	5.86%	4.21%	2.99%
Long-term(1):			
Amount	$ 28,391	$ 23,595	$ 24,938
Average cost	7.50%	8.19%	7.79%
Outstanding at year-end:			
Due within one year:			
Net amount	$146,153	$112,602	$ 71,950
Average cost(2)	5.90%	6.05%	4.20%
Due after one year:			
Net amount	$153,021	$144,628	$129,162
Average cost(2)	6.83%	6.97%	7.06%
Total debt:			
Net amount	$299,174	$257,230	$201,112
Average cost(3)	6.55%	6.78%	6.53%

(1) Short-term refers to the face amount of debt issued with an original term of one year or less. Long-term is the face amount of debt issued with an original term greater than one year.

(2) Average cost includes the amortization of discounts, premiums, issuance costs, hedging results, and the effect of currency and debt swaps.

(3) Average cost includes the amortization of discounts, premiums, issuance costs, hedging results, and the effect of currency, debt, and interest rate swaps.

In 1995, the Corporation introduced a Global Debt Facility that has opened up additional funding alternatives by enabling the Corporation to issue debt securities in global markets in over 15 different currencies. During 1995, the Corporation issued debt securities totaling $5.7 billion under its Global Debt Facility, representing approximately 11 percent of total effective long-term debt issued by the Corporation during the year.

As described under "Interest Rate Risk Management," matching the durations of mortgage assets with the durations of liabilities funding those assets is accomplished through the use of different debt maturities and option characteristics, as well as the use of interest rate swaps.

The following table presents the amount of callable debt and the notional amount of callable swaps issued and outstanding for each year.

	1995	1994	1993
	(Dollars in billions)		
Issued during the year	$ 23.0	$ 22.2	$43.9
Percentage of total long-term debt issued(1)	37%	45%	80%
Outstanding at year-end	$106.1	$101.9	$93.5
Percentage of total long-term debt outstanding(1)	48%	55%	58%

(1) Includes the notional amount of callable swaps and excludes long-term debt with a repricing frequency of one year or less.

The relative shift from callable to noncallable debt in 1995 and 1994 reflected the requirements of mortgage portfolio restructuring as well as a change in the type of callable debt issued. Increases in interest rates during 1994 and the early months of 1995 caused the duration of the mortgage portfolio's assets to extend relative to that of its liabilities, and the issuance of long-term noncallable debt helped to lengthen liability durations. In addition, callable debt issued in 1995 included a higher percentage of structures with short "lock-out" periods (relatively short time periods to the initial call date). These instruments allow for greater risk management flexibility than longer lock-out instruments, which had been the predominant form of callable debt employed in the past.

Interest rate swaps increase the flexibility of the Corporation's funding alternatives by providing the specific cash flows or characteristics the portfolio requires but that might not be as readily available or cost effective if obtained in the standard debt market. The Corporation primarily uses two types of interest rate swaps—generic swaps, which involve the exchange of fixed and variable interest payments based on contractual notional principal amounts and may include callable swaps (which give the Corporation the right to terminate the interest rate swap agreement before its stated final maturity); and basis swaps, whereby the Corporation exchanges interest payments that have similar maturities but are based on different indices. Fannie Mae does not speculate using derivatives and is not a derivatives trader or dealer.

The following table summarizes the Corporation's interest rate swap activity for the years ended December 31, 1995 and 1994, together with the expected maturities and weighted-average interest rates to be received and paid on these swaps.

	Generic-pay fixed/receive variable (1)			Generic-pay variable/receive fixed					
	Notional (2)	Pay Rate (3)	Receive Rate (3)	Notional (2)	Pay Rate (3)	Receive Rate (3)	Basis Swaps	Other	Total
				(Dollars in millions)					
Balance on January 1, 1994	$32,749	6.57%	3.43%	$ 2,804	3.38%	6.48%	$11,665	$1,625	$ 48,843
Additions	23,100	7.38	5.82	5,775	5.95	6.68	12,310	—	41,185
Maturities	680	8.33	5.28	1,100	3.91	6.34	1,570	319	3,669
Balance on December 31, 1994	55,169	6.89	5.74	7,479	6.16	6.57	22,405	1,306	86,359
Additions	26,020	6.46	5.93	9,777	5.76	6.96	16,985	—	52,782
Maturities	5,653	7.65	5.65	3,718	5.84	6.35	6,499	91	15,961
Balance at December 31, 1995	$75,536	6.68	5.87	$13,538	5.76	6.97	$32,891	$1,215	$123,180
Future Maturities (4)									
1996	$ 2,341	6.17	5.72	$ 5,900	5.84	6.67	$18,715	$ —	$ 26,956
1997	10,420	6.15	5.92	2,330	5.56	6.87	6,610	200	19,560
1998	7,600	5.32	5.82	1,839	5.74	6.69	2,710	—	12,149
1999	9,425	6.83	5.65	145	5.71	7.92	3,666	500	13,736
2000	3,950	6.19	5.87	1,822	5.74	7.22	850	500	7,122
Thereafter	41,800	7.11	5.92	1,502	5.80	8.24	340	15	43,657
	$75,536	6.68%	5.87%	$13,538	5.76%	6.97%	$32,891	$1,215	$123,180

(1) Included in the notional amounts are callable swaps of $23.4 billion, $27.2 billion, and $26.6 billion; with weighted-average pay rates of 6.38 percent, 6.45 percent, and 6.47 percent; and weighted-average receive rates of 5.83 percent, 5.81 percent, and 3.39 percent at December 31, 1995, 1994, and 1993, respectively.

(2) The notional value indicates the amount on which swap payments are being calculated and does not represent the amount at risk of loss.

(3) The weighted-average interest rate receivable and payable is as of the date indicated. Where the pay rate or receive rate is variable, the rate may change as prevailing interest rates change.

(4) Assumes that variable interest rates remain constant at December 31, 1995 levels.

The Corporation's swaps had a weighted-average term of 70 months at year-end 1995 and 79 months at year-end 1994. Long-term debt outstanding, including the effect of swaps but excluding effective variable-rate debt (*i.e.*, long-term debt that reprices within one year), totaled $221.2 billion at December 31, 1995 and $186.7 billion at December 31, 1994. Interest rate swaps lengthened the final maturity of the Corporation's liabilities by 16 months and 15 months at December 31, 1995 and 1994, respectively.

The primary risk posed by the Corporation's interest rate swaps is credit risk, that is, the risk that a counterparty fails to meet its contractual obligations on a swap transaction causing the Corporation to have to replace the swap at market prices. The Corporation manages this risk by dealing with experienced swap counterparties with high credit quality, diversifying its swaps across many counterparties, and entering into swaps under master agreements that provide for netting of certain amounts payable by each party. In addition, counterparties are obligated to post collateral if the Corporation is exposed to credit loss on the related swaps exceeding an agreed-upon threshold. Fannie Mae regularly monitors the exposures on its interest rate swaps by marking the positions to market via dealer quotes and pricing models.

The Corporation also uses short sales of Treasury securities and deferred rate setting agreements to hedge against fluctuations in interest rates. Gains and losses on these instruments are deferred and reflected as a basis adjustment to the cost of the debt. The hedging of planned debt issuances enables

the Corporation to maintain an orderly and cost-effective debt issuance schedule so that it can make daily loan purchase commitments without significantly increasing its interest rate exposure.

Additional information on interest rate swaps and other off-balance-sheet financial instruments is presented in the Notes to Financial Statements, "Financial Instruments with Off-Balance-Sheet Risk" and "Disclosures of Fair Value of Financial Instruments."

Liquidity and Capital Resources

Fannie Mae's statutory mission requires that it provide ongoing assistance to the secondary market for mortgage loans. The Corporation, therefore, must raise funds continually to support its mortgage purchase activity. The capital markets traditionally have treated the Corporation's obligations as "federal agency" debt. As a result, even though its debt is not guaranteed by the U.S. government, the Corporation has had ready access to sufficient funds at relatively favorable rates.

Fannie Mae's primary sources of cash are issuances of debt obligations, mortgage loan repayments, interest income, and MBS guaranty fees. In addition, at December 31, 1995, Fannie Mae had cash and a portfolio of cash equivalents and shorter term investments totaling $57.6 billion, compared with $46.6 billion at December 31, 1994. Primary uses of cash include the purchase of mortgages, repayment of debt, and the payment of interest, administrative expenses, and taxes.

At December 31, 1995, the Corporation had mandatory delivery commitments and lender-option commitments outstanding to purchase $2.5 billion and $0.7 billion of mortgage loans, respectively, compared with $1.4 billion and $1.6 billion, respectively, outstanding at December 31, 1994.

In December 1995, Fannie Mae announced a capital restructuring program, which included the following components: a four-for-one split in the Corporation's common stock effective January 16, 1996, for holders of record on January 8, 1996; an intent to issue $1.0 billion in preferred stock in 1996, the proceeds of which will be used to repurchase common shares; and a commitment to contribute $350 million in Fannie Mae common stock to the Fannie Mae Foundation. The Board of Directors also authorized the repurchase of up to an additional 6 percent of the outstanding common shares at the time of the announcement (adjusted for the stock split). In conjunction with this authorization, the Corporation will examine further changes to its capital structure, including additional issues of preferred stock, stock repurchases, and other appropriate tools.

The Corporation's capital base (stockholders' equity plus allowance for losses) grew to $11.8 billion at December 31, 1995, compared with $10.4 billion and $8.9 billion at the end of 1994 and 1993, respectively. At year-end 1995, there were 1.092 billion shares of common stock outstanding, considering the effect of the stock split. In January 1996, the Board approved a quarterly dividend rate of 19 cents per share for 1996; in 1995, the quarterly dividend rate was 17 cents per share, adjusted for the stock split.

During 1995 and 1994, the Corporation repurchased 2.3 million and 3.5 million shares of common stock, respectively. The shares were purchased to offset the dilutive effect of shares previously issued or anticipated to be issued under employee stock-related compensation and benefit plans.

Regulatory Capital Requirements

The Corporation is subject to capital adequacy standards established by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 ("1992 Act"). The 1992 Act requires the Corporation's core capital to exceed a critical capital standard and a minimum capital standard. The

following table shows the Corporation's capital compared with these requirements at December 31, 1995 and 1994.

	December 31,	
	1995	1994
	(Dollars in millions)	
Core capital (1)	$10,959	$9,541
Required minimum capital (2)	10,451	9,416
Required critical capital (3)	5,373	4,889
Excess of core capital over minimum capital	508	125

(1) The sum of (a) the par value of outstanding common stock; (b) the par value of outstanding noncumulative perpetual preferred stock; (c) paid-in capital; and (d) retained earnings.

(2) The sum of (a) 2.50 percent of on-balance-sheet assets; (b) 0.45 percent of outstanding MBS; and (c) 0.45 percent of other off-balance-sheet obligations, except as adjusted by the Director of the Office of Federal Housing Enterprise Oversight.

(3) The sum of (a) 1.25 percent of on-balance-sheet assets; (b) 0.25 percent of outstanding MBS; and (c) 0.25 percent of other off-balance-sheet obligations, except as adjusted by the Director of the Office of Federal Housing Enterprise Oversight.

The Director of the Office of Federal Housing Enterprise Oversight also is developing, consistent with parameters specified in the 1992 Act, a risk-based capital standard for the Corporation. The risk-based standard includes credit and interest rate risk components along with an additional amount of capital for management and operations risk. To meet the standard, the Corporation must hold total capital equal to (1) the level of capital necessary to meet the combined occurrence of highly stressful credit and interest rate conditions over a ten-year period, and (2) 30 percent of such level of capital for management and operations risk. Total capital is defined as the sum of core capital and a general loss allowance. The proposed regulations implementing the risk-based standard are expected to be published for comment in 1996. The 1992 Act provides that the final regulations will be enforceable one year after issuance.

Mortgage-Backed Securities

At December 31, 1995, Fannie Mae had $583.0 billion of MBS outstanding, compared with $530.3 billion at December 31, 1994 and $495.5 billion at December 31, 1993. MBS are backed by loans from a single lender, multiple lenders, or from the Corporation's mortgage portfolio. Single-lender MBS are issued through lender swap transactions in which a lender exchanges pools of mortgage loans for MBS. Multiple-lender MBS allow several lenders to pool mortgage loans together and receive, in return, MBS (called Fannie Majors®) representing a proportionate share of a larger pool. In some instances, the Corporation buys loans and at the same time enters into a forward sale commitment. These loans are designated as available for sale and sold from the portfolio as MBS.

MBS frequently are used to back other securities, including Fannie Megas® ("Megas"), Stripped MBS ("SMBS"), and REMICs. In 1995 and 1994, Fannie Mae also issued REMIC securities and SMBS backed by REMICs, SMBS, or mixed mortgage securities. Fannie Megas allow investors to consolidate small or partially paid down pools of MBS of the same type and pass-through rate. In return, the investor receives a certificate representing an undivided interest in the consolidated pool. SMBS and REMICs represent interests in a trust having multiple classes that entitle investors to cash flows structured differently from the payments on the underlying mortgage loans.

MBS are not assets of the Corporation, except when acquired for investment purposes, nor are MBS recorded as liabilities. However, the Corporation is liable under its guarantee to make timely payment of principal and interest to investors. The issuance of MBS creates guaranty fee income for

Fannie Mae. Sellers of pools of mortgage loans may retain or transfer to one or more third parties the primary default risk on loans comprising the MBS pools, or they may elect to transfer this credit risk to Fannie Mae. The guaranty fee paid by the lender varies depending upon the risk profile of the loans securitized as well as the level of credit risk assumed by Fannie Mae. The Corporation, however, assumes the ultimate risk of loss on all MBS.

The following table summarizes MBS issued and outstanding for the years ended December 31, 1995, 1994, and 1993.

	Issued				Outstanding (1)		
	Lender Originated (1)						
	Lender Risk	Fannie Mae Risk	Fannie Mae Originated	Total	Lender Risk (2)	Fannie Mae Risk (3)	Total (4)
	(Dollars in millions)						
1995	$16,681	$ 93,359	$ 416	$110,456	$67,080	$515,879	$582,959
1994	11,698	114,526	4,398	130,622	58,565	471,778	530,343
1993	6,837	201,561	13,046	221,444	61,183	434,342	495,525

(1) Based on primary default risk category. MBS outstanding includes MBS that have been pooled to back Megas, SMBS, or REMICs.

(2) Included in lender risk are $29.7 billion, $30.5 billion, and $33.8 billion at December 31, 1995, 1994, and 1993, respectively, on which the lender or a third party agreed to bear default risk limited to a certain portion or percentage of the loans delivered and, in some cases, the lender has pledged collateral to secure that obligation.

(3) Included are $4.5 billion, $5.2 billion, and $6.4 billion at December 31, 1995, 1994, and 1993, respectively, that are backed by government insured or guaranteed mortgages.

(4) Included are $69.7 billion, $44.0 billion, and $24.2 billion at December 31, 1995, 1994, and 1993, respectively, of MBS in portfolio.

The Corporation issued a smaller amount of MBS in 1995 than in either 1994 or 1993. This was primarily due to higher interest rates in the early part of 1995 that resulted in less refinance activity and the origination of a higher percentage of adjustable-rate mortgages, which many lenders desire to hold in portfolio. However, as rates fell in the second half of 1995, origination volumes increased, which led to higher levels of MBS issuances. Management expects the growth in MBS issuance to continue in 1996. The decrease in MBS issued in 1994 compared with 1993 was primarily due to a reduction in refinance activity in a higher interest rate environment and to higher interest rates prompting a greater percentage of adjustable-rate mortgage originations.

In 1995, REMIC issuances totaled $8.2 billion compared with $56.3 billion in 1994 and $168.0 billion in 1993. The decrease in REMIC issuances in 1995 was a result of the decline in volume of fixed-rate MBS due to a higher interest rate environment in early 1995, as well as a flatter yield curve and unfavorable pricing relative to investments with different prepayment risks. The decrease in REMIC issuances in 1994 compared with 1993 also reflected a decline in volume of fixed-rate MBS in a higher interest rate environment. In addition, higher interest rates caused a substantial amount of already outstanding REMICs to become available for sale and reduced opportunities for dealers to create profitable new REMIC structures.

Fannie Mae has issued REMICs backed by both Fannie Mae and Government National Mortgage Association (''Ginnie Mae'') mortgage-backed securities and by whole loans. REMICs provide an additional source of fee income that does not subject the Corporation to added credit risk, except for REMICs backed by whole loans. The outstanding balance of REMICs at December 31, 1995 was $293.5 billion, compared with $315.0 billion and $323.4 billion at December 31, 1994 and 1993, respectively.

Line of Business Reporting

Management analyzes corporate performance on the basis of three lines of business: Portfolio Investment, Credit Guaranty, and Fee-based Services.

The Portfolio Investment business includes the management of asset purchase and funding activities for the Corporation's mortgage and nonmortgage investment portfolios. Income is primarily derived from the difference, or spread, between the yield on mortgage loans and nonmortgage investments and the borrowing costs related to those loans and investments.

The Credit Guaranty business involves guaranteeing the credit performance of both single-family and multifamily loans for a fee. Guaranty fees for mortgage-backed securities are based on a market rate of return for the risk of the investment. For mortgages held in portfolio, the Credit Guaranty business charges the Portfolio Investment business a guaranty fee comparable to what it would charge on an MBS. These "notional" guaranty fees are classified as net interest income for the Credit Guaranty business. Net interest income for the Credit Guaranty business also includes income from temporary investment of principal and interest payments on guaranteed mortgages prior to remittance to investors, net of interest charges paid to the Portfolio Investment business for delinquent loans, and interest on capital.

The Fee-based Services business provides a supplemental source of income for the Corporation through offering various services to lenders and others for a fee. These services include the issuance of REMICs, SMBS, and Fannie Megas, technology services for originating and underwriting loans, and the facilitation of securities transactions.

The Corporation uses estimates to apportion revenue and expenses among its lines of business. For instance, administrative expenses are allocated based on direct expenses for the line of business, and, where not identifiable to a particular associated business, are based primarily on revenues, profit, or volumes as applicable. Capital is allocated to the separate businesses based on an assessment of the interest rate and credit risk associated with each business.

The following table sets forth the Corporation's financial information by line of business for the years ended December 31, 1995, 1994, and 1993.

	1995					1994				1993			
	Portfolio Investment	Credit Guaranty	Fee-based Services	Special Contri-bution	Total	Portfolio Investment	Credit Guaranty	Fee-based Services	Total	Portfolio Investment	Credit Guaranty	Fee-based Services	Total
	(Dollars in millions)												
Net interest income	$2,010	$1,004	$ 33	$ —	$3,047	$1,901	$ 894	$ 28	$ 2,823	$1,685	$816	$ 32	$2,533
Guaranty fees	—	1,086	—	—	1,086	—	1,083	—	1,083	—	961	—	961
Miscellaneous, net	22	(4)	75	—	93	11	17	115	143	48	34	177	259
Credit-related expenses	—	(335)	—	—	(335)	—	(378)	—	(378)	—	(305)	—	(305)
Administrative expenses	(132)	(357)	(57)	—	(546)	(106)	(353)	(66)	(525)	(47)	(344)	(52)	(443)
Special contribution	—	—	—	(350)	(350)	—	—	—	—	—	—	—	—
Federal income taxes	(520)	(425)	(17)	122	(840)	(542)	(436)	(27)	(1,005)	(507)	(402)	(54)	(963)
Extraordinary item—early extinguishment of debt	(11)	—	—	—	(11)	(9)	—	—	(9)	(169)	—	—	(169)
Net income	$1,369	$ 969	$ 34	$(228)	$2,144	$1,255	$ 827	$ 50	$ 2,132	$1,010	$760	$103	$1,873

Housing Goals

The Corporation is subject to certain housing goals established by the Secretary of Housing and Urban Development ("HUD"). For 1995, these included a goal that 30 percent of the Corporation's conventional mortgage business, measured by dwelling units, serve families with incomes at or below the median income in the area in which they live, and a goal that 30 percent of such business, again measured by dwelling units, finance housing in central cities. Units meeting both tests count towards both goals. During the combined two-year transition period of 1993 and 1994, HUD had an additional Special Affordable Housing goal for the Corporation to purchase conventional mortgages financing housing for very low-income families, and low-income families in low-income areas, in an amount that exceeded the Corporation's 1992 purchases of such mortgages by $2 billion. Half the increase, by

dollars, had to relate to multifamily housing and half to one- to four-family properties. For 1995, HUD set a new goal for special affordable housing in the amount of $4.6 billion.

In 1995, the Corporation exceeded its low- and moderate-income housing goal with 46.2 percent of conventional business serving families whose income was at or below the median for the areas where they live. In addition, 30.4 percent of the Corporation's conventional business in 1995 served families in central cities, also exceeding the applicable goal. The comparable percentages for low- and moderate-income and central cities business in 1994 were 45.7 percent and 31.5 percent, respectively. Additionally, $8.4 billion of the Corporation's conventional business counted towards its Special Affordable Housing goals, resulting in the Corporation exceeding its 1995 target by $3.8 billion. The Corporation exceeded its 1994 housing goals as well.

In December 1995, the Secretary of HUD issued final regulations regarding the Corporation's housing goals for 1996 through 1999. Under the new regulations the low- and moderate-income target will increase from 30 percent in 1995 to 40 percent in 1996, and to 42 percent in 1997-1999. The special affordable housing goal will require the Corporation to target 12 percent of its conventional mortgage business in 1996 and 14 percent of such business in 1997-1999 to very low-income households or low-income households in low-income areas. Under this goal, the Corporation also will have a goal for purchase of multifamily mortgages in an annual amount at least equal to 0.8 percent of the Corporation's 1994 total dollar volume of mortgage purchases, or $1.3 billion.

The new central cities, rural areas, and other underserved areas goal (the "geographic goal") is organized around a definition of underserved areas and is applied throughout the country. This goal is based on census tracts in metropolitan statistical areas ("MSAs") and counties in rural areas. The tract- or county-based definition will be applied across cities, suburban areas, and rural areas. The Corporation's target under this "geographic goal" is for 21 percent of the Corporation's conventional mortgage business, measured by dwelling units, to finance housing in underserved areas in 1996, increasing to 24 percent for each of the years 1997-1999.

Fannie Mae has built a solid foundation in affordable housing through significant consumer outreach efforts, product initiatives directed at certain disadvantaged groups, and the introduction of products with targeted underwriting flexibilities, including an initiative to purchase loans with lower down payments to aid low-income households in affording homes. Management believes the corporation will meet or exceed its applicable housing goals for 1996.

In 1994, the Corporation introduced an initiative to provide $1 trillion between 1994 and the year 2000 to finance homes for families and communities most in need. This targeted housing finance will serve families with incomes below the median for their area, minorities and new immigrants, families who live in central cities and distressed communities, and people with special housing needs.

New Accounting Standards

During 1995, the Financial Accounting Standards Board issued Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("FAS 121"), and No. 123, "Accounting for Stock-Based Compensation" ("FAS 123").

FAS 121 requires, beginning in 1996, that long-lived assets and certain identifiable intangibles to be held and used by the Corporation be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The measurement of impairment should be based on the fair value of the asset. Long-lived assets and certain identifiable intangibles to be disposed of must be reported at the lower of carrying amount or fair value less cost to sell. In management's opinion, FAS 121 will not have a material impact on the Corporation.

FAS 123 encourages companies to record an expense for all stock compensation awards based on fair value at grant date; however, companies may elect to continue to follow the accounting rules existing prior to FAS 123 with the additional requirement that they disclose in a footnote pro forma net income and earnings per share as if they had adopted the expense recognition provisions of FAS 123. The Corporation anticipates that it will elect to retain the existing accounting rules for stock compensation. FAS 123 is effective in 1996.

FANNIE MAE

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of Fannie Mae:

We have audited the accompanying balance sheets of Fannie Mae (Federal National Mortgage Association) as of December 31, 1995 and 1994, and the related statements of income, changes in stockholders' equity, and cash flows for each of the years in the three-year period ended December 31, 1995. These financial statements are the responsibility of Fannie Mae's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fannie Mae as of December 31, 1995 and 1994, and the results of its operations and its cash flows for each of the years in the three-year period ended December 31, 1995, in conformity with generally accepted accounting principles.

We also have audited in accordance with generally accepted auditing standards the supplemental fair value balance sheets of Fannie Mae as of December 31, 1995 and 1994 included in Note 11 to the financial statements. The supplemental fair value balance sheets have been prepared by management to present relevant financial information that is not provided by the financial statements and is not intended to be a presentation in conformity with generally accepted accounting principles. In addition, the supplemental fair value balance sheets do not purport to present the net realizable, liquidation, or market value of Fannie Mae as a whole. Furthermore, amounts ultimately realized by Fannie Mae from the disposal of assets may vary from the fair values presented. In our opinion, the supplemental fair value balance sheets included in Note 11 present fairly, in all material respects, the information set forth therein on the basis of accounting described in Note 11.

KPMG Peat Marwick LLP

Washington, DC
January 11, 1996

FANNIE MAE

STATEMENTS OF INCOME

	Year Ended December 31,		
	1995	1994	1993
	(Dollars in millions, except per share amounts)		
Interest income:			
Mortgage portfolio	$18,154	$15,851	$13,957
Investments and cash equivalents	2,917	1,496	876
Total interest income	21,071	17,347	14,833
Interest expense:			
Short-term debt	3,994	2,315	1,345
Long-term debt	14,030	12,209	10,955
Total interest expense	18,024	14,524	12,300
Net interest income	3,047	2,823	2,533
Other income:			
Guaranty fees	1,086	1,083	961
Miscellaneous, net	93	143	259
Total other income	1,179	1,226	1,220
Other expenses:			
Provision for losses	140	155	175
Foreclosed property	195	223	130
Administrative	546	525	443
Special contribution	350	—	—
Total other expenses	1,231	903	748
Income before federal income taxes and extraordinary item	2,995	3,146	3,005
Provision for federal income taxes	840	1,005	963
Income before extraordinary item	2,155	2,141	2,042
Extraordinary loss: early extinguishment of debt (net of tax effect of $6 million in 1995 and 1994, and $91 million in 1993)	11	9	169
Net income	$ 2,144	$ 2,132	$ 1,873
Per common share(1):			
Earnings before extraordinary item	$ 1.96	$ 1.95	$ 1.86
Net earnings	1.95	1.94	1.71
Cash dividends	.68	.60	.46
Average shares outstanding used to compute earnings per share (in millions) (1)	1,102	1,098	1,098

(1) Per share amounts and number of shares reflect a four-for-one stock split effective January 16, 1996.

See Notes to Financial Statements

FANNIE MAE

BALANCE SHEETS

Assets

	December 31, 1995	December 31, 1994
	(Dollars in millions)	
Mortgage portfolio, net	$252,588	$220,525
Investments	57,273	46,335
Cash and cash equivalents	318	231
Accrued interest receivable	2,247	1,688
Acquired property and foreclosure claims, net	638	636
Other	3,486	3,093
Total assets	$316,550	$272,508

Liabilities and Stockholders' Equity

	1995	1994
Liabilities:		
Debentures, notes, and bonds, net:		
Due within one year	$146,153	$112,602
Due after one year	153,021	144,628
Total	299,174	257,230
Accrued interest payable	3,817	3,138
Other	2,600	2,599
Total liabilities	305,591	262,967
Stockholders' Equity(1):		
Common stock, $.525 stated value, no maximum authorization, issued 1,129 million shares (1995 and 1994)	593	593
Additional paid-in capital	1,389	1,365
Retained earnings	9,348	7,933
	11,330	9,891
Less: treasury stock, at cost, 37 million shares (1995) and 38 million shares (1994)	371	350
Total stockholders' equity	10,959	9,541
Total liabilities and stockholders' equity	$316,550	$272,508

(1) Stated value and number of shares reflect a four-for-one stock split effective January 16, 1996.

See Notes to Financial Statements

FANNIE MAE

STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Number of Shares Outstanding (1)	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Stockholders' Equity
	(Dollars and shares in millions)					
Balance, January 1, 1993	273	$593	$1,277	$5,099	$(195)	$ 6,774
Net income	—	—	—	1,873	—	1,873
Dividends	—	—	—	(502)	—	(502)
Shares repurchased	(2)	—	—	—	(145)	(145)
Treasury stock issued for stock options and benefit plans	1	—	31	—	21	52
Balance, December 31, 1993	272	593	1,308	6,470	(319)	8,052
Net income	—	—	—	2,132	—	2,132
Dividends	—	—	—	(656)	—	(656)
Shares repurchased	(1)	—	—	—	(67)	(67)
Treasury stock issued for stock options and benefit plans	2	—	57	—	36	93
Securities available for sale, market value adjustment, net of tax effect	—	—	—	(13)	—	(13)
Balance, December 31, 1994	273	593	1,365	7,933	(350)	9,541
Four-for-one stock split	818	—	—	—	—	—
Net income	—	—	—	2,144	—	2,144
Dividends	—	—	—	(741)	—	(741)
Shares repurchased	(2)	—	—	—	(46)	(46)
Treasury stock issued for stock options and benefit plans	3	—	24	—	25	49
Securities available for sale, market value adjustment, net of tax effect	—	—	—	12	—	12
Balance, December 31, 1995	1,092	$593	$1,389	$9,348	$(371)	$10,959

(1) Number of shares for the years ended December 31, 1993 and 1994 reflect a pre-split basis.

See Notes to Financial Statements

FANNIE MAE

STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	1995	1994	1993
	(Dollars in millions)		
Cash flows from operating activities:			
Net income	$ 2,144	$ 2,132	$ 1,873
Adjustments to reconcile net income to net cash provided by operating activities:			
Discount amortization on short-term debt	5,070	2,965	1,338
Provision for losses	140	155	175
Loss on early extinguishment of debt	17	15	260
Other decreases, net	(922)	(3,508)	(1,141)
Net cash provided by operating activities	6,449	1,759	2,505
Cash flows from investing activities:			
Purchases of mortgages	(56,738)	(61,491)	(92,938)
Mortgage principal repayments	23,062	27,902	51,370
Proceeds from sales of mortgages	408	1,819	7,024
Net proceeds from disposition of foreclosed properties	1,968	2,001	1,424
Net increase in investments	(10,937)	(24,939)	(1,822)
Net cash used in investing activities	(42,237)	(54,708)	(34,942)
Cash flows from financing activities:			
Proceeds from issuance of long-term debt	50,039	39,181	46,382
Payments to redeem long-term debt	(28,620)	(23,605)	(25,105)
Proceeds from issuance of short-term debt	694,962	567,026	293,567
Payments to redeem short-term debt	(679,754)	(529,746)	(281,241)
Net payments from stock activities	(752)	(653)	(594)
Net cash provided by financing activities	35,875	52,203	33,009
Net increase (decrease) in cash and cash equivalents	87	(746)	572
Cash and cash equivalents at beginning of year	231	977	405
Cash and cash equivalents at end of year	$ 318	$ 231	$ 977
Supplemental disclosures of cash flow information:			
Cash paid during the year for:			
Interest	$ 16,076	$ 13,940	$ 12,220
Income taxes	666	1,007	1,059

See Notes to Financial Statements

FANNIE MAE

NOTES TO FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Fannie Mae is a federally chartered and stockholder-owned corporation operating in the residential mortgage finance industry. The accounting and reporting policies of the Corporation conform with generally accepted accounting principles. Certain amounts in prior years' financial statements have been reclassified to conform with the current presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Mortgage Portfolio and Investments

Mortgages and mortgage-backed securities that the Corporation has the ability and positive intent to hold to maturity are classified as held to maturity and are carried at their unpaid principal balances adjusted for unamortized purchase discount or premium and deferred loan fees. Mortgage loans held for sale are carried at the lower of cost or fair value, with any unrealized losses included in current period earnings. Mortgage-backed securities that the Corporation intends to hold for an undetermined period of time, but not necessarily to maturity, are classified as available for sale and are carried at fair value, with any valuation adjustments reported in retained earnings, net of deferred taxes.

The Corporation uses actual principal prepayment experience and estimates of future principal prepayments in calculating the constant effective yield necessary to apply the interest method in the amortization of loan fees and purchase discount or premium. In evaluating prepayments, loans are aggregated by similar characteristics (*e.g.*, loan type, acquisition date, and maturity). Factors used in determining estimates of future prepayments include historical prepayment data and expected prepayment performance under varying interest rate scenarios.

The accrual of interest on conventional mortgages (*i.e.*, mortgages that are not federally insured or guaranteed) is discontinued when the mortgages become 90 days or more delinquent. Any accrued but uncollected interest on mortgages that are 90 days delinquent is reversed against current period interest income. Interest income on such mortgages is recognized only to the extent that cash payments are received.

Nonmortgage investments are carried at their historical cost adjusted for unamortized discount or premiums because the Corporation has the ability and positive intent to hold these investments until their maturity.

Guaranteed Mortgage-Backed Securities

The Corporation guarantees the timely payment of principal and interest on Fannie Mae Mortgage-Backed Securities ("MBS"). These securities represent beneficial interests in pools of mortgages or other mortgage-backed securities held in trust by the Corporation. The pools of mortgages or mortgage-backed securities are not assets of the Corporation, except when acquired for investment purposes, nor are the related outstanding securities liabilities; accordingly, neither is reflected on the accompanying balance sheets. The Corporation receives monthly guaranty fees for each MBS mortgage pool based on a percentage of the pool's outstanding balance. Adjustments to the guaranty fee rate effected through an upfront payment at securitization are deferred and amortized

into guaranty fee income over the estimated life of the underlying loans using the interest method. For MBS pools held in the Corporation's portfolio, the guaranty fee is reflected as interest income.

Allowance for Losses

The allowance for losses is based on an analysis of the mortgage portfolio and MBS outstanding, and provides for future foreclosure losses. The analysis considers credit profile factors such as mortgage characteristics, geographic concentrations, economic conditions, and actual and expected loan loss experience. The allowance is increased by provisions charged as an expense in the income statement and reduced by charge-offs, net of recoveries. In management's judgment, the allowance for losses is adequate to provide for estimated losses.

Acquired Property

Foreclosed assets are recorded at the lower of cost or fair value less estimated costs to sell. Cost is defined as fair value at foreclosure and represents the amount that a willing seller could reasonably expect from a willing buyer in an arm's-length transaction. The difference between fair value at foreclosure and the principal owed is recorded as a charge-off. Foreclosure, holding, and disposition costs are charged directly to earnings as incurred.

Interest Expense and Risk Management Activities

Classification of interest expense as short-term or long-term is based on effective maturity or repricing date, taking into consideration the effect of interest rate swaps. The difference between the interest rates paid and received on interest rate swaps is recognized as an adjustment to interest income or expense on the related assets or liabilities over their expected lives.

The Corporation takes positions in financial markets to hedge against changing interest rates or foreign currency fluctuations that may affect the cost of certain debt issuances. Results from activities that are designated and perform effectively as hedges are deferred and amortized as adjustments to interest expense over the term of the borrowing.

Foreign Currency Translation

The Corporation issues debt securities in which principal, interest, or both are payable in a foreign currency or are determined by reference to an index that includes one or more foreign currencies. Concurrently, the Corporation enters into currency swaps that convert the proceeds of certain borrowings into dollars or provide for scheduled future exchanges of the currencies to insulate the Corporation against foreign exchange risk.

Foreign currency borrowings and the related net receivables and payables from currency swaps are translated at the market rates of exchange as of the balance sheet date.

Cash and Cash Equivalents

The Corporation considers highly liquid investment instruments, generally with an original maturity of three months or less, to be cash equivalents. Cash equivalents are carried at cost, which approximates market value.

Income Taxes

Deferred income tax assets and liabilities are established for temporary differences between financial and taxable income and are measured using the current marginal statutory tax rate. Investment and other tax credits are deferred and amortized over the lives of the related assets.

Earnings Per Share and Stock Split

Earnings per share are computed using the weighted-average number of common shares outstanding, including the fully dilutive effects of common stock equivalents and assuming that all outstanding subordinated convertible capital debentures were converted at the beginning of the year, after increasing earnings for the related interest expense, net of federal income taxes. Shares issuable under employee stock benefit plans and for subordinated convertible capital debentures do not have a material effect on earnings per share.

On December 27, 1995, the Corporation announced a four-for-one common stock split effective January 16, 1996. After the split, the Corporation had approximately 1,092 million shares of common stock outstanding.

2. Mortgage Portfolio, Net

The mortgage portfolio consisted of the following at December 31, 1995 and 1994.

	1995	1994
	(Dollars in millions)	
Single-family mortgages:		
Government insured or guaranteed	$ 13,102	$ 11,659
Conventional:		
Long-term, fixed-rate	140,466	109,079
Intermediate-term, fixed-rate(1)	68,752	68,166
Adjustable-rate	15,108	16,718
Second	423	536
	237,851	206,158
Multifamily mortgages:		
Government insured	3,659	3,722
Conventional	12,001	12,177
	15,660	15,899
Total unpaid principal balance	253,511	222,057
Less:		
Unamortized discount and deferred loan fees, net	643	1,242
Allowance for losses	280	290
Net mortgage portfolio	$252,588	$220,525

(1) Intermediate-term consists of portfolio loans with contractual maturities at purchase equal to or less than 20 years and MBS held in portfolio with maturities of 15 years or less at issue date.

Included in the mortgage portfolio are $81.8 billion and $50.5 billion of MBS and other mortgage-related securities at December 31, 1995 and 1994, with fair values of $83.6 billion and $48.3 billion, respectively. Mortgage assets available for sale were $0.1 billion at December 31, 1995 and 1994.

MBS held in portfolio at December 31, 1995 and 1994 included $18.0 billion and $12.4 billion, respectively, of Real Estate Mortgage Investment Conduits ("REMICs") and Stripped MBS ("SMBS"). REMICs and SMBS have the same types of credit risk as whole loans and MBS but generally have different interest rate risks. At December 31, 1995, these securities had aggregate gross unrealized losses of $613 million and gross unrealized gains of $659 million. At December 31, 1994, the aggregate gross unrealized losses and gains were $535 million and $31 million, respectively.

At January 1, 1995, the Corporation adopted Financial Accounting Standard No. 114, "Accounting by Creditors for Impairment of a Loan" ("FAS 114"), as amended by Financial Accounting Standard No. 118, "Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures" ("FAS 118"). FAS 114 and 118 require that impaired loans, which consist of all modified loans and multifamily loans for which collection of all contractual principal and interest is

not probable, be measured based on the present value of expected cash flows discounted at the loan's effective interest rate or the fair value of the collateral. Prior periods have not been restated.

The unpaid principal balance ("UPB") of impaired loans at December 31, 1995, was $399 million. Of this amount, $299 million had a related specific loss allowance. The average balance of impaired loans during 1995 was $227 million.

Interest income on modified loans is recognized using the interest method based on the effective interest rate of the loans prior to restructuring. Income on impaired multifamily loans is recognized only to the extent cash is received. During 1995, the Corporation recognized $8 million of interest income on impaired loans.

3. Allowance for Losses

Changes in the allowance for the years 1993 to 1995 are summarized below.

	Total (Dollars in millions)
Balance, January 1, 1993	$ 780
Provision	175
Net foreclosure losses charged off	(114)
Balance, December 31, 1993	841
Provision	155
Net foreclosure losses charged off	(169)
Balance, December 31, 1994	827
Provision	140
Net foreclosure losses charged off	(172)
Balance, December 31, 1995	$ 795

At December 31, 1995, $280 million of the allowance for losses is included in the Balance Sheet under "Mortgage portfolio, net," which represents the allocation for portfolio loan losses; $510 million is included under "Other liabilities" for estimated losses on MBS; and the remainder, or $5 million, which relates to unrecoverable losses on FHA loans, is included in "Acquired property and foreclosure claims, net." The corresponding amounts at December 31, 1994 were $290 million, $532 million, and $5 million, respectively. Included in the allowance for losses at December 31, 1995 was $51 million of a specific allowance for impaired loans. During 1995, the Corporation established $100 million of specific allowance for these loans. Prior to 1995, the Corporation did not establish specific allowances for impaired loans.

4. Investments

Presented below are the amortized cost and fair value of nonmortgage investments at December 31, 1995 and 1994.

	1995				1994			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(Dollars in millions)							
Federal funds	$ 8,988	$ 2	$—	$ 8,990	$13,298	$—	$ —	$13,298
Repurchase agreements	10,175	—	—	10,175	9,006	—	—	9,006
Commercial paper	8,629	3	—	8,632	7,719	5	—	7,724
Eurodollar time deposits	10,787	—	—	10,787	4,295	—	—	4,295
Asset-backed securities	9,905	30	—	9,935	3,796	—	66	3,730
Other	8,789	17	13	8,793	8,221	—	103	8,118
Total	$57,273	$52	$13	$57,312	$46,335	$ 5	$169	$46,171

The following table shows nonmortgage investments at December 31, 1995 and 1994 by remaining maturity with the amortized cost, fair value, and yield.

	1995			1994		
	Amortized Cost	Fair Value	Yield	Amortized Cost	Fair Value	Yield
	(Dollars in millions)					
Due within one year	$44,865	$44,857	5.73%	$41,044	$40,991	6.00%
Due after one year through five years	2,503	2,520	6.29	1,495	1,450	6.45
	47,368	47,377	5.76	42,539	42,441	6.01
Asset-backed securities(1)	9,905	9,935	5.80	3,796	3,730	5.60
Total	$57,273	$57,312	5.77%	$46,335	$46,171	5.98%

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

5. Debentures, Notes, and Bonds, Net

Borrowings Due Within One Year

Borrowings due within one year at December 31, 1995 and 1994 are summarized below. Amounts are net of unamortized discount and premium.

	1995					1994				
	Outstanding at December 31		Average Outstanding During Year		Maximum Outstanding at Any Month End	Outstanding at December 31		Average Outstanding During Year		Maximum Outstanding at Any Month End
	Amount	Cost(1)	Amount	Cost(1)		Amount	Cost(1)	Amount	Cost(1)	
	(Dollars in millions)									
Short-term notes	$ 88,826	5.69%	$84,886	5.98%	$90,913	$ 92,603	5.86%	$68,567	4.33%	$92,603
Other short-term debt	31,067	5.71	15,557	5.90	31,067	6,592	5.43	5,436	4.16	7,853
Current portion of borrowings due after one year(2):										
Debentures	10,944	8.24				6,477	9.81			
Other	15,316	5.86				6,930	5.68			
Total due within one year	$146,153	5.90%				$112,602	6.05%			

(1) Represents weighted-average cost, which includes the amortization of discounts, premiums, issuance costs, hedging results, and the effects of currency and debt swaps.

(2) Information on average amount and cost of debt outstanding during the year and maximum amount outstanding at any month end is not meaningful. See ''Borrowings Due After One Year'' for additional information.

Borrowings Due After One Year

Borrowings due after one year consisted of the following at December 31, 1995 and 1994.

		1995		1994	
	Maturity Date	Amount Outstanding	Average Cost (1)	Amount Outstanding	Average Cost (1)
		(Dollars in millions)			
Debentures, net of $175 million of discount for 1995 ($192 million for 1994)	1996-2022	$ 69,146	7.39%	$ 77,773	7.61%
Medium-term notes, net of $82 million of discount for 1995 ($34 million for 1994) (2)	1996-2025	82,158	6.28	64,547	6.10
Zero coupon securities and subordinated capital debentures, net of $11,366 million of discount for 1995 ($11,507 million for 1994)	1996-2019	1,401	10.64	1,262	10.67
Long-term other, net of $53 million of discount for 1995 ($56 million for 1994)	1996-2018	203	9.99	965	8.71
		152,908	6.83%	144,547	6.97%
Adjustment for foreign currency translation	—	113		81	
Total due after one year		$153,021		$144,628	

(1) Represents weighted-average cost, which includes the amortization of discounts, premiums, issuance costs, hedging results, and the effects of currency and debt swaps.

(2) Medium-term notes may be fixed-rate, floating-rate, or zero coupon with maturities of one day or longer. Interest and principal may be payable in U.S. dollars or a foreign currency and may be indexed to foreign exchange rates or other indices.

Debentures, notes, and bonds at December 31, 1995 included $82.4 billion of callable debt, which generally is redeemable in whole or in part (and, in certain cases, at a specified premium), at the option of the Corporation any time on or after a specified date, and $0.2 billion of other debt instruments that are subject to mandatory redemptions tied to certain indices or rates after an initial nonredemption period.

The following table summarizes the amounts and call periods of callable debt, the notional amount of callable swaps, and other redeemable debt and swaps. Medium-term notes and subordinated capital debentures that are redeemable at the Corporation's option also are included in the table.

Call Date	Year of Maturity	Amount Outstanding	Average Cost
		(Dollars in millions)	
Callable debt and callable swaps (notional amount):			
Currently callable	1996-2004	$ 14,933	5.79%
1996	1996-2021	39,113	6.33
1997	1999-2021	23,143	7.14
1998	1998-2022	20,140	6.69
1999	2002-2024	5,118	7.93
2000	2003-2025	3,225	7.64
2001 and over	2003-2010	145	7.40
		105,817	6.62
Other redeemable debt and swaps	1996-2000	262	7.95
Total		$106,079	6.62%

Principal amounts at December 31, 1995 of total debt payable in the years 1997-2001 assuming callable debt is paid at maturity and assuming callable debt is redeemed at the initial call date are as follows:

	Total Debt by Year of Maturity	Assuming Callable Debt Redeemed at Initial Call Date
	(Dollars in millions)	
1997	$25,905	$38,940
1998	34,111	24,684
1999	17,037	14,125
2000	19,344	11,613
2001	5,814	476

In 1995 and 1994, the Corporation repurchased or called $19.7 billion of debt and swaps with an average cost of 7.24 percent and $14.1 billion with an average cost of 8.42 percent, respectively. The Corporation recorded extraordinary losses of $17 million ($11 million after tax) in 1995 and $15 million ($9 million after tax) in 1994 on the early extinguishment of debt.

Pursuant to the Corporation's Charter Act, approval of the Secretary of the Treasury is required for the Corporation's issuance of its debt obligations.

6. Income Taxes

Components of the provision for federal income taxes for the years ended December 31, 1995, 1994, and 1993 were as follows:

	1995	1994	1993
	(Dollars in millions)		
Current	$819	$1,083	$1,119
Deferred	21	(78)	(156)
	840	1,005	963
Tax benefit of extraordinary loss	(6)	(6)	(91)
Net federal income tax provision	$834	$ 999	$ 872

The tax effects of temporary differences that gave rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 1995 and 1994 consisted of the following:

	1995	1994
	(Dollars in millions)	
Deferred tax assets:		
MBS guaranty and REMIC fees	$342	$385
Provision for losses	317	316
Purchase discount and deferred fees	—	50
Contribution carryover	30	—
Other items, net	50	41
Deferred tax assets	739	792
Deferred tax liabilities:		
Benefits from tax-advantaged investments	134	250
Hedging transactions	—	21
Purchase discount and deferred fees	26	—
Other items, net	21	31
Deferred tax liabilities	181	302
Net deferred tax assets	$558	$490

Management anticipates that the entire balance of deferred tax assets will be recognized in future periods.

The Corporation's effective tax rates differed from statutory federal rates for the years ended December 31, 1995, 1994, and 1993 as follows:

	1995	1994	1993
Statutory corporate rate	35%	35%	35%
Tax-exempt interest and dividends received deductions	(4)	(3)	(3)
Equity investments in affordable housing projects	(2)	—	—
Settlement of IRS issues	(1)	—	—
Effective rate	28%	32%	32%

The Corporation is exempt from state and local taxes, except for real estate taxes.

7. Employee Benefits

All amounts included in the plan descriptions that follow reflect a four-for-one stock split effective January 16, 1996.

Stock Compensation Plans

The Federal National Mortgage Association Stock Compensation Plans authorize eligible employees to receive performance awards, generally issued within an award period that can range from three to five years. The performance awards become actual awards only if the Corporation attains the goals set for the award period. At the end of such time, the awards generally are payable in common stock. The outstanding contingent grants made for the 1996-1998, 1995-1997, and 1994-1996 award periods were 389,200; 524,760; and 367,760 performance shares, respectively.

Stock options also may be granted to eligible employees and nonmanagement members of the Board of Directors under the plans. The options generally do not become exercisable until at least one year after the grant date and generally expire ten years from the grant date. The purchase price of the common stock covered by each option is equal to the fair value of the stock on the date the option is granted. The following table, restated for the four-for-one stock split, summarizes stock option activity for the years 1993-1995.

	1995		1994		1993	
	Number of Options	Option Price	Number of Options	Option Price	Number of Options	Option Price
Balance, January 1	22,094,580	$ 1.99-$21.73	15,910,240	$ 1.34-$20.63	10,820,952	$ 1.34-$18.36
Granted	5,020,868	18.13- 28.95	7,497,160	17.22- 21.73	6,076,680	18.36- 20.63
Exercised	(2,287,940)	1.99- 21.73	(886,484)	1.34- 19.97	(560,128)	1.34- 19.66
Terminated	(578,856)	8.00- 20.27	(426,336)	8.00- 19.66	(427,264)	3.94- 18.98
Balance, December 31	24,248,652	$ 2.36-$28.95	22,094,580	$ 1.99-$21.73	15,910,240	$ 1.34-$20.63

At December 31, 1995 and 1994, stock options on 9,270,504 shares and 6,875,120 shares, respectively, were exercisable.

In 1995, 122,232 shares of restricted stock (45,096 shares in 1994) were awarded, issued, and placed in escrow under the Stock Compensation Plans and the Restricted Stock Plan for Directors; 144,940 shares (152,828 shares in 1994) were released as vesting of participants occurred. Compensation expense is being recorded over the vesting period of the stock as services are performed.

Employee Stock Purchase Plan

The Corporation has an Employee Stock Purchase Plan that allows the issuance of up to 36 million shares of common stock to qualified employees at a price equal to 85 percent of the fair market value on the first day of the period in which employees can elect to purchase the stock. In 1995, the Corporation granted each qualified employee, excluding certain officers, the right to purchase in January 1996 up to 1,200 shares of stock. Under the 1995 offering, 3,735,600 shares were purchased at $16.30 per share, compared with 11,520 shares purchased in 1995 at $18.66 per share under the plan's 1994 offering. The Board of Directors has approved a 1996 offering under the plan, granting each qualified employee the right to purchase 773 shares at $27.47 per share.

Employee Stock Ownership Plan

The Corporation has an Employee Stock Ownership Plan (''ESOP'') for qualified employees. The Corporation may contribute to the ESOP an amount based on defined earnings goals, not to exceed 4 percent of the aggregate base salary for all participants. The contribution is made in the subsequent year either in shares of Fannie Mae common stock or cash that is used to purchase such stock. The expense to the Corporation related to the ESOP was $4 million in 1995 and $3 million in both 1994 and 1993.

Retirement Savings Plan

All regular, full-time employees of the Corporation are eligible to participate in the Corporation's Retirement Savings Plan, which includes a 401(k) option. Employees may contribute up to the lesser of 12 percent of their base salary or the current annual dollar cap established and revised annually by the IRS, with the Corporation matching such contributions up to 3 percent of base salary. The Corporation contributed $5 million in 1995 and 1994, and $4 million in 1993.

Postretirement Benefit Plans

All regular, full-time employees of the Corporation are covered by a noncontributory retirement plan or by the contributory Civil Service Retirement Law. Benefits payable under the corporate plan are based on years of service and compensation using the average pay during the three consecutive highest paid years of employment. The Corporation's policy is to fund the pension expense accrued each year, up to the contribution that would be tax deductible for the year. Contributions to the plan reflect benefits attributed to employees' service to date as well as compensation expected to be paid in the future. No contributions were made in 1995 and 1994. Plan assets consist primarily of listed stocks, fixed-income securities, and other liquid assets.

The following table sets forth the corporate retirement plan's funded status and amounts recognized in the Corporation's financial statements at December 31, 1995 and 1994.

	1995	1994
	(Dollars in millions)	
Actuarial present value of benefit obligations:		
Accumulated benefit obligation, including vested benefits of $81.1 million ($54.8 million in 1994)	$ (86.9)	$(59.0)
Projected benefit obligation for services rendered to date	$(142.9)	$(95.8)
Plan assets at fair value	118.5	92.5
Projected benefit obligation in excess of plan assets	(24.4)	(3.3)
Unrecognized net gain (loss) from past experience different from that assumed and effects of changes in assumptions	3.1	(8.9)
Unrecognized prior service costs	0.7	0.2
Unrecognized net transition asset recognized over 18.25 years	(9.9)	(11.1)
Pension liability included in other liabilities	$ (30.5)	$(23.1)
Net pension cost included the following components:		
Service cost—benefits earned during the period	$ 8.3	$ 9.0
Interest cost on projected benefit obligation	9.0	8.3
Actual return on plan assets	(28.0)	0.2
Net amortization and deferral	18.2	(10.3)
Net periodic pension cost	$ 7.5	$ 7.2

For 1995 and 1994, the weighted-average discount rates used in determining the actuarial present value of the projected benefit obligation were 7.25 percent and 8.5 percent, respectively; the assumed average rates of increase in future compensation levels were 5.75 percent and 6.0 percent, respectively, and the expected long-term rates of return on assets were 9.25 percent and 9.5 percent, respectively. The Corporation uses the straight-line method of amortization for prior service costs.

The Corporation also has an Executive Pension Plan and a Supplemental Pension Plan, which supplement for key senior officers the benefits payable under the retirement plan. Estimated benefits under the supplementary plans are accrued as an expense over the period of employment. Accrued benefits generally are funded through a trust.

Fannie Mae sponsors a postretirement health care plan that covers substantially all full-time employees. The plan pays stated percentages of most necessary medical expenses incurred by retirees, after subtracting payments by Medicare or other providers and after a stated deductible has been met. Participants become eligible for the benefits if they retire from the Corporation after reaching age 55 with 5 or more years of service. The plan is contributory, with retiree contributions adjusted annually. The expected cost of these postretirement benefits is charged to expense during the years that employees render service. Cost-sharing percentages are based upon length of service with the Corporation. Fannie Mae does not fund this plan.

The following table presents the components of the Corporation's accrued postretirement health care liability and net postretirement health care cost as reflected in the financial statements at December 31, 1995 and 1994.

	1995	1994
	(Dollars in millions)	
Accumulated postretirement benefit obligation:		
Retirees	$(18.3)	$(19.4)
Other fully eligible participants	(3.7)	(3.7)
Other active participants	(16.8)	(15.6)
	(38.8)	(38.7)
Unrecognized actuarial gain	(10.9)	(7.8)
Unrecognized transition obligation	32.7	34.6
Accrued postretirement health care liability	$(17.0)	$(11.9)
Net postretirement health care cost included the following components:		
Service cost—benefits attributed to service during the period	$ 2.0	$ 2.7
Interest cost on accumulated postretirement benefit obligation	3.0	3.2
Amortization of transition obligation over 20 years	1.5	1.9
Net periodic postretirement health care cost	$ 6.5	$ 7.8

In determining the net postretirement health care cost for 1995 and the year-end accrued liability, a 10.0 percent annual rate of increase in the per capita cost of covered health care claims was assumed for 1995; the rate was assumed to decrease gradually to 5.5 percent over eight years and remain at that level thereafter. The health care cost trend rate assumption has a significant effect on the amounts reported. To illustrate, increasing the assumed health care cost trend rates by one percentage point in each year would increase the accumulated postretirement benefit obligation as of December 31, 1995 by $6 million and the aggregate of the service and interest cost components of net postretirement health care cost for the year then ended by $1 million. The weighted-average discount rates used in determining the health care cost and the year-end accumulated postretirement benefit obligation were 8.5 percent and 7.25 percent, respectively, in 1995 and 7.5 percent and 8.5 percent, respectively, in 1994.

8. Dividend Restrictions

The Corporation's payment of dividends is subject to certain statutory restrictions, including approval by the Director of the Office of Federal Housing Enterprise Oversight of any dividend payment that would cause the Corporation's capital to fall below specified capital levels. Since these restrictions were adopted in 1992, the Corporation has exceeded the applicable capital standards, and, therefore, the Corporation has been making dividend payments without Director approval being required.

Payment of dividends on the common stock also is subject to payment of dividends on any preferred stock outstanding.

9. Financial Instruments with Off-Balance-Sheet Risk

The Corporation is a party to transactions involving financial instruments with off-balance-sheet risk. The Corporation uses these instruments to fulfill its statutory purpose of meeting the financing needs of the secondary mortgage market and to reduce its own exposure to fluctuations in interest

rates. These financial instruments include MBS, commitments to purchase mortgages or to issue and guarantee MBS, credit enhancements, and certain hedge instruments. These instruments involve, to varying degrees, elements of credit and market risk in excess of amounts recognized on the balance sheet.

Guaranteed Mortgage-Backed Securities

As issuer and guarantor of MBS, the Corporation is obligated to disburse scheduled monthly installments of principal and interest (at the certificate rate) and the full unpaid principal balance of any foreclosed mortgage to MBS investors, whether or not any such amounts have been received. The Corporation also is obligated to disburse unscheduled principal payments received from borrowers.

The Corporation's credit risk is mitigated to the extent sellers of pools of mortgages elect to remain at risk on the loans sold to the Corporation. Lenders have the option to retain the primary default risk, in whole or in part, in exchange for a lower guaranty fee. Fannie Mae, however, bears the ultimate risk of default.

Commitments

The Corporation enters into master delivery commitments with lenders on either a mandatory or optional basis. Under a mandatory master commitment, a lender must either deliver loans under an MBS contract at a specified guaranty fee rate or enter into a mandatory portfolio commitment with the yield established upon executing the portfolio commitment.

The Corporation also will accept mandatory or lender option delivery commitments not issued pursuant to a master commitment. These commitments may be for portfolio or MBS. The guaranty fee rate on MBS lender option commitments is specified in the contract while the yield for portfolio lender option commitments is set at the date of conversion to a mandatory commitment.

The cost of funding future portfolio purchases generally is hedged upon issuance of, or conversion to, a mandatory commitment. Therefore, the interest rate risk relating to loans purchased pursuant to those commitments is largely mitigated.

Hedge Instruments

The Corporation typically uses short sales of Treasury securities, interest rate swaps, and deferred rate setting agreements to hedge against interest rate movements. The Corporation does not engage in trading or other speculative use of these off-balance-sheet instruments. Changes in the value of these hedge instruments caused by fluctuations in interest rates are expected to offset changes in the value of the items hedged. Consequently, the primary risks associated with these hedging instruments are (a) that changes in the value of the item hedged will not substantially offset changes in the value of the hedge instrument, or (b) that the counterparty to the agreement will be unable or unwilling to meet the terms of the agreement.

Short sales of Treasury securities, which are used to hedge interest rate risk on planned debt issuances, are obligations for the delivery of securities on a specified future date at a specified price. Gains and losses that result from the hedge position are deferred and recognized as an adjustment to the debt cost over the life of the hedged debt issuance. Credit risk arises from the possible inability or unwillingness of the counterparty to pay any difference between the agreed-upon price and the current securities price at settlement. This risk is reduced through evaluation of the creditworthiness of counterparties and continuous monitoring of hedge positions. The amount of deferrable unrealized losses on open hedge positions was $6 million at December 31, 1995, compared with $3 million of gains

and $1 million of losses at December 31, 1994. Total deferred gains and losses on closed positions were $231 million and $269 million, respectively, at December 31, 1995, compared with $247 million and $276 million, respectively, at December 31, 1994.

Interest rate swaps are contractual agreements between two parties for the exchange of periodic payments, generally based on a notional principal amount and agreed-upon fixed and variable rates. The Corporation has long-term interest rate swap agreements with various parties to extend the effective maturity of certain short-term debt obligations and to adjust the effective maturity of certain long-term debt obligations.

The Corporation also has interest rate swap agreements that are linked to specific debt issues (''debt swaps'') or specific investments (''asset swaps''). These swaps achieve a specific financing or investment objective at a desired cost or yield. The costs and terms of the specific debt issues and yield of the specific investments, as presented in the financial statements, include the effects of the swaps.

The Corporation reduces counterparty risk on interest rate swaps by dealing only with experienced swap counterparties with high credit quality, diversifying its swaps across many counterparties, and entering into swaps under master agreements that provide for netting of certain amounts payable by each party. In addition, counterparties are obligated to post collateral if the Corporation is exposed to credit loss on the related swaps exceeding an agreed-upon threshold. The amount of required collateral is based on credit ratings and the level of credit exposure. The Corporation generally requires overcollateralization from counterparties whose credit ratings have dropped below predetermined levels. Fannie Mae regularly monitors the exposures on its interest rate swaps by marking the positions to market via dealer quotes and pricing models. At December 31, 1995, 99 percent of the notional principal amount of Fannie Mae's outstanding interest rate swaps was with counterparties rated A or better (38 percent with counterparties rated AA or better), and 99 percent of the notional principal of outstanding swaps was subject to collateral arrangements.

Deferred rate setting agreements are arrangements under which the Corporation issues debt at a fixed rate and simultaneously enters into an agreement that adjusts the effective rate on that debt based on prevailing market conditions at one or more future dates. At settlement of all or a portion of the deferred rate setting agreements, the Corporation pays or receives cash in an amount representing the present value of the interest rate differential between the fixed rate on the debt and the deferred rate. Counterparty risk is limited to the cash receivable, if any, due under the deferred rate setting agreement. This risk is reduced through evaluating the creditworthiness of counterparties.

Credit Enhancements

The Corporation provides credit enhancement for certain financings involving taxable or tax-exempt bonds, typically issued by state or local housing finance agencies for the purpose of providing a source of funding for multifamily projects. In these transactions, Fannie Mae generally pledges a participation interest in certain mortgages it owns to a trustee for the taxable or tax-exempt bonds, thereby enhancing the credit rating of the state or local housing agency's bonds.

Credit Exposure for Off-Balance-Sheet Financial Instruments

The following table presents the contract or notional amount of off-balance-sheet financial instruments at December 31, 1995 and 1994.

	1995	1994
	(Dollars in billions)	
MBS outstanding(1)	$512.7	$485.8
MBS outstanding with lender or third-party recourse	(67.1)	(58.6)
Net MBS outstanding with Fannie Mae risk(1)	445.6	427.2
Master commitments:		
Mandatory	20.4	74.4
Optional	26.9	33.6
Portfolio commitments:		
Mandatory	2.5	1.4
Optional	1.1	0.9
MBS commitments:		
Mandatory	0.1	0.3
Optional	3.0	2.1
Short sales of Treasury securities	1.0	1.5
Interest rate swaps(2)	74.8	54.3
Debt swaps(3)	48.4	32.1
Asset swaps(4)	2.8	1.5
Credit enhancements and other guarantees	4.9	2.3

(1) Net of $69.7 billion and $44.0 billion of MBS held in portfolio at December 31, 1995 and 1994, respectively, and allowance for losses.

(2) The weighted-average interest rate being received under these swaps was 5.93 percent and the weighted-average interest rate being paid was 6.70 percent at December 31, 1995, compared with 5.84 percent and 6.92 percent, respectively, at December 31, 1994.

(3) The weighted-average interest rate being received under these swaps was 5.97 percent and the weighted-average interest rate being paid was 5.76 percent at December 31, 1995, compared with 5.73 percent and 5.78 percent, respectively, at December 31, 1994.

(4) The weighted-average interest rate being received under these swaps was 6.15 percent and the weighted-average interest rate being paid was 6.29 percent at December 31, 1995, compared with 6.37 percent and 5.96 percent, respectively, at December 31, 1994.

Contract or notional amounts do not necessarily represent the market or credit risk of the off-balance-sheet positions. The notional amounts of the instruments are used to calculate contractual cash flows to be exchanged. In addition, any measurement of risk is meaningful only to the extent that offsetting arrangements, such as master netting agreements and the value of related collateral, are included.

The Corporation's exposure to credit loss for off-balance-sheet financial instruments can be estimated by calculating the cost, on a present value basis, to replace at current market rates all those off-balance-sheet financial instruments outstanding for which the Corporation was in a gain position. The Corporation's net exposure (taking into account master netting agreements) was $9 million at December 31, 1995 and $3.0 billion at December 31, 1994. At December 31, 1995, the Corporation had no pledged collateral. At December 31, 1994, the Corporation had collateral with a market value of $1.2 billion pledged from counterparties to offset credit risk. The Corporation expects the net credit exposure to fluctuate as interest rates change.

10. Concentrations of Credit Risk

Concentrations of credit risk exist when a significant number of counterparties (borrowers, lenders, and mortgage insurers) engage in similar activities or are susceptible to similar changes in economic conditions that could affect their ability to meet contractual obligations.

The following table presents unpaid principal balances by primary default risk and the general geographic distribution of properties underlying mortgages in the portfolio and MBS outstanding as of December 31, 1995 and 1994.

1995	Gross UPB	Geographic Distribution					
		Northeast	Southeast	Midwest	Southwest	West	Total
	(Dollars in millions)						
Fannie Mae risk	$685,461	21%	20%	17%	14%	28%	100%
Lender risk	81,280	22	15	13	12	38	100
Total	$766,741	21%	19%	17%	14%	29%	100%

1994	Gross UPB	Geographic Distribution					
		Northeast	Southeast	Midwest	Southwest	West	Total
	(Dollars in millions)						
Fannie Mae risk	$636,339	21%	20%	17%	14%	28%	100%
Lender risk	72,062	29	16	12	11	32	100
Total	$708,401	22%	20%	16%	14%	28%	100%

No significant concentration exists at the state level except for California, where, at both December 31, 1995 and 1994, 21 percent of the gross UPB of mortgages in portfolio and backing MBS were located.

To minimize credit risk, the Corporation generally requires primary mortgage insurance or other credit protection if the original loan-to-value ("LTV") ratio (unpaid principal amount of the conventional mortgage loan to the value of the mortgaged property at origination of the loan) is greater than 80 percent.

The Corporation monitors on a regular basis the performance and financial strength of its mortgage insurers. Four private mortgage insurance companies, all rated AAA or AA, represent approximately 78 percent of the $193 billion of unpaid principal balance of the single-family conventional portfolio and MBS outstanding at December 31, 1995, for which Fannie Mae maintains primary mortgage insurance.

The following table presents the LTV ratio distribution of conventional single-family mortgages in portfolio and backing MBS at December 31, 1995 and 1994.

1995	Gross UPB	Loan-to-Value Ratio (1) 60% and Less	61–70%	71–75%	76–80%	81–90%	Over 90%	Total
	(Dollars in millions)							
Fannie Mae risk	$660,338	20%	15%	15%	22%	17%	11%	100%
Lender risk	59,615	15	13	15	29	20	8	100
Total	$719,953	20%	15%	15%	22%	17%	11%	100%

1994	Gross UPB	Loan-to-Value Ratio (1) 60% and Less	61–70%	71–75%	76–80%	81–90%	Over 90%	Total
	(Dollars in millions)							
Fannie Mae risk	$612,620	21%	16%	15%	22%	17%	9%	100%
Lender risk	53,368	16	13	16	27	21	7	100
Total	$665,988	21%	16%	15%	22%	17%	9%	100%

(1) Represents original LTV ratios. Current LTV ratios may be higher or lower than the original LTV ratios.

The rate at which mortgage loans prepay tends to be sensitive to the level and direction of prevailing market interest rates. In a declining interest rate environment, higher rate mortgage loans will pay off at a faster rate; conversely, in an increasing interest rate environment, lower interest rate mortgages will prepay at a slower rate. The following table presents the distribution by note rate of fixed-rate loans in the mortgage portfolio at December 31, 1995 and 1994.

Gross UPB at December 31,	Fixed-Rate Portfolio by Note Rate (1) Under 7.00%	7.00% to 7.99%	8.00% to 8.99%	9.00% to 9.99%	10.00% to 10.99%	11.00% and over	Total
				(Dollars in billions)			
1995	$19.5	$70.2	$40.6	$16.9	$6.7	$2.2	$156.1
Percent of total	12.5%	45.0%	26.0%	10.8%	4.3%	1.4%	100.0%
1994	$20.2	$68.1	$37.4	$17.8	$7.8	$2.7	$154.0
Percent of total	13.1%	44.2%	24.3%	11.6%	5.1%	1.7%	100.0%

(1) Excludes MBS and other mortgage securities held in portfolio.

11. Disclosures of Fair Value of Financial Instruments

The basic assumptions used and the estimates disclosed in the Fair Value Balance Sheets represent management's best judgment of appropriate valuation methods. These estimates are based on pertinent information available to management as of December 31, 1995 and 1994. In certain cases, fair values are not subject to precise quantification or verification and may change as economic and market factors, and management's evaluation of those factors, change.

Although management uses its best judgment in estimating the fair value of these financial instruments, there are inherent limitations in any estimation technique. Therefore, these fair value estimates are not necessarily indicative of the amounts that the Corporation would realize in a market transaction. The accompanying Fair Value Balance Sheets do not represent an estimate of the overall market value of the Corporation as a going concern, which would take into account future business opportunities.

Fair Value Balance Sheets

Assets

	December 31, 1995		December 31, 1994	
	Cost	Fair Value	Cost	Fair Value
	(Dollars in millions)			
Mortgage portfolio, net	$252,588	$260,430	$220,525	$211,958
Investments	57,273	57,312	46,335	46,171
Cash and cash equivalents	318	318	231	231
Other assets	6,371	5,249	5,417	3,902
	316,550	323,309	272,508	262,262
Off-balance-sheet items:				
Guaranty fee income, net	—	2,160	—	2,654
Swap obligations in gain position, net	—	43	—	2,848
Other	—	15	—	10
Total assets	$316,550	$325,527	$272,508	$267,774

Liabilities and Net Equity

	December 31, 1995		December 31, 1994	
	Cost	Fair Value	Cost	Fair Value
Liabilities				
Noncallable debt:				
Due within one year	$145,000	$145,313	$112,077	$111,804
Due after one year	71,731	77,181	69,151	69,106
Callable debt:				
Due within one year	1,153	1,153	525	526
Due after one year	81,290	82,487	75,477	71,011
	299,174	306,134	257,230	252,447
Other liabilities	6,417	5,024	5,737	4,260
Off-balance-sheet items:				
Swap obligations in loss position, net	—	3,332	—	143
Total liabilities	305,591	314,490	262,967	256,850
Equity, net of tax effect	10,959	11,037	9,541	10,924
Total liabilities and net equity	$316,550	$325,527	$272,508	$267,774

See accompanying Notes to Fair Value Balance Sheets.

Notes to Fair Value Balance Sheets

The following discussion summarizes the significant methodologies and assumptions used in estimating the fair values presented in the accompanying Fair Value Balance Sheets.

Mortgage Portfolio, Net

The fair value calculations of the Corporation's mortgage portfolio considered such variables as interest rates, credit quality, and loan collateral. Because an active market does not exist for a large portion of mortgage loans in the portfolio, the portfolio's unsecuritized mortgages were aggregated into pools by product type, coupon, and maturity and converted into notional MBS. A normal guaranty fee that Fannie Mae's securitization business would charge for a pool of loans with similar characteristics was subtracted from the weighted-average interest rate less servicing fees. The method for estimating this guaranty fee and the credit risk associated with the mortgage portfolio is described under "Guaranty Fee Income, Net."

The Corporation then employed an option-adjusted spread ("OAS") approach to estimate fair values for both notional MBS (the mortgage loan portfolio) and for MBS held in portfolio. The OAS represents the risk premium or incremental interest spread over Treasury rates that is included in a security's yield to compensate an investor for the uncertain effects of embedded prepayment options on mortgages. The OAS was calculated using quoted market values for selected benchmark securities and provided a generally applicable return measure that considers the effect of prepayment risk and interest rate volatility.

Investments

Fair values of the Corporation's investment portfolio were based on actual quoted prices or prices quoted for similar financial instruments.

Cash and Cash Equivalents

The carrying amount of cash and cash equivalents was used as a reasonable estimate of their fair value.

Other Assets

Other assets include accrued interest receivable, net currency swap receivables, and several other smaller asset categories. The fair value of other assets, excluding certain deferred items that have no fair value, approximates their carrying amount. Net currency swap receivables, which are included in other assets at cost, are reclassified as a component of the fair value of the related foreign-denominated debt.

Guaranty Fee Income, Net

MBS are not assets owned by the Corporation, except when acquired for investment purposes, nor are MBS recorded as liabilities of the Corporation. On MBS outstanding, the Corporation receives a guaranty fee calculated on the outstanding principal balance of the related mortgages. The guaranty fee represents a future income stream for the Corporation. Under generally accepted accounting principles, this guaranty fee is recognized as income over the life of the securities. The Fair Value Balance Sheets reflect the present value of guaranty fees, net of estimated future administrative costs and credit losses, and taking into account estimated prepayments.

The Corporation estimates the credit loss exposure attached to the notional MBS, MBS held in portfolio, and off-balance-sheet MBS where Fannie Mae has the primary risk of default. The Corporation deducts estimated credit losses from the projected guaranty fee cash flows to arrive at the fair value. Estimated credit losses are calculated using an internal forecasting model based on actual

historical loss experience for the Corporation. The net guaranty fee cash flows are then valued using an OAS method similar to that described under "Mortgage Portfolio, Net."

Swap Obligations, Net

The Corporation enters into interest rate swaps, including callable swaps, that, in general, extend or adjust the effective maturity of certain debt obligations. Under these swaps, the Corporation generally pays a fixed rate and receives a floating rate based on a notional principal amount. The Corporation also enters into interest rate swaps that are linked to specific bond investments or specific debt issues. The fair value of interest rate swaps is estimated based on either expected cash flows or quoted market values of these instruments. The effect of master netting agreements is included in determining swap obligations in a gain position or loss position.

Other Off-Balance-Sheet Items

The Corporation issues mandatory delivery commitments to purchase mortgages or issue MBS. Under mandatory delivery portfolio commitments, lenders are obligated to sell mortgages to the Corporation at the commitment yield. In certain instances, the Corporation enters into MBS sales commitments related to the commitments to purchase mortgages.

Mandatory commitments to purchase mortgages have been valued based on the yield differential between required mortgage yields at the balance sheet date and actual commitment yields, discounted over the estimated life of the assets to be delivered, plus the estimated value of the expected guaranty fee, calculated as described under "Mortgage Portfolio, Net." MBS sales commitments have been valued based on the differential between MBS market prices at the balance sheet date and the prices on MBS sales commitments. Mandatory commitments to issue MBS have been valued based on the expected guaranty fee stream, as described above.

Noncallable and Callable Debt

The fair value of the Corporation's noncallable debt was estimated using quotes for selected benchmark debt securities of the Corporation with similar terms. Similar to the valuation of the mortgage portfolio, the fair value of callable debt was estimated using an OAS model.

Other Liabilities

Other liabilities include accrued interest payable, amounts payable to MBS holders, estimated losses on MBS, net currency swap payables, and several other smaller liability categories. The fair value of other liabilities, excluding certain deferred items that have no fair value, approximates their carrying amount, except for net currency swap payables, which are included as a component of the fair value of the related foreign-denominated debt, and credit loss exposure for MBS, which is included as a component of the net MBS guaranty fee.

The fair value amount also includes the estimated effect on deferred income taxes of providing for federal income taxes, at the statutory corporate tax rate of 35 percent, for the difference between equity at fair value and at cost.

FANNIE MAE

QUARTERLY RESULTS OF OPERATIONS (Unaudited)

The following unaudited results of operations include, in the opinion of management, all adjustments necessary for a fair presentation of the results of operations for such periods.

	1995 Quarter Ended			
	December	September	June	March(1)
	(Dollars in millions, except per share amounts)			
Interest income	$5,586	$5,336	$5,162	$4,987
Interest expense	4,746	4,559	4,441	4,278
Net interest income	840	777	721	709
Guaranty fees	280	272	267	267
Miscellaneous income, net	11	23	23	36
Provision for losses	(35)	(35)	(35)	(35)
Foreclosed property expenses	(49)	(46)	(49)	(51)
Administrative expenses	(144)	(138)	(135)	(129)
Special contribution	(350)	—	—	—
Income before income taxes and extraordinary item	553	853	792	797
Provision for federal income taxes	(145)	(248)	(214)	(233)
Income before extraordinary item	408	605	578	564
Extraordinary item: early extinguishment of debt (net of tax effect)	—	(8)	(5)	2
Net income	$ 408	$ 597	$ 573	$ 566
Per share (2):				
Earnings before extraordinary item(3)	$ .37	$ .55	$ .53	$ .52
Net earnings	.37	.54	.52	.52
Cash dividends	.17	.17	.17	.17

	1994 Quarter Ended			
	December	September	June	March
	(Dollars in millions, except per share amounts)			
Interest income	$4,743	$4,435	$4,196	$3,973
Interest expense	4,032	3,707	3,476	3,309
Net interest income	711	728	720	664
Guaranty fees	269	272	272	270
Miscellaneous income, net	26	28	28	61
Provision for losses	(35)	(40)	(40)	(40)
Foreclosed property expenses	(52)	(53)	(58)	(60)
Administrative expenses	(139)	(132)	(130)	(124)
Income before income taxes and extraordinary item	780	803	792	771
Provision for federal income taxes	(235)	(260)	(257)	(253)
Income before extraordinary item	545	543	535	518
Extraordinary item: early extinguishment of debt (net of tax effect)	8	—	(9)	(8)
Net income	$ 553	$ 543	$ 526	$ 510
Per share (2):				
Earnings before extraordinary item	$ .50	$ .49	$ .49	$ .47
Net earnings	.50	.49	.48	.47
Cash dividends	.15	.15	.15	.15

(1) Certain amounts have been restated for a change in accounting method.

(2) Per share amounts reflect a four-for-one stock split effective January 16, 1996.

(3) The total of the four quarters does not equal the amount for the year because the amount for each period is calculated independently based on the weighted-average number of shares outstanding during that period.

FANNIE MAE

NET INTEREST INCOME AND AVERAGE BALANCES (Unaudited)

	1995	1994	1993
	(Dollars in millions)		
Interest income:			
Mortgage portfolio	$ 18,154	$ 15,851	$ 13,957
Investments and cash equivalents	2,917	1,496	876
Total interest income	21,071	17,347	14,833
Interest expense(1):			
Short-term debt	3,994	2,315	1,345
Long-term debt	14,030	12,209	10,955
Total interest expense	18,024	14,524	12,300
Net interest income	3,047	2,823	2,533
Tax equivalent adjustment(2)	211	134	119
Net interest income tax equivalent basis	$ 3,258	$ 2,957	$ 2,652
Average balances:			
Interest-earning assets(3):			
Mortgage portfolio, net	$232,558	$205,998	$169,440
Investments and cash equivalents	48,143	32,431	23,184
Total interest-earning assets	$280,701	$238,429	$192,624
Interest-bearing liabilities(1):			
Short-term debt	$ 67,886	$ 53,856	$ 35,837
Long-term debt	199,497	170,911	141,161
Total interest-bearing liabilities	267,383	224,767	176,998
Interest-free funds	13,318	13,662	15,626
Total interest-bearing liabilities and interest-free funds	$280,701	$238,429	$192,624
Average interest rates(2):			
Interest earning assets:			
Mortgage portfolio, net	7.85%	7.71%	8.27%
Investments and cash equivalents	6.15	4.70	3.84
Total interest-earning assets	7.56	7.30	7.74
Interest-bearing liabilities(1):			
Short-term debt	5.85	4.35	3.47
Long-term debt	7.06	7.14	7.76
Total interest-bearing liabilities	6.75	6.47	6.89
Investment spread(4)	.81	.83	.85
Interest-free return(5)	.35	.41	.53
Net interest margin(6)	1.16%	1.24%	1.38%

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

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

(3) Includes average balance of nonperforming loans of $2.0 billion, $1.6 billion, and $1.3 billion in 1995, 1994, and 1993, respectively.

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

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

(6) Net interest income, on a tax equivalent basis, as a percentage of the average investment portfolio.

FANNIE MAE

RATE/VOLUME ANALYSIS (Unaudited)

	Increase (Decrease)	Attributable to changes in (1)	
		Volume	Rate
	(Dollars in millions)		
1995 vs. 1994			
Interest income:			
Mortgage portfolio	$2,303	$2,070	$ 233
Investments and cash equivalents	1,421	863	558
Total interest income	3,724	2,933	791
Interest expense (2):			
Short-term debt	1,679	695	984
Long-term debt	1,821	2,013	(192)
Total interest expense	3,500	2,708	792
Net interest income	$ 224	$ 225	$ (1)
1994 vs. 1993			
Interest income:			
Mortgage portfolio	$1,894	$2,859	$(965)
Investments and cash equivalents	620	399	221
Total interest income	2,514	3,258	(744)
Interest expense (2):			
Short-term debt	970	753	217
Long-term debt	1,254	2,175	(921)
Total interest expense	2,224	2,928	(704)
Net interest income	$ 290	$ 330	$ (40)

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

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

MANAGEMENT

Directors

The age and background, as of February 15, 1996, of each of the members of the Board of Directors of the Corporation are as follows:

Name and Age	Principal Occupation, Business Experience, and Residence	First Became Director	Other Directorships (1)
Stephen B. Ashley, 55	Chairman and Chief Executive Officer, January 1991 to present; President and Chief Executive Officer, January 1975 to December 1990, Sibley Mortgage Corporation, a mortgage banking company; Livonia, New York	1995	The Genesee Corporation; Hahn Automotive Warehouse, Inc.
Felix M. Beck, 69	Chairman Emeritus, Chemical Residential Mortgage Corporation, a mortgage banking company, January 1995 to present; Chairman of the Board and Chief Executive Officer, Margaretten & Company, Inc., a mortgage banking company, 1969 to July 1994; Chairman of the Board, Margaretten Financial Corporation, January 1992 to July 1994; Livingston, New Jersey	1985	
Roger E. Birk, 65	President and Chief Operating Officer of the Corporation, November 1987 until his retirement in January 1992; Tequesta, Florida	1985	Mutual of America Capital Corp.; Penske Transportation; WellPoint Health Networks Inc.
William M. Daley (2), 47	Partner, Mayer, Brown & Platt, a law firm, May 1993 to present; Special Counsel to the President of the United States for North American Free Trade Agreement, September 1993 to December 1993; President and Chief Operating Officer, October 1990 to May 1993, and Vice Chairman, October 1989 to October 1990, Amalgamated Bank of Chicago, a financial institution; Partner, Mayer, Brown & Platt, 1985 to October 1989; Chicago, Illinois	1993	Everen Securities Inc.; Wheelabrator Technologies, Inc.
Thomas P. Gerrity, 54	Dean of The Wharton School of the University of Pennsylvania, an educational institution, July 1990 to present; President of CSC Consulting, a subsidiary of Computer Sciences Corporation, and Vice President of Computer Sciences Corporation, May 1989 to June 1990; Chairman and Chief Executive Officer, Index Group, a technology-oriented consulting company, 1969 to April 1989; Haverford, Pennsylvania	1991	Digital Equipment Corporation; Melville Corporation; Reliance Group Holdings, Inc.; Sun Company, Inc.
James A. Johnson, 52	Chairman of the Board of Directors and Chief Executive Officer of the Corporation, February 1991 to present; Vice Chairman of the Board of the Corporation, January 1990 to January 1991; Managing Director, Shearson Lehman Brothers, Inc., an investment banking firm, April 1985 to December 1989; Washington, D.C.	1990	Dayton Hudson Corporation; Kaufman and Broad Home Corporation; United HealthCare Corporation
Thomas A. Leonard (2), 49	Partner, Obermayer, Rebmann, Maxwell & Hippel, a law firm, January 1992 to present; Partner, Dilworth, Paxson, Kalish & Kauffman, a law firm, January 1983 to December 1991; Philadelphia, Pennsylvania	1993	
Vincent A. Mai, 54	President and Chief Executive Officer, AEA Investors Inc., a private investment company, April 1989 to present; Managing Director, Shearson Lehman Brothers, Inc., an investment banking firm, 1974 to April 1989; Port Washington, New York	1991	

Name and Age	Principal Occupation, Business Experience, and Residence	First Became Director	Other Directorships(1)
Ann McLaughlin, 54	Vice Chairman, The Aspen Institute, a nonprofit organization, August 1993 to present; President, Federal City Council, May 1990 to September 1995; President and Chief Executive Officer, New American Schools Development Corporation, June 1992 to April 1993; Visiting Fellow, Urban Institute, January 1989 to June 1992; Chairman, President's Commission on Aviation Security and Terrorism, September 1989 to May 1990; U.S. Secretary of Labor, December 1987 to December 1989; Washington, D.C.	1994	AMR Corporation (and its subsidiary, American Airlines); General Motors Corporation; Harman International Industries, Inc.; Host Marriott Corporation; Kellogg Company; Nordstrom Inc.; Potomac Electric Power Company; Sedgwick Group, plc; Union Camp Corporation; Vulcan Materials Company
Richard D. Parsons, 47	President, Time Warner, Inc., a media and entertainment corporation, January 1995 to present; Chairman of the Board and Chief Executive Officer, January 1991 to January 1995, President and Chief Executive Officer, July 1990 to January 1991, and President and Chief Operating Officer, July 1988 to June 1990, The Dime Savings Bank of New York, FSB, a financial institution; Pocantico Hills, New York	1989	Dime Bankcorp, Inc.; Philip Morris Companies, Inc.; Time Warner, Inc.
Franklin D. Raines, 47	Vice Chairman of the Board of the Corporation, September 1991 to present; Vice Chairman-Designate of the Corporation, July 1991 to September 1991; General Partner, January 1985 to December 1990, and Limited Partner, January 1991 to June 1991, Lazard Freres and Co., an investment banking firm; Washington, D.C.	1991	The Boeing Company; Pfizer, Inc.
John R. Sasso(2), 48	President, Advanced Strategies, Inc., a corporate communications and public affairs consulting firm, January 1990 to present; Senior Vice President, Hill, Holiday, Connors and Cosmopulos, Inc., January 1988 to December 1989; Wayland, Massachusetts	1993	
Antonia Shusta, 46	Group Executive, Household International, a financial services company, April 1988 to February 1995; Chairman, President and Chief Executive Officer, Household Bank, F.S.B., a wholly-owned subsidiary of Household International, 1990 to January 1995; Wilmette, Illinois	1994	
Lawrence M. Small, 54	President and Chief Operating Officer of the Corporation, February 1992 to present; President and Chief Operating Officer-Designate of the Corporation, September 1991 to January 1992; Vice Chairman and Chairman of the Executive Committee, January 1990 to July 1991, Sector Executive, January 1985 to December 1989, Citicorp/Citibank, a financial institution; Washington, D.C.	1991	The Chubb Corporation; Marriott International, Inc.
Christopher J. Sumner, 49	President and Chief Executive Officer, CrossLand Mortgage Corporation, a mortgage banking corporation, May 1988 to present; Vice Chairman, April 1990 to August 1991, and President and Director, March 1987 to April 1990, CrossLand Savings, FSB (Utah) (formerly Western Savings and Loan Company), a financial institution; Salt Lake City, Utah	1985	
Kathryn G. Thompson (2), 55	Chairman and Chief Executive Officer, Kathryn G. Thompson Company, a building and development company, 1967 to present; Dana Point, California	1995	Koll Real Estate Group

Name and Age	Principal Occupation, Business Experience, and Residence	First Became Director	Other Directorships (1)
José H. Villarreal (2), 42	Partner, Akin, Gump, Strauss, Hauer & Feld, L.L.P., a law firm, August 1994 to present; Partner, McGinnis, Lochridge & Kilgore, L.L.P., a law firm, July 1993 to August 1994; Associate Director, White House Office of Presidential Personnel, April 1993 to June 1993; Presidential Transition Team, November 1992 to March 1993; Deputy Campaign Manager, Clinton Campaign, June 1992 to November 1992; Associate, McGinnis, Lochridge & Kilgore, February 1991 to May 1992; San Antonio, Texas	1993	First Interstate Bank of Texas
Karen Hastie Williams, 51	Partner, Crowell & Moring, a law firm practicing in the District of Columbia, 1982 to present; Washington, D.C.	1988	Continental Airlines, Inc.; Crestar Financial Corporation; SunAmerica Inc.; Washington Gas Company

(1) Companies with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 or subject to the requirements of Section 15(d) of that Act or any company registered as an investment company under the Investment Company Act of 1940. Certain directorships of other companies are also noted in the occupation column.

(2) Appointed by the President of the United States, who has authority to appoint five directors.

The term of each director will end on the date of the May 1996 annual meeting of stockholders, except that the President of the United States may remove any director that the President appointed for good cause.

Executive Officers

The age and business experience, as of February 15, 1996, of each of the executive officers of the Corporation, are as follows:

James A. Johnson, 52, has been Chairman of the Board of Directors and Chief Executive Officer since February 1991. Mr. Johnson was Vice Chairman of the Board of Directors from January 1990 to January 1991. Mr. Johnson was a Managing Director in Corporate Finance at Shearson Lehman Brothers, Inc. from April 1985 to December 1989.

Lawrence M. Small, 54, has been President and Chief Operating Officer since February 1992. Mr. Small was President and Chief Operating Officer-Designate of the Corporation from September 1991 to January 1992. Prior to his employment with the Corporation, Mr. Small was with Citicorp/Citibank, where he was Vice Chairman and Chairman of the Executive Committee from January 1990 to July 1991.

Franklin D. Raines, 47, has been Vice Chairman of the Board of Directors since September 1991. Mr. Raines was Vice Chairman-Designate from July 1991 to September 1991. Prior to his employment with the Corporation, Mr. Raines was a General Partner with Lazard Freres and Company from January 1985 to December 1990 and a Limited Partner with that firm from January 1991 to June 1991.

J. Timothy Howard, 48, has been Executive Vice President and Chief Financial Officer since February 1990.

William E. Kelvie, 48, has been Executive Vice President and Chief Information Officer since November 1992. Mr. Kelvie was Senior Vice President and Chief Information Officer from November 1990 to November 1992.

Robert J. Levin, 40, has been Executive Vice President—Marketing since June 1990.

Ann D. Logan, 41, has been Executive Vice President and Chief Credit Officer since May 1993. Ms. Logan has been an Executive Vice President since January 1993 and was Senior Vice President—Northeastern Regional Office from June 1989 to January 1993.

Robert B. Zoellick, 42, has been Executive Vice President, General Counsel, and Secretary of the Corporation since July 1993. Mr. Zoellick was Executive Vice President, General Counsel, and Corporate Secretary-Designate from May 1993 until June 1993. He was Assistant to the President and Deputy Chief of Staff of the White House from August 1992 to January 1993. From March 1989 to August 1992 he was Counselor of the State Department, and from March 1991 to August 1992 he also served as Under Secretary of State for Economics and Agricultural Affairs.

Glenn T. Austin, Jr., 47, has been Senior Vice President—Southeastern Regional Office since May 1985.

Kenneth J. Bacon, 41, has been Senior Vice President—Northeastern Regional Office since April 1993. Mr. Bacon was Director of the Office of Securitization at the Resolution Trust Corporation ("RTC") from February 1991 to April 1993. He also served as Director of Policy and Deputy Director of Policy of the RTC Oversight Board from August 1990 to February 1991.

Douglas M. Bibby, 49, has been Senior Vice President—Administration since October 1988.

John Buckley, 39, has been Senior Vice President—Communications since November 1991. Prior to his employment with the Corporation, Mr. Buckley was a Senior Vice President with Robinson, Lake, Lerer & Montgomery, a strategic communications firm, from October 1989 to November 1991.

Donna Callejon, 33, has been Senior Vice President—Single-Family Marketing since November 1991. Ms. Callejon was Vice President for Product Acquisition from November 1990 to November 1991, and Co-Head of Mortgage-Backed Securities Transactions from June 1989 to November 1990.

Judith Dedmon, 45, has been Senior Vice President—Southwestern Regional Office since July 1987.

William G. Ehrhorn, 47, has been Senior Vice President—Mortgage Operations since May 1993. Mr. Ehrhorn is a former executive vice president and division manager for operations, automation management, securities lending, and the Trust Company with Nomura Securities International, which he joined in May 1985. Mr. Ehrhorn also was a member of the firm's management committee.

John H. Fulford, III, 46, has been Senior Vice President—Marketing since February 1996. Mr. Fulford was Senior Vice President—Western Regional Office from November 1985 to February 1996.

John R. Hayes, 57, has been Senior Vice President—Midwestern Regional Office since November 1985.

Lynda C. Horvath, 43, has been Senior Vice President—Corporate Development since May 1993. Ms. Horvath was Senior Vice President—Mortgage Operations from February 1991 to May 1993, and Acting Senior Vice President—Mortgage Operations from November 1990 to February 1991.

Louis W. Hoyes, 47, has been Senior Vice President—Multifamily Lending and Investment since July 1995. Prior to his employment with the Corporation, Mr. Hoyes was Managing Director of the residential segment of Citicorp's Real Estate business in North America, where he held a number of other positions since he joined Citicorp/Citibank in 1973.

Anastasia D. Kelly, 46, has been Senior Vice President and Deputy General Counsel since April 1995. Prior to her employment with the Corporation, Ms. Kelly was a partner in the law firm of Wilmer, Cutler & Pickering in Washington, D.C., which she joined in 1985.

Linda K. Knight, 45, has been Senior Vice President and Treasurer since February 1993. Ms. Knight was Vice President and Assistant Treasurer from November 1986 to February 1993.

Thomas A. Lawler, 42, has been Senior Vice President—Portfolio Management since November 1989.

William R. Maloni, 51, has been Senior Vice President—Policy and Public Affairs since March 1989.

Adolfo Marzol, 35, has been Senior Vice President—Capital Markets since February 1996. Mr. Marzol was Executive Vice President and Chief Financial Officer of Chase Manhattan Mortgage Corporation, a mortgage company, from July 1993 to January 1996 and Senior Vice President—Interest Rate Risk of that firm from February 1991 to June 1993.

Michael A. Quinn, 41, has been Senior Vice President—Credit Loss Management since April 1994. Mr. Quinn was Senior Vice President and Controller from March 1991 to April 1994. Prior to his employment with the Corporation, Mr. Quinn was Vice President and Assistant Controller of Chemical Bank, a New York commercial bank, from September 1987 to March 1991.

Sampath Rajappa, 50, has been Senior Vice President and Controller since April 1994. Mr. Rajappa joined the Corporation in March 1994 as Corporate Controller. Prior thereto, Mr. Rajappa was Senior Vice President and Controller for ITT Residential Capital Corporation, a mortgage banking company, from August 1993 to February 1994; Chief Financial Officer of ITT Consumer Financial Corporation, a financial services company, from September 1992 to August 1993; and Senior Vice President, Finance and Operations for the Treasurer's Group for Citicorp Mortgage Inc., a mortgage banking company, from 1988 to August 1992.

Jayne J. Shontell, 41, has been Senior Vice President—Investor Relations since February 1996. Ms. Shontell was Senior Vice President—Financial and Information Services from November 1992 to February 1996, Vice President for Financial Services and Information Group from August 1992 to November 1992, Vice President for Business Development from September 1991 to August 1992, and Vice President for Critical Issues from January 1991 to September 1991.

Elizabeth A. Snyder, 42, has been Senior Vice President—Western Regional Office since February 1996. Ms. Snyder was Senior Vice President—Investor Relations from April 1994 to February 1996, Vice President and Assistant to the Chairman of the Corporation from July 1992 to April 1994, Vice President for Regulatory Policy from January 1992 to July 1992, and Vice President and Deputy General Counsel from November 1987 to January 1992.

Barry Zigas, 44, has been Senior Vice President and Executive Director—National Housing Impact Division since February 1996. Mr. Zigas was Senior Vice President—Housing Impact Policy from November 1995 to January 1996, and Vice President—Housing Impact from June 1993 to October 1995. Prior to his employment with the Corporation, Mr. Zigas was President of the National Low-Income Housing Coalition, an affordable housing group, from 1984 to 1993.

Additional Information

For information concerning executive compensation, stock ownership of management and directors, certain transactions of executive officers, and any person or group owning more than five percent of the voting stock of the Corporation, reference is made to the Corporation's proxy statement, dated March 27, 1995 for the Corporation's 1995 annual meeting of stockholders and any later proxy statement published prior to the Corporation's publication of a new Information Statement, which are incorporated herein by this reference. The proxy statement for the Corporation's 1996 annual meeting of stockholders will be available in April 1996.

The Corporation will provide without charge a copy of the Corporation's most recent proxy statement to each person to whom this Information Statement has been delivered, upon the written or oral request of such person. Requests for such copies should be directed to the office specified on page 2 of this Information Statement.

ACCOUNTANTS

The financial statements of the Corporation as of December 31, 1995 and 1994 and for each of the years in the three-year period ended December 31, 1995, included herein, have been included in reliance upon the report of KPMG Peat Marwick LLP, independent certified public accountants, and upon the authority of that firm as experts in accounting and auditing.

FannieMae