

**Supplement dated January 20, 1998 to
Information Statement dated March 31, 1997**



This Supplement describes the financial condition of the Federal National Mortgage Association (“Fannie Mae” or the “Corporation”) as of December 31, 1997 and contains unaudited financial information with respect to the Corporation for the quarter and year ended December 31, 1997. This Supplement should be read in conjunction with the Corporation’s Information Statement dated March 31, 1997 (the “Information Statement”), and the Supplements dated May 14, 1997, August 14, 1997 and November 13, 1997 thereto (the “Prior Supplements”), which are hereby incorporated by reference. The Information Statement describes the business and operations of the Corporation and contains financial data as of December 31, 1996. The May 14, 1997, August 14, 1997 and November 13, 1997 Supplements describe the financial condition of the Corporation as of March 31, 1997, June 30, 1997 and September 30, 1997, respectively, and contain unaudited financial statements with respect to the Corporation for the quarters and year-to-date periods then ended. In addition, the Prior Supplements discuss certain other developments that may affect the Corporation. Fannie Mae also periodically makes available statistical information on its mortgage purchase and mortgage-backed securities volumes as well as other relevant information about Fannie Mae. Copies of the Corporation’s current Information Statement, the Prior Supplements, this Supplement, any other supplements to the Information Statement and other available information can be obtained without charge from the Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: 202/752-7115).

In connection with its securities offerings, the Corporation may incorporate this Supplement 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 or a Prospectus. This Supplement does not offer any securities for sale.

Fannie Mae is a federally chartered corporation. Its principal office is located at 3900 Wisconsin Avenue, N.W., Washington, D.C. 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 December 31, 1997, approximately 1.037 billion shares of the Corporation’s common stock (without par value) were outstanding.

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

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SELECTED FINANCIAL DATA

Selected Financial Information

The following selected financial information for the three-month periods ended December 31, 1997 and 1996 and the year ended December 31, 1997 are unaudited and include, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. Selected financial information for the year ended December 31, 1996 has been summarized or derived from the audited financial statements and other financial information in the Information Statement. Such information should be read in conjunction with the audited financial statements and notes to financial statements for the year ended December 31, 1996.

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

Income Statement Data:	Three Months Ended December 31,		Year Ended December 31,	
	1997	1996	1997	1996
Net interest income	\$ 1,036	\$ 923	\$ 3,949	\$ 3,592
Guaranty fees	324	308	1,274	1,196
Miscellaneous income, net	29	28	125	86
Provision for losses	—	(50)	(100)	(195)
Foreclosed property expenses	(77)	(56)	(275)	(214)
Administrative expenses	(167)	(145)	(636)	(560)
Income before federal income taxes and extraordinary item	1,145	1,008	4,337	3,905
Provision for federal income taxes	(339)	(295)	(1,269)	(1,151)
Income before extraordinary item	806	713	3,068	2,754
Extraordinary item, net of tax effect	(12)	—	(12)	(29)
Net income	794	713	3,056	2,725
Preferred stock dividends	(16)	(17)	(65)	(42)
Net income available to common stockholders	\$ 778	\$ 696	\$ 2,991	\$ 2,683
Per common share(1):				
Basic:				
Earnings before extraordinary item	\$.76	\$.66	\$ 2.87	\$ 2.53
Net earnings .....	.75	.66	2.85	2.50
Diluted:				
Earnings before extraordinary item .....	.75	.65	2.84	2.51
Net earnings .....	.74	.65	2.83	2.48
Cash dividends .....	.21	.19	.84	.76
	December 31,			
	1997	1996		
Balance Sheet Data:				
Mortgage Portfolio, net	\$316,316	\$286,259		
Investments	64,596	56,606		
Total assets	391,673	351,041		
Debentures, notes, and bonds, net	369,774	331,270		
Total liabilities	377,880	338,268		
Stockholders' equity	13,793	12,773		
Capital(2)	14,575	13,520		
	Three Months Ended December 31,		Year Ended December 31,	
	1997	1996	1997	1996
Other Data:				
Net interest margin	1.17%	1.17%	1.17%	1.18%
Return on average common equity	24.8	24.2	24.6	24.1
Average effective guaranty fee rate	22.7	22.6	22.7	22.4
Ratio of earnings to fixed charges and preferred stock dividends(3)	1.19:1	1.19:1	1.19:1	1.19:1
Weighted-average common shares outstanding:				
Basic	1,038	1,061	1,048	1,071
Dilutive(4)	1,046	1,070	1,056	1,080
Mortgage purchases	\$ 22,477	\$ 17,218	\$ 70,465	\$ 68,618
MBS issued	47,400	31,674	149,429	149,869
MBS outstanding at period end(5)	709,582	650,780		
Book value per common share at period end	12.34	11.09		

- (1) The three months and year ended December 31, 1996 earnings per common share amounts have been restated to comply with Financial Accounting Standard No. 128, Earnings per Share.
- (2) Stockholders' equity plus general allowance for losses.
- (3) "Earnings" consists of (i) income before federal income taxes and extraordinary item and (ii) fixed charges. "Fixed charges" represents interest expense.
- (4) Includes the dilutive effect of stock options and other stock compensation plans.
- (5) Includes \$130,444 million and \$102,607 million of MBS held in portfolio at December 31, 1997 and 1996, respectively.

Other Financial Information

Additional information regarding the Corporation's earnings and other specific measures of Fannie Mae's performance for the quarter and year ended December 31, 1997 is presented below.

Net Income

Net income for the fourth quarter of 1997 was \$794 million, compared with net income of \$713 million for the fourth quarter of 1996. Net income for 1997 increased \$331 million to \$3.056 billion, from \$2.725 billion in 1996. The increase in net income was due primarily to an increase in net interest income and guaranty fee income and a reduction in the provision for losses.

Investment Portfolio

Net interest income was \$1.036 billion in the fourth quarter of 1997, compared with \$923 million in the fourth quarter of 1996. Net interest income in 1997 increased to \$3.949 billion from \$3.592 billion in 1996.

The Corporation's net interest margin averaged 117 basis points in the fourth quarter of both 1997 and 1996. The net interest margin averaged 117 basis points in 1997, compared with 118 basis points in 1996.

Fannie Mae's net investment balance—mortgage loans held, less unamortized discount and deferred fees, plus other investments—was \$383 billion at the end of 1997, compared with \$344 billion at the end of 1996.

Fannie Mae's net mortgage portfolio was \$316 billion at the end of 1997, compared with \$286 billion at the end of 1996.

MBS

Guaranty fee income increased by \$16 million to \$324 million in the fourth quarter of 1997, compared with \$308 million in the fourth quarter of 1996. In 1997, guaranty fee income was \$1.274 billion, compared with \$1.196 billion in 1996.

Fannie Mae issued \$47 billion of MBS in the fourth quarter of 1997, compared with \$32 billion in the fourth quarter of 1996. MBS issues totaled \$149 billion in 1997, compared with \$150 billion in 1996.

MBS outstanding at the end of 1997 totaled \$710 billion, compared with \$651 billion at the end of 1996. MBS outstanding, net of MBS held in portfolio, was \$579 billion at the end of 1997, compared with \$548 billion at the end of 1996.

Miscellaneous Income

Miscellaneous income totaled \$29 million in the fourth quarter of 1997, compared with \$28 million in the fourth quarter of 1996. In 1997, miscellaneous income was \$125 million, compared with \$86 million in 1996.

Extraordinary Item

Losses from the call or repurchase of debt were \$18 million (\$12 million after tax) in the fourth quarter of 1997 and minimal in the fourth quarter of 1996. Losses from the call or repurchase of debt were \$20 million (\$12 million after tax) in 1997, compared with \$44 million (\$29 million after tax) in 1996.

Debt called or repurchased in the fourth quarter of 1997 totaled \$9 billion, compared with \$7 billion in the fourth quarter of 1996. Debt called or repurchased in 1997 totaled \$31 billion, compared with \$26 billion in 1996.

Foreclosures and Inventory of Acquired Properties

The Corporation acquired 5,388 conventional single-family properties through foreclosure in the fourth quarter of 1997, compared with 5,587 properties in the fourth quarter of 1996. Acquisitions were 22,222 in 1997, compared with 20,726 in 1996. The inventory of single-family acquired properties totaled 9,481 properties as of December 31, 1997, compared with 9,631 at December 31, 1996.

Charge-offs in the fourth quarter of 1997 were \$2 million, compared with \$48 million in the fourth quarter of 1996. Charge-offs were \$77 million in 1997, compared with \$210 million in 1996.

Credit-Related Expenses and Loan Charge-Offs

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were \$77 million in the fourth quarter of 1997, compared with \$106 million in the fourth quarter of 1996. Total credit-related expenses were \$375 million in 1997, compared with \$409 million in 1996.

Foreclosed property expenses totaled \$77 million in the fourth quarter of 1997, compared with \$56 million in the fourth quarter of 1996. Foreclosed property expenses were \$275 million in 1997, compared with \$214 million in 1996.

The allowance for losses was \$803 million at December 31, 1997, compared with \$780 million at December 31, 1996. The allowance for losses increases through the provision for losses and is reduced through charge-offs. There was no provision for losses recorded in the fourth quarter of 1997, compared with \$50 million in the fourth quarter of 1996. The Corporation recorded a provision for losses of \$100 million for 1997, compared with \$195 million for 1996.

Administrative Expenses

Administrative expenses totaled \$167 million in the fourth quarter of 1997, compared with \$145 million in the fourth quarter of 1996. In 1997, administrative expenses were \$636 million, compared with \$560 million in 1996.

Income Taxes

Federal income tax expense, net of the tax benefit from extraordinary losses, was \$333 million in the fourth quarter of 1997, compared with \$295 million in the fourth quarter of 1996. The effective tax rate was 30 percent in the fourth quarter of 1997, compared with 29 percent in the fourth quarter of 1996. Federal income tax expense totaled \$1.262 billion in 1997, compared with \$1.135 billion in 1996. The effective federal income tax rate was 29 percent in both 1997 and 1996.

Capital

Fannie Mae's capital, defined as stockholders' equity plus the general allowance for losses, was \$14.6 billion at December 31, 1997, compared with \$13.5 billion at December 31, 1996.

Fannie Mae repurchased 31 million shares of common stock during 1997. As of December 31, 1997, Fannie Mae had approximately 1.037 billion shares outstanding.

As discussed in the Information Statement under "Management's Discussion and Analysis of Financial Condition and Results of Operation—Balance Sheet Analysis—Regulatory Capital Requirements," the Corporation is subject to capital standards. The Corporation met the applicable capital standards as of December 31, 1997.

CAPITALIZATION

The following table sets forth the capitalization of the Corporation as of December 31, 1997.

	<u>Average Maturity</u>	<u>Average Cost (1)</u>	<u>Outstanding (Dollars in millions)</u>
Debtures, notes, and bonds, net:			
Due within one year:			
Short-term notes	2 mos.	5.69%	\$104,963
Debentures	6 mos.	6.29	16,850
Medium-term notes (2)	7 mos.	5.71	53,306
Other (3)	—	6.50	<u>281</u>
Total due within one year			<u>175,400</u>
Due after one year:			
Debentures	5 yrs. 3 mos.	7.02	56,922
Medium-term notes (2)	5 yrs. 11 mos.	6.48	135,453
Other	18 yrs. 6 mos.	9.03	<u>1,999</u>
Total due after one year			<u>194,374</u>
Total debtures, notes, and bonds ..			<u>\$369,774</u>
Stockholders' equity:			
Preferred stock, \$50.00 stated value, 100 million shares authorized— 20 million shares issued			\$ 1,000
Common stock, \$.525 stated value, no maximum authorization— 1,129 million shares issued			593
Additional paid-in capital			1,495
Retained earnings			<u>13,325</u>
			16,413
Less treasury stock, at cost— 92 million shares			<u>2,620</u>
Total stockholders' equity			<u>\$ 13,793</u>

- (1) Represents weighted-average cost, which includes the amortization of discounts, premiums, issuance costs, hedging results and the effects of currency and debt swaps.
- (2) Medium-term notes may have maturities of one day or longer.
- (3) Average maturity is indeterminate because the outstanding amount includes investment agreements that have varying maturities.

The Corporation issues debentures, notes and other debt obligations frequently. The amount of debentures, notes and bonds outstanding on any date subsequent to December 31, 1997 may differ from that shown in the table above.

