

**Supplement dated May 15, 1998 to
Information Statement dated March 31, 1998**



This Supplement describes the financial condition of the Federal National Mortgage Association (“Fannie Mae” or the “Corporation”) as of March 31, 1998 and contains unaudited financial statements with respect to the Corporation for the quarter ended March 31, 1998. This Supplement should be read in conjunction with the Corporation’s Information Statement dated March 31, 1998 (the “Information Statement”), which is hereby incorporated by reference. The Information Statement describes the business and operations of the Corporation and contains financial data as of December 31, 1997. 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, any supplements thereto and other available information, including the Corporation’s Proxy Statement dated March 30, 1998, 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 offerings of securities, 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, a Prospectus or otherwise. 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 April 30, 1998, approximately 1,030 million 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

The following selected financial data for the three months ended March 31, 1998 and 1997 are unaudited and include, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. Certain amounts in 1997 have been reclassified to conform with current presentation. Operating results for the three months ended March 31, 1998 are not necessarily indicative of the results expected for the entire year.

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

Income Statement Data for the three months ended March 31:	<u>1998</u>	<u>1997</u>
Interest income	\$ 7,025	\$ 6,329
Interest expense	5,989	5,379
Net interest income	<u>1,036</u>	<u>950</u>
Guaranty fees	321	313
Miscellaneous income, net	56	30
Credit-related expenses	(77)	(106)
Administrative expenses	<u>(170)</u>	<u>(151)</u>
Income before federal income taxes and extraordinary item	1,166	1,036
Provision for federal income taxes	<u>(334)</u>	<u>(302)</u>
Income before extraordinary item	832	734
Extraordinary loss—early extinguishment of debt, net of tax effect	(8)	—
Net income	<u>\$ 824</u>	<u>\$ 734</u>
Preferred stock dividends	<u>(16)</u>	<u>(16)</u>
Net income available to common stockholders	<u>\$ 808</u>	<u>\$ 718</u>
Basic earnings per common share(1):		
Earnings before extraordinary item	\$.79	\$.68
Extraordinary item	(.01)	—
Net earnings	<u>\$.78</u>	<u>\$.68</u>
Diluted earnings per common share(1):		
Earnings before extraordinary item	\$.78	\$.67
Extraordinary item	(.01)	—
Net earnings	<u>\$.77</u>	<u>\$.67</u>
Balance Sheet Data at March 31:		
Mortgage portfolio, net	\$326,909	\$291,441
Investments	67,209	57,117
Total assets	403,993	357,010
Borrowings:		
Due within one year	168,919	159,071
Due after one year	212,174	177,103
Total liabilities	389,922	343,832
Stockholders' equity	14,071	13,178
Capital(2)	14,854	13,926
Other Data for the three months ended March 31:		
Average net interest margin	1.14%	1.17%
Return on average common equity	25.0	24.0
Dividend payout ratio	30.8	31.1
Average effective guaranty fee rate .....	.219	.227
Credit loss ratio(3) .....	.034	.046
Ratio of earnings to combined fixed charges and preferred stock dividends(4) ...	1.19:1	1.19:1
Mortgage purchases	\$ 28,372	\$ 12,996
MBS issued	58,259	30,881
MBS outstanding at period end(5)	730,832	663,668
Weighted-average diluted common shares outstanding	1,045	1,069

(1) Earnings per common share amounts for 1997 have been restated to comply with Statement of Financial Accounting Standards No. 128, *Earnings per Share*.

(2) Stockholders' equity plus general allowance for losses.

(3) Charge-offs and foreclosure expense as a percentage of average net portfolio and net MBS outstanding.

(4) "Earnings" consists of (i) income before federal income taxes and extraordinary item and (ii) fixed charges. "Fixed charges" represents interest expense.

(5) Includes \$138 billion and \$110 billion of MBS in portfolio at March 31, 1998 and 1997, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 1998

Results of Operations

In the first quarter of 1998, Fannie Mae reported record earnings of \$824 million, compared with \$734 million in the first quarter of 1997. The 12 percent increase in earnings was primarily due to increases in net interest income and miscellaneous income, and lower credit-related expenses.

Net interest income in the first quarter of 1998 increased 9 percent, compared with the first quarter of 1997. The growth in net interest income was primarily a result of a 12 percent growth in the average investment portfolio, which was partly offset by a 3 basis point decrease in the net interest margin. Management expects that the net interest margin will continue to decline somewhat in 1998.

The following table presents an analysis of net interest income for the three months ended March 31, 1998 and 1997.

Net Interest Income and Average Balances

(Dollars in millions)

	Three Months Ended March 31,	
	1998	1997
Interest income:		
Mortgage portfolio	\$ 6,002	\$ 5,484
Investments and cash equivalents	1,023	845
Total interest income	<u>7,025</u>	<u>6,329</u>
Interest expense (1):		
Short-term debt	965	839
Long-term debt	5,024	4,540
Total interest expense	<u>5,989</u>	<u>5,379</u>
Net interest income	1,036	950
Tax equivalent adjustment (2)	72	67
Net interest income tax equivalent basis	<u>\$ 1,108</u>	<u>\$ 1,017</u>
Average balances:		
Interest-earning assets (3):		
Mortgage portfolio, net	\$319,888	\$287,896
Investments and cash equivalents	70,488	60,085
Total interest-earning assets	<u>\$390,376</u>	<u>\$347,981</u>
Interest-bearing liabilities (1):		
Short-term debt	\$ 71,782	\$ 64,545
Long-term debt	301,083	267,458
Total interest-bearing liabilities	<u>372,865</u>	<u>332,003</u>
Interest-free funds	17,511	15,978
Total interest-bearing liabilities and interest-free funds	<u>\$390,376</u>	<u>\$347,981</u>
Average interest rates (2):		
Interest-earning assets:		
Mortgage portfolio, net	7.55%	7.68%
Investments and cash equivalents	5.84	5.68
Total interest-earning assets	<u>7.24</u>	<u>7.34</u>
Interest-bearing liabilities (1):		
Short-term debt	5.33	5.16
Long-term debt	6.68	6.79
Total interest-bearing liabilities	<u>6.42</u>	<u>6.48</u>
Investment spread .....	.82	.86
Interest-free return (4) .....	.32	.31
Net interest margin (5)	<u>1.14%</u>	<u>1.17%</u>

- (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 \$2.6 billion and \$2.3 billion for the three months ended March 31, 1998 and 1997, respectively.
- (4) Consists primarily of the return on that portion of the investment portfolio funded by equity and non-interest-bearing liabilities.
- (5) Net interest income, on a tax equivalent basis, as a percentage of the average investment portfolio.

The following rate/volume analysis shows the relative contribution of asset and debt growth and interest rate changes to changes in net interest income for the three months ended March 31, 1998 and 1997.

Rate / Volume Analysis

(Dollars in millions)

<u>First Quarter 1998 vs. First Quarter 1997</u>	<u>Increase (Decrease)</u>	<u>Attributable to Changes in (1)</u>	
		<u>Volume</u>	<u>Rate</u>
Interest income:			
Mortgage portfolio	\$518	\$601	\$(83)
Investments and cash equivalents	<u>178</u>	<u>150</u>	<u>28</u>
Total interest income	<u>696</u>	<u>751</u>	<u>(55)</u>
Interest expense:			
Short-term debt	126	96	30
Long-term debt	<u>484</u>	<u>562</u>	<u>(78)</u>
Total interest expense	<u>610</u>	<u>658</u>	<u>(48)</u>
Net interest income	<u>\$ 86</u>	<u>\$ 93</u>	<u>\$ (7)</u>

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

Guaranty fee income increased by \$8 million, or 3 percent, to \$321 million, compared with \$313 million in the first quarter of 1997. This change resulted from a 6 percent increase in average net Mortgage-Backed Securities (“MBS”) outstanding which was partially offset by a .8 basis point decrease in the effective average guaranty fee rate when compared with the first quarter of 1997. The decrease in the effective average guaranty fee rate was due to repayments of loans backing MBS with high fees, and an increase in the guaranty fees associated with MBS purchased for portfolio being included in net interest income.

In the first three months of 1998, miscellaneous income increased 87 percent to \$56 million versus \$30 million in the first three months of 1997. The increase in miscellaneous income was primarily the result of higher technology and special transaction fees.

Administrative expenses for the quarter ended March 31, 1998 increased to \$170 million from \$151 million during the same period in 1997, primarily due to higher compensation costs. Compensation expense was \$107 million in the first quarter of 1998, compared with \$94 million in the first quarter of 1997. The ratio of administrative expenses to the average mortgage portfolio plus average MBS outstanding was .075 percent in the first quarter of 1998 and .072 percent in the first quarter of 1997. The ratio of administrative expenses to revenues (net interest income, guaranty fees and miscellaneous income) was 12.0 percent for the first quarter of 1998, compared with 11.6 percent for the first quarter of 1997.

The effective federal income tax rate for the first three months of 1998 and 1997 was 29 percent.

The Corporation had extraordinary losses of \$13 million (\$8 million after tax) from the repurchase or call of debt in the first quarter of 1998. The Corporation had less than \$1 million in extraordinary losses from the call or repurchase of debt in the first quarter of 1997.

Credit Data

The following table shows the Corporation's serious delinquencies for conventional loans in portfolio and underlying MBS at March 31, 1998 and 1997, and conventional properties acquired and total net recoveries or charge-offs for the three months ended March 31, 1998 and 1997.

	Delinquency Rate (1)		Number of Properties Acquired		Net (Recoveries) / Charge-offs	
	March 31, 1998	March 31, 1997	March 31, 1998	March 31, 1997	March 31, 1998	March 31, 1997
	(Dollars in millions)					
Single-family . . .	.61%	.59%	5,658	5,431	\$(7)	\$30
Multifamily . . . .	.36	.58	4	8	3	1
Total					<u>\$(4)</u>	<u>\$31</u>

- (1) Single-family serious delinquencies consist of those loans in the portfolio or underlying MBS for which the Corporation has the primary risk of loss that are 90 or more days delinquent or in foreclosure. Multifamily serious delinquencies are those loans in the portfolio or underlying MBS that are 60 days or more delinquent for which the Corporation has primary risk of loss. The single-family and multifamily percentages are based on the number of such single-family loans and dollar amount of such multifamily loans, respectively, in the portfolio and underlying MBS.

Total credit-related losses, which include loan charge-offs, net of recoveries, and foreclosed property expenses, were \$78 million for the three months ended March 31, 1998, compared with \$97 million for the same period in 1997. The change in credit-related losses was the result of a decrease in charge-offs slightly offset by an increase in foreclosure expenses. The decrease in charge-offs was due to net recoveries on foreclosed properties in the first quarter of 1998 versus net charge-offs in the first quarter of 1997. In addition to the Corporation's loss mitigation efforts, a strong economy, strong housing market, and deeper mortgage insurance requirements on higher loan-to-value ratio loans have contributed to reducing credit-related losses.

The inventory of single-family properties was 9,614 as of March 31, 1998, compared with 9,582 as of March 31, 1997. The inventory of multifamily properties was 17 as of March 31, 1998, compared with 27 as of March 31, 1997.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were \$77 million in the first quarter of 1998, compared with \$106 million in the first quarter of 1997. This decrease was due to a negative \$5 million provision recorded in the first quarter of 1998, compared to a \$40 million loss provision recorded in the first quarter of 1997.

The allowance for losses increased to \$802 million at March 31, 1998 from \$789 million at December 31, 1997. Management anticipates that the provision for losses will be adjusted periodically in line with its analysis of actual and expected loss experience.

Balance Sheet Analysis

Mortgage Portfolio

The Corporation purchased \$28 billion of mortgages at an average yield of 6.79 percent in the first quarter of 1998, compared with \$13 billion of mortgages at an average yield of 7.58 percent in the first quarter of 1997. The increase in mortgage purchases was primarily due to the availability of mortgages offered for sale in the secondary market.

Mortgage loan repayments during the first quarter of 1998 totaled \$17 billion, compared with \$7 billion in the first quarter of 1997. The increase in loan repayments was primarily due to an

increased level of refinance activity. Sales from portfolio were insignificant for the first three months of 1998 and 1997.

As of March 31, 1998, the net mortgage portfolio totaled \$327 billion with a yield (before deducting the allowance for losses) of 7.50 percent, compared with \$316 billion at 7.60 percent at December 31, 1997, and \$291 billion at 7.68 percent at March 31, 1997. The decrease in yield was primarily due to increased prepayments of higher coupon mortgages and a decrease in conventional mortgage purchase yields as interest rates declined. The portfolio growth during the first quarter of 1998 was generated by the purchase of a combination of whole loans, MBS and REMICs. For the remainder of 1998, the Corporation expects that a high level of fixed-rate mortgage originations will lead to attractive portfolio investment opportunities and growth in the net mortgage portfolio.

At March 31, 1998, the Corporation had mandatory delivery commitments and lender option commitments outstanding to purchase \$12.6 billion and \$1.6 billion of mortgage loans, respectively, compared with \$3.6 billion and \$1.6 billion, respectively, of such commitments outstanding at December 31, 1997.

Financing and Other Activities

During the first three months of 1998, the Corporation issued \$218 billion of debt at an average cost of 5.62 percent and redeemed \$207 billion at an average cost of 5.75 percent. Debt issued in the first three months of 1997 totaled \$183 billion at an average cost of 5.48 percent, and debt redeemed was \$178 billion at an average cost of 5.45 percent. The average cost of debt outstanding at March 31, 1998, December 31, 1997, and March 31, 1997 was 6.38 percent, 6.46 percent and 6.50 percent, respectively.

The following table presents the amount of callable debt and the notional amount of callable swaps issued and outstanding at March 31, 1998 and March 31, 1997.

<u>(Dollars in billions)</u>	Three Months Ended	
	March 31,	
	<u>1998</u>	<u>1997</u>
Issued during the period	\$ 19	\$ 7
Percentage of total long-term debt issued(1)	54%	55%
Outstanding at end of period	\$140	\$130
Percentage of total long-term debt outstanding(1)	46%	48%

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

The following table summarizes the Corporation's interest rate swap activity, the notional amount of, and weighted-average interest rates to be received and paid on, interest rate swaps outstanding for the quarter ended March 31, 1998 together with the expected maturities and weighted-average interest rates to be received and paid on swaps outstanding at March 31, 1998.

Interest Rate Swap Activity and Maturity Data

	Generic-pay fixed/ receive variable (1)			Basis Swaps	Other (4)	Total
	Notional (2)	Pay Rate (3)	Receive Rate (3)			
	(Dollars in millions)					
Balance at December 31, 1997	\$96,713	6.77%	5.82%	\$22,383	\$29,653	\$148,749
Additions	—	—	—	3,585	7,436	11,021
Maturities	<u>6,993</u>	<u>6.74</u>	<u>5.85</u>	<u>4,370</u>	<u>5,351</u>	<u>16,714</u>
Balance at March 31, 1998	<u>\$89,720</u>	<u>6.77%</u>	<u>5.73%</u>	<u>\$21,598</u>	<u>\$31,738</u>	<u>\$143,056</u>
Balance at March 31, 1997	<u>\$99,085</u>	<u>6.75%</u>	<u>5.59%</u>	<u>\$37,897</u>	<u>\$21,176</u>	<u>\$158,158</u>
Future Maturities(5)						
1998	\$ 6,780	5.30%	5.75%	\$11,007	\$ 9,234	\$ 27,021
1999	5,575	6.65	5.35	7,901	8,810	22,286
2000	3,817	6.08	5.78	1,300	5,000	10,117
2001	7,600	6.65	5.68	—	2,650	10,250
2002	4,675	6.30	5.74	79	725	5,479
Thereafter	<u>61,273</u>	<u>7.04</u>	<u>5.76</u>	<u>1,311</u>	<u>5,319</u>	<u>67,903</u>
	<u>\$89,720</u>	<u>6.77%</u>	<u>5.73%</u>	<u>\$21,598</u>	<u>\$31,738</u>	<u>\$143,056</u>

- (1) Included in the notional amounts are callable swaps of \$22 billion, \$23 billion and \$27 billion with weighted-average pay rates of 6.60 percent, 6.58 percent and 6.68 percent and weighted-average receive rates of 5.82 percent, 5.89 percent and 5.61 percent, as of March 31, 1998, December 31, 1997 and March 31, 1997, respectively.
- (2) The notional value indicates only 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) Amounts principally consist of generic-pay variable/receive fixed swaps.
- (5) Based on the swap's stated maturity. Assumes that variable interest rates remain constant at March 31, 1998 levels.

The contract amounts of other off-balance-sheet financial instruments, which included futures contracts and derivative instruments that simulate the short sale of Treasury securities to provide a hedge against interest rate fluctuations, credit enhancements and other guarantees, were \$13.1 billion at March 31, 1998 and \$11.5 billion at December 31, 1997.

The exposure to credit loss for interest rate swaps and other off-balance-sheet financial instruments was 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 at March 31, 1998 was \$42 million, compared with \$26 million at December 31, 1997. The exposure to credit loss can be expected to fluctuate significantly due to changes in interest rates.

Capital Resources

The Corporation's stockholders' equity at March 31, 1998 was \$14.1 billion, compared with \$13.8 billion at December 31, 1997, and \$13.2 billion at March 31, 1997. Pursuant, in part, to the capital restructuring program described in the Information Statement under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analy-

sis—Liquidity and Capital Resources,” the Corporation repurchased 6.1 million common shares at a weighted-average cost of \$62.32 per common share during the first quarter of 1998 and issued 3.2 million common shares for employee and other stock compensation plans. As of March 31, 1998, there were approximately 1,034 million common shares outstanding.

On April 21, 1998, the Board of Directors approved a dividend for the quarter ended March 31, 1998 of \$0.24 per common share, and dividends of \$0.80125 per Series A preferred share, \$0.81250 per Series B preferred share and \$0.80625 per Series C preferred share for the period from and including March 31, 1998 to but excluding June 30, 1998.

As discussed in the Information Statement under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Capital Requirements,” the Corporation is subject to capital standards. The Corporation met the applicable capital standards as of March 31, 1998, and management expects that growth in retained earnings will ensure continued compliance with the applicable standards.

Mortgage-Backed Securities

The Corporation issued \$58 billion of MBS during the first three months of 1998, compared with \$31 billion in the first three months of 1997. The increase in MBS issued during the first quarter of 1998, compared with the first quarter of 1997, was primarily due to an increase in mortgage origination and refinance activity in a lower interest rate environment. REMIC issuances decreased to \$16 billion in the first quarter of 1998 from \$18 billion in the first quarter of 1997.

The following table summarizes MBS activity for the three months ended March 31, 1998 and 1997.

Summary of MBS Activity

(Dollars in millions)

Three Months Ended March 31,	Issued				Outstanding(1)		
	Lender Originated (1)				Lender Risk (2)	Fannie Mae Risk	Total (3)
	Lender Risk	Fannie Mae Risk	Fannie Mae Originated	Total			
1998	\$13,202	\$44,771	\$286	\$58,259	\$103,343	\$627,489	\$730,832
1997	3,694	26,231	956	30,881	72,155	591,513	663,668

- (1) This table classifies lender originated MBS issued and MBS outstanding based on primary default risk category; however, Fannie Mae bears the ultimate risk of default on all MBS. MBS outstanding includes MBS that have been pooled to back Megas, SMBS, or REMICs.
- (2) Included in lender risk are \$67 billion and \$34 billion at March 31, 1998 and 1997, 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 \$138 billion and \$110 billion at March 31, 1998 and 1997, respectively, of Fannie Mae MBS held in portfolio.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Stockholders of Fannie Mae:

We have reviewed the accompanying condensed balance sheet of Fannie Mae as of March 31, 1998 and the related condensed statements of income, changes in stockholders' equity, and cash flows for the three-months ended March 31, 1998 and 1997. These condensed financial statements are the responsibility of Fannie Mae's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of Fannie Mae as of December 31, 1997 (presented herein in condensed form) and the related statements of income, changes in stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated January 14, 1998, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 1997, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

KPMG PEAT MARWICK LLP

Washington, D.C.
April 8, 1998

FANNIE MAE
INTERIM FINANCIAL STATEMENTS
CONDENSED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended March 31,	
	1998	1997
	(Dollars in millions, except per share amounts)	
Interest income	\$7,025	\$6,329
Interest expense	5,989	5,379
Net interest income	1,036	950
Guaranty fees	321	313
Miscellaneous income, net	56	30
Credit-related expenses	(77)	(106)
Administrative expenses	(170)	(151)
Income before federal income taxes and extraordinary item	1,166	1,036
Provision for federal income taxes	(334)	(302)
Income before extraordinary item	832	734
Extraordinary loss—early extinguishment of debt (net of tax effect)	(8)	—
Net income	<u>\$ 824</u>	<u>\$ 734</u>
Preferred dividends	(16)	(16)
Net income available to common stockholders	<u>\$ 808</u>	<u>\$ 718</u>
Basic earnings per common share:		
Earnings before extraordinary item	\$.79	\$.68
Extraordinary item	(.01)	—
Net earnings	<u>\$.78</u>	<u>\$.68</u>
Diluted earnings per common share:		
Earnings before extraordinary item	\$.78	\$.67
Extraordinary item	(.01)	—
Net earnings	<u>\$.77</u>	<u>\$.67</u>

CONDENSED BALANCE SHEETS
(Unaudited)

	March 31, 1998	December 31, 1997
		(Dollars in millions)
Assets		
Mortgage portfolio, net	\$326,909	\$316,316
Investments	67,209	64,596
Other assets	9,875	10,761
Total assets	<u>\$403,993</u>	<u>\$391,673</u>
Liabilities		
Debentures, notes, and bonds, net		
Due within one year	\$168,919	\$175,400
Due after one year	212,174	194,374
Other liabilities	8,829	8,106
Total liabilities	389,922	377,880
Stockholders' equity	14,071	13,793
Total liabilities and stockholders' equity	<u>\$403,993</u>	<u>\$391,673</u>

See Notes to Interim Financial Statements

FANNIE MAE
CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Number of Common Shares Outstanding	Preferred Stock	Common Stock	Additional Paid-in Capital (Dollars and shares in millions)	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity
Balance, December 31, 1996 ..	1,061	\$1,000	\$593	\$1,451	\$11,215	\$ (1)	\$ (1,485)	\$12,773
Comprehensive income:								
Net income	—	—	—	—	734	—	—	734
Other comprehensive income, net of tax—Unrealized losses on securities, net	—	—	—	—	—	(3)	—	(3)
Total comprehensive income								731
Dividends	—	—	—	—	(239)	—	—	(239)
Shares repurchased	(5)	—	—	—	—	—	(200)	(200)
Treasury stock issued for stock options and benefit plans	4	—	—	35	—	—	78	113
Balance, March 31, 1997	<u>1,060</u>	<u>\$1,000</u>	<u>\$593</u>	<u>\$1,486</u>	<u>\$11,710</u>	<u>\$ (4)</u>	<u>\$ (1,607)</u>	<u>\$13,178</u>
 Balance, December 31, 1997 ..	 1,037	 \$1,000	 \$593	 \$1,495	 \$13,326	 \$ (1)	 \$ (2,620)	 \$13,793
Comprehensive income:								
Net income	—	—	—	—	824	—	—	824
Other comprehensive income, net of tax—Unrealized losses on securities, net	—	—	—	—	—	2	—	2
Total comprehensive income								826
Dividends	—	—	—	—	(265)	—	—	(265)
Shares repurchased	(6)	—	—	—	—	—	(377)	(377)
Treasury shares issued for stock option and benefit plans	3	—	—	10	—	—	84	94
Balance, March 31, 1998	<u>1,034</u>	<u>\$1,000</u>	<u>\$593</u>	<u>\$1,505</u>	<u>\$13,885</u>	<u>\$ 1</u>	<u>\$ (2,913)</u>	<u>\$14,071</u>

FANNIE MAE
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	1998	1997
	(Dollars in millions)	
Net cash provided by operating activities	\$ 1,703	\$ 2,131
Cash flows from investing activities:		
Purchases of mortgages	(28,603)	(13,079)
Proceeds from sales of mortgages	396	97
Mortgage principal repayments	17,844	8,054
Net increase in investments	(2,613)	(511)
Net cash used by investing activities	(12,976)	(5,439)
Cash flows from financing activities:		
Cash proceeds from issuance of debt	216,462	178,980
Cash payments to retire debt	(206,479)	(175,182)
Other	(562)	(354)
Net cash provided by financing activities	9,421	3,444
Net (decrease) increase in cash and cash equivalents	(1,852)	136
Cash and cash equivalents at beginning of period	2,205	850
Cash and cash equivalents at end of period	\$ 353	\$ 986

NOTES TO INTERIM FINANCIAL STATEMENTS
(Unaudited)

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain amounts in 1997 have been reclassified to conform with the current presentation. Operating results for the three months ended March 31, 1998 are not necessarily indicative of the results that may be expected for the year ending December 31, 1998. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Information Statement dated March 31, 1998.

New Accounting Standard

Financial Accounting Standard No. 130, *Reporting Comprehensive Income* ("FAS 130") became effective in the first quarter of 1998. FAS 130 requires reporting of comprehensive income by its components and in total in the financial statements. "Comprehensive income" is defined as the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners. "Other comprehensive income" refers to revenues, expenses, gains, and losses that under generally accepted accounting policies are

included in comprehensive income but excluded from net income (e.g., unrealized gains and losses on securities classified as available-for-sale).

Line of Business Reporting

The following table sets forth the Corporation's financial information by line of business for the three months ended March 31, 1998 and 1997. Significant changes from period to period were due to the same factors discussed under "Results of Operations."

Three Months Ended March 31,	1998			1997		
	Portfolio Investment	Credit Guaranty	Total	Portfolio Investment	Credit Guaranty	Total
	(Dollars in millions)					
Net interest income	\$ 894	\$ 142	\$1,036	\$ 848	\$ 102	\$ 950
Guaranty fees	(197)	518	321	(189)	502	313
Miscellaneous, net	16	40	56	8	22	30
Credit-related expenses	—	(77)	(77)	—	(106)	(106)
Administrative expenses	(37)	(133)	(170)	(36)	(115)	(151)
Federal income taxes	(186)	(148)	(334)	(177)	(125)	(302)
Extraordinary item—early extinguishment of debt	(8)	—	(8)	—	—	—
Net income	<u>\$ 482</u>	<u>\$ 342</u>	<u>\$ 824</u>	<u>\$ 454</u>	<u>\$ 280</u>	<u>\$ 734</u>

The Portfolio Investment business represented \$389 billion, or 96 percent of total assets, at March 31, 1998 and \$346 billion, or 97 percent of total assets, at March 31, 1997.

Commitments and Contingencies

The Corporation had outstanding commitments to purchase mortgages and to issue MBS as shown below:

	March 31, 1998
	(Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	\$12.6
Lender option (1)	1.6
Average net yield on mandatory delivery	6.77%
Master commitments:	
Mandatory delivery (2)	\$39.6
Lender option	56.9

(1) Excludes commitments attached to master commitments, which are included in the total for master commitments.

(2) Under a mandatory master commitment, a lender must either deliver under an MBS contract at a specified guaranty fee or enter into a mandatory portfolio commitment with the yield established upon executing the portfolio commitment.

The Corporation also guarantees timely payment of principal and interest on outstanding MBS and provides credit enhancements or other guarantees as summarized below:

	March 31, 1998
	(Dollars in billions)
MBS outstanding (1)	\$731
Amount for which the Corporation has primary foreclosure loss risk (2)	627
Credit enhancements	6.1
Other guarantees	2.9

(1) Includes \$138 billion of MBS held in portfolio.

(2) The Corporation, however, assumes the ultimate risk of loss on all MBS.

COMPUTATION OF EARNINGS PER COMMON SHARE
(Unaudited)

	Three Months Ended March 31,	
	1998	1997
	(In millions, except per share data)	
Numerator:		
Net income before extraordinary loss	\$ 832	\$ 734
Extraordinary loss	(8)	—
Preferred stock dividends	(16)	(16)
Basic and diluted earnings per common share-income available to common stockholders	\$ 808	\$ 718
Denominator:		
Basic earnings per common share-weighted-average common shares	1,037	1,062
Dilutive potential common shares(1)	8	7
Diluted earnings per common share-adjusted weighted average common shares ..	1,045	1,069
Basic earnings per common share:		
Earnings before extraordinary item	\$.79	\$.68
Net earnings .....	.78	.68
Diluted earnings per common share:		
Earnings before extraordinary item	\$.78	\$.67
Net earnings .....	.77	.67

(1) Dilutive potential common shares consist primarily of the dilutive effect from employee stock options and other stock compensation plans.

MANAGEMENT

At a Special Meeting of the Board of Directors on April 14, 1998, the Board of Directors designated Franklin D. Raines as Chairman of the Board and Chief Executive Officer effective January 1, 1999, subject to his election by the stockholders as a director at the Corporation's annual meeting of stockholders on May 21, 1998, and nominated Kenneth M. Duberstein for election to its Board of Directors. They have been nominated to fill the seats that will be vacated by Antonia Shusta and Richard D. Parsons when Ms. Shusta's and Mr. Parsons' respective terms expire at the annual meeting of stockholders. From May 21, 1998 to December 31, 1998, Mr. Raines will serve as Chairman of the Board and Chief Executive Officer—Designate. Mr. Johnson will continue to serve as Chairman of the Board and Chief Executive Officer through December 31, 1998, subject to his election by the stockholders as a director at the annual meeting. Mr. Johnson will continue as Chairman of the Executive Committee through December 31, 1999.

Mr. Raines, 49, has been Director of the Office of Management and Budget since September 1996 and was Vice-Chairman and a director of the Corporation from September 1991 to August 1996.

Mr. Duberstein, 54, has been Chairman and Chief Executive Officer of The Duberstein Group, an independent strategic planning and consulting company, since July 1989. He served as Chief of Staff to the President of the United States from 1988 to 1989. Mr. Duberstein also serves as a director of The Boeing Company, Cinergy Corporation, and USF&G Corporation. He is serving his third term as a member of the Board of Governors of the American Stock Exchange.

In April 1998, the Corporation announced that eleven directors currently on the Board of Directors and whose terms expire at the annual meeting of stockholders on May 21, 1998 have been nominated for reelection.

