

**Supplement dated May 15, 2000 to
Information Statement dated March 30, 2000**



This Supplement describes the financial condition of the Federal National Mortgage Association (“Fannie Mae”) as of March 31, 2000, and contains unaudited financial statements with respect to Fannie Mae for the quarter ended March 31, 2000. This Supplement should be read in conjunction with Fannie Mae’s Information Statement dated March 30, 2000 (the “Information Statement”), which is hereby incorporated by reference. The Information Statement describes the business and operations of Fannie Mae, and contains financial data as of December 31, 1999. 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 Fannie Mae’s current Information Statement, any supplements thereto and other available information, including Fannie Mae’s Proxy Statement dated March 27, 2000, 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) or by accessing Fannie Mae’s worldwide website at <http://www.fanniemae.com>.

In connection with its offerings of securities, Fannie Mae 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.

Fannie Mae’s securities are not required to be registered under the Securities Act of 1933. At the close of business on April 30, 2000, approximately 1,006 million shares of Fannie Mae’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 Fannie Mae 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, 2000 and 1999 are unaudited and include, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. Operating results for the three months ended March 31, 2000 are not necessarily indicative of the results expected for the entire year.

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

Income Statement Data for the three months ended March 31:	<u>2000</u>	<u>1999</u>
Interest income	\$ 9,973	\$ 8,283
Interest expense	(8,611)	(7,124)
Net interest income	1,362	1,159
Guaranty fees	332	317
Fee and other income, net	1	58
Credit-related expenses	(31)	(47)
Administrative expenses	(217)	(192)
Income before federal income taxes and extraordinary item	1,447	1,295
Provision for federal income taxes	(385)	(361)
Income before extraordinary item	1,062	934
Extraordinary item—loss on early extinguishment of debt, net of tax effect	—	(9)
Net income	<u>\$ 1,062</u>	<u>\$ 925</u>
Preferred stock dividends	(20)	(18)
Net income available to common stockholders	<u>\$ 1,042</u>	<u>\$ 907</u>
Basic earnings per common share:		
Earnings before extraordinary item	\$ 1.03	\$.89
Extraordinary item	—	(.01)
Net earnings	<u>\$ 1.03</u>	<u>\$.88</u>
Diluted earnings per common share:		
Earnings before extraordinary item	\$ 1.02	\$.88
Extraordinary item	—	—
Net earnings	<u>\$ 1.02</u>	<u>\$.88</u>
Balance Sheet Data at March 31:		
Mortgage portfolio, net	\$536,992	\$440,726
Investments	38,325	49,916
Total assets	586,698	501,058
Borrowings:		
Due within one year	228,975	190,275
Due after one year	328,568	285,143
Total liabilities	568,327	484,924
Stockholders' equity	18,371	16,134
Capital(1)	19,172	16,930
Other Data for the three months ended March 31:		
Average net interest margin	1.02%	1.02%
Total tax-equivalent revenue(2)	\$ 1,892	\$ 1,678
Return on average common equity	25.7%	24.8%
Dividend payout ratio	27.3	30.6
Average effective guaranty fee rate .....	.194	.194
Credit loss ratio(3) .....	.009	.017
Ratio of earnings to combined fixed charges and preferred stock dividends(4)	1.17:1	1.18:1
Mortgage purchases	\$ 29,320	\$ 52,957
MBS issued	38,967	106,451
MBS outstanding at period end(5)	975,815	881,815
Weighted-average diluted common shares outstanding	1,019	1,035

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

(2) Includes revenues net of operating losses plus tax-equivalent adjustments for tax-exempt income and investment tax credits using the applicable federal income tax rate.

(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 \$291 billion and \$222 billion of MBS in portfolio at March 31, 2000 and 1999, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 2000

Results of Operations

In the first quarter of 2000, Fannie Mae reported record earnings of \$1,062 million, compared with \$925 million in the first quarter of 1999. The 15 percent increase in earnings was primarily due to an increase in net interest income and guaranty fee income and a decrease in credit-related expenses, partially offset by a decrease in fee and other income. Fannie Mae's taxable equivalent revenues totaled \$1.892 billion, 13 percent above the first quarter of 1999 amount of \$1.678 billion. Taxable equivalent revenue is total revenue net of operating losses adjusted to include the full pre-tax value of tax-exempt income and investment tax credits, based on applicable federal income tax rates.

Net interest income in the first quarter of 2000 increased 18 percent, compared with the first quarter of 1999. The growth in net interest income was primarily the result of 18 percent growth in the average investment portfolio and a stable net interest margin.

The following table presents an analysis of net interest income and average balances for the three months ended March 31, 2000 and 1999.

Net Interest Income and Average Balances

(Dollars in millions)

	Three Months Ended March 31,	
	2000	1999
Interest income:		
Mortgage portfolio	\$ 9,291	\$ 7,434
Investments and cash equivalents	682	849
Total interest income	9,973	8,283
Interest expense(1):		
Short-term debt	910	1,192
Long-term debt	7,701	5,932
Total interest expense	8,611	7,124
Net interest income	1,362	1,159
Tax equivalent adjustment(2)	95	79
Net interest income tax equivalent basis	\$ 1,457	\$ 1,238
Average balances:		
Interest-earning assets(3):		
Mortgage portfolio, net	\$527,871	\$423,975
Investments and cash equivalents	44,835	62,976
Total interest-earning assets	\$572,706	\$486,951
Interest-bearing liabilities(1):		
Short-term debt	\$ 68,526	\$ 96,886
Long-term debt	484,659	370,292
Total interest-bearing liabilities	553,185	467,178
Interest-free funds	19,521	19,773
Total interest-bearing liabilities and interest-free funds	\$572,706	\$486,951
Average interest rates(2):		
Interest-earning assets:		
Mortgage portfolio, net	7.09%	7.08%
Investments and cash equivalents	6.11	5.43
Total interest-earning assets	7.01	6.86
Interest-bearing liabilities(1):		
Short-term debt	5.26	4.88
Long-term debt	6.36	6.41
Total interest-bearing liabilities	6.22	6.09
Investment spread .....	.79	.77
Interest-free return(4) .....	.23	.25
Net interest margin(5)	1.02%	1.02%

- (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 \$2.5 billion and \$3.3 billion for the three months ended March 31, 2000 and 1999, 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, 2000 and 1999.

Rate / Volume Analysis

(Dollars in millions)

<u>First Quarter 2000 vs. First Quarter 1999</u>	<u>Increase (Decrease)</u>	<u>Attributable to Changes in (1)</u>	
		<u>Volume</u>	<u>Rate</u>
Interest income:			
Mortgage portfolio	\$1,857	\$1,829	\$ 28
Investments and cash equivalents	(167)	(266)	99
Total interest income	<u>1,690</u>	<u>1,563</u>	<u>127</u>
Interest expense:			
Short-term debt	(282)	(370)	88
Long-term debt	<u>1,769</u>	<u>1,818</u>	<u>(49)</u>
Total interest expense	<u>1,487</u>	<u>1,448</u>	<u>39</u>
Net interest income	<u>\$ 203</u>	<u>\$ 115</u>	<u>\$ 88</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 \$15 million, or 5 percent, to \$332 million, compared with \$317 million in the first quarter of 1999. This increase resulted from 4 percent annualized growth in average net Mortgage-Backed Securities (“MBS”) outstanding when compared with the first quarter of 1999. The effective average guaranty fee rate remained constant at 19.4 basis points when compared with the first quarter of 1999.

In the first three months of 2000, fee and other income decreased to \$1 million versus \$58 million in the first three months of 1999. The decrease in fee and other income was primarily due to a \$36 million increase in net operating losses from investments in low-income housing tax credits. Losses from these investments were more than offset by the tax credits they generated, that reduced federal income tax expense. A decline in transaction and technology fees, slightly offset by an increase in multifamily fees, accounted for the remainder of the decrease.

Administrative expenses for the quarter ended March 31, 2000 increased to \$217 million from \$192 million during the same period in 1999, primarily due to higher compensation costs. The ratio of annualized administrative expenses to the average mortgage portfolio plus average MBS outstanding was .072 percent in the first quarter of 2000 and .071 percent in the first quarter of 1999. The ratio of administrative expenses to revenues (net interest income, guaranty fees, and fee and other income, net) was 12.8 percent for the first quarter of 2000, compared with 12.5 percent for the first quarter of 1999.

The effective federal income tax rate for the first three months of 2000 was 27 percent, compared with 28 percent for the first three months of 1999.

Fannie Mae had no extraordinary losses from the repurchase or call of debt in the first quarter of 2000, compared with \$14 million (\$9 million after tax) in the first quarter of 1999.

Credit Data

The following table shows Fannie Mae's serious delinquencies for conventional loans in portfolio and underlying MBS at March 31, 2000 and 1999, and conventional properties acquired and total net recoveries or charge-offs for the three months ended March 31, 2000 and 1999.

	Delinquency Rate(1)		Number of Properties Acquired		Net (Recoveries) / Charge-offs	
	March 31, 2000	March 31, 1999	March 31, 2000	March 31, 1999	March 31, 2000	March 31, 1999
	(Dollars in millions)					
Single-family ...	.45%	.55%	3,953	4,438	\$ (33)	\$ (23)
Multifamily ....	.18	.21	1	4	—	1
Total					<u>\$ (33)</u>	<u>\$ (22)</u>

- (1) Single-family serious delinquencies consist of those loans in the portfolio or underlying MBS for which Fannie Mae 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 Fannie Mae 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 \$28 million for the three months ended March 31, 2000, compared with \$45 million for the same period in 1999. The decrease in credit-related losses was the result of an increase in net recoveries on foreclosed properties, as well as a decrease in foreclosure expenses in the first quarter of 2000. In addition to Fannie Mae's loss mitigation efforts and increased foreclosure management efficiencies, improvement in the California economy, a healthy national housing market, and deeper mortgage insurance requirements on higher loan to value ratio loans also have contributed to reducing credit-related losses.

The inventory of single-family properties was 6,935 as of March 31, 2000, compared with 8,013 as of March 31, 1999. The inventory of multifamily properties was 2 as of March 31, 2000, compared with 7 as of March 31, 1999.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were \$31 million in the first quarter of 2000, compared with \$47 million in the first quarter of 1999. This decrease partly was due to a negative \$30 million loss provision recorded in the first quarter of 2000, compared with a negative \$20 million loss provision recorded in the first quarter of 1999. The remainder of the decrease was due to a decrease in foreclosed property expenses to \$61 million in the first quarter of 2000, compared with \$67 million in the first quarter of 1999.

The allowance for losses increased to \$807 million at March 31, 2000 from \$804 million at December 31, 1999.

Balance Sheet Analysis

Mortgage Portfolio

Fannie Mae purchased \$29 billion of mortgages at an average yield of 7.66 percent in the first quarter of 2000, compared with \$53 billion of mortgages at an average yield of 6.40 percent in the first quarter of 1999. The decrease in mortgage purchases was primarily due to a higher interest rate environment and the decreased availability of mortgages offered for sale in the secondary market.

Mortgage loan repayments during the first quarter of 2000 totaled \$12 billion, compared with \$26 billion in the first quarter of 1999. The decrease in loan repayments was primarily due to a decreased level of refinance activity in a higher interest rate environment.

As of March 31, 2000, the net mortgage portfolio totaled \$537 billion with a yield (before deducting the allowance for losses) of 7.10 percent, compared with \$523 billion at 7.08 percent as of December 31, 1999, and \$441 billion at 7.04 percent as of March 31, 1999. The increase in yield was primarily due to an increase in conventional mortgage purchase yields as interest rates increased and prepayments slowed. The portfolio growth during the first quarter of 2000 was generated by the purchase of a combination of whole loans, MBS, and REMICs.

At March 31, 2000, Fannie Mae had mandatory delivery commitments and lender option commitments outstanding to purchase \$6 billion and \$2 billion of mortgage loans, respectively, compared with \$7 billion and \$2 billion, respectively, of such commitments outstanding at December 31, 1999.

Financing and Other Activities

During the first three months of 2000, Fannie Mae issued \$351 billion of debt at an average cost of 5.87 percent and redeemed \$341 billion at an average cost of 5.67 percent. Debt issued in the first three months of 1999 totaled \$190 billion at an average cost of 5.10 percent, and debt redeemed was \$175 billion at an average cost of 5.21 percent. The average cost of debt outstanding at March 31, 2000, December 31, 1999, and March 31, 1999 was 6.27 percent, 6.18 percent, and 6.06 percent, respectively.

The following table presents the amount of option-embedded debt instruments as a percentage of mortgage purchases and the net mortgage portfolio at March 31, 2000 and March 31, 1999. Option-embedded debt instruments include derivative financial instruments.

<u>(Dollars in billions)</u>	Three Months Ended	
	2000	1999
Issued during the period	\$ 14	\$ 55
Percentage of total mortgage purchases	47%	104%
Outstanding at end of period	\$258	\$219
Percentage of total net mortgage portfolio	48%	50%

The following table summarizes certain of Fannie Mae's derivative financial instrument activities for the quarter ended March 31, 2000, the balances as of March 31, 2000 and 1999, and the expected maturities of the derivative instruments outstanding as of March 31, 2000.

Derivative Financial Instruments Table

(Dollars in millions)

	Generic-Pay Fixed/ Receive Variable Swaps (1)			Pay Variable/ Receive Fixed Swaps	Basis Swaps	Caps and Swaptions	Total
	Notional (2)	Pay Rate (3)	Receive Rate (3)				
Balance at December 31, 1999	\$139,404	6.55%	6.03%	\$31,622	\$19,544	\$48,115	\$238,685
Additions	2,175	7.26	6.21	12,839	1,800	10,750	27,564
Maturities	<u>380</u>	6.29	6.18	<u>5,798</u>	<u>3,200</u>	<u>250</u>	<u>9,628</u>
Balance at March 31, 2000	<u>\$141,199</u>	6.56%	6.15%	<u>\$38,663</u>	<u>\$18,144</u>	<u>\$58,615</u>	<u>\$256,621</u>
Balance at March 31, 1999	<u>\$102,346</u>	6.47%	5.07%	<u>\$28,082</u>	<u>\$15,444</u>	<u>\$42,165</u>	<u>\$188,037</u>
Future Maturities(4)							
2000	\$ 14,372	5.17%	6.03%	\$14,625	\$15,740	\$ 7,250	\$ 51,987
2001	11,025	6.12	6.03	12,943	1,750	11,200	36,918
2002	6,625	6.08	6.14	4,293	79	7,750	18,747
2003	6,129	5.85	6.16	831	200	11,015	18,175
2004	9,900	7.21	6.20	460	120	5,750	16,230
Thereafter	<u>93,148</u>	6.84	6.18	<u>5,511</u>	<u>255</u>	<u>15,650</u>	<u>114,564</u>
	<u>\$141,199</u>	6.56	6.15	<u>\$38,663</u>	<u>\$18,144</u>	<u>\$58,615</u>	<u>\$256,621</u>

(1) Included in the notional amounts are callable swaps and swaptions of \$55 billion, \$47 billion, and \$33 billion with weighted-average pay rates of 4.34 percent, 5.08 percent and 5.17 percent and weighted-average receive rates of 6.21 percent, 6.06 percent, and 5.10 percent at March 31, 2000, December 31, 1999 and March 31, 1999, respectively.

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

(3) The weighted-average rate payable and receivable is as of the date indicated. As the rates of the swaps may be floating, these rates may change as prevailing interest rates change.

(4) Based on stated maturities. Assumes that variable rates remain constant at March 31, 2000 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 \$18.6 billion at March 31, 2000 and \$35.3 billion at December 31, 1999.

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 Fannie Mae was in a gain position. Fannie Mae's net exposure was \$4 billion at both March 31, 2000 and December 31, 1999. The exposure to credit loss can be expected to fluctuate significantly due to changes in interest rates.

Capital Resources

Fannie Mae's stockholders' equity at March 31, 2000 was \$18.4 billion, compared with \$17.6 billion at December 31, 1999, and \$16.1 billion at March 31, 1999. 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 Analysis—Liquidity and Capital Resources," Fannie Mae repurchased 12.7 million common shares at a weighted-average cost of \$56.23 per common share during the first quarter of 2000 and issued .7 million common shares for employee and other stock compensation plans. As of March 31, 2000, there were approximately 1,007 million common shares outstanding. In March 2000, Fannie Mae issued 13.8 million shares of variable rate non-cumulative preferred stock, Series F, callable in two years and every two years thereafter, with a stated value of \$50.00 per share. The 6.295 percent initial rate on the Series F preferred stock will reset every two years until called. In the event of liquidation of Fannie Mae, holders of all series of Fannie Mae preferred stock are entitled to receive, out of the remaining assets of Fannie Mae after payment of all liabilities and before any distribution on the common stock, \$50.00 per preferred share, plus an amount equal to the dividend for the most current quarterly dividend period accrued to but excluding the date of such liquidation period.

On April 18, 2000, the Board of Directors approved a dividend for the quarter ended March 31, 2000 of \$.28 per common share; dividends of \$.80125 per Series A preferred share, \$.81250 per Series B preferred share, \$.80625 per Series C preferred share, \$.65625 per Series D preferred share and \$.63750 per Series E preferred share for the period from and including March 31, 2000 to but excluding June 30, 2000. A dividend of \$.8830 per Series F preferred share was approved for the period from and including March 20, 2000 to but excluding June 30, 2000.

As discussed in the Information Statement under "Government Regulation and Charter Act" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Capital Requirements" and in this Supplement under "Recent Legislative and Regulatory Developments," Fannie Mae is subject to capital standards. Fannie Mae met the applicable capital standards as of March 31, 2000, and management expects to continue to comply with the applicable standards.

Mortgage-Backed Securities

Fannie Mae issued \$39 billion of MBS during the first three months of 2000, compared with \$106 billion in the first three months of 1999. The decrease in MBS issued during the first quarter of 2000, compared with the first quarter of 1999, was due to an increase in interest rates and a slowdown in mortgage originations. REMIC issuances were \$8 billion in the first quarter of 2000 compared with \$16 billion in the first quarter of 1999.

The following table summarizes MBS activity for the three months ended March 31, 2000 and 1999.

Summary of MBS Activity

(Dollars in millions)

<u>Three Months Ended March 31,</u>	<u>Issued (1)</u>			<u>Outstanding (1)</u>		
	<u>Lender or Shared Risk</u>	<u>Fannie Mae Risk</u>	<u>Total</u>	<u>Lender or Shared Risk (2)</u>	<u>Fannie Mae Risk</u>	<u>Total (3)</u>
2000	\$ 5,253	\$33,714	\$ 38,967	\$210,686	\$765,129	\$975,815
1999	29,078	77,373	106,451	177,936	703,879	881,815

- (1) This table classifies 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 or shared risk are \$165 billion and \$134 billion at March 31, 2000 and 1999, 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 \$291 billion and \$222 billion at March 31, 2000 and 1999, respectively, of Fannie Mae MBS held in portfolio.

The decline in the proportion of lender or shared risk on MBS issued was primarily the result of a decline in the number of loans backing MBS that are covered by lender-acquired pool insurance.

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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, 2000 and the related condensed statements of income, changes in stockholders' equity, and cash flows for the three-months ended March 31, 2000 and 1999. 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, 1999 (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 13, 2000, 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, 1999, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

KPMG LLP

Washington, D.C.
April 12, 2000

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

	Three Months Ended March 31,	
	2000	1999
	(Dollars in millions, except per common share amounts)	
Interest income	\$ 9,973	\$ 8,283
Interest expense	<u>(8,611)</u>	<u>(7,124)</u>
Net interest income	1,362	1,159
Guaranty fees	332	317
Fee and other income, net	1	58
Credit-related expenses	(31)	(47)
Administrative expenses	<u>(217)</u>	<u>(192)</u>
Income before federal income taxes and extraordinary item	1,447	1,295
Provision for federal income taxes	<u>(385)</u>	<u>(361)</u>
Income before extraordinary item	1,062	934
Extraordinary item—loss on early extinguishment of debt (net of tax effect)	<u>—</u>	<u>(9)</u>
Net income	<u>\$ 1,062</u>	<u>\$ 925</u>
Preferred dividends	<u>(20)</u>	<u>(18)</u>
Net income available to common stockholders	<u>\$ 1,042</u>	<u>\$ 907</u>
Basic earnings per common share:		
Earnings before extraordinary item	\$ 1.03	\$.89
Extraordinary item	<u>—</u>	<u>(.01)</u>
Net earnings	<u>\$ 1.03</u>	<u>\$.88</u>
Diluted earnings per common share:		
Earnings before extraordinary item	\$ 1.02	\$.88
Extraordinary item	<u>—</u>	<u>—</u>
Net earnings	<u>\$ 1.02</u>	<u>\$.88</u>

CONDENSED BALANCE SHEETS
(Unaudited)

	March 31, 2000	December 31, 1999
	(Dollars in millions)	
Assets		
Mortgage portfolio, net	\$536,992	\$522,780
Investments	38,325	39,751
Other assets	<u>11,381</u>	<u>12,636</u>
Total assets	<u>\$586,698</u>	<u>\$575,167</u>
Liabilities		
Debentures, notes, and bonds, net:		
Due within one year	\$228,975	\$226,582
Due after one year	328,568	321,037
Other liabilities	<u>10,784</u>	<u>9,919</u>
Total liabilities	<u>568,327</u>	<u>557,538</u>
Stockholders' equity	18,371	17,629
Total liabilities and stockholders' equity	<u>\$586,698</u>	<u>\$575,167</u>

See Notes to Interim Financial Statements

CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Three Months Ended March 31,	
	2000	1999
	(Dollars in millions)	
Balance, beginning of period	\$17,629	\$15,453
Comprehensive income:		
Net income	1,062	925
Other comprehensive loss, net of tax—Unrealized losses on securities, net ..	(20)	(6)
Total comprehensive income	1,042	919
Dividends	(304)	(296)
Shares repurchased	(716)	(61)
Preferred stock issued	683	—
Treasury stock issued for stock options and benefit plans	37	119
Balance, end of period	<u>\$18,371</u>	<u>\$16,134</u>

CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	2000	1999
	(Dollars in millions)	
Net cash provided by operating activities	\$ 2,941	\$ 3,196
Cash flows from investing activities:		
Purchases of mortgages	(28,576)	(52,912)
Proceeds from sales of mortgages	2,718	635
Mortgage principal repayments	11,840	26,636
Net decrease in investments	1,426	8,599
Net cash used by investing activities	(12,592)	(17,042)
Cash flows from financing activities:		
Cash proceeds from issuance of debt	349,280	188,988
Cash payments to retire debt	(341,304)	(175,590)
Other	(302)	(254)
Net cash provided by financing activities	7,674	13,144
Net decrease in cash and cash equivalents	(1,977)	(702)
Cash and cash equivalents at beginning of period	2,099	743
Cash and cash equivalents at end of period	<u>\$ 122</u>	<u>\$ 41</u>

See Notes to Interim Financial Statements

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 1999 have been reclassified to conform with the current presentation. Operating results for the three months ended March 31, 2000 are not necessarily indicative of the results that may be expected for the year ending December 31, 2000. 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 30, 2000.

Line of Business Reporting

The following table sets forth Fannie Mae's financial information by line of business for the three months ended March 31, 2000 and 1999. Significant changes from period to period were due to the same factors discussed under "Results of Operations."

<u>Three Months Ended March 31,</u>	<u>2000</u>			<u>1999</u>		
	<u>Portfolio Investment</u>	<u>Credit Guaranty</u>	<u>Total</u>	<u>Portfolio Investment</u>	<u>Credit Guaranty</u>	<u>Total</u>
	(Dollars in millions)					
Net interest income	\$1,233	\$ 129	\$1,362	\$1,008	\$ 151	\$1,159
Guaranty fees	(259)	591	332	(228)	545	317
Fee and other income, net	19	(18)	1	40	18	58
Credit-related expenses	—	(31)	(31)	—	(47)	(47)
Administrative expenses	(62)	(155)	(217)	(57)	(135)	(192)
Federal income taxes	(265)	(120)	(385)	(217)	(144)	(361)
Extraordinary item—loss on early extinguishment of debt (net of tax effect)	—	—	—	(9)	—	(9)
Net income	<u>\$ 666</u>	<u>\$ 396</u>	<u>\$1,062</u>	<u>\$ 537</u>	<u>\$ 388</u>	<u>\$ 925</u>

The Portfolio Investment line of business represented \$576 billion, or 98 percent of total assets, at March 31, 2000 and \$489 billion, or 98 percent of total assets, at March 31, 1999.

Commitments and Contingencies

Fannie Mae had outstanding commitments to purchase mortgages, to issue MBS, and to make other investments as shown below:

	<u>March 31, 2000</u> (Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	\$ 6
Lender option(1)	2
Average net yield on mandatory delivery	7.81%
Master commitments:	
Mandatory delivery(2)	\$ 38
Lender option	19
Other investments	2

(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.

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

	<u>March 31, 2000</u> (Dollars in billions)
MBS outstanding(1)	\$975
Amount for which Fannie Mae has primary foreclosure loss risk(2)	765
Credit enhancements	8
Other guarantees	4

(1) Includes \$291 billion of MBS held in portfolio and is net of \$613 million in allowance for losses.

(2) Fannie Mae, however, assumes the ultimate risk of loss on all MBS.

Computation of Earnings per Common Share

The following table sets forth the computation of basic and diluted earnings per common share:

	Three Months Ended March 31,			
	2000		1999	
	Basic	Diluted	Basic	Diluted
	(Dollars and shares in millions, except per common share amounts)			
Net income before extraordinary loss	\$1,062	\$1,062	\$ 934	\$ 934
Less: Extraordinary loss	—	—	(9)	(9)
Preferred stock dividend	(20)	(20)	(18)	(18)
Net income available to common stockholders	<u>\$1,042</u>	<u>\$1,042</u>	<u>\$ 907</u>	<u>\$ 907</u>
Weighted average common shares	1,013	1,013	1,027	1,027
Dilutive potential common shares(1)	—	6	—	8
Average number of common shares outstanding used to calculate earnings per common share	<u>1,013</u>	<u>1,019</u>	<u>1,027</u>	<u>1,035</u>
Earnings per common share before extraordinary item	\$ 1.03	\$ 1.03	\$.89	\$.88
Net earnings per common share	1.02	1.02	.88	.88

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

MANAGEMENT

On May 5, 2000, Fannie Mae announced its intention to promote Louis W. Hoyes to Executive Vice President—Single Family Mortgage Business, and Thomas E. Donilon to Executive Vice President—Law and Policy. Both promotions are subject to approval by the Board of Directors on May 18, 2000. Mr. Hoyes will succeed Ann D. Logan, who will be leaving Fannie Mae. Fannie Mae also named Ann Kappler to be Senior Vice President and General Counsel and Kenneth J. Bacon to be Senior Vice President—Multifamily Lending and Investment. Ms. Kappler, 42, has been Senior Vice President and Deputy General Counsel since January 1999 and was acting General Counsel from March 1999 to August 1999. Prior to that she was a partner in the law firm of Jenner & Block.

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