Supplement dated May 14, 1997 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 March 31, 1997 and contains unaudited financial statements with respect to the Corporation for the quarter ended March 31, 1997. This Supplement should be read in conjunction with the Corporation's Information Statement dated March 31, 1997 (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, 1996. 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 24, 1997, 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 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 April 30, 1997, approximately 1,050 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.

TABLE OF CONTENTS

Caption	Page
Selected Financial Data	3
Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three Months Ended March 31, 1997	4
Independent Accountants' Review Report	11
Interim Financial Statements	12
Notes to Interim Financial Statements	13
Computation of Earnings Per Common Share	15
Management	15

SELECTED FINANCIAL DATA

The following selected financial data for the three months ended March 31, 1997 and 1996 are unaudited and include, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. Certain amounts in 1996 have been reclassified to conform with current presentation. Operating results for the three months ended March 31, 1997 are not necessarily indicative of the results expected for the entire year.

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

	Three Months Ended March 31,	
Income Statement Data:	**1997**	**1996**
Interest income	$ 6,329	$ 5,757
Interest expense	5,379	4,872
Net interest income	950	885
Guaranty fees	313	288
Miscellaneous income, net	30	20
Provision for losses	(40)	(45)
Foreclosed property expenses	(66)	(53)
Administrative expenses	(151)	(135)
Income before federal income taxes and extraordinary item	1,036	960
Provision for federal income taxes	(302)	(285)
Income before extraordinary item	734	675
Extraordinary loss, net of tax effect	—	(21)
Net income	$ 734	$ 654
Preferred stock dividends	(16)	(2)
Net income available to common stockholders	$ 718	$ 652
Per common share:		
Earnings before extraordinary item	$ .67	$ .61
Net earnings	.67	.59
Cash dividends	.21	.19

	March 31,	
Balance Sheet Data:	**1997**	**1996**
Mortgage portfolio, net	$291,441	$261,225
Investments	57,117	56,517
Total assets	357,010	325,139
Borrowings:		
Due within one year	159,071	144,564
Due after one year	177,103	162,251
Total liabilities	343,832	313,760
Stockholders' equity	13,178	11,379
Capital(1)	13,926	12,104

	Three Months Ended March 31,	
Other Data:	**1997**	**1996**
Net interest margin	1.17%	1.20%
Return on average common equity	24.0	23.8
Dividend payout ratio	31.1	31.8
Average effective guaranty fee rate	.227	.222
Credit loss ratio	.046	.058
Ratio of earnings to combined fixed charges and preferred stock dividends(2)	1.19:1	1.20:1
Mortgage purchases	$ 12,996	$ 17,862
MBS issued	30,881	38,370
MBS outstanding at period end(3)	663,668	599,546
Average common shares outstanding	1,073	1,097
Book value per common share	$ 11.49	$ 10.17

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

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

(3) Includes $110 billion and $78 billion of MBS in portfolio at March 31, 1997 and 1996, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 1997

Results of Operations

In the first quarter of 1997, Fannie Mae again reported record earnings. Net income grew $80 million or 12 percent to $734 million from the $654 million earned in the first quarter of 1996, primarily due to increases in net interest income, guaranty fees and miscellaneous income.

Net interest income in the first quarter of 1997 increased 7 percent compared with the first quarter of 1996. The growth in net interest income was primarily a result of a 10 percent growth in the average investment portfolio, which was partly offset by a 3 basis point decrease in the net interest margin.

The following table presents an analysis of net interest income for the three months ended March 31, 1997 and 1996.

Net Interest Income and Average Balances

(Dollars in millions)

	Three Months Ended March 31,	
	1997	**1996**
Interest income:		
Mortgage portfolio	$ 5,484	$ 4,926
Investments and cash equivalents	845	831
Total interest income	6,329	5,757
Interest expense(1):		
Short-term debt	839	985
Long-term debt	4,540	3,887
Total interest expense	5,379	4,872
Net interest income	950	885
Tax equivalent adjustment(2)	67	58
Net interest income tax equivalent basis	$ 1,017	$ 943
Average balances:		
Interest-earning assets(3):		
Mortgage portfolio, net	$287,896	$256,139
Investments and cash equivalents	60,085	58,874
Total interest-earning assets	$347,981	$315,013
Interest-bearing liabilities(1):		
Short-term debt	$ 64,545	$ 72,365
Long-term debt	267,458	227,943
Total interest-bearing liabilities	332,003	300,308
Interest-free funds	15,978	14,705
Total interest-bearing liabilities and interest-free funds	$347,981	$315,013
Average interest rates(2):		
Interest-earning assets:		
Mortgage portfolio, net	7.68%	7.75%
Investments and cash equivalents	5.68	5.71
Total interest-earning assets	7.34	7.37
Interest-bearing liabilities(1):		
Short-term debt	5.16	5.35
Long-term debt	6.79	6.85
Total interest-bearing liabilities	6.48	6.48
Investment spread	.86	.89
Interest-free return(4)	.31	.31
Net interest margin(5)	1.17%	1.20%

(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 $2.3 billion and $2.2 billion for the three months ended March 31, 1997 and 1996, 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, 1997 and 1996.

Rate / Volume Analysis

(Dollars in millions)

	Increase (Decrease)	Attributable to Changes in (1)	
		Volume	**Rate**
First Quarter 1997 vs. First Quarter 1996			
Interest income:			
Mortgage portfolio	$558	$ 605	$(47)
Investments and cash equivalents	14	17	(3)
Total interest income	572	622	(50)
Interest expense:			
Short-term debt	(146)	(103)	(43)
Long-term debt	653	671	(18)
Total interest expense	507	568	(61)
Net interest income	$ 65	$ 54	$ 11

(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 $25 million, or 9 percent, to $313 million, compared with $288 million in the first quarter of 1996. This change resulted from a 7 percent increase in average net Mortgage-Backed Securities (“MBS”) outstanding and a .005 percentage point increase in the effective average guaranty fee rate when compared with the first quarter of 1996.

In the first three months of 1997, miscellaneous income increased 50 percent to $30 million versus $20 million in the first three months of 1996. This increase was the result of increased other miscellaneous fees coupled with lower net operating losses on affordable housing investments.

Administrative expenses for the quarter ended March 31, 1997 increased to $151 million, compared with $135 million during the same period in 1996, primarily due to increased compensation costs. Compensation expense was $94 million in the first quarter of 1997, compared with $81 million in the first quarter of 1996. The ratio of administrative expenses to the average mortgage portfolio plus average MBS outstanding was .072 percent in the first quarter of 1997 and .070 percent in the first quarter of 1996. The ratio of administrative expenses to revenues (net interest income, guaranty fees and miscellaneous income) was 11.6 percent for the first quarter of 1997, compared with 11.3 percent for the first quarter of 1996. Management anticipates that administrative expenses for 1997 as a whole will increase roughly in line with net income growth.

The effective federal income tax rate for the first three months of 1997 and 1996 was 29 percent.

The Corporation had no extraordinary losses from the repurchase or call of debt in the first quarter of 1997, compared with extraordinary loss of $32 million ($21 million after tax) in the first quarter of 1996.

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, 1997 and 1996. Significant changes from period to period were due to the same factors discussed under "Results of Operations."

Three Months Ended March 31,	1997 Portfolio Investment	1997 Credit Guaranty	1997 Total	1996 Portfolio Investment	1996 Credit Guaranty	1996 Total
	(Dollars in millions)					
Net interest income	$ 848	$ 102	$ 950	$ 781	$ 104	$ 885
Guaranty fees	(189)	502	313	(177)	465	288
Miscellaneous, net	8	22	30	9	11	20
Provision for losses	—	(40)	(40)	—	(45)	(45)
Foreclosed property expenses	—	(66)	(66)	—	(53)	(53)
Administrative expenses	(36)	(115)	(151)	(31)	(104)	(135)
Federal income taxes	(177)	(125)	(302)	(166)	(119)	(285)
Extraordinary item—early extinguishment of debt	—	—	—	(21)	—	(21)
Net income	$ 454	$ 280	$ 734	$ 395	$ 259	$ 654

The Portfolio Investment business represented $346 billion, or 97 percent of total assets, at March 31, 1997 and $312 billion, or 96 percent of total assets, at March 31, 1996.

Credit Data

The following table shows the Corporation's serious delinquencies for conventional loans in portfolio and underlying MBS at March 31, 1997 and 1996, and conventional properties acquired and total net charge-offs for the quarters ended March 31, 1997 and 1996.

	Delinquency Rate(1)		Number of Properties Acquired		Net Charge-offs	
	March 31, 1997	March 31, 1996	March 31, 1997	March 31, 1996	March 31, 1997	March 31, 1996
					(Dollars in millions)	
Single-family	.59%	.58%	5,431	4,390	$30	$53
Multifamily	.58	.95	8	15	1	6
Total					$31	$59

(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.

The increase in single-family properties acquired was primarily the result of a weak, although improving, housing market in California, together with the Corporation's efforts to shorten the period between delinquency and foreclosure. Total credit-related losses, which include net charge-offs and foreclosed property expenses, were $97 million for the three months ended March 31, 1997, compared with $112 million for the same period in 1996. The decrease in credit-related losses was due to a reduction in the average loss per foreclosed property. Several factors currently are acting to reduce losses per case on acquired properties. In addition to the Corporation's loss mitigation efforts, these include a stable home price environment and deeper mortgage insurance requirements on higher loan-to-value ratio loans.

The inventory of single-family properties was 9,582 as of March 31, 1997, compared with 7,329 as of March 31, 1996. The inventory of multifamily properties was 27 as of March 31, 1997, compared with 33 as of March 31, 1996.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were $106 million in the first quarter of 1997, compared with $98 million in the first quarter of 1996.

The allowance for losses increased to $789 million at March 31, 1997 from $780 million at December 31, 1996. The Corporation's loss coverage ratio at March 31, 1997 was 4.3 times the previous twelve months' charge-offs.

Balance Sheet Analysis

Mortgage Portfolio

The Corporation purchased $13 billion of mortgages at an average yield of 7.58 percent in the first quarter of 1997, compared with $18 billion of mortgages at an average yield of 7.08 percent in the first quarter of 1996. The decrease in mortgage purchases was primarily due to less favorable spreads between mortgage yields and the Corporation's debt cost and a decrease in the number of mortgages offered for sale in the secondary market.

Mortgage loan repayments during the first quarter of 1997 totaled $7 billion, compared with $9 billion in the first quarter of 1996. The decrease in loan repayments was primarily due to a lower level of refinancing activity. Sales from portfolio were insignificant for the first three months of 1997 and 1996.

As of March 31, 1997, the net mortgage portfolio totaled $291 billion with a yield (before deducting the allowance for losses) of 7.68 percent, compared with $286 billion at 7.69 percent at December 31, 1996, and $261 billion at 7.71 percent at March 31, 1996. 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 in the latter part of 1996. The portfolio growth during the first quarter of 1997 was generated by the purchase of a combination of whole loans, MBS, and REMIC tranches. For the remainder of 1997, the Corporation expects that mortgage to debt spreads will continue to be volatile but will be, on average, sufficiently wide to produce double digit growth in mortgage portfolio balances.

At March 31, 1997, the Corporation had mandatory delivery commitments and lender option commitments outstanding to purchase $6.7 billion and $1.2 billion of mortgage loans, respectively, compared with $1.9 billion and $1.2 billion, respectively, of such commitments outstanding at December 31, 1996.

Financing and Other Activities

During the first three months of 1997, the Corporation issued $183 billion of debt at an average cost of 5.48 percent and redeemed $178 billion at an average cost of 5.45 percent. Debt issued in the first three months of 1996 totaled $184 billion at an average cost of 5.44 percent, and debt redeemed was $176 billion at an average cost of 5.69 percent. The average cost of debt outstanding at March 31, 1997, December 31, 1996, and March 31, 1996 was 6.50 percent, 6.49 percent and 6.44 percent, respectively.

The following table presents the amount of callable debt and the notional amount of callable swaps issued and outstanding at March 31, 1997 and March 31, 1996.

(Dollars in billions)	Three Months Ended March 31,	
	1997	1996
Issued during the period	$ 7	$ 12
Percentage of total long-term debt issued(1)	55%	48%
Outstanding at end of period	$130	$109
Percentage of total long-term debt outstanding(1)	48%	46%

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

The Corporation issued a higher percentage of callable debt in the first quarter of 1997, compared with the first quarter of 1996, reflecting market conditions and the restructuring of the duration of the Corporation's debt.

The following table summarizes the Corporation's interest rate swap activity for the quarter ended March 31, 1997 and the balance of swaps outstanding at March 31, 1996, together with the expected maturities and weighted-average interest rates to be received and paid on swaps outstanding at March 31, 1997.

Interest Rate Swap Activity Table

(Dollars in millions)	Generic-pay fixed / receive variable (1) Notional (2)	Pay Rate (3)	Receive Rate (3)	Basis Swaps	Other (4)	Total
Balance at December 31, 1996	$100,111	6.73%	5.59%	$39,875	$15,827	$155,813
Additions	2,300	6.70	5.60	4,197	6,125	12,622
Maturities	3,326	6.18	5.84	6,175	776	10,277
Balance at March 31, 1997	$ 99,085	6.75%	5.59%	$37,897	$21,176	$158,158
Balance at March 31, 1996	$ 79,621	6.65%	5.52%	$35,716	$10,538	$125,875
Future Maturities (5)						
1997	$ 9,570	6.16%	5.60%	$26,410	$ 4,380	$ 40,360
1998	8,740	5.32	5.62	6,710	4,034	19,484
1999	6,125	6.73	5.27	3,217	5,285	14,627
2000	3,750	6.09	5.57	920	2,400	7,070
2001	7,850	6.67	5.55	—	850	8,700
Thereafter	63,050	7.09	5.62	640	4,227	67,917
	$ 99,085	6.75%	5.59%	$37,897	$21,176	$158,158

(1) Included are callable swaps with notional amounts aggregating $27 billion, $28 billion, and $24 billion at March 31, 1997, December 31, 1996, and March 31, 1996, respectively, with weighted-average pay rates of 6.68 percent, 6.68 percent, and 6.44 percent and weighted-average receive rates of 5.61 percent, 5.62 percent, and 5.59 percent, 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. The interest rates of the swaps may be floating rate, so these rates may change as prevailing interest rates change.

(4) Amounts principally consist of generic-pay variable/receive fixed swaps.

(5) Assumes that variable interest rates remain constant at March 31, 1997 levels.

The contract amounts of other off-balance-sheet financial instruments, which included futures contracts and short sales of Treasury securities to provide a hedge against interest rate fluctuations, credit enhancements, and other guarantees, were $8.3 billion at March 31, 1997 and December 31, 1996.

The exposure to credit loss for interest rate swaps and other 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 at March 31, 1997 was $323 million, compared with $8 million at December 31, 1996. The exposure to credit loss can be expected to fluctuate significantly due to changes in interest rates.

The Corporation's stockholders' equity at March 31, 1997 was $13.2 billion, compared with $12.8 billion at December 31, 1996, and $11.4 billion at March 31, 1996. Pursuant, in part, to the capital restructuring program described in the Information Statement, the Corporation repurchased 5.1 million common shares at a weighted-average cost of $38.91 per common share during the first quarter of 1997 and issued 3.7 million common shares for employee and other stock compensation plans. As of March 31, 1997, there were approximately 1,060 million shares of common stock outstanding.

On April 15, 1997, the Board of Directors approved a dividend for the quarter ended March 31, 1997 of $0.21 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 periods from and including March 31, 1997 to but excluding June 30, 1997.

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, 1997, and management expects that growth in retained earnings will ensure continued compliance with the applicable standards.

Mortgage-Backed Securities

The Corporation issued $31 billion of MBS during the first three months of 1997, compared with $38 billion in the first three months of 1996. The decrease in MBS issued during the first quarter of 1997 compared with the first quarter of 1996 was primarily due to a decrease in mortgage origination and refinance activity in a higher interest rate environment. REMIC issuances increased to $18 billion in the first quarter of 1997 from $3 billion in the first quarter of 1996. This increase reflected an increase in demand for REMICs.

The following table summarizes MBS activity for the three months ended March 31, 1997 and 1996.

Summary of MBS Activity

(Dollars in millions)

	Issued				Outstanding (1)		
	Lender Originated (1)						
Three Months Ended March 31,	Lender Risk	Fannie Mae Risk	Fannie Mae Originated	Total	Lender Risk (2)	Fannie Mae Risk	Total (3)
1997	$3,694	$26,231	$956	$30,881	$72,155	$591,513	$663,668
1996	1,918	36,416	36	38,370	66,004	533,542	599,546

(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 $34 billion and $29 billion at March 31, 1997 and 1996, 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 $110 billion and $78 billion at March 31, 1997 and 1996, respectively, of Fannie Mae MBS held in portfolio.

New Accounting Standard

In the first quarter of 1997, the Financial Accounting Standards Board issued Financial Accounting Standards No. 128, "Earnings Per Share" (FAS 128) which becomes effective on December 31, 1997. FAS 128 requires the disclosure of basic earnings per share, calculated as net income available to common stockholders divided by weighted-average common shares outstanding. In management's opinion, FAS 128 will not have a material impact on the Corporation.

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors
Fannie Mae:

We have reviewed the accompanying condensed balance sheet of Fannie Mae as of March 31, 1997 and the related condensed statements of income and cash flows for the three-months ended March 31, 1997 and 1996. 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, 1996 (presented herein in condensed form) and the related statements of income and cash flows for the year then ended (not presented herein); and in our report dated January 14, 1997, 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, 1996, 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 10, 1997

FANNIE MAE

INTERIM FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended March 31,	
	1997	**1996**
	(Dollars in millions, except per share amounts)	
Interest income	$ 6,329	$ 5,757
Interest expense	5,379	4,872
Net interest income	950	885
Guaranty fees	313	288
Miscellaneous income, net	30	20
Provision for losses	(40)	(45)
Foreclosed property expenses	(66)	(53)
Administrative expenses	(151)	(135)
Income before federal income taxes and extraordinary item	1,036	960
Provision for federal income taxes	(302)	(285)
Income before extraordinary item	734	675
Extraordinary loss—early extinguishment of debt (net of tax effect)	—	(21)
Net income	$ 734	$ 654
Preferred dividends	(16)	(2)
Net income available to common stockholders	$ 718	$ 652
Per common share:		
Earnings before extraordinary item	$ .67	$ .61
Net earnings	.67	.59
Cash dividends	.21	.19

CONDENSED BALANCE SHEETS

	March 31, 1997(1)	December 31, 1996(2)
	(Dollars in millions)	
Assets		
Mortgage portfolio, net	$291,441	$286,259
Investments	57,117	56,606
Other assets	8,452	8,176
Total assets	$357,010	$351,041
Liabilities		
Debentures, notes, and bonds, net		
Due within one year	$159,071	$159,900
Due after one year	177,103	171,370
Other liabilities	7,658	6,998
Total liabilities	343,832	338,268
Stockholders' equity	13,178	12,773
Total liabilities and stockholders' equity	$357,010	$351,041

(1) Balances for the three months ended March 31, 1997 are unaudited.

(2) Balances for the year ended December 31, 1996 are audited.

See Notes to Interim Financial Statements

FANNIE MAE

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended March 31,	
	1997	1996
	(Dollars in millions)	
Net cash provided by operating activities	$ 2,131	$ 2,247
Cash flows from investing activities:		
Purchases of mortgages	(13,079)	(17,919)
Proceeds from sales of mortgages	97	32
Mortgage principal repayments	8,054	9,308
Net (increase) decrease in investments	(511)	756
Net cash used by investing activities	(5,439)	(7,823)
Cash flows from financing activities:		
Cash proceeds from issuance of debt	178,980	173,372
Cash payments to retire debt	(175,182)	(166,939)
Other	(354)	(609)
Net cash provided by financing activities	3,444	5,824
Net increase in cash and cash equivalents	136	248
Cash and cash equivalents at beginning of period	850	318
Cash and cash equivalents at end of period	$ 986	$ 566

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 1996 have been reclassified to conform with the current presentation. Operating results for the three months ended March 31, 1997 are not necessarily indicative of the results that may be expected for the year ending December 31, 1997. 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, 1997.

NOTES TO INTERIM FINANCIAL STATEMENTS (Continued)

Commitments and Contingencies

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

	March 31, 1997 (Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	$ 6.7
Lender option(1)	1.2
Average net yield on mandatory delivery	7.78%
Commitments to issue MBS:	
Mandatory delivery(1)	$ .1
Lender option(1)	1.3
Master commitments:	
Mandatory delivery(2)	42
Lender option	43

(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, 1997 (Dollars in billions)
MBS outstanding(1)	$664
Amount for which the Corporation has primary foreclosure loss risk(2)	592
Credit enhancements	3.8
Other guarantees	4.1

(1) Includes $110 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,	
	1997	**1996**
	(In millions, except per share data)	
Average common shares outstanding	1,063	1,087
Effect of common stock equivalents	10	10
Average fully diluted common shares outstanding	1,073	1,097
Income before extraordinary item	$ 734	$ 675
Net income	734	654
Net income available to common stockholders	718	652
Earnings per common share before extraordinary item	$ .67	$ .61
Net earnings per common share	.67	.59

MANAGEMENT

On April 10, 1997, the Corporation announced that twelve directors currently on the Board of Directors and whose terms expire at the annual meeting of stockholders on May 15, 1997 have been nominated for reelection. On May 7, 1997, the Corporation announced that Jamie S. Gorelick has been appointed to fill a vacancy on the Board of Directors and elected Vice Chair. She fills the seat that was vacated in September 1996 by Franklin D. Raines, who resigned to become Director of the Office of Management and Budget.

Ms. Gorelick, 47, was Deputy Attorney General of the United States from March 1994 until April 1997 and from May 1993 to March 1994 was General Counsel of the Department of Defense. From 1980 to April 1993, Ms. Gorelick was an attorney with the law firm Miller, Cassidy, Larroca and Lewin. Her principal residence is in Chevy Chase, Maryland.

FannieMae
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