Supplement dated January 25, 1996 to
Information Statement dated March 31, 1995

Federal National Mortgage Association

FannieMae

This Supplement describes the financial condition of the Federal National Mortgage Association ("Fannie Mae" or the "Corporation") as of December 31, 1995 and contains unaudited financial information with respect to the Corporation for the quarter and year ended December 31, 1995. This Supplement should be read in conjunction with the Corporation's Information Statement dated March 31, 1995 (the "Information Statement"), and the Supplements dated May 12, 1995, August 14, 1995 and November 14, 1995 thereto (the "Prior Supplements"), which are hereby incorporated by reference. The Information Statement describes the business and operations of the Corporation and contains financial data as of December 31, 1994. The May 12, 1995, August 14, 1995 and November 14, 1995 Supplements describe the financial condition of the Corporation as of March 31, 1995, June 30, 1995 and September 30, 1995, respectively, and contain unaudited financial statements with respect to the Corporation for the quarters and year-to-date periods then ended. In addition, the Prior Supplements discuss certain legislative, regulatory, legal and other developments that may affect the Corporation. Fannie Mae also periodically makes available statistical information on its mortgage purchase and mortgage-backed securities volumes as well as other relevant information about Fannie Mae. Copies of the Corporation's current information statement, any supplements thereto and other available information can be obtained without charge from the Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: 202/752-7115).

In conjunction with its securities offerings, the Corporation may incorporate this Supplement by reference in one or more other documents describing the securities offered thereby, the selling arrangements therefor, and other relevant information. Such other documents may be called an Offering Circular, Prospectus, Guide to Debt Securities or otherwise. This Supplement does not itself constitute an offer to sell or a solicitation of an offer to purchase such securities.

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

The Corporation's securities are not required to be registered under the Securities Act of 1933. At the close of business on December 31, 1995, 1,092,000,000 shares of the Corporation's common stock (without par value) were outstanding (after giving effect to a four-for-one stock split effective January 16, 1996).

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

SELECTED FINANCIAL DATA

Selected Financial Information

The following selected financial information for the three-month periods ended December 31, 1995 and 1994 and the year ended December 31, 1995 are unaudited and include, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. Selected financial information for the year ended December 31, 1994 has been summarized or derived from the audited financial statements and other financial information in the Information Statement. Such information should be read in conjunction with the audited financial statements and notes to financial statements for the year ended December 31, 1994.

(Dollars in millions, except per share amounts)

	Three Months Ended December 31,		Year Ended December 31,	
Income Statement Data:	**1995**	**1994**	**1995**	**1994**
Net interest income	$ 840	$ 711	$ 3,047	$ 2,823
Guaranty fees	280	269	1,086	1,083
Miscellaneous income, net	11	26	93	143
Provision for losses	(35)	(35)	(140)	(155)
Foreclosed property expenses	(49)	(52)	(195)	(223)
Administrative expenses	(144)	(139)	(546)	(525)
Special contribution	(350)	—	(350)	—
Income before federal income taxes and extraordinary item	553	780	2,995	3,146
Provision for federal income taxes	(145)	(235)	(840)	(1,005)
Income before extraordinary item	408	545	2,155	2,141
Extraordinary item — early extinguishment of debt (net of tax effect)	—	8	(11)	(9)
Net income	$ 408	$ 553	$ 2,144	$ 2,132
Per common share(1)				
Earnings before extraordinary item	$ .37	$ .50	$ 1.96	$ 1.95
Net earnings	.37	.50	1.95	1.94
Cash dividends	.17	.15	.68	.60
Other Data:				
For the period:				
Net interest margin	1.19%	1.17%	1.16%	1.24%
Ratio of earnings to fixed charges(2)	1.12:1	1.20:1	1.17:1	1.22:1
Mortgage purchases	$19,834	$11,951	$ 56,598	$ 62,389
MBS issued	41,635	19,585	110,456	130,622
At period end:				
Mortgage portfolio, net			$252,588	$220,525
Total assets			316,550	272,508
Stockholders' equity			10,959	9,541
MBS outstanding			582,959	530,343
Capital(3)			11,754	10,367

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

(2) For the purpose of calculating the ratio of earnings to fixed charges, "earnings" consists of income before federal income taxes and extraordinary item and fixed charges. "Fixed charges" represents interest expense.

(3) Stockholders' equity plus allowance for losses.

Other Financial Information

Additional information regarding the Corporation's earnings and other specific measures of Fannie Mae's performance for the quarter and year ended December 31, 1995 is presented below.

Net Income

Net income for 1995 increased $12 million to $2.144 billion, from $2.132 billion in 1994. During the fourth quarter of 1995, management announced a capital restructuring program which included a commitment to contribute $350 million in common stock to the Fannie Mae Foundation. Without this special contribution, 1995 earnings would have been $2.372 billion. The increase in net income was due primarily to an increase in net interest income and reductions in credit-related expenses and income tax expense. Net income for the fourth quarter of 1995 was $408 million, compared with net income of $553 million for the fourth quarter of 1994. Without the special contribution to the Fannie Mae Foundation, net income for the fourth quarter of 1995 would have been $636 million.

Investment Portfolio

Net interest income in 1995 increased due primarily to 18 percent growth in the average investment balance, which was offset, in part, by a decline in net interest margin.

The Corporation's net interest margin averaged 116 basis points in 1995, compared with 124 basis points in 1994. This decrease was primarily due to a higher proportion of the liquid investment portfolio in shorter term investments with lower spreads than those earned on the mortgage portfolio, and lower MBS float balances due to a reduction in MBS prepayments in early 1995. The net interest margin averaged 119 basis points in the fourth quarter of 1995, compared with an average of 117 basis points in the fourth quarter of 1994. The increase in the net interest margin between the fourth quarter of 1994 and the fourth quarter of 1995 was due primarily to a higher return on the mortgage portfolio and on MBS float balances.

Fannie Mae's net investment balance — mortgage loans held, less unamortized discount and deferred fees, plus other investments — was $310 billion at the end of 1995, compared with $267 billion at the end of 1994.

Fannie Mae's net mortgage portfolio was $253 billion at the end of 1995, compared with $221 billion at the end of 1994.

MBS

Fannie Mae issued $110.5 billion of MBS in 1995, compared with $130.6 billion in 1994. In the fourth quarter of 1995, MBS issues totaled $41.6 billion, compared with $19.6 billion in the fourth quarter of 1994.

MBS outstanding at the end of 1995 totaled $583 billion, compared with $530 billion at the end of 1994. MBS outstanding net of MBS held in portfolio was $513 billion at the end of 1995, compared with $486 billion at the end of 1994.

MBS guaranty fees were $1.086 billion in 1995, compared with $1.083 billion in 1994. In the fourth quarter of 1995, guaranty fees were $280 million, compared with $269 million in the fourth quarter of 1994.

Miscellaneous Income

Miscellaneous income totaled $93 million in 1995, compared with $143 million in 1994. REMIC fees, which are included in miscellaneous income, were $53 million in 1995, compared with $80 million in 1994. In 1995, REMIC fees included the amortization of substantial deferred fees related to technology improvements that lowered REMIC processing costs. Miscellaneous income in 1995 was reduced by $36 million of net operating losses on equity investments in affordable housing projects. As previously reported, effective January 1, 1995 the Corporation changed to the equity method of accounting for investments in affordable housing projects. In 1994, these investments were accounted for using the cost recovery method. Included in miscellaneous income were $3 million of gains on sales of mortgages for 1995, compared with $2 million of losses for 1994.

In the fourth quarter of 1995 miscellaneous income was $11 million, compared with $26 million for the fourth quarter of 1994. REMIC fees were $4 million for the fourth quarter of 1995, compared with $12 million for the fourth quarter of 1994. Net operating losses on equity investments in affordable housing projects were $13 million in the fourth quarter of 1995. There were no significant gains or losses on sales of mortgages in the fourth quarter of 1995 or the fourth quarter of 1994.

Extraordinary Item

Losses from the call or repurchase of debt were $17 million ($11 million after tax) in 1995, compared with $15 million ($9 million after tax) in 1994. Losses from the call or repurchase of debt were insignificant in the fourth quarter of 1995, compared with gains of $12 million ($8 million after tax) in the fourth quarter of 1994.

Debt called or repurchased in 1995 totaled $19.7 billion, compared with $14.1 billion in 1994. Debt called or repurchased in the fourth quarter of 1995 totaled $6.0 billion, compared with $4.1 billion in the fourth quarter of 1994.

Foreclosures and Inventory of Acquired Properties

The Corporation acquired 13,941 conventional single-family properties through foreclosure in 1995, compared with 13,216 properties in 1994. Acquisitions were 3,641 in the fourth quarter of 1995, compared with 3,109 in the fourth quarter of 1994. The inventory of single-family acquired property totaled 6,613 properties as of December 31, 1995, compared with 6,162 at December 31, 1994.

Credit-Related Expenses and Loan Charge-Offs

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were $335 million in 1995, compared with $378 million in 1994. Credit-related expenses declined in 1995, in spite of an increase in the number of acquired properties, primarily due to a lower loss per case and a reduction in the provision for losses. Total credit-related expenses were $84 million in the fourth quarter of 1995, compared with $87 million in the fourth quarter of 1994.

Foreclosed property expenses were $195 million in 1995, compared with $223 million in 1994. Foreclosed property expenses totaled $49 million in the fourth quarter of 1995, compared with $52 million in the fourth quarter of 1994.

Charge-offs were $172 million in 1995, compared with $169 million in 1994 which included $25 million related to the Northridge, California earthquake. Charge-offs in the fourth quarter of 1995 were $55 million, compared with $34 million in the fourth quarter of 1994.

The allowance for loan losses was $795 million at December 31, 1995, compared with $827 million at December 31, 1994.

Administrative Expenses

Administrative expenses totaled $546 million in 1995, compared with $525 million in 1994. For the fourth quarter of 1995, administrative expenses were $144 million, compared with $139 million in the fourth quarter of 1994.

Special Contribution

In December 1995, the Corporation announced a capital restructuring program that included a commitment to contribute $350 million in Fannie Mae common stock to its philanthropic foundation.

The precise number of shares will be determined by the market price of the common stock at the time the shares are contributed.

Income Taxes

Federal income tax expense, net of the tax benefit from extraordinary losses, totaled $834 million in 1995, compared with $999 million in 1994. The effective federal income tax rate declined to 28 percent in 1995 from 32 percent in 1994 due to higher income on tax advantaged investments, an increase in tax credits on equity investments in affordable housing projects, and an increase in the dollar amount of outstanding tax items settled during the period.

Federal income tax expense was $145 million in the fourth quarter of 1995, compared with $239 million in the fourth quarter of 1994. The effective tax rate was 26 percent in the fourth quarter of 1995, compared with 30 percent in the fourth quarter of 1994.

Capital

Fannie Mae's capital, defined as stockholders' equity plus allowance for losses, was $11.8 billion at December 31, 1995, compared with $10.4 billion at December 31, 1994.

Fannie Mae repurchased 2.3 million shares of common stock during 1995. These shares were purchased to offset the dilutive effect of shares previously issued or anticipated to be issued under employee stock-related benefit plans. As of December 31, 1995, Fannie Mae had 1.092 billion shares outstanding (after giving effect to a four-for-one stock split effective January 16, 1996 that was part of the capital restructuring program announced in the fourth quarter of 1995).

In the December 27, 1995 announcement of the Corporation's capital restructuring program, management indicated that the Corporation expects to acquire through open market purchases in 1996 the approximately three million shares it intends to contribute to the Corporation's foundation on or before March 15, 1996. Management also announced that the Board of Directors approved the issuance of $1.0 billion in preferred stock, the proceeds of which will be used to repurchase common stock, and that the Corporation will examine further changes to its capital structure, including additional issues of preferred stock, stock repurchases, and other appropriate tools. The Board of Directors authorized the Corporation's purchase of not more than six percent of the common shares outstanding at the time of the announcement (adjusted for the stock split effective January 16, 1996) as an element of such further restructuring. Management expects that the $1.0 billion in preferred stock will be issued during 1996.

On January 16, 1996, the Board of Directors approved a quarterly dividend rate on the Corporation's common stock in 1996 of 19 cents per share; in 1995, the quarterly dividend rate was 17 cents per share (restated for the four-for-one stock split effective January 16, 1996).

CAPITALIZATION

The following table sets forth the capitalization of the Corporation as of December 31, 1995.

	Average Maturity	Average Cost (1)	Outstanding (Dollars in millions)
Debentures, notes, and bonds, net:			
Due within one year:			
Short-term notes	2 mos.	5.69%	$ 88,826
Debentures	7 mos.	8.24	10,944
Medium-term notes (2)	7 mos.	5.71	45,099
Other (3)	—	7.46	1,284
Total due within one year			146,153
Due after one year:			
Debentures	5 yrs. 7 mos.	7.39	69,146
Medium-term notes (2)	4 yrs. 10 mos.	6.28	82,158
Other	20 yrs. 11 mos.	10.56	1,717
Total due after one year			153,021
Total debentures, notes, and bonds			$299,174
Stockholders' equity (4):			
Common stock, $.525 stated value, no maximum authorization — 1,129 million shares issued			$ 593
Additional paid-in capital			1,389
Retained earnings			9,348
			11,330
Less treasury stock, at cost — 37 million shares			371
Total stockholders' equity			$ 10,959

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

(2) Medium-term notes may have maturities ranging from one day to thirty years.

(3) Average maturity is indeterminate because the outstanding amount includes investment agreements that have varying maturities.

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

The Corporation issues debentures, notes, and other debt obligations frequently. The amount of debentures, notes, and bonds outstanding on any date subsequent to December 31, 1995 may differ from that shown in the table above.

RECENT REGULATORY DEVELOPMENT

In December 1995, the Secretary of the Department of Housing and Urban Development ("HUD") issued final regulations regarding the Corporation's and Freddie Mac's housing goals for 1996 through 1999. Under the new regulations, the low- and moderate-income target will increase from 30 percent of the Corporation's conventional mortgage business, measured by dwelling units, to 40 percent in 1996 and to 42 percent in 1997-1999. The special affordable housing goal will require the Corporation to target 12 percent of its conventional mortgage business in 1996 and 14 percent of such business in 1997-1999 to very low-income households or low-income households in low-income areas, whereas the Corporation's 1995 goal was $4.6 billion. In addition, the Corporation will have a goal for purchase of multifamily mortgages in an annual amount at least equal to .8 percent ($1.3 billion) of the Corporation's total dollar volume of mortgage purchases in 1994.

The new central cities, rural areas, and other underserved areas goal (the "geographic goal") is organized around a definition of underserved areas that is applied throughout the country. This goal is based on (i) census tracts in metropolitan statistical areas ("MSAs") and (ii) counties in rural areas. This tract- or county-based definition will be applied across cities, suburban areas, and rural areas. Underserved areas in MSAs are defined as: tracts that have at least 30 percent minority residents and a tract medium income at or below 120 percent of the area median income, and tracts where the median income is 90 percent or less of the area median income. For rural areas, underserved areas are counties outside an MSA having a median income at or below 120 percent of the state non-metropolitan median income and 30 percent minority residents, or such counties in which median income is equal to or below 95 percent of the greater of state non-metropolitan median income or nationwide non-metropolitan median income. The 1995 goal covered central cities in their entirety, (calling for 30 percent of the Corporation's conventional mortgage business to finance housing in central cities), whereas the new definition probably will have a variable effect; covering almost all of the census tracts for very underserved central cities and few tracts for other cities. The Corporation's target under this "geographic goal" is for 21 percent of the Corporation's conventional mortgage business to finance housing in underserved areas in 1996, increasing to 24 percent for each of the years 1997-1999.

Management believes that the Corporation will meet or exceed the applicable housing goals in 1996.

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

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