

**Supplement dated November 14, 2000 to  
Information Statement dated March 30, 2000**



This Supplement describes the financial condition of the Federal National Mortgage Association (“Fannie Mae”) as of September 30, 2000 and contains unaudited financial statements with respect to Fannie Mae for the quarter and nine months ended September 30, 2000. This Supplement should be read in conjunction with Fannie Mae’s Information Statement dated March 30, 2000 (the “Information Statement”) and the Supplements thereto dated May 15, 2000 and August 14, 2000 (the “Supplements”) which are hereby incorporated by reference. The Information Statement describes the business and operations of Fannie Mae and contains financial data as of December 31, 1999. The Supplements describe the financial condition of Fannie Mae as of March 31, 2000 and June 30, 2000, respectively, and contain unaudited financial statements with respect to Fannie Mae for the quarters and year-to-date periods then ended. 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). The Information Statement and any supplements thereto can also be accessed on Fannie Mae’s worldwide website at <http://www.fanniemae.com/investors>.

In connection with its securities offerings, Fannie Mae may incorporate this Supplement by reference in one or more other documents describing securities offered by Fannie Mae, the selling arrangements therefore and other relevant information. Such 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 October 31, 2000, approximately 998 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- and nine-month periods ended September 30, 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 periods ended September 30, 2000 are not necessarily indicative of the results expected for the entire year.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
<b>Income Statement Data:</b>				
Interest income .....	\$ 10,862	\$ 9,079	\$ 31,200	\$ 25,926
Interest expense .....	9,434	7,838	27,012	22,338
Net interest income .....	1,428	1,241	4,188	3,588
Guaranty fees .....	341	320	1,012	957
Fee and other income (expense), net .....	1	34	(44)	146
Credit-related expenses .....	(22)	(21)	(73)	(108)
Administrative expenses .....	(232)	(203)	(673)	(594)
Income before federal income taxes and extraordinary item .....	1,516	1,371	4,410	3,989
Provision for federal income taxes .....	(393)	(380)	(1,161)	(1,106)
Income before extraordinary item .....	1,123	991	3,249	2,883
Extraordinary gain (loss), net of tax effect .....	1	—	34	(9)
Net income .....	<u>\$ 1,124</u>	<u>\$ 991</u>	<u>\$ 3,283</u>	<u>\$ 2,874</u>
Preferred stock dividends .....	(33)	(20)	(85)	(58)
Net income available to common stockholders .....	<u>\$ 1,091</u>	<u>\$ 971</u>	<u>\$ 3,198</u>	<u>\$ 2,816</u>
Basic earnings per common share:				
Earnings before extraordinary item .....	\$ 1.09	\$ .95	\$ 3.15	\$ 2.76
Extraordinary item .....	—	—	.03	(.01)
Net earnings .....	<u>\$ 1.09</u>	<u>\$ .95</u>	<u>\$ 3.18</u>	<u>\$ 2.75</u>
Diluted earnings per common share:				
Earnings before extraordinary item .....	\$ 1.09	\$ .94	\$ 3.13	\$ 2.74
Extraordinary item .....	—	—	.03	(.01)
Net earnings .....	<u>\$ 1.09</u>	<u>\$ .94</u>	<u>\$ 3.16</u>	<u>\$ 2.73</u>
<b>Balance Sheet Data at September 30:</b>				
	<b>2000</b>	<b>1999</b>		
Mortgage portfolio, net .....	\$ 571,404	\$ 504,303		
Investments .....	54,972	36,407		
Total assets .....	638,147	551,532		
Borrowings:				
Due within one year .....	251,038	215,228		
Due after one year .....	356,001	309,651		
Total liabilities .....	618,460	534,477		
Stockholders' equity .....	19,687	17,055		
Capital(1) .....	20,497	17,857		
<b>Other Data:</b>				
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
Total taxable-equivalent revenue(2) .....	\$ 1,984	\$ 1,756	\$ 5,773	\$ 5,157
Average net interest margin .....	1.00%	1.00%	1.01%	1.01%
Return on average common equity .....	25.7	25.2	25.7	25.0
Dividend payout ratio .....	25.6	28.5	26.4	29.5
Average effective guaranty fee rate .....	.195	.192	.195	.193
Credit loss ratio(3) .....	.006	.007	.007	.013
Ratio of earnings to combined fixed charges and preferred stock dividends(4) .....	1.16:1	1.17:1	1.16:1	1.18:1
Mortgage purchases .....	\$ 39,981	\$ 50,298	\$ 101,272	\$ 159,054
MBS issued .....	56,689	65,773	144,242	250,777
MBS outstanding at period end(5) .....	1,020,828	938,484	1,020,828	938,484
Weighted-average diluted common shares outstanding .....	1,003	1,029	1,011	1,032

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

(2) Includes revenues net of operating losses plus taxable-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 average 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 \$320 billion and \$268 billion of MBS held in portfolio at September 30, 2000 and 1999, respectively.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION  
AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND  
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2000**

**Results of Operations**

Fannie Mae's net income for the third quarter 2000 was a record \$1.124 billion, compared with net income of \$991 million in the third quarter of 1999. For the first nine months of 2000, net income grew 14 percent to \$3.283 billion compared with \$2.874 billion for the first nine months of 1999. The growth in net income for the three month period ended September 30, 2000 was mainly attributable to an increase in net interest income. The growth in net income for the nine months ended September 30, 2000 was due to increases in net interest income and guaranty fees, lower credit-related expenses, and extraordinary gains from the early extinguishment of debt.

Fannie Mae's taxable-equivalent revenue totaled \$1.984 billion in the third quarter of 2000, a 13 percent increase over the comparable period from the prior year. Fannie Mae generated \$5.773 billion in taxable-equivalent revenue during the first three quarters of 2000, a 12 percent increase over the first three quarters of 1999. 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. The growth in taxable-equivalent revenue in both periods was primarily attributable to increases in net interest income.

Net interest income in the third quarter of 2000 increased \$187 million, or 15 percent, to \$1.428 billion, compared with the third quarter of 1999. The growth in net interest income was primarily the result of a 15 percent growth rate in the average net investment portfolio and a stable average net interest margin. Net interest income in the first nine months of 2000 increased \$600 million, or 17 percent, to \$4.188 billion compared with the first nine months of 1999. This increase was the result of a 16 percent growth rate in the average investment portfolio and a stable average net interest margin. Management expects that net interest margin will decline slightly for the balance of the year as lower-cost debt matures.

The following table presents an analysis of net interest income and average balances for the three- and nine-month periods ended September 30, 2000 and 1999.

**Net Interest Income and Average Balances**  
(Dollars in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2000	1999	2000	1999
Interest income:				
Mortgage portfolio .....	\$ 9,985	\$ 8,444	\$ 28,845	\$ 23,743
Investments and cash equivalents .....	877	635	2,355	2,183
Total interest income .....	<u>10,862</u>	<u>9,079</u>	<u>31,200</u>	<u>25,926</u>
Interest expense(1):				
Short-term debt .....	1,046	907	2,912	3,046
Long-term debt .....	8,388	6,931	24,100	19,292
Total interest expense .....	<u>9,434</u>	<u>7,838</u>	<u>27,012</u>	<u>22,338</u>
Net interest income .....	1,428	1,241	4,188	3,588
Tax equivalent adjustment(2) .....	105	87	303	249
Net interest income tax equivalent basis .....	<u>\$ 1,533</u>	<u>\$ 1,328</u>	<u>\$ 4,491</u>	<u>\$ 3,837</u>
Average balances:				
Interest-earning assets(3):				
Mortgage portfolio, net .....	\$558,976	\$485,132	\$542,043	\$453,893
Investments and cash equivalents .....	51,597	46,329	48,601	53,999
Total interest-earning assets .....	<u>\$610,573</u>	<u>\$531,461</u>	<u>\$590,644</u>	<u>\$507,892</u>
Interest-bearing liabilities(1):				
Short-term debt .....	\$ 71,088	\$ 74,602	\$ 69,078	\$ 83,983
Long-term debt .....	519,199	438,098	501,510	404,641
Total interest-bearing liabilities .....	<u>590,287</u>	<u>512,700</u>	<u>570,588</u>	<u>488,624</u>
Interest-free funds .....	<u>20,286</u>	<u>18,761</u>	<u>20,056</u>	<u>19,268</u>
Total interest-bearing liabilities and interest-free funds .....	<u>\$610,573</u>	<u>\$531,461</u>	<u>\$590,644</u>	<u>\$507,892</u>
Average interest rates(2):				
Interest-earning assets:				
Mortgage portfolio, net .....	7.18%	7.02%	7.13%	7.04%
Investments and cash equivalents .....	6.82	5.52	6.49	5.42
Total interest-earning assets .....	<u>7.15</u>	<u>6.89</u>	<u>7.08</u>	<u>6.87</u>
Interest-bearing liabilities(1):				
Short-term debt .....	5.86	4.82	5.59	4.79
Long-term debt .....	6.46	6.33	6.41	6.36
Total interest-bearing liabilities .....	<u>6.39</u>	<u>6.11</u>	<u>6.31</u>	<u>6.09</u>
Investment spread .....	.76	.78	.77	.78
Interest-free return(4) .....	.24	.22	.24	.23
Net interest margin(5) .....	<u>1.00%</u>	<u>1.00%</u>	<u>1.01%</u>	<u>1.01%</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 billion and \$3 billion for the three- and nine-month periods ended September 30, 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, debt and interest rate changes to changes in net interest income for the three- and nine-month periods ended September 30, 2000 and 1999.

	<b>Rate / Volume Analysis</b>					
	<b>(Dollars in millions)</b>					
	<b>Third Quarter 2000 vs. Third Quarter 1999</b>			<b>First Nine Months 2000 vs. First Nine Months 1999</b>		
	<b>Increase (Decrease)</b>	<b>Attributable to Changes in (1)</b>		<b>Increase (Decrease)</b>	<b>Attributable to Changes in (1)</b>	
		<b>Volume</b>	<b>Rate</b>		<b>Volume</b>	<b>Rate</b>
<b>Interest income:</b>						
Mortgage portfolio .....	\$1,541	\$1,314	\$ 227	\$ 5,102	\$4,684	\$ 418
Investments and cash equivalents .....	242	78	164	172	(232)	404
Total interest income .....	<u>1,783</u>	<u>1,392</u>	<u>391</u>	<u>5,274</u>	<u>4,452</u>	<u>822</u>
<b>Interest expense:</b>						
Short-term debt .....	139	(44)	183	(134)	(586)	452
Long-term debt .....	<u>1,457</u>	<u>1,307</u>	<u>150</u>	<u>4,808</u>	<u>4,654</u>	<u>154</u>
Total interest expense .....	<u>1,596</u>	<u>1,263</u>	<u>333</u>	<u>4,674</u>	<u>4,068</u>	<u>606</u>
Net interest income .....	<u>\$ 187</u>	<u>\$ 129</u>	<u>\$ 58</u>	<u>\$ 600</u>	<u>\$ 384</u>	<u>\$ 216</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 was \$341 million for the third quarter of 2000, compared with \$320 million for the third quarter of 1999. The increase was caused by a .3 basis point increase in the average effective guaranty fee rate and a 5 percent increase in average net Mortgage-Backed Securities (“MBS”) outstanding when compared with the third quarter of 1999. For the first nine months of 2000, guaranty fee income increased \$55 million to \$1.012 billion compared with the corresponding period of 1999. The increase was the result of a .2 basis point increase in the average effective guaranty fee rate and a 5 percent increase in average net MBS outstanding. The increase in the average effective guaranty fee rate for the three and nine months ended September 30, 2000 was due, in part, to an increase in the percentage of MBS issued with Fannie Mae risk, a decline in both refinance activity and other turnover of pools with higher effective guaranty fee rates, and efforts by Fannie Mae to shift the business mix towards products with higher fee rates.

Fee and other income (expense), net decreased \$33 million to net income of \$1 million for the third quarter of 2000, compared with the third quarter of 1999. The decrease was largely the result of an increase in tax advantaged investments which generate operating losses and a reduction in other miscellaneous fees. For the first nine months of 1999, fee and other income (expense), net decreased to an expense of \$44 million versus net income of \$146 million for the first nine months of 1999 primarily because of these same factors. The decrease for the first three quarters of 2000 also reflects the recognition of a hedging related loss in the second quarter of 2000.

Administrative expenses for the third quarter of 2000 increased to \$232 million from \$203 million during the same period in 1999. For the first nine months of 1999, administrative expenses increased to \$673 million from \$594 million for the same period in 1999. The increase in both periods was primarily due to higher compensation costs. The ratio of annualized administrative expenses to the average net mortgage portfolio plus average net MBS outstanding was .074 and .073 for the three- and nine-month periods ended September 30, 2000, respectively, compared with .070 and .071 for the three- and nine-month periods ended September 30, 1999, respectively. The ratio of administrative

expenses to tax-equivalent revenues was 11.7 percent for both the third quarter and first nine months of 2000, respectively, compared with 11.6 percent and 11.5 percent for the comparable periods in 1999.

The effective federal income tax rate was 26 percent for both the three- and nine-month periods ended September 30, 2000, versus 28 percent for the comparable periods ended September 30, 1999.

There was an extraordinary gain of \$2 million (\$1 million after tax) in the third quarter of 2000, compared with no extraordinary gain or loss in the third quarter of 1999, from the repurchase or call of debt. Fannie Mae had an extraordinary gain of \$52 million (\$34 million after tax) for the nine months ended September 30, 2000 from the repurchase or call of debt, compared with an extraordinary loss of \$14 million (\$9 million after tax) for the first nine months of 1999.

### Credit Data

The following table shows Fannie Mae's serious delinquencies for conventional loans in portfolio and loans underlying MBS outstanding at September 30, 2000 and 1999 as well as conventional properties acquired and total net charge-offs (recoveries) for the three- and nine-month periods ended September 30, 2000 and 1999.

	Delinquency Rate (1)		Number of Properties Acquired				Net Charge-offs / (Recoveries) (Dollars in millions)			
			Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30, 2000	September 30, 1999	September 30, 2000	September 30, 1999	September 30, 2000	September 30, 1999	September 30, 2000	September 30, 1999	September 30, 2000	September 30, 1999
Single-family . . . .	.42%	.49%	3,351	4,140	10,953	12,935	\$(33)	\$(42)	\$(99)	\$(91)
Multifamily . . . . .	.03	.12	1	—	2	7	1	1	2	3
Total . . . . .							\$(32)	\$(41)	\$(97)	\$(88)

- (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 unchanged at \$20 million for the three months ended September 30, 2000 and 1999. Total credit-related losses for the nine months ended September 30, 2000 were \$66 million, down from \$105 million for the nine months ended September 30, 1999. The decrease in credit-related losses for the nine months ended September 30, 2000 was the result of both increased net recoveries on foreclosed properties and decreased foreclosure expenses. Foreclosure expenses decreased in both periods due, in part, to a reduction in foreclosed property acquisitions. In addition to Fannie Mae's loss mitigation efforts, deeper mortgage insurance coverage on loans in foreclosure have contributed to increasing net recoveries on foreclosed properties.

The inventory of single-family properties was 6,578 as of September 30, 2000, compared with 7,323 as of September 30, 1999. The inventory of multifamily properties was 3 as of September 30, 2000, compared with 4 as of September 30, 1999.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, increased slightly to \$22 million in the third quarter of 2000, compared with \$21 million in the third quarter of 1999. The increase was due to a negative provision of \$30 million being recorded in the third quarter of 2000 compared with a negative provision of \$40 million recorded in the third quarter of 1999, which was offset by a \$9 million decrease in foreclosed property expenses. Total credit-related expenses for the nine months ended September 30, 2000 decreased to \$73 million, from

\$108 million for the corresponding period in 1999. The decrease in credit-related expenses also was primarily due to a decline in foreclosed property expenses to \$163 million in the first nine months of 2000, compared with \$193 million in the first nine months of 1999.

The allowance for losses increased to \$811 million at September 30, 2000 from \$804 million at December 31, 1999.

## Balance Sheet Analysis

### *Mortgage Portfolio*

During the quarter ended September 30, 2000, \$40 billion of mortgages were purchased at an average yield of 7.70 percent, compared with \$50 billion of mortgages purchased at an average yield of 7.24 percent during the corresponding quarter of 1999. During the first nine months of 2000, \$101 billion of mortgages were purchased at an average yield of 7.66 percent, compared with \$159 billion of mortgages purchased at an average yield of 6.76 percent during the first nine months 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 third quarter of 2000 totaled \$15 billion, compared with \$17 billion in the third quarter of 1999. During the first nine months of 2000, mortgage loan repayments were \$41 billion, compared with \$64 billion in the first nine months of 1999. The slowdown of mortgage loan repayments in both periods was primarily due to a higher interest rate environment.

As of September 30, 2000, the net mortgage portfolio totaled \$571 billion with a yield (before deducting the allowance for losses) of 7.20 percent, compared with \$523 billion at 7.08 percent as of December 31, 1999 and \$504 billion at 7.04 percent as of September 30, 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 third quarter and first nine months of 2000 was generated by a combination of MBS, REMIC, and whole loan purchases.

At September 30, 2000, Fannie Mae had mandatory delivery commitments and lender option commitments outstanding to purchase \$16 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*

Fannie Mae's financing activities for the third quarters and first nine months of 2000 and 1999 are summarized below.

(Dollars in billions)	Three Months Ended September 30,		Nine Months Ended September 30	
	2000	1999	2000	1999
Debt Issued . . . . .	\$297	\$361	\$939	\$825
Average Cost . . . . .	6.61%	5.39%	6.29%	5.23%
Debt Redeemed . . . . .	\$268	\$336	\$879	\$761
Average Cost . . . . .	6.42%	5.14%	6.04%	5.12%

The average cost of debt outstanding at September 30, 2000, December 31, 1999 and September 30, 1999 was 6.45 percent, 6.18 percent, and 6.13 percent, respectively.



The following table presents the amount of option-embedded debt instruments as a percentage of mortgage purchases and the net mortgage portfolio for the three- and nine-month periods ended September 30, 2000 and September 30, 1999. Option-embedded debt instruments include derivative financial instruments.

<u>(Dollars in billions)</u>	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
Issued during the period.....	\$ 14	\$ 10	\$47	\$98
Percentage of total mortgage purchases .....	35%	20%	46%	62%
Outstanding at end of period .....	\$280	\$239		
Percentage of total net mortgage portfolio.....	49%	47%		

The following table summarizes certain of Fannie Mae's derivative financial instrument activities for the three-month period ended September 30, 2000, the balances as of September 30, 2000 and 1999 and the expected maturities of the derivative instruments outstanding as of September 30, 2000.

**Derivative Financial Instruments Table (1)**  
(Dollars in millions)

	<u>Generic-Pay Fixed /</u> <u>Receive Variable Swaps (2)</u>			<u>Pay</u> <u>Variable /</u> <u>Receive</u> <u>Fixed</u> <u>Swaps</u>	<u>Basis</u> <u>Swaps</u>	<u>Caps and</u> <u>Swaptions</u>	<u>Total</u>
	<u>Notional</u>	<u>Pay</u> <u>Rate (3)</u>	<u>Receive</u> <u>Rate (3)</u>				
Balance, June 30, 2000 .....	\$146,229	6.60%	6.59%	\$35,688	\$24,844	\$71,065	\$277,826
Additions .....	9,550	7.06	6.88	8,462	1,475	8,400	27,887
Maturities.....	5,528	5.53	6.58	2,666	10,640	2,000	20,834
Balance, September 30, 2000 .....	<u>\$150,251</u>	<u>6.67%</u>	<u>6.81%</u>	<u>\$41,484</u>	<u>\$15,679</u>	<u>\$77,465</u>	<u>\$284,879</u>
Balance, September 30, 1999 .....	<u>\$129,035</u>	<u>6.54%</u>	<u>5.41%</u>	<u>\$27,950</u>	<u>\$18,689</u>	<u>\$42,915</u>	<u>\$218,589</u>
Future Maturities (4)							
2000 .....	\$ 9,675	4.98%	6.72%	\$ 3,950	\$ 3,400	\$ 2,750	\$ 19,775
2001 .....	11,025	6.12	6.69	24,546	10,575	11,300	57,446
2002 .....	5,925	6.35	6.77	6,264	904	12,350	25,443
2003 .....	7,654	6.09	6.80	931	200	13,315	22,100
2004 .....	10,225	7.21	6.84	460	120	5,950	16,755
Thereafter .....	<u>105,747</u>	<u>6.89</u>	<u>6.83</u>	<u>5,333</u>	<u>480</u>	<u>31,800</u>	<u>143,360</u>
	<u>\$150,251</u>	<u>6.67%</u>	<u>6.81%</u>	<u>\$41,484</u>	<u>\$15,679</u>	<u>\$77,465</u>	<u>\$284,879</u>

- (1) Dollars represent notional amounts that only indicate the amount on which payments are being calculated and do not represent the amount at risk of loss.
- (2) Included in the notional amounts are callable swaps and swaptions of \$70 billion, \$66 billion and \$41 billion with weighted-average pay rates of 3.37 percent, 3.59 percent and 5.50 percent and weighted-average receive rates of 6.84 percent, 6.56 percent and 5.47 percent at September 30, 2000, June 30, 2000, and September 30, 1999 respectively.
- (3) The weighted-average interest rate payable and receivable is as of the date indicated. As the interest rates of the swaps may be floating rate, these rates may change as prevailing interest rates change.
- (4) Based on stated maturities. Assumes that variable interest rates remain constant at September 30, 2000 levels.

The notional amounts of other off-balance-sheet financial instruments, which include futures contracts as well as derivative instruments that simulate the short sale of Treasury securities to provide a hedge against interest rate fluctuations, credit enhancements and other guarantees, were \$21 billion at September 30, 2000, and \$35 billion at December 31, 1999.

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 of those off-balance-sheet financial instruments outstanding for which Fannie Mae was in a net gain position. Fannie Mae's net credit exposure was \$2 billion at September 30, 2000, compared with \$4 billion at December 31, 1999, taking into account master agreements that allow for netting of payments. The exposure to credit losses can be expected to fluctuate significantly due to changes in interest rates. Fannie Mae held \$2 billion and \$3 billion of collateral through custodians for derivatives at September 30, 2000 and December 31, 1999, respectively.

### **Capital Resources**

Fannie Mae's shareholders' equity at September 30, 2000 was \$19.7 billion, compared with \$17.6 billion at December 31, 1999, and \$17.1 billion at September 30, 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 5 million shares of common stock at a weighted average cost of \$52.86 per share during the third quarter of 2000 and issued 1 million common shares for employee and other stock compensation plans. At September 30, 2000, year-to-date common stock repurchases totaled 25 million shares at an average cost of \$55.87 per common share and common stock issuances totaled 2 million common shares for employee and other stock compensation plans. As of September 30, 2000, there were 996 million shares of common stock outstanding.

In August 2000, Fannie Mae issued 5.75 million shares of variable-rate non-cumulative preferred stock, Series G. Series G is callable every two years at a stated value of \$50 per share on the date that the initial rate of 6.023 percent changes.

On October 17, 2000, the Board of Directors approved a dividend for the quarter ended September 30, 2000 of \$.28 per common share, and 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, \$.78690 per Series F preferred share, and \$.75290 per Series G preferred share for the period from and including September 30, 2000 to but excluding December 31, 2000.

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," Fannie Mae is subject to capital standards. Fannie Mae met the applicable capital standards as of September 30, 2000, and management expects to continue to comply with the applicable standards.

### **Mortgage-Backed Securities**

Fannie Mae issued \$57 billion of MBS during the third quarter of 2000, compared with \$66 billion in the third quarter of 1999. MBS issued in the first nine months of 2000 totaled \$144 billion, compared with \$251 billion in the first nine months of 1999. REMIC issuances were \$8 billion in the third quarter of 2000 and \$23 billion in the first nine months of 2000, compared with \$13 billion and \$44 billion, respectively, in the comparable periods for 1999. The decrease in both MBS and REMIC issuances during the first nine months of 2000 was primarily due to an increase in interest rates and a slowdown in mortgage originations.

The following table summarizes MBS activity for the three- and nine-month periods ended September 30, 2000 and 1999.

### Summary of MBS Activity

(Dollars in millions)

<u>Three Months Ended September 30,</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 .....	\$ 7,804	\$ 48,885	\$ 56,689	\$219,057	\$801,771	\$1,020,828
1999 .....	15,820	49,953	65,773	202,594	735,890	938,484
<u>Nine Months Ended September 30,</u>						
2000 .....	\$19,603	\$124,639	\$144,242			
1999 .....	63,344	187,433	250,777			

- (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 \$172 billion and \$158 billion at September 30, 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 \$320 billion and \$268 billion at September 30, 2000 and 1999, respectively, of Fannie Mae MBS held in portfolio.

### New Accounting Standards

In June 1998, the Financial Accounting Standards Board issued Financial Accounting Standard No. 133 (FAS 133), *Accounting for Derivative Instruments and Hedging Activities* as amended by FAS 138. This statement is effective for Fannie Mae beginning January 1, 2001. FAS 133 requires that all derivatives be recognized as either assets or liabilities on the balance sheet at fair value. Subject to certain qualifying conditions, a derivative may be designated as either a hedge of the fair value of a fixed-rate instrument (fair value hedge) or a hedge of the cash flows of a variable-rate instrument or anticipated transaction (cash flow hedge). For a derivative qualifying as a fair value hedge, fair value gains or losses on the derivative are reported in earnings along with offsetting fair value gains or losses on the hedged item attributable to the risk being hedged. For a derivative qualifying as a cash flow hedge, fair value gains or losses associated with the risk being hedged would be reported in a separate component of stockholders' equity (other comprehensive income) and then amortized into earnings in the period(s) in which the hedged item affects income. For a derivative not qualifying as a hedge, or components of derivative which are excluded from any hedge effectiveness assessment, fair value gains and losses are reported in earnings. This standard is expected to have a material impact on the other comprehensive income component of stockholders' equity and to a lesser extent net income.

In September 2000, the Financial Accounting Standards Boards issued Financial Accounting Standard No. 140 (FAS 140), a replacement of FAS 125, *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities*. FAS 140 becomes effective for Fannie Mae January 1, 2001. In management's opinion, FAS 140 will not have a material impact on the Company.

## RECENT LEGISLATIVE AND REGULATORY DEVELOPMENTS

On October 31, 2000, the US Department of Housing and Urban Development published a final rule revising the housing goals applicable to Fannie Mae and Freddie Mac. The revised HUD-established housing goals require that 50 percent of Fannie Mae's business finance mortgages for low-and moderate-income families, effective for calendar years 2001 through 2003. The special affordable housing goal for very low-income families and low-income families in low-income areas increased to 20 percent. In addition, the geographically targeted goal for underserved areas increased to 31 percent. Management expects that it will be able to meet the new goals.

## INDEX TO INTERIM FINANCIAL STATEMENTS

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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders of Fannie Mae:

We have reviewed the accompanying condensed balance sheet of Fannie Mae as of September 30, 2000 and the related condensed statements of income, changes in stockholders' equity, and cash flows for the three- and nine-month periods ended September 30, 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 auditing standards generally accepted in the United States of America, 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 upon 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 accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, 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

October 11, 2000  
Washington, DC

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2000</b>	<b>1999</b>	<b>2000</b>	<b>1999</b>
	(Dollars in millions, except per common share amounts)			
Interest income .....	\$10,862	\$9,079	\$31,200	\$25,926
Interest expense .....	9,434	7,838	27,012	22,338
Net interest income .....	1,428	1,241	4,188	3,588
Guaranty fees .....	341	320	1,012	957
Fee and other income (expense), net .....	1	34	(44)	146
Credit-related expenses .....	(22)	(21)	(73)	(108)
Administrative expenses .....	(232)	(203)	(673)	(594)
Income before federal income taxes and extraordinary item	1,516	1,371	4,410	3,989
Provision for federal income taxes .....	(393)	(380)	(1,161)	(1,106)
Income before extraordinary item .....	1,123	991	3,249	2,883
Extraordinary gain (loss) from early extinguishment of debt, net of tax effect .....	1	—	34	(9)
Net income .....	<u>\$ 1,124</u>	<u>\$ 991</u>	<u>\$ 3,283</u>	<u>\$ 2,874</u>
Preferred dividends .....	(33)	(20)	(85)	(58)
Net income available to common stockholders .....	<u>\$ 1,091</u>	<u>\$ 971</u>	<u>\$ 3,198</u>	<u>\$ 2,816</u>
Basic earnings per common share:				
Earnings before extraordinary item .....	\$ 1.09	\$ .95	\$ 3.15	\$ 2.76
Extraordinary item .....	—	—	.03	(.01)
Net earnings .....	<u>\$ 1.09</u>	<u>\$ .95</u>	<u>\$ 3.18</u>	<u>\$ 2.75</u>
Diluted earnings per common share:				
Earnings before extraordinary item .....	\$ 1.09	\$ .94	\$ 3.13	\$ 2.74
Extraordinary item .....	—	—	.03	(.01)
Net earnings .....	<u>\$ 1.09</u>	<u>\$ .94</u>	<u>\$ 3.16</u>	<u>\$ 2.73</u>

**CONDENSED BALANCE SHEETS**

	<b>September 30, 2000</b>	<b>December 31, 1999</b>
	(Dollars in millions)	
Assets		
Mortgage portfolio, net .....	\$571,404	\$522,780
Investments .....	54,972	39,751
Other assets .....	11,771	12,636
Total assets .....	<u>\$638,147</u>	<u>\$575,167</u>
Liabilities		
Debentures, notes, and bonds, net:		
Due within one year .....	\$251,038	\$226,582
Due after one year .....	356,001	321,037
Other liabilities .....	11,421	9,919
Total liabilities .....	618,460	557,538
Stockholders' equity .....	19,687	17,629
Total liabilities and stockholders' equity .....	<u>\$638,147</u>	<u>\$575,167</u>

See Notes to Interim Financial Statements

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	(Dollars in millions)			
<b>Balance, beginning of period</b> .....	\$18,791	\$16,581	\$17,629	\$15,453
Comprehensive income:				
Net income .....	1,124	991	3,283	2,874
Other comprehensive income/(loss), net of tax—Unrealized gains/(losses) on securities, net.....	<u>69</u>	<u>(58)</u>	<u>62</u>	<u>(154)</u>
Total comprehensive income .....	1,193	933	3,345	2,720
Dividends .....	(313)	(296)	(931)	(888)
Shares repurchased .....	(287)	(182)	(1,406)	(540)
Preferred stock issued.....	285	—	968	148
Treasury stock issued for stock options and benefit plans .....	<u>18</u>	<u>19</u>	<u>82</u>	<u>162</u>
<b>Balance, end of period</b> .....	<u><u>\$19,687</u></u>	<u><u>\$17,055</u></u>	<u><u>\$19,687</u></u>	<u><u>\$17,055</u></u>

**FANNIE MAE**  
**CONDENSED STATEMENTS OF CASH FLOWS**  
**(Unaudited)**

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
	(Dollars in millions)			
Net cash provided by operating activities .....	<u>\$ 3,146</u>	<u>\$ 2,839</u>	<u>\$ 9,203</u>	<u>\$ 8,733</u>
Cash flows from investing activities:				
Purchases of mortgages .....	(39,385)	(49,528)	(99,232)	(157,855)
Proceeds from sales of mortgages .....	2,383	1,354	9,279	2,522
Mortgage principal repayments .....	15,868	17,423	42,182	66,342
Net (increase) decrease in investments .....	<u>(7,576)</u>	<u>5,897</u>	<u>(15,220)</u>	<u>22,108</u>
Net cash used in investing activities .....	<u>(28,710)</u>	<u>(24,854)</u>	<u>(62,991)</u>	<u>(66,883)</u>
Cash flows from financing activities:				
Cash proceeds from issuance of debt .....	294,353	358,858	930,324	819,912
Cash payments to redeem debt .....	(268,337)	(336,399)	(877,152)	(761,241)
Other .....	<u>(268)</u>	<u>(470)</u>	<u>(1,270)</u>	<u>(1,154)</u>
Net cash provided by financing activities .....	<u>25,748</u>	<u>21,989</u>	<u>51,902</u>	<u>57,517</u>
Net increase (decrease) in cash and cash equivalents .....	184	(26)	(1,886)	(633)
Cash and cash equivalents at beginning of period .....	<u>29</u>	<u>136</u>	<u>2,099</u>	<u>743</u>
Cash and cash equivalents at end of period .....	<u><u>\$ 213</u></u>	<u><u>\$ 110</u></u>	<u><u>\$ 213</u></u>	<u><u>\$ 110</u></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. Operating results for the three-month and nine-month periods ended September 30, 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 tables set forth Fannie Mae's financial information by line of business for the three- and nine-month periods ended September 30, 2000 and 1999. Significant changes from period to period were due to the same factors discussed under "Results of Operations."

<u>Three months ended September 30,</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 . . . . .	\$1,270	\$ 158	\$1,428	\$1,093	\$ 148	\$1,241
Guaranty fees . . . . .	(272)	613	341	(248)	568	320
Fee and other income (expense), net . . . . .	18	(17)	1	25	9	34
Credit-related expenses . . . . .	—	(22)	(22)	—	(21)	(21)
Administrative expenses . . . . .	(66)	(166)	(232)	(60)	(143)	(203)
Federal income taxes . . . . .	(259)	(134)	(393)	(227)	(153)	(380)
Extraordinary item—early extinguishment of debt . . . . .	<u>1</u>	<u>—</u>	<u>1</u>	<u>—</u>	<u>—</u>	<u>—</u>
Net income . . . . .	<u>\$ 692</u>	<u>\$ 432</u>	<u>\$1,124</u>	<u>\$ 583</u>	<u>\$ 408</u>	<u>\$ 991</u>

<u>Nine months ended September 30,</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 . . . . .	\$3,746	\$ 442	\$4,188	\$3,143	\$ 445	\$3,588
Guaranty fees . . . . .	(794)	1,806	1,012	(717)	1,674	957
Fee and other income (expense), net . . . . .	(1)	(43)	(44)	98	48	146
Credit-related expenses . . . . .	—	(73)	(73)	—	(108)	(108)
Administrative expenses . . . . .	(191)	(482)	(673)	(175)	(419)	(594)
Federal income taxes . . . . .	(767)	(394)	(1,161)	(661)	(445)	(1,106)
Extraordinary item—early extinguishment of debt . . . . .	<u>34</u>	<u>—</u>	<u>34</u>	<u>(9)</u>	<u>—</u>	<u>(9)</u>
Net income . . . . .	<u>\$2,027</u>	<u>\$1,256</u>	<u>\$3,283</u>	<u>\$1,679</u>	<u>\$1,195</u>	<u>\$2,874</u>

The Portfolio Investment business represented \$627 billion, or 98 percent of total assets, at September 30, 2000, compared to \$541 billion, or 98 percent of total assets, at September 30, 1999.



## Commitments and Contingencies

Fannie Mae had outstanding commitments to purchase mortgages and to issue MBS as shown below:

	<u>September 30, 2000</u> (Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery .....	\$ 16
Lender option(1) .....	2
Average net yield on mandatory delivery .....	7.68%
Master commitments:	
Mandatory delivery(2) .....	\$ 23
Lender option .....	7
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>September 30, 2000</u> (Dollars in billions)
MBS outstanding(1) .....	\$1,021
Amount for which Fannie Mae has primary foreclosure loss risk(2) .....	802
Credit enhancements .....	8
Other guarantees .....	4

- (1) Includes \$320 billion of MBS held in portfolio and is net of \$609 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 September 30,				Nine Months Ended September 30,			
	2000		1999		2000		1999	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
	(Dollars and shares in millions, except per common share amounts)							
Net income before extraordinary item . . . . .	\$1,123	\$1,123	\$ 991	\$ 991	\$3,250	\$3,250	\$2,883	\$2,883
Extraordinary gain (loss) . . . . .	1	1	—	—	34	34	(9)	(9)
Preferred stock dividend . . . . .	(33)	(33)	(20)	(20)	(86)	(86)	(58)	(58)
Net income available to common stockholders . . . . .	<u>\$1,091</u>	<u>\$1,091</u>	<u>\$ 971</u>	<u>\$ 971</u>	<u>\$3,198</u>	<u>\$3,198</u>	<u>\$2,816</u>	<u>\$2,816</u>
Weighted average common shares . . . . .	998	998	1,022	1,022	1,005	1,005	1,025	1,025
Dilutive potential common shares(1) . . . . .	—	5	—	7	—	6	—	7
Average number of common shares outstanding used to calculate earnings per common share . . . . .	<u>998</u>	<u>1,003</u>	<u>1,022</u>	<u>1,029</u>	<u>1,005</u>	<u>1,011</u>	<u>1,025</u>	<u>1,032</u>
Earnings per common share before extraordinary item . . . . .	\$ 1.09	\$ 1.09	\$ .95	\$ .94	\$ 3.15	\$ 3.13	\$ 2.76	\$ 2.74
Net earnings per common share . . . . .	1.09	1.09	.95	.94	3.18	3.16	2.75	2.73

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

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