

**Supplement dated May 15, 1996 to
Information Statement dated February 22, 1996**

Federal National Mortgage Association



This Supplement describes the financial condition of the Federal National Mortgage Association (“Fannie Mae” or the “Corporation”) as of March 31, 1996 and contains unaudited financial statements with respect to the Corporation for the quarter ended March 31, 1996. This Supplement should be read in conjunction with the Corporation’s Information Statement dated February 22, 1996 (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, 1995. 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 25, 1996, 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, 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 April 30, 1996, approximately 1,075 million shares of the Corporation’s common stock (without par value) were outstanding.

The delivery of this Supplement at any time shall not under any circumstances create an implication that there has been no change in the affairs of the Corporation since the date hereof or that the information contained herein is correct as of any time subsequent to its date.

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SELECTED FINANCIAL DATA

The following selected financial data for the three months ended March 31, 1996 and 1995 are unaudited and include, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. Certain amounts in 1995 have been reclassified to conform with the current presentation. Operating results for the three months ended March 31, 1996 are not necessarily indicative of the results expected for the entire year.

(Dollars in millions, except per share amounts)

	Three Months Ended March 31,	
	1996	1995
Income Statement Data:		
Interest income	\$ 5,758	\$ 4,987
Interest expense	4,872	4,278
Net interest income	886	709
Guaranty fees	288	267
Miscellaneous income, net	19	36
Provision for losses	(45)	(35)
Foreclosed property expenses	(53)	(51)
Administrative expenses	(135)	(129)
Income before federal income taxes and extraordinary item	960	797
Provision for federal income taxes	(285)	(233)
Income before extraordinary item	675	564
Extraordinary gain (loss), net of tax effect	(21)	2
Net income	\$ 654	\$ 566
Preferred stock dividends	(2)	—
Net income available to common stockholders	\$ 652	\$ 566
Per common share:		
Earnings before extraordinary item	\$ 0.61	\$ 0.52
Net earnings	0.59	0.52
Cash dividends	0.19	0.17
March 31,		
	1996	1995
Balance Sheet Data:		
Mortgage portfolio, net	\$261,225	\$222,480
Investments	56,517	46,107
Total assets	325,139	274,714
Borrowings:		
Due within one year	144,564	111,178
Due after one year	162,251	147,475
Total liabilities	313,760	264,796
Stockholders' equity	11,379	9,918
Capital(1)	12,159	10,741
Three Months Ended March 31,		
	1996	1995
Other Data:		
Net interest margin	1.20%	1.15%
Return on average equity	23.6	23.4
Return on average assets .....	.8	.8
Ratio of earnings to fixed charges(2)	1.20:1	1.19:1
Ratio of earnings to combined fixed charges and preferred stock dividends(2) ...	1.20:1	—
Dividend payout ratio	31.8%	32.7%
Equity to assets ratio	3.5	3.6
Mortgage purchases	\$ 17,862	\$ 6,346
MBS issued	38,370	13,070
MBS outstanding at March 31	599,546	533,262

(1) Stockholders' equity plus 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. There was no preferred stock outstanding in 1995.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 1996

Results of Operations

In the first quarter of 1996, Fannie Mae again reported record earnings. Net income grew \$88 million or 15 percent from the \$566 million earned in the first quarter of 1995, primarily due to increases in net interest income and guaranty fees.

Net interest income in the first three months of 1996 increased 25 percent compared with the first three months of 1995, primarily as a result of 19 percent growth in the average investment portfolio and a 5 basis point increase in the net interest margin.

The following table presents an analysis of net interest income for the three months ended March 31, 1996 and 1995.

Net Interest Income and Average Balances
(Dollars in millions)

	Three Months Ended March 31,	
	1996	1995
Interest income:		
Mortgage portfolio	\$ 4,927	\$ 4,329
Investments and cash equivalents	831	658
Total interest income	<u>5,758</u>	<u>4,987</u>
Interest expense (1):		
Short-term debt	985	948
Long-term debt	3,887	3,330
Total interest expense	<u>4,872</u>	<u>4,278</u>
Net interest income	886	709
Tax equivalent adjustment (2)	57	50
Net interest income tax equivalent basis	<u>\$ 943</u>	<u>\$ 759</u>
Average balances:		
Interest-earning assets (3):		
Mortgage portfolio, net	\$256,139	\$221,411
Investments and cash equivalents	58,874	43,193
Total interest-earning assets	<u>\$315,013</u>	<u>\$264,604</u>
Interest-bearing liabilities (1):		
Short-term debt	\$ 72,365	\$ 65,302
Long-term debt	227,943	186,797
Total interest-bearing liabilities	<u>300,308</u>	<u>252,099</u>
Interest-free funds	14,705	12,505
Total interest-bearing liabilities and interest-free funds	<u>\$315,013</u>	<u>\$264,604</u>
Average interest rates (2):		
Interest-earning assets:		
Mortgage portfolio, net	7.75%	7.85%
Investments and cash equivalents	5.71	6.19
Total interest-earning assets	<u>7.37</u>	<u>7.58</u>
Interest-bearing liabilities (1):		
Short-term debt	5.35	5.93
Long-term debt	6.85	7.13
Total interest-bearing liabilities	<u>6.48</u>	<u>6.82</u>
Investment spread .....	.89	.76
Interest-free return (4) .....	.31	.39
Net interest margin (5)	<u>1.20%</u>	<u>1.15%</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 \$2.2 billion and \$2.0 billion for the three months ended March 31, 1996 and 1995, 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, 1996 and 1995.

Rate / Volume Analysis

(Dollars in millions)

	<u>Increase (Decrease)</u>	<u>Attributable to Changes in (1)</u>	
		<u>Volume</u>	<u>Rate</u>
<u>First Quarter 1996 vs. First Quarter 1995</u>			
Interest income:			
Mortgage portfolio	\$598	\$669	\$(71)
Investments and cash equivalents	<u>173</u>	<u>224</u>	<u>(51)</u>
Total interest income	<u>771</u>	<u>893</u>	<u>(122)</u>
Interest expense:			
Short-term debt	37	98	(61)
Long-term debt	<u>557</u>	<u>707</u>	<u>(150)</u>
Total interest expense	<u>594</u>	<u>805</u>	<u>(211)</u>
Net interest income	<u>\$177</u>	<u>\$ 88</u>	<u>\$ 89</u>

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

Guaranty fee income increased by \$21 million, or 8 percent, to \$288 million, compared with first quarter 1995. This change resulted from a 7 percent increase in average net Mortgage-Backed Securities ("MBS") outstanding and a .2 basis point change in the effective average guaranty fee rate when compared with the first quarter of 1995.

In the first three months of 1996, miscellaneous income decreased 47 percent to \$19 million versus \$36 million in the first three months of 1995, as a result of lower REMIC fees. Net REMIC fees decreased by \$14 million to \$5 million in the first quarter of 1996. The Corporation defers and recognizes as income over the life of a REMIC a portion of REMIC fees to match expected future administrative costs. In the first quarter of 1995, the Corporation recognized additional deferred REMIC fees due to lower than expected REMIC processing costs as a result of technology improvements and the associated transfer of administrative processes from external to internal sources.

Administrative expenses for the quarter ended March 31, 1996 increased to \$135 million, compared with \$129 million during the same period in 1995, primarily due to increased compensation costs. Compensation expense was \$81 million in the first quarter of 1996, compared with \$77 million in the first quarter of 1995. The ratio of administrative expenses to the average mortgage portfolio plus average MBS outstanding was .070 percent in the first quarter of 1996 and .073 percent in the first quarter of 1995. The ratio of administrative expenses to revenues (net interest income, guaranty fees, and miscellaneous income) was 11.3 percent for the first quarter of 1996, compared with 12.8 percent for the first quarter of 1995.

The effective federal income tax rate for the first three months of 1996 and 1995 was 29 percent.

The Corporation had an extraordinary loss of \$32 million (\$21 million after tax) in the first quarter of 1996 compared with an extraordinary gain of \$4 million (\$2 million after tax) in the first quarter of 1995 from the repurchase or call of debt. For the remainder of 1996, the Corporation believes that repurchases of debt will not have a significant impact on earnings, although such transactions may be completed from time to time.

Line of Business Reporting

The following tables set forth the Corporation's financial information by line of business for the three months ended March 31, 1996 and 1995. Significant changes from period to period were due to the same factors discussed under "Results of Operations."

Three Months Ended March 31,	1996				1995			
	Portfolio Investment	Credit Guaranty	Fee-based Services	Total	Portfolio Investment	Credit Guaranty	Fee-based Services	Total
	(Dollars in millions)							
Net interest income	\$ 782	\$ 95	\$ 9	\$ 886	\$ 611	\$ 89	\$ 9	\$ 709
Guaranty fees	(177)	465	—	288	(152)	419	—	267
Miscellaneous, net	8	(2)	13	19	5	8	23	36
Provision for losses	—	(45)	—	(45)	—	(35)	—	(35)
Foreclosed property expenses	—	(53)	—	(53)	—	(51)	—	(51)
Administrative expenses	(31)	(87)	(17)	(135)	(30)	(84)	(15)	(129)
Federal income taxes	(166)	(117)	(2)	(285)	(121)	(106)	(6)	(233)
Extraordinary item—early extinguishment of debt	(21)	—	—	(21)	2	—	—	2
Net income	<u>\$ 395</u>	<u>\$ 256</u>	<u>\$ 3</u>	<u>\$ 654</u>	<u>\$ 315</u>	<u>\$ 240</u>	<u>\$ 11</u>	<u>\$ 566</u>

The Portfolio Investment business represented \$312 billion, or 96 percent of total assets, at March 31, 1996 and \$261 billion, or 95 percent of total assets, at March 31, 1995.

Credit Data

The following table shows the Corporation's serious delinquencies for conventional loans in portfolio and underlying MBS at March 31, 1996 and 1995, and conventional properties acquired and total net charge-offs for the quarters ended March 31, 1996 and 1995.

	Delinquency Rate (1)		Number of Properties Acquired		Net Charge-offs (Dollars in millions)	
	March 31, 1996	March 31, 1995	March 31, 1996	March 31, 1995	March 31, 1996	March 31, 1995
Single-family ...	.58%	.48%	4,390	3,350	\$53	\$37
Multifamily ....	.95	1.20	15	42	<u>6</u>	<u>2</u>
Total					<u>\$59</u>	<u>\$39</u>

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

The increases in single-family properties acquired and single-family charge-offs primarily reflected the aging of the Corporation's overall book of business, higher loan-to-value ratios on the 1994 and 1995 books of business, and initiatives undertaken to reduce the time required for foreclosure processing. Credit results in the first quarter of 1996 have not significantly altered the Corporation's credit outlook for 1996, although it does anticipate a change in mix of credit-related losses, with somewhat higher charge-offs and somewhat lower foreclosed property expenses. 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.

Multifamily REO acquisitions included 11 properties in the first quarter of 1996 and 39 properties in the first quarter of 1995 from a portfolio that transferred from lender risk to Fannie Mae risk. As

part of this transaction, the Corporation received substantial supplemental fees to help offset expected losses.

The inventory of single-family properties was 7,329 as of March 31, 1996, compared with 6,568 as of March 31, 1995. The inventory of multifamily properties was 33 as of March 31, 1996, compared with 60 as of March 31, 1995.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were \$98 million in the first quarter of 1996, compared with \$86 million in the first quarter of 1995. The increase was primarily due to higher REO acquisitions. The sum of net charge-offs and foreclosed property expenses in the three months ended March 31, 1996 was \$112 million, compared with \$90 million in the same period in 1995.

The allowance for losses decreased to \$781 million at March 31, 1996 from \$795 million at December 31, 1995. The Corporation's loss coverage ratio at March 31, 1996 was 4.1 times the previous twelve months' charge-offs. Management expects this coverage to decline somewhat over the next few years as the large volume of loans from the early 1990s reach their peak default years and as portfolio and MBS outstanding balances continue to increase.

Balance Sheet Analysis

Mortgage Portfolio

The Corporation purchased \$17.9 billion of mortgages at an average yield of 7.08 percent in the first three months of 1996, compared with \$6.3 billion of mortgages at an average yield of 8.84 percent in the first three months of 1995. The increase in mortgage purchases in 1996 was primarily due to the lower level of interest rates and the increase in the number of mortgages offered for sale in the secondary market.

Mortgage loan repayments during the first quarter of 1996 totaled \$8.9 billion, compared with \$3.8 billion in the first quarter of 1995. The increase in loan repayments was primarily due to the higher level of refinancing activity. Sales from portfolio were insignificant for the first three months of 1996 and 1995.

As of March 31, 1996, the net mortgage portfolio totaled \$261.2 billion with a yield (before deducting the allowance for losses) of 7.71 percent, compared with \$252.6 billion at 7.80 percent as of December 31, 1995 and \$222.5 billion at 7.86 percent at March 31, 1995. The decrease in yield was primarily due to higher prepayments of higher coupon mortgages and a decrease in conventional mortgage purchase yields as interest rates decreased. The portfolio growth during the first quarter of 1996 was generated by the purchase of a combination of whole loans, MBS, and REMIC tranches. By selectively accessing these markets, the Corporation expects to achieve continued portfolio growth.

At March 31, 1996, the Corporation had mandatory delivery commitments and lender option commitments outstanding to purchase \$4.4 billion and \$1.2 billion of mortgage loans, respectively, compared with \$2.5 billion and \$0.7 billion, respectively, of such commitments outstanding at December 31, 1995.

Financing and Other Activities

During the first three months of 1996, the Corporation issued \$183.9 billion of debt at an average cost of 5.44 percent and redeemed \$176.4 billion at an average cost of 5.69 percent. Debt issued in the first three months of 1995 totaled \$203.7 billion at an average cost of 6.07 percent, and debt redeemed was \$201.4 billion at an average cost of 5.91 percent. The average cost of debt outstanding at March 31, 1996, December 31, 1995, and March 31, 1995 was 6.44 percent, 6.55 percent and 6.87 percent, respectively.

The following table presents the amount of callable debt and the notional amount of callable swaps issued and outstanding at March 31, 1996 and March 31, 1995.

<u>(Dollars in billions)</u>	Three Months Ended	
	March 31,	
	1996	1995
Issued during the period	\$ 12.2	\$ 2.5
Percentage of total long-term debt issued(1)	48%	30%
Outstanding at end of period	\$108.9	\$103.0
Percentage of total long-term debt outstanding(1)	46%	54%

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

For the remainder of 1996, the Corporation expects the proportion of debt issued that is callable will continue at a high level compared with 1995. This expectation is based on projected market conditions (which can change quickly and considerably), as well as expected mortgage portfolio financing and restructuring activity.

The Corporation uses interest rate swaps and other off-balance-sheet financial instruments in its financing activities to manage interest rate risk and to reduce the cost of debt issuance. The Corporation does not engage in trading or other speculative uses of such off-balance-sheet financial instruments. Counterparty risk is the primary risk associated with these instruments. The Corporation reduces that risk by dealing only with institutions that meet certain credit guidelines, and by requiring collateral in certain circumstances.

The Corporation primarily uses two types of interest rate swaps—generic swaps, which involve the exchange of fixed and variable interest payments based on contractual notional principal amounts and may include callable swaps (which give the Corporation the right to terminate the interest rate swap transaction prior to its stated final maturity); and basis swaps, whereby the Corporation exchanges interest payments that have similar maturities but are based on different indices. The following table summarizes the Corporation’s interest rate swap activity for the quarter ended March 31, 1996 and the balance of swaps outstanding at March 31, 1995, together with the expected maturities and weighted-average interest rates to be received and paid on these swaps.

Interest Rate Swap Activity Table

(Dollars in billions)	Generic-pay fixed / receive variable (1)		Basis Swaps	Other (4)	Total	
	Notional (2)	Pay Rate (3)				Receive Rate (3)
Balance at December 31, 1995	\$75.5	6.68%	5.87%	\$32.9	\$14.8	\$123.2
Additions	5.1	6.05	5.44	6.8	3.2	15.1
Maturities	<u>1.0</u>	<u>6.03</u>	<u>5.38</u>	<u>4.0</u>	<u>7.4</u>	<u>12.4</u>
Balance at March 31, 1996	<u>\$79.6</u>	<u>6.65%</u>	<u>5.52%</u>	<u>\$35.7</u>	<u>\$10.6</u>	<u>\$125.9</u>
Balance at March 31, 1995	<u>\$57.4</u>	<u>6.89%</u>	<u>6.19%</u>	<u>\$24.2</u>	<u>\$15.0</u>	<u>\$ 96.6</u>
Future Maturities(5)						
1996	\$ 2.3	6.18%	5.39%	\$15.4	\$ 2.1	\$ 19.8
1997	9.9	6.17	5.58	12.2	1.4	23.5
1998	9.0	5.30	5.53	3.4	1.0	13.4
1999	9.1	6.83	5.37	3.5	1.9	14.5
2000	4.1	6.15	5.54	0.9	1.4	6.4
Thereafter	<u>45.2</u>	<u>7.06</u>	<u>5.54</u>	<u>0.3</u>	<u>2.8</u>	<u>48.3</u>
	<u>\$79.6</u>	<u>6.65%</u>	<u>5.52%</u>	<u>\$35.7</u>	<u>\$10.6</u>	<u>\$125.9</u>

(1) Included in the notional amounts are callable swaps of \$23.6 billion, \$23.4 billion, and \$26.7 billion with weighted-average pay rates of 6.44 percent, 6.38 percent, and 6.42 percent and weighted-average receive rates of 5.59 percent, 5.83 percent, and 6.18 percent at March 31, 1996, December 31, 1995, and March 31, 1995.

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

(3) The weighted-average 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, 1996 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 \$4.8 billion at March 31, 1996, compared with \$5.9 billion at December 31, 1995.

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, 1996 was \$104 million, compared with \$9 million at December 31, 1995. 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, 1996 was \$11.4 billion, compared with \$11.0 billion at December 31, 1995, and \$9.9 billion at March 31, 1995. Pursuant, in part, to the capital restructuring program described in the Information Statement, the Corporation repurchased 26.2 million shares at a weighted-average cost of \$31.90 per share during the first quarter of 1996. As of March 31, 1996, there were 1,082 million shares of common stock outstanding. Also as part of the capital restructuring program, the Corporation issued 7.5 million shares of 6.41 percent noncumulative preferred stock, Series A, with a stated value of \$50.00, in the first quarter of 1996 and 7.5 million shares of 6.50 percent noncumulative preferred stock, Series B, with a stated value of \$50.00, on

April 12, 1996. The Series A preferred stock and Series B preferred stock are not redeemable prior to March 1, 2001 and April 12, 2001, respectively. In the event of liquidation of the Corporation, preferred stockholders are entitled to receive, out of the remaining assets of the Corporation after payment of all liabilities and before any distribution on the common stock, \$50.00 per share plus an amount equal to the dividend for the then-current quarterly dividend period accrued to but excluding the date of such liquidation payment.

Dividends on shares of preferred stock are not mandatory. Holders of preferred stock are entitled to receive noncumulative, quarterly dividends when, as and if declared by the Board of Directors. The preferred stock ranks prior to the common stock with respect to dividends. On April 16, 1996, the Board of Directors approved a dividend for the quarter ended March 31, 1996 of \$0.19 per common share, and dividends of \$0.80125 per Series A preferred share and \$0.70417 per Series B preferred share for the periods from and including March 31, 1996 and April 12, 1996, respectively, to but excluding June 30, 1996.

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, 1996, and management expects that growth in retained earnings will ensure continued compliance with the applicable standards.

Mortgage-Backed Securities

The Corporation issued \$38.4 billion of MBS during the first three months of 1996, compared with \$13.1 billion in the first three months of 1995. The increase in MBS issued during the first quarter of 1996 compared with the first quarter of 1995 was primarily due to an increase in mortgage origination and refinance activity in a lower rate environment and, in part, a lower percentage of adjustable-rate mortgages being originated, which many lenders desire to hold in their portfolio. REMIC issuances increased to \$2.7 billion in the first quarter of 1996 from \$1.3 billion in the first quarter of 1995. This increase reflected a higher volume of fixed-rate MBS in a lower interest rate environment.

The following table summarizes MBS activity for the three months ended March 31, 1996 and 1995.

Summary of MBS Activity

(Dollars in millions)

Three Months Ended March 31,	Issued				Outstanding (1)		
	Lender Originated (1)				Lender Risk (2)	Fannie Mae Risk	Total (3)
	Lender Risk	Fannie Mae Risk	Fannie Mae Originated	Total			
1996	\$1,918	\$36,416	\$ 36	\$38,370	\$66,004	\$533,542	\$599,546
1995	2,365	10,456	249	13,070	58,129	475,133	533,262

- (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 \$29.2 billion and \$29.0 billion at March 31, 1996 and 1995, 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 \$78.5 billion and \$46.3 billion at March 31, 1996 and 1995, respectively, of Fannie Mae MBS in portfolio.

New Accounting Standard

In the first quarter of 1996, the Corporation adopted Financial Accounting Standard No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" ("FAS 121"), which requires that long-lived assets and certain identifiable intangibles to be held and used by the Corporation be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The measurement of impairment should be based on the fair value of the asset. Long-lived assets and certain identifiable intangibles to be disposed of must be reported at the lower of carrying amount or fair value less cost to sell. Implementation of this standard did 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 (Federal National Mortgage Association) as of March 31, 1996 and the related condensed statements of income and cash flows for the three-months ended March 31, 1996 and 1995. 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, 1995 (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 11, 1996, 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, 1995, 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 11, 1996

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

	Three Months Ended March 31,	
	1996	1995
	(Dollars in millions, except per share amounts)	
Interest income	\$ 5,758	\$ 4,987
Interest expense	4,872	4,278
Net interest income	886	709
Guaranty fees	288	267
Miscellaneous income, net	19	36
Provision for losses	(45)	(35)
Foreclosed property expenses	(53)	(51)
Administrative expenses	(135)	(129)
Income before federal income taxes and extraordinary item	960	797
Provision for federal income taxes	(285)	(233)
Income before extraordinary item	675	564
Extraordinary gain (loss)—early extinguishment of debt (net of tax effect)	(21)	2
Net income	<u>\$ 654</u>	<u>\$ 566</u>
Preferred dividends	(2)	—
Net income available to common stockholders	<u>\$ 652</u>	<u>\$ 566</u>
Per common share:		
Earnings before extraordinary item	\$ 0.61	\$ 0.52
Net earnings	0.59	0.52
Cash dividends	0.19	0.17

CONDENSED BALANCE SHEETS
(Unaudited)

	March 31, 1996	December 31, 1995
	(Dollars in millions)	
Assets		
Mortgage portfolio, net	\$261,225	\$252,588
Investments	56,517	57,273
Other assets	7,397	6,689
Total assets	<u>\$325,139</u>	<u>\$316,550</u>
Liabilities		
Debentures, notes, and bonds, net		
Due within one year	\$144,564	\$146,153
Due after one year	162,251	153,021
Other liabilities	6,945	6,417
Total liabilities	313,760	305,591
Stockholders' equity	11,379	10,959
Total liabilities and stockholders' equity	<u>\$325,139</u>	<u>\$316,550</u>

See Notes to Interim Financial Statements

FANNIE MAE
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	1996	1995
	(Dollars in millions)	
Net cash provided by operating activities	\$ 2,614	\$ 1,932
Cash flows from investing activities:		
Purchases of mortgages	(17,919)	(6,274)
Proceeds from sales of mortgages	32	241
Mortgage principal repayments	9,308	4,221
Net decrease in investments	756	228
Net cash used by investing activities	(7,823)	(1,584)
Cash flows from financing activities:		
Cash proceeds from issuance of debt	173,372	202,208
Cash payments to retire debt	(166,939)	(202,142)
Other	(976)	(209)
Net cash provided (used) by financing activities	5,457	(143)
Net increase in cash and cash equivalents	248	205
Cash and cash equivalents at beginning of period	318	231
Cash and cash equivalents at end of period	\$ 566	\$ 436

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 1995 have been reclassified to conform with the current presentation. Operating results for the three months ended March 31, 1996 are not necessarily indicative of the results that may be expected for the year ending December 31, 1996. 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 February 22, 1996.

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, 1996
	(Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	\$ 4.4
Lender option (1)	0.9
Average net yield on mandatory delivery	7.52%
Commitments to issue MBS:	
Mandatory delivery (1)	0.1
Lender option (1)	1.5
Master commitments:	
Mandatory delivery (2)	31.6
Lender option	38.2

(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.

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, 1996
	(Dollars in billions)
MBS outstanding (1)	\$599.5
Amount for which the Corporation has primary foreclosure loss risk (2):	
Conventional	529.1
Government insured or guaranteed	4.4
Credit enhancements	3.1
Other guarantees	1.7

(1) Includes \$78.5 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,	
	1996	1995
	(In millions, except per share data)	
Average common shares outstanding	1,087.5	1,090.7
Effect of common stock equivalents	<u>9.9</u>	<u>4.5</u>
Average fully diluted common shares outstanding	<u>1,097.4</u>	<u>1,095.2</u>
Income before extraordinary item	\$ 675	\$ 564
Net income	654	566
Net income available to common stockholders	652	566
Earnings per common share before extraordinary item	\$.61	\$.52
Net earnings per common share .....	.59	.52

MANAGEMENT

On April 12, 1996, the Corporation announced that Stephen Friedman and Joe K. Pickett have been nominated for election to its Board of Directors. They have been nominated to fill the seats that will be vacated by Felix Beck and Christopher J. Sumner when Mr. Beck's and Mr. Sumner's respective terms expire at the Corporation's annual meeting of stockholders on May 16, 1996.

Mr. Friedman, age 58, has been Senior Chairman and Limited Partner since December 1994 and Co-Chairman or sole Chairman from December 1990 to November 1994 of Goldman, Sachs & Co., an investment banking firm. Mr. Friedman joined Goldman, Sachs & Co. in 1966. His principal residence is in New York, New York.

Mr. Pickett, age 50, has been Chairman of the Board and Chief Executive Officer of BancBoston Mortgage Corporation, a mortgage banking company, since April 1990. In March 1996, BancBoston was sold to HomeSide, Inc., and BancBoston Mortgage Corporation will be renamed HomeSide Lending, Inc. in May 1996. Mr. Pickett is a past President of the Mortgage Bankers Association of America. His principal residence is in Jacksonville, Florida.

Eleven directors currently on the Board of Directors and whose terms expire at the annual meeting of stockholders on May 16, 1996 have been nominated for reelection.

In May 1996, the President of the United States announced his intention to reappoint William M. Daley, Thomas A. Leonard, John R. Sasso, Kathryn G. Thompson, and José H. Villarreal to the Board of Directors after their present terms expire on May 16, 1996, the date of the Corporation's annual meeting of stockholders.

