Supplement dated August 15, 1994 to
Information Statement dated March 31, 1994

Federal National Mortgage Association

FannieMae

This Supplement describes the financial condition of the Federal National Mortgage Association ("Fannie Mae" or the "Corporation") as of June 30, 1994 and contains unaudited financial statements with respect to the Corporation for the quarter and six months ended June 30, 1994. This Supplement should be read in conjunction with the Corporation's Information Statement dated March 31, 1994 (the "Information Statement") and the Supplement dated May 13, 1994 thereto (the "May 13 Supplement"), 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, 1993. The May 13 Supplement describes the financial condition of the Corporation as of March 31, 1994 and contains unaudited financial statements with respect to the Corporation for the quarter ended March 31, 1994. 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 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 July 29, 1994, approximately 273,477,000 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-month and six-month periods ended June 30, 1994 and 1993 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 June 30, 1994 are not necessarily indicative of the results expected for the entire year.

(Dollars in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
Income Statement Data:	**1994**	**1993**	**1994**	**1993**
Interest income	$ 4,196	$ 3,614	$ 8,169	$ 7,196
Interest expense	3,476	2,982	6,785	5,960
Net interest income	720	632	1,384	1,236
Guaranty fees	272	235	542	465
Gain (loss) on sales of mortgages, net	(4)	(1)	(2)	3
Miscellaneous income, net	32	49	91	96
Provision for losses	(40)	(45)	(80)	(90)
Foreclosed property expenses	(58)	(36)	(118)	(69)
Administrative expenses	(130)	(107)	(254)	(210)
Income before federal income taxes and extraordinary item	792	727	1,563	1,431
Provision for federal income taxes	(258)	(229)	(510)	(449)
Income before extraordinary item	534	498	1,053	982
Extraordinary loss—net of tax effect	(9)	(40)	(17)	(80)
Net income	$ 525	$ 458	$ 1,036	$ 902
Per share:				
Earnings before extraordinary item	$ 1.95	$ 1.81	$ 3.84	$ 3.57
Net earnings	1.91	1.67	3.77	3.28
Cash dividends	0.60	0.46	1.20	0.86

	June 30,	
Balance Sheet Data:	**1994**	**1993**
Mortgage portfolio, net	$207,012	$169,672
Total assets	243,173	192,043
Borrowings:		
Due within one year	90,802	56,387
Due after one year	137,095	120,140
Total liabilities	234,346	184,644
Stockholders' equity	8,827	7,399

	Three Months Ended June 30,		Six Months Ended June 30,	
Other Data:	**1994**	**1993**	**1994**	**1993**
Net interest margin	1.29%	1.45%	1.27%	1.44%
Return on average equity	24.4	25.3	24.6	25.4
Return on average assets	0.9	1.0	0.9	1.0
Ratio of earnings to fixed charges(1)	1.22:1	1.22:1	1.23:1	1.22:1
Dividend payout ratio	31.2%	27.5%	31.7	26.1%
Equity to assets ratio	3.6	3.9	3.6	3.9
Mortgage purchases	$ 18,301	$ 23,418	$ 37,467	$ 37,259
MBS issued	33,595	50,365	86,400	89,335
MBS outstanding at period end	514,855	465,220		
Capital(2)	9,651	8,206		

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

(2) Stockholders' equity plus allowance for losses.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 1994

Results of Operations

In the second quarter of 1994, Fannie Mae again reported record earnings as net income increased $67 million to $525 million or 15 percent over the results for the second quarter of 1993. For the first six months of 1994, net income increased $134 million or 15 percent to $1.036 billion compared with $902 million for the first half of 1993. The growth in net income, for the three-month and six-month periods ended June 30, 1994, was attributable mainly to increases in net interest income and guaranty fee income and lower losses on repurchases and calls of debt.

Net interest income in the second quarter of 1994 increased 14 percent compared with the second quarter of 1993, primarily due to 28 percent growth in the average net investment balance, which was partially offset by a 16 basis point decrease in the net interest margin. Net interest income in the first six months of 1994 increased 12 percent compared with the first six months of 1993, as a result of 26 percent growth in the average net investment balance, which was partially offset by a 17 basis point decrease in the net interest margin.

The following table presents an analysis of net interest income for the three-month and six-month periods ended June 30, 1994 and 1993.

Net Interest Income and Average Balances

(Dollars in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1994	1993	1994	1993
Interest income:				
Mortgage portfolio	$ 3,867	$ 3,429	$ 7,598	$ 6,812
Investments and cash equivalents	329	185	571	384
Total interest income	4,196	3,614	8,169	7,196
Interest expense(1):				
Short-term debt	544	292	942	627
Long-term debt	2,932	2,690	5,843	5,333
Total interest expense	3,476	2,982	6,785	5,960
Net interest income	720	632	1,384	1,236
Tax equivalent adjustment(2)	32	30	61	60
Net interest income tax equivalent basis	$ 752	$ 662	$ 1,445	$ 1,296
Average balances:				
Interest-earning assets(3):				
Mortgage portfolio, net	$202,292	$163,393	$198,033	$160,322
Investments and cash equivalents	31,438	18,869	28,884	19,405
Total interest-earning assets	$233,730	$182,262	$226,917	$179,727
Interest-bearing liabilities(1):				
Short-term debt	$ 55,097	$ 30,430	$ 49,788	$ 31,863
Long-term debt	164,654	136,763	162,585	133,620
Total interest-bearing liabilities	219,751	167,193	212,373	165,483
Interest-free funds	13,979	15,069	14,544	14,244
Total interest-bearing liabilities and interest-free funds	$233,730	$182,262	$226,917	$179,727
Average interest rates(2):				
Interest-earning assets:				
Mortgage portfolio, net	7.67%	8.43%	7.70%	8.54%
Investments and cash equivalents	4.29	3.98	4.04	4.01
Total interest-earning assets	7.22	7.97	7.23	8.05
Interest-bearing liabilities(1):				
Short-term debt	3.90	3.48	3.71	3.57
Long-term debt	7.13	7.87	7.19	7.99
Total interest-bearing liabilities	6.32	7.07	6.38	7.14
Investment spread	.90	.90	.85	.91
Interest-free return(4)	.38	.58	.41	.56
Miscellaneous	.01	(.03)	.01	(.03)
Net interest margin	1.29%	1.45%	1.27%	1.44%

(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 $1.5 billion and $1.4 billion for the three- and six-month periods, respectively, ended June 30, 1994 and $1.3 billion for the three- and six-month periods ended June 30, 1993.

(4) The return on that portion of the investment portfolio funded by equity and non-interest-bearing liabilities.

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-month and six-month periods ended June 30, 1994 and 1993.

Rate/Volume Analysis

(Dollars in millions)

	Second Quarter 1994 vs. Second Quarter 1993			First Six Months 1994 vs. First Six Months 1993		
		Attributable to Changes in (1)			Attributable to Changes in (1)	
	Increase (Decrease)	Volume	Rate	Increase (Decrease)	Volume	Rate
Interest income:						
Mortgage portfolio	$438	$763	$(325)	$786	$1,492	$(706)
Investments and cash equivalents	144	131	13	187	187	—
Total interest income	582	894	(312)	973	1,679	(706)
Interest expense:						
Short-term debt	252	243	9	315	466	(151)
Long-term debt	242	513	(271)	510	856	(346)
Total interest expense	494	756	(262)	825	1,322	(497)
Net interest income	$ 88	$138	$ (50)	$148	$ 357	$(209)

(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 in the second quarter increased by $37 million, or 16 percent, to $272 million, resulting primarily from a 10 percent increase in average Mortgage-Backed Securities ("MBS") outstanding when compared with the second quarter of 1993. For the first six months of 1994, guaranty fee income increased by $77 million, or 17 percent, to $542 million, also resulting primarily from a 10 percent increase in average MBS outstanding over the comparable period in 1993.

In the second quarter of 1994, miscellaneous income declined 35 percent to $32 million versus $49 million in the second quarter of 1993. For the first half of 1994, miscellaneous income declined 5 percent to $91 million versus $96 million in the first half of 1993. The decline in miscellaneous income for the second quarter of 1994 versus the second quarter of 1993 was primarily the result of a decrease in REMIC and other miscellaneous fees. The decline in miscellaneous income for the first half of 1994 versus the first half of 1993 was primarily the result of a reduction in miscellaneous fees. Net REMIC fees were $19 million for the second quarter of 1994 compared with $26 million for the second quarter of 1993, and $54 million for the first half of 1994 compared with $49 million in the first half of 1993. Net REMIC fees were lower in the second quarter of 1994, primarily because of a decline in the volume of MBS in a higher interest rate environment. In addition, higher interest rates caused a substantial amount of already outstanding REMICs to become available for sale and reduced opportunities for dealers to create profitable new REMIC structures, which reduced demand for new REMICs. Management believes that the level of REMIC fees during the remainder of 1994 will be lower than in the second half of last year for similar reasons, and because there were record REMIC volumes then, primarily due to a heavy volume of refinancings in a declining interest rate environment.

Administrative expenses for the quarter ended June 30, 1994 were $130 million, compared with $107 million during the same period in 1993. For the six months ended June 30, 1994, administrative expenses were $254 million, compared with $210 million for the same period in 1993. Increased spending on staffing, technology-related expenses, and affordable housing initiatives were the primary reasons for the overall increases. Compensation expense was $71 million in the second quarter of 1994, compared with $61 million in the second quarter of 1993. For the first half of 1994, compensation expense was $142 million, compared with $120 million in the first half of 1993. The ratio of administrative expenses to the average mortgage portfolio plus average MBS outstanding was .076 percent for the three-month period ended June 30, 1994 and .075 for the six-month period ended on that date, compared with .070 percent for the comparable periods in 1993. The ratio of administrative expenses to revenues (net interest income, guaranty fees, and miscellaneous income) was 12.7 percent for the second quarter of 1994, compared with 11.6 percent for the second quarter of 1993, and was 12.6 percent for the first half of 1994, compared with 11.7 percent for the first half of 1993.

The effective federal income tax rate was 32 percent for the second quarter of 1994 and 33 percent for the first half of 1994, compared with 31 percent for both the second quarter and first half of 1993.

In the second quarter of 1994, the Corporation had an extraordinary loss of $14 million ($9 million after tax) from the repurchase or call of debt compared with a loss of $60 million ($40 million after tax) in the second quarter of 1993. An extraordinary loss of $27 million ($17 million after tax) was reported in the first half of 1994 from the repurchase or call of debt compared with a loss of $121 million ($80 million after tax) from such repurchases or calls in the first half of 1993. The repurchase or call of high-coupon debt favorably affects the Corporation's cost of funds in future periods.

Credit Data

The following table shows the Corporation's serious delinquencies for conventional loans in portfolio and underlying MBS at June 30, 1994 and 1993, and conventional foreclosures and total net charge-offs for the quarters and six months ended June 30, 1994 and 1993.

	Delinquency Rate (1)		Number of Properties Acquired				Net Charge-offs (Dollars in millions)			
	June 30,		Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	1994	1993	1994	1993	1994	1993	1994	1993	1994	1993
Single-family	0.57%	0.58%	3,428	2,790	6,550	5,537	$39	$22	$78	$47
Multifamily	1.77	2.54	8	12	19	18	4	10	18	16
Total							$43	$32	$96	$63

(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, in relief, or 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 inventory of single-family properties was 5,746 as of June 30, 1994, compared with 4,952 properties as of June 30, 1993. The inventory of multifamily properties was 44 as of June 30, 1994, compared with 48 properties as of June 30, 1993. The increase in the number of single-family properties acquired through foreclosure was primarily due to the growth in business volumes in recent years.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were $98 million in the second quarter of 1994, compared with $81 million in the second quarter of 1993. Total credit-related expenses for the six month periods ended June 30, 1994 and 1993 were $198 million and $159 million, respectively. The sum of net charge-offs and foreclosed property expenses in the three months ended June 30, 1994 was $102 million, compared with $69 million during the same period in 1993. The sum of net charge-offs and foreclosed property expense for the six months ended June 30, 1994 and 1993 were $215 million and $132 million, respectively. The increase in credit related expenses and net charge-offs is due primarily to the increase in the number of acquired properties.

The allowance for losses was $825 million at June 30, 1994, compared with $841 million at December 31, 1993 and $807 million at June 30, 1993.

Balance Sheet Analysis

Mortgage Portfolio

The Corporation purchased $18.3 billion of mortgages at an average yield of 7.77 percent in the second quarter of 1994, compared with $23.4 billion of mortgages at an average yield of 7.00 percent in the second quarter of 1993. In the first six months of 1994, mortgage purchases were $37.5 billion at an average yield of 7.28 percent, compared with $37.3 billion at an average yield of 7.16 percent in the first six months of 1993. Although purchases for the first half of 1994 versus the first half of 1993 were relatively unchanged, purchases for the second quarter of 1994 versus the same period in 1993 declined due, in part, to a rising interest rate environment with a lower level of refinances in the second quarter of 1994 compared with a falling interest rate environment and a higher level of refinances in the second quarter of 1993. The rising interest rate environment also prompted more adjustable-rate loans to be originated, which lenders are more likely to retain or purchase for their portfolio.

Mortgage loan repayments during the second quarter of 1994 totaled $7.4 billion, compared with $12.7 billion in the second quarter of 1993. During the first half of 1994, mortgage loan repayments were $18.4 billion compared with $20.3 billion in the first half of 1993. The decrease in loan repayments was primarily due to a reduced level of refinancing activity. Sales from portfolio totaled $0.5 billion for the second quarter of 1994 compared with $0.4 billion for the second quarter of 1993, while sales from portfolio totaled $1.7 billion for the first half of 1994 compared with $3.4 billion for the first half of 1993.

As of June 30, 1994, the net mortgage portfolio totaled $207.0 billion with a yield (before deducting the allowance for losses) of 7.67 percent, compared with $189.9 billion at 7.79 percent as of December 31, 1993 and $169.7 billion at 8.29 percent as of June 30, 1993. The decrease in yield was primarily due to a decline in conventional mortgage purchase yields as interest rates declined in 1993.

At June 30, 1994, the Corporation had mandatory delivery commitments and lender option commitments outstanding to purchase $3.3 billion and $1.7 billion of mortgage loans, respectively, compared with $7.0 billion and $7.4 billion, respectively, of such commitments outstanding at December 31, 1993.

Financing and Other Activities

During the second quarter of 1994, the Corporation issued $120.6 billion of debt at an average cost of 4.34 percent and redeemed $109.2 billion at an average cost of 3.92 percent. Debt issued in the second quarter of 1993 totaled $74.4 billion at an average cost of 3.43 percent, and debt redeemed was $63.3 billion at an average cost of 3.46 percent. During the first six months of 1994, $240.1 billion of debt was issued at an average cost of 3.93 percent and $213.5 billion was redeemed at an average cost of 3.73 percent. In the first six months of 1993, debt issued totaled $132.4 billion at an average cost of 3.39 percent, and debt redeemed totaled $121.9 billion at an average cost of 3.57 percent. The average cost of debt outstanding at June 30, 1994, December 31, 1993, and June 30, 1993 was 6.35 percent, 6.53 percent, and 6.89 percent, respectively.

The Corporation's shareholders' equity at June 30, 1994 was $8.8 billion, compared with $8.1 billion at December 31, 1993, and $7.4 billion at June 30, 1993. During the second quarter of 1994, the Corporation repurchased 0.2 million shares of its common stock at a cost of $12 million. On July 19, 1994, the Board of Directors approved a dividend on the Corporation's common stock of

60 cents per share for the quarter ended June 30, 1994. As of June 30, 1994, there were 273 million shares of common stock outstanding.

As discussed in the Information Statement under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Developments," the Corporation, effective October 28, 1992, is subject to revised capital standards. As of March 31, 1994, the Corporation met the applicable standards and management believes that the Corporation met the standards as of June 30, 1994. Management expects that continued growth in retained earnings will ensure continued compliance with the applicable standards.

Mortgage-Backed Securities

The Corporation issued $33.6 billion of MBS during the second quarter of 1994, compared with $50.4 billion in the second quarter of 1993. MBS issued in the first half of 1994 totaled $86.4 billion, compared with $89.3 billion in the first half of 1993. The reduction in MBS issuances in the second quarter of 1994 versus the second quarter of 1993 was primarily due to a reduction in refinance activity in a higher interest rate environment. It also appears to be due, in part, to higher interest rates prompting a higher percentage of adjustable-rate mortgages to be originated, which many lenders desire to hold in their portfolio.

The following table summarizes MBS activity for the three-month and six-month periods ended June 30, 1994 and 1993.

Summary of MBS Activity

(Dollars in millions)

	Issued				Outstanding (1)		
	Lender Originated (1)						
Three Months Ended June 30,	**Lender Risk**	**Fannie Mae Risk**	**Fannie Mae Originated**	**Total**	**Lender Risk (2)**	**Fannie Mae Risk (3)**	**Total (4)**
1994	$ 779	$31,466	$1,350	$33,595	$53,403	$461,452	$514,855
1993	1,483	47,001	1,881	50,365	70,997	394,223	465,220
Six Months Ended June 30,							
1994	$2,233	$80,499	$3,668	$86,400			
1993	2,567	81,438	5,330	89,335			

(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 $30.4 billion and $36.8 billion at June 30, 1994 and 1993, 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 $5.7 billion at June 30, 1994 and $7.2 billion at June 30, 1993 that are backed by government insured or guaranteed mortgages.

(4) Included are $32.8 billion and $19.7 billion at June 30, 1994 and 1993, respectively, of Fannie Mae MBS in portfolio.

The increase in MBS outstanding where Fannie Mae has primary default risk is primarily due to lender reaction to capital rules that require lenders to have more capital for MBS where they bear default risk.

LEGAL PROCEEDINGS

In May 1994, the period expired during which the Internal Revenue Service could have filed an appeal from the U.S. Tax Court decision described in "Legal Proceedings" and in the Notes to Financial Statements, "Income Taxes" in the Information Statement.

RECENT LEGISLATIVE AND REGULATORY DEVELOPMENTS

As described in the Information Statement under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Housing Goals," the Department of Housing and Urban Development ("HUD") established certain housing goals for Fannie Mae for 1993 and 1994. Earlier this year, Fannie Mae reported to HUD that it had met its 1993 goal for low- and moderate-income housing business, but that it had not met the goal for central cities business. In June, HUD requested the Corporation to submit a business plan for meeting the 1994 central cities goal. In July, as required by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, the Corporation submitted a report on its plans. In its transmittal letter and in the report, the Corporation noted that it is fully committed to meeting the 1994 central cities goal.

MATTERS SUBMITTED TO STOCKHOLDERS

The 1994 annual meeting of stockholders of Fannie Mae was held on May 19, 1994. At this meeting, a stockholder proposal to reinstate cumulative voting for directors, which the Board of Directors recommended that stockholders vote against, was defeated by a vote of 151,221,811 against the proposal to 59,848,946 for the proposal. Under the proposal, the Board of Directors would have been requested to take the necessary steps to provide for cumulative voting in the election of directors, which would mean that each stockholder would be entitled to as many votes as the number of shares the stockholder owns multiplied by the number of directors to be elected, and the stockholder could cast all such votes for a single candidate or distribute them among several nominees.

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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 June 30, 1994 and the related condensed statements of income and cash flows for the three and six-month periods ended June 30, 1994 and 1993. These financial statements are the responsibility of Fannie Mae's management.

We conducted our reviews 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 upon our reviews, we are not aware of any material modifications that should be made to the accompanying condensed financial statements as of June 30, 1994, and for the three and six-month periods ended June 30, 1994 and 1993, 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, 1993 (presented herein in condensed format) and the related statements of income and cash flows for the year then ended (not presented herein); and in our report dated January 11, 1994, we expressed an unqualified opinion on those financial statements.

KPMG PEAT MARWICK

Washington, DC
July 14, 1994

FEDERAL NATIONAL MORTGAGE ASSOCIATION

INTERIM FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1994	**1993**	**1994**	**1993**
	(Dollars in millions, except per share amounts)			
Interest income	$4,196	$3,614	$8,169	$7,196
Interest expense	3,476	2,982	6,785	5,960
Net interest income	720	632	1,384	1,236
Guaranty fees	272	235	542	465
Gain (loss) on sales of mortgages, net	(4)	(1)	(2)	3
Miscellaneous income, net	32	49	91	96
Provision for losses	(40)	(45)	(80)	(90)
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Income before federal income taxes and extraordinary item	792	727	1,563	1,431
Provision for federal income taxes	(258)	(229)	(510)	(449)
Income before extraordinary item	534	498	1,053	982
Extraordinary loss—early extinguishment of debt (net of tax effect)	(9)	(40)	(17)	(80)
Net income	$ 525	$ 458	$1,036	$ 902
Per share:				
Earnings before extraordinary item	$ 1.95	$ 1.81	$ 3.84	$ 3.57
Net earnings	1.91	1.67	3.77	3.28
Cash dividends	0.60	0.46	1.20	0.86

CONDENSED BALANCE SHEETS

(Unaudited)

	June 30, 1994	December 31, 1993
	(Dollars in millions)	
Assets		
Mortgage portfolio, net	$207,012	$189,892
Investments	29,424	21,396
Other assets	6,737	5,691
Total assets	$243,173	$216,979
Liabilities		
Debentures, notes, and bonds, net		
Due within one year	$ 90,802	$ 71,950
Due after one year	137,095	129,162
Other liabilities	6,449	7,815
Total liabilities	234,346	208,927
Stockholders' equity	8,827	8,052
Total liabilities and stockholders' equity	$243,173	$216,979

See Notes to Interim Financial Statements

FEDERAL NATIONAL MORTGAGE ASSOCIATION

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1994	1993	1994	1993
	(Dollars in millions)			
Net cash provided by operating activities	$ 84	$ 1,080	$ 62	$ 1,240
Cash flows from investing activities:				
Purchases of mortgages	(18,007)	(23,659)	(37,129)	(37,641)
Proceeds from sales of mortgages	503	405	1,716	3,421
Mortgage principal repayments	7,593	13,029	18,821	20,927
Net (increase) decrease in investments	(804)	269	(8,029)	4,442
Net cash used in investing activities	(10,715)	(9,956)	(24,621)	(8,851)
Cash flows from financing activities:				
Cash proceeds from issuance of debt	119,920	73,988	245,071	131,799
Cash payments to retire debt	(109,189)	(63,320)	(219,600)	(121,960)
Other	(174)	(218)	(273)	(276)
Net cash provided by financing activities	10,557	10,450	25,198	9,563
Net (decrease) increase in cash and cash equivalents	(74)	1,574	639	1,952
Cash and cash equivalents at beginning of period	1,690	783	977	405
Cash and cash equivalents at end of period	$ 1,616	$ 2,357	$ 1,616	$ 2,357

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 1993 have been reclassified to conform with the current presentation. Operating results for the three-month and six-month periods ended June 30, 1994 are not necessarily indicative of the results that may be expected for the year ending December 31, 1994. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Information Statement dated March 31, 1994.

Commitments and Contingencies

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

	June 30, 1994 (Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	$ 3.3
Lender option(1)	1.0
Average net yield on mandatory delivery	8.18%
Commitments to issue MBS:	
Mandatory delivery(1)	$ 0.5
Lender option(1)	15.2
Master commitments:	
Mandatory delivery(2)	100.6
Lender option	33.8

(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 as summarized below:

	June 30, 1994 (Dollars in billions)
Total MBS outstanding	$514.9
Amount for which the Corporation has primary foreclosure loss risk(1):	
Conventional	455.8
Government-insured or guaranteed	5.7

(1) The Corporation, however, assumes the ultimate risk of loss on all MBS.

COMPUTATION OF EARNINGS PER SHARE

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1994	1993	1994	1993
	(In millions, except per share data)			
Earnings Per Share:				
Average common shares outstanding	273.5	273.7	273.4	273.8
Effect of common stock equivalents	1.2	1.2	1.2	1.3
Average fully diluted shares outstanding	274.7	274.9	274.6	275.1
Income before extraordinary item	$ 534	$ 498	$1,053	$ 982
Net income	525	458	1,036	902
Earnings per share before extraordinary item	$ 1.95	$ 1.81	$ 3.84	$ 3.57
Net earnings per share	1.91	1.67	3.77	3.28

MANAGEMENT

In 1994, the President of the United States reappointed the following four members of the Board of Directors for a term expiring on the date of the May 1995 Annual Meeting: William M. Daley, Thomas A. Leonard, John R. Sasso, and José H. Villarreal.

At the annual meeting of stockholders in May 1994, the following directors were elected to serve a one-year term ending on the date of the May 1995 annual meeting: Felix M. Beck, Roger E. Birk, Eli Broad, Thomas P. Gerrity, James A. Johnson, Vincent A. Mai, Ann McLaughlin, Richard D. Parsons, Franklin D. Raines, Antonia Shusta, Lawrence M. Small, Christopher J. Sumner and Karen Hastie Williams. Ms. McLaughlin and Ms. Shusta were the only new directors elected, and they filled the seats vacated by Samuel J. Simmons and Mallory Walker when their terms expired at the May 1994 Annual Meeting. See the May 13 Supplement and the Proxy Statement for the May 1994 Annual Meeting for further information regarding Ms. McLaughlin and Ms. Shusta.

FannieMae