Supplement dated January 29, 1997 to
Information Statement dated February 22, 1996

FannieMae

This Supplement describes the financial condition of the Federal National Mortgage Association ("Fannie Mae" or the "Corporation") as of December 31, 1996 and contains unaudited financial information with respect to the Corporation for the quarter and year ended December 31, 1996. This Supplement should be read in conjunction with the Corporation's Information Statement dated February 22, 1996 (the "Information Statement"), and the Supplements dated May 15, 1996, August 13, 1996 and November 13, 1996 thereto (the "Prior Supplements"), which are hereby incorporated by reference. The Information Statement describes the business and operations of the Corporation and contains financial data as of December 31, 1995. The May 15, 1996, August 13, 1996 and November 13, 1996 Supplements describe the financial condition of the Corporation as of March 31, 1996, June 30, 1996 and September 30, 1996, respectively, and contain unaudited financial statements with respect to the Corporation for the quarters and year-to-date periods then ended. In addition, the Prior Supplements discuss certain other developments that may affect the Corporation. Fannie Mae also periodically makes available statistical information on its mortgage purchase and mortgage-backed securities volumes as well as other relevant information about Fannie Mae. Copies of the Corporation's current Information Statement, any supplements thereto and other available information can be obtained without charge from the Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: 202/752-7115).

In conjunction with its securities offerings, the Corporation may incorporate this Supplement by reference in one or more other documents describing the securities offered thereby, the selling arrangements therefor and other relevant information. Such other documents may be called an Offering Circular, Prospectus 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 December 31, 1996, approximately 1.061 billion 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

Selected Financial Information

The following selected financial information for the three-month periods ended December 31, 1996 and 1995 and the year ended December 31, 1996 are unaudited and include, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. Selected financial information for the year ended December 31, 1995 has been summarized or derived from the audited financial statements and other financial information in the Information Statement. Such information should be read in conjunction with the audited financial statements and notes to financial statements for the year ended December 31, 1995.

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

	Three Months Ended December 31,		Year Ended December 31,	
Income Statement Data:	**1996**	**1995**	**1996**	**1995**
Net interest income	$ 923	$ 840	$ 3,592	$ 3,047
Guaranty fees	308	280	1,196	1,086
Miscellaneous income, net	28	11	86	93
Provision for losses	(50)	(35)	(195)	(140)
Foreclosed property expenses	(56)	(49)	(214)	(195)
Administrative expenses	(145)	(144)	(560)	(546)
Special contribution	—	(350)	—	(350)
Income before federal income taxes and extraordinary item	1,008	553	3,905	2,995
Provision for federal income taxes	(295)	(145)	(1,151)	(840)
Income before extraordinary item	713	408	2,754	2,155
Extraordinary item, net of tax effect	—	—	(29)	(11)
Net income	713	408	2,725	2,144
Preferred stock dividends	(17)	—	(42)	—
Net income available to common stockholders	$ 696	$ 408	$ 2,683	$ 2,144
Per common share				
Earnings before extraordinary item	$ .65	$ .37	$ 2.50	$ 1.96
Net earnings	.65	.37	2.48	1.95
Cash dividends	.19	.17	.76	.68

	December 31,	
Balance Sheet Data:	**1996**	**1995**
Mortgage Portfolio, net	$286,259	$252,588
Investments	56,606	57,273
Total assets	351,041	316,550
Borrowings:		
Due within one year	159,900	146,153
Due after one year	171,370	153,021
Total liabilities	338,268	305,591
Stockholders' equity	12,773	10,959

	Three Months Ended December 31,		Year Ended December 31,	
Other Data:	**1996**	**1995**	**1996**	**1995**
Net interest margin	1.17%	1.19%	1.18%	1.16%
Return on average common equity	24.2	15.1	24.1	20.9
Ratio of earnings to fixed charges and preferred stock dividends(1)	1.19:1	1.12:1	1.19:1	1.17:1
Credit loss ratio(2)	.051%	.055%	.053%	.050%
Average shares outstanding	1,073	1,103	1,083	1,102
Mortgage purchases	$ 17,218	$ 19,834	$ 68,618	$ 56,598
MBS issued	31,674	41,635	149,869	110,456
MBS outstanding at period end	650,780	582,959		
Capital at period end(3)	13,520	11,703		
Book value per common share at period end	11.09	10.04		

(1) "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.

(2) Charge-offs and foreclosed property expenses as a percentage of average net portfolio and net MBS.

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

Other Financial Information

Additional information regarding the Corporation's earnings and other specific measures of Fannie Mae's performance for the quarter and year ended December 31, 1996 is presented below.

Net Income

Net income for the fourth quarter of 1996 was $713 million, compared with net income of $408 million for the fourth quarter of 1995. Results from 1995 included the effect of a commitment to contribute $350 million in Fannie Mae common stock to the Fannie Mae Foundation (the "Foundation"). Without the special contribution to the Foundation, net income for the fourth quarter of 1995 would have been $636 million. Net income for 1996 increased $581 million to $2.725 billion, from $2.144 billion in 1995. Without the special contribution to the Foundation, 1995 earnings would have been $2.372 billion. The increase in net income was due primarily to an increase in net interest income and guaranty fee income.

Investment Portfolio

Net interest income in 1996 increased due primarily to a 16 percent growth in the average mortgage portfolio balance and a 2 basis point increase in the net interest margin.

The Corporation's net interest margin averaged 117 basis points in the fourth quarter of 1996, compared with an average of 119 basis points in the fourth quarter of 1995. The decrease in the net interest margin between the fourth quarter of 1995 and the fourth quarter of 1996 resulted from the combined effect of a lower return on the mortgage portfolio, a higher proportion of the liquid investment portfolio in shorter term investments with spreads lower than those earned on the mortgage portfolio, and lower MBS float balances due to a reduction in MBS prepayments. The net interest margin averaged 118 basis points in 1996, compared with 116 basis points in 1995. This increase was primarily due to the Corporation calling and refunding higher cost debt when interest rates declined in early 1996.

Fannie Mae's net investment balance — mortgage loans held, less unamortized discount and deferred fees, plus other investments — was $344 billion at the end of 1996, compared with $310 billion at the end of 1995.

Fannie Mae's net mortgage portfolio was $286 billion at the end of 1996, compared with $253 billion at the end of 1995.

MBS

Guaranty fee income increased by $28 million to $308 million in the fourth quarter of 1996, compared with $280 million in the fourth quarter of 1995. This change resulted from an 8 percent increase in average net MBS outstanding and a 0.6 basis point increase in the average effective guaranty fee rate. In 1996, guaranty fee income was $1.196 billion, compared with $1.086 billion in 1995. The increase in guaranty fee income resulted from a $40 billion increase in average net MBS outstanding to $535 billion in 1996 and a 0.4 basis point increase in the average effective guaranty fee rate to 22.4 basis points in 1996.

Fannie Mae issued $32 billion of MBS in the fourth quarter of 1996, compared with $42 billion in the fourth quarter of 1995. In 1996, MBS issues totaled $150 billion, compared with $110 billion in 1995.

MBS outstanding at the end of 1996 totaled $651 billion, compared with $583 billion at the end of 1995. MBS outstanding, net of MBS held in portfolio, was $548 billion at the end of 1996, compared with $513 billion at the end of 1995.

Miscellaneous Income

Miscellaneous income totaled $28 million in the fourth quarter of 1996, compared with $11 million in the fourth quarter of 1995. REMIC fees, which are included in miscellaneous income, were $7 million in the fourth quarter of 1996, compared with $4 million in the fourth quarter of 1995.

In 1996 miscellaneous income was $86 million, compared with $93 million in 1995. REMIC fees were $22 million for 1996, compared with $53 million in 1995. The Corporation recognized additional deferred REMIC fees in 1995 due to lower than expected REMIC processing costs.

Extraordinary Item

Losses from the call or repurchase of debt were minimal in the fourth quarter of 1996 and the fourth quarter of 1995. Losses from the call or repurchase of debt were $44 million ($29 million after tax) in 1996, compared with $17 million ($11 million after tax) in 1995.

Debt called or repurchased in the fourth quarter of 1996 totaled $7 billion, compared with $6 billion in the fourth quarter of 1995. Debt called or repurchased in 1996 totaled $26 billion, compared with $20 billion in 1995.

Foreclosures and Inventory of Acquired Properties

The Corporation acquired 5,587 conventional single-family properties through foreclosure in the fourth quarter of 1996, compared with 3,641 properties in the fourth quarter of 1995. Acquisitions were 20,726 in 1996, compared with 13,941 in 1995. The inventory of single-family acquired properties totaled 9,631 properties as of December 31, 1996, compared with 6,613 at December 31, 1995. The increase in acquired properties for both periods ended December 31, 1996 was due primarily to a weak housing market in California and the Corporation's efforts to shorten the period between delinquency and foreclosure.

Charge-offs in the fourth quarter of 1996 were $48 million, compared with $55 million in the fourth quarter of 1995. Charge-offs were $210 million in 1996, compared with $172 million in 1995.

Credit-Related Expenses and Loan Charge-Offs

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were $106 million in the fourth quarter of 1996, compared with $84 million in the fourth quarter of 1995. Total credit-related expenses were $409 million in 1996, compared with $335 million in 1995.

Foreclosed property expenses totaled $56 million in the fourth quarter of 1996, compared with $49 million in the fourth quarter of 1995. Foreclosed property expenses were $214 million in 1996, compared with $195 million in 1995.

The allowance for loan losses was $780 million at December 31, 1996, compared with $795 million at December 31, 1995. The allowance for losses increases through the provision for losses and is reduced through charge-offs. The provision for losses was $50 million in the fourth quarter of 1996, compared with $35 million in the fourth quarter of 1995, and $195 million for 1996, compared with $140 million for 1995.

Administrative Expenses

Administrative expenses totaled $145 million in the fourth quarter of 1996, compared with $144 million in the fourth quarter of 1995. In 1996, administrative expenses were $560 million, compared with $546 million in 1995.

Income Taxes

Federal income tax expense, net of the tax benefit from extraordinary losses, was $295 million in the fourth quarter of 1996, compared with $145 million in the fourth quarter of 1995. The effective tax rate was 29 percent in the fourth quarter of 1996, compared with 26 percent in the fourth quarter of 1995. Federal income tax expense totaled $1,135 million in 1996, compared with $834 million in 1995. The effective federal income tax rate was 29 percent in 1996, compared with 28 percent in 1995.

Capital

Fannie Mae's capital, defined as stockholders' equity plus general allowance for losses, was $13.5 billion at December 31, 1996, compared with $11.7 billion at December 31, 1995.

Fannie Mae repurchased 48 million shares of common stock during 1996. These shares were purchased to contribute shares to the Foundation, utilize the proceeds of the issuance of $1.0 billion in preferred stock and offset the dilutive effect of shares previously issued under various stock compensation plans. As of December 31, 1996, Fannie Mae had approximately 1.061 billion shares outstanding.

On January 21, 1997, the Board of Directors approved a quarterly dividend rate on the Corporation's common stock in 1997 of 21 cents per share and a dividend of $.80125 per Series A preferred share, $.81250 per Series B preferred share and $.80625 per Series C preferred share for the period from and including December 31, 1996 to but excluding March 31, 1997. In 1996, the quarterly dividend rate on the common stock was 19 cents per share. The Corporation had no preferred stock outstanding in 1995.

As discussed in the Information Statement under "Management's Discussion and Analysis of Financial Condition and Results of Operation — Balance Sheet Analysis — Regulation Capital Requirements," the Corporation is subject to capital standards. The Corporation met the applicable capital standards as of December 31, 1996.

CAPITALIZATION

The following table sets forth the capitalization of the Corporation as of December 31, 1996.

	Average Maturity	Average Cost(1)	Outstanding (Dollars in millions)
Debentures, notes, and bonds, net:			
Due within one year:			
Short-term notes	2 mos.	5.48%	$ 90,166
Debentures	5 mos.	7.66	9,453
Medium-term notes(2)	6 mos.	5.60	59,927
Other(3)	—	6.26	354
Total due within one year			159,900
Due after one year:			
Debentures	5 yrs. 1 mos.	7.03	65,186
Medium-term notes(2)	5 yrs. 5 mos.	6.37	104,618
Other	20 yrs. 5 mos.	10.57	1,566
Total due after one year			171,370
Total debentures, notes, and bonds			$331,270
Stockholders' equity:			
Preferred stock, $50.00 stated value, 100 million shares authorized — 20 million shares issued			$ 1,000
Common stock, $.525 stated value, no maximum authorization — 1,129 million shares issued			593
Additional paid-in capital			1,451
Retained earnings			11,214
			14,258
Less treasury stock, at cost — 68 million shares			1,485
Total stockholders' equity			$ 12,773

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

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

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

The Corporation issues debentures, notes and other debt obligations frequently. The amount of debentures, notes, and bonds outstanding on any date subsequent to December 31, 1996 may differ from that shown in the table above.

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