

**Supplement dated May 15, 1992 to
Information Statement dated March 30, 1992**

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, 1992 and contains unaudited financial statements with respect to the Corporation for the quarter ended March 31, 1992. This Supplement should be read in conjunction with the Corporation's Information Statement dated March 30, 1992 (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, 1991. 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 Paul Paquin, Senior Vice President—Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: 202-752-7115).

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

At the close of business on May 6, 1992, 273,106,905 shares of the Corporation's common stock (without par value) were outstanding and were held by 9,869 stockholders of record.

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, 1992 and 1991 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 three months ended March 31, 1992 are not necessarily indicative of the results expected for the entire year.

(Dollars in millions, except per share amounts)

Income Statement Data:	Three Months Ended March 31,	
	1992	1991
Interest income	\$ 3,235	\$ 3,137
Interest expense	2,746	2,710
Net interest income	489	427
Guaranty fees	194	156
Gain on sales of mortgages, net	6	3
Miscellaneous income, net	36	19
Provision for losses	(80)	(80)
Administrative expenses	(86)	(72)
Income before federal income taxes and extraordinary item	559	453
Provision for federal income taxes	(171)	(133)
Income before extraordinary item	388	320
Extraordinary loss(1)	(6)	—
Net income	\$ 382	\$ 320
Per share:		
Earnings before extraordinary item:		
Primary	\$ 1.41	\$ 1.19
Fully diluted	1.41	1.19
Net earnings:		
Primary	1.39	1.19
Fully diluted	1.39	1.19
Cash dividends	0.30	0.22
March 31,		
Balance Sheet Data:	1992	1991
Mortgage portfolio, net	\$134,086	\$116,509
Total assets	155,165	135,411
Borrowings:		
Due within one year	39,944	36,702
Due after one year	101,371	88,183
Total liabilities	149,335	130,687
Stockholders' equity	5,830	4,724
Three Months Ended March 31,		
Other Data:	1992	1991
Net interest margin	1.45%	1.40%
Return on average equity	26.9	29.0
Return on average assets	1.0	.9
Ratio of earnings to fixed charges	1.20:1	1.16:1
Dividend payout ratio	21.5%	18.1%
Equity to assets ratio	3.8	3.3
Mortgage purchases	\$ 17,449	\$ 5,560
MBS issued	41,222	18,219
MBS outstanding at March 31(2)	389,853	312,101

(1) Fannie Mae repurchased or called \$1.0 billion of debt, resulting in a loss of \$10 million (\$6 million after tax).

(2) Included are Fannie Mae MBS held in the mortgage portfolio totaling \$18.3 billion and \$12.2 billion at March 31, 1992 and 1991, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 1992

Results of Operations

In the first quarter of 1992, Fannie Mae reported record earnings and business volumes. Net income grew \$62 million or 19 percent from the \$320 million earned in the first quarter of 1991, primarily due to increases in net interest income, guaranty fee income, and miscellaneous income.

Net interest income in the first three months of 1992 increased 15 percent compared with the first three months of 1991 as a result of a five basis point increase in the net interest margin and 13 percent growth in the average net mortgage portfolio.

The following table presents an analysis of net interest income for the three months ended March 31, 1992 and 1991.

Net Interest Income and Average Balances

(Dollars in millions)

	Three Months Ended March 31,	
	1992	1991
Interest income:		
Mortgage portfolio	\$ 3,057	\$ 2,833
Investments and cash equivalents	178	304
Total interest income	3,235	3,137
Interest expense	2,746	2,710
Net interest income	489	427
Tax equivalent adjustment(1)	30	32
Net interest income tax equivalent basis	<u>\$ 519</u>	<u>\$ 459</u>
Average balances:		
Interest-earning assets:		
Mortgage portfolio, net(2)	\$129,713	\$115,142
Investments and cash equivalents	13,792	16,140
Total interest-earning assets	<u>\$143,505</u>	<u>\$131,282</u>
Interest-bearing liabilities	\$132,490	\$124,337
Interest-free funds	11,015	6,945
Total interest-bearing liabilities and interest-free funds	<u>\$143,505</u>	<u>\$131,282</u>
Average interest rates(1):		
Interest-earning assets:		
Mortgage portfolio, net	9.46%	9.91%
Investments and cash equivalents	5.24	7.69
Total interest-earning assets	9.06	9.63
Interest-bearing liabilities	8.22	8.72
Investment spread .....	.84	.91
Interest-free return(3) .....	.63	.46
Miscellaneous	(.02)	.03
Net interest margin	<u>1.45%</u>	<u>1.40%</u>

- (1) Reflects pro forma adjustments to permit comparison of yields on tax-advantaged and taxable assets.
- (2) Includes average balance of nonperforming loans of \$1.1 billion and \$0.8 billion for the three months ended March 31, 1992 and 1991, respectively.
- (3) 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 months ended March 31, 1992 and 1991.

Rate/Volume Analysis

(Dollars in millions)

	Increase (Decrease)	Attributable to Changes in (1)	
		Volume	Rate
<u>1992 vs. 1991</u>			
Interest income:			
Mortgage portfolio	\$ 224	\$ 347	\$(123)
Investments and cash equivalents	(126)	(65)	(61)
Total interest income	98	282	(184)
Interest expense	36	173	(137)
Net interest income	<u>\$ 62</u>	<u>\$ 109</u>	<u>\$(47)</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 \$38 million, or 24 percent, to \$194 million. This change reflected 24 percent growth in average Mortgage-Backed Securities ("MBS") outstanding when compared with the first quarter of 1991.

In the first three months of 1992, miscellaneous income rose 89 percent to \$36 million versus \$19 million in the first three months of 1991, primarily as a result of increased REMIC fee income. Net REMIC fees increased \$17 million to \$23 million, due to \$33.1 billion in REMIC issuances, a 181 percent increase over the \$11.8 billion in REMIC issuances in the comparable period in 1991. The higher REMIC volume was due to increased availability of collateral and heightened investor demand.

Administrative expenses for the quarter ended March 31, 1992 were \$86 million, compared with \$72 million during the same period in 1991. Increased salaries and compensation-related expenses were the primary reasons for the overall increases. Compensation expense was \$49 million or 57 percent of administrative expenses in the first quarter of 1992, compared with \$40 million (56 percent) in the first quarter of 1991. The ratio of administrative expenses to the average mortgage portfolio plus average MBS outstanding was .070 percent in both periods.

The effective federal income tax rates for the first three months of 1992 and 1991 were 31 percent and 29 percent, respectively. The increase for the first three months of 1992 was primarily due to an increase in taxable income without a proportionate increase in tax-advantaged investments.

In the first quarter of 1992, the Corporation had an extraordinary loss of \$10 million (\$6 million after tax) from the repurchase or call of debt. There were no such losses in the first quarter of 1991.

Credit Data

The following table shows the Corporation's serious delinquencies, foreclosures and net charge-offs as of March 31, 1992 and 1991.

At and for the quarter ended March 31,	Delinquency Rate (1)		Number of Properties Acquired		Net Charge-offs (Dollars in millions)	
	1992	1991	1992	1991	1992	1991
Single-family .....	.63%	.63%	2,238	1,692	\$44	\$35
Multifamily	2.99%	2.74%	3	6	13	12
Total					\$57	\$47

(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 increases in the rate of multifamily serious delinquencies, single-family properties acquired, and net charge-offs reflect the impact of the recession in certain geographic areas. The number of single-family properties acquired in the first quarter is consistent with management's current expectations for total acquisitions in 1992.

The inventory of single-family properties was 3,544 as of March 31, 1992, compared with 3,404 as of March 31, 1991. The inventory of multifamily properties was 24 as of March 31, 1992, compared with 32 as of March 31, 1991.

Balance Sheet Analysis

Mortgage Portfolio

The Corporation purchased \$17.4 billion of mortgages at an average yield of 8.02 percent in the first three months of 1992, compared with \$5.6 billion of mortgages at an average yield of 9.28 percent in the first three months of 1991. The large increase in mortgage purchases in 1992 was primarily due to an increase in the number of mortgages offered for sale in the secondary market, in large part resulting from the high level of refinancing activity because of a decline in mortgage rates.

Mortgage loan repayments during the first quarter of 1992 totaled \$8.6 billion, compared with \$2.7 billion in the first quarter of 1991. The increase in loan repayments was primarily due to the high level of refinancing activity. Sales from portfolio totaled \$1.2 billion for the first three months of 1992 compared with \$0.1 billion for the first three months of 1991.

As of March 31, 1992, the net mortgage portfolio totaled \$134.1 billion with a yield (before deducting the allowance for losses) of 9.35 percent, compared with \$126.5 billion at 9.54 percent as of December 31, 1991. The decrease in yield was primarily due to a decline in conventional mortgage purchase yields as interest rates declined.

At March 31, 1992, the Corporation had mandatory delivery commitments and lender option commitments outstanding to purchase \$7.9 billion and \$8.3 billion of mortgage loans, respectively, compared with \$4.7 billion and \$5.6 billion, respectively, of such commitments outstanding at December 31, 1991.

Financing and Other Activities

During the first three months of 1992, the Corporation issued \$55.4 billion of debt at an average cost of 4.35 percent and redeemed \$47.6 billion at an average cost of 4.58 percent. Debt issued in the first three months of 1991 totaled \$42.2 billion at an average cost of 6.66 percent, and debt redeemed was \$40.7 billion at an average cost of 7.10 percent. The average cost of debt outstanding at March 31, 1992 and December 31, 1991 was 7.94 percent and 8.25 percent, respectively.

The Corporation's statutory debt-to-capital ratio at March 31, 1992 was 16.6:1, compared with 16.9:1 at March 31, 1991. The Secretary of Housing and Urban Development requires that this ratio not exceed 20:1. At March 31, 1992, the Corporation's subordinated debt-to-equity ratio was 0.3:1, compared with 0.4:1 at March 31, 1991.

The Corporation's shareholders' equity at March 31, 1992 was \$5.8 billion, compared with \$5.5 billion at December 31, 1991.

On April 21, 1992 the Board of Directors approved an increase in the dividend on the Corporation's common stock to 34 cents per share for the quarter ended March 31, 1992 from 30 cents per share. As of March 31, 1992, there were 273 million shares of common stock outstanding.

Mortgage-Backed Securities

The Corporation issued \$41.2 billion of MBS during the first three months of 1992, compared with \$18.2 billion in the first three months of 1991. The increase in MBS issuances was primarily due to the high level of refinancing activity that resulted from lower interest rates.

The following table summarizes MBS activity for the three months ended March 31, 1992 and 1991.

Summary of MBS Activity

(Dollars in millions)

March 31,	Issued				Outstanding (1)		
	Lender Originated (1)				Lender Risk (2)	Fannie Mae Risk (3)	Total (4)
	Lender Risk	Fannie Mae Risk	Fannie Mae Originated	Total			
1992	\$2,717	\$35,481	\$3,024	\$41,222	\$92,767	\$297,086	\$389,853
1991	2,131	15,594	494	18,219	98,398	213,703	312,101

- (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 \$42.0 billion and \$38.4 billion at March 31, 1992 and 1991, 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 \$9.0 billion at March 31, 1992 and \$9.3 billion at March 31, 1991, which are backed by government insured or guaranteed mortgages.
- (4) Included are \$18.3 billion and \$12.2 billion at March 31, 1992 and 1991, 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.

RECENT LEGISLATIVE AND REGULATORY DEVELOPMENTS

On April 8, 1992, the Senate Banking Committee reported favorably the Federal Housing Enterprises Regulatory Reform Act of 1992 (S. 2733), which would set specific capital standards for Fannie Mae and the Federal Home Loan Mortgage Corporation ("Freddie Mac") and establish an independent Office of Federal Housing Enterprise Oversight ("Oversight Office") within the Department of Housing and Urban Development ("HUD") to oversee regulatory and capital requirements. As of May 15, the Senate had not yet acted on this proposed bill.

As under H.R. 2900 (described in the Information Statement), Fannie Mae and Freddie Mac would be tested against three capital "enforcement" levels, which are similar to, although more stringent than, those in H.R. 2900. The risk-based capital level would be 130 percent of the amount necessary to withstand 10 years during which there are severe credit stresses on the corporations' mortgages nationwide and substantial increases or decreases in interest rates, with the extra 30 percent designed to protect against management and operations risk. Both corporations also would be required to have capital that equals or exceeds a minimum equity level equal to 2.5 percent of on-balance-sheet assets, plus .45 percent of outstanding mortgage-backed securities and equivalent instruments and a percentage (determined by the Director of the Oversight Office (the "Director")) of other off-balance-sheet assets, excluding commitments with remaining terms of 6 months or less to purchase mortgages or issue securities. The corporations also would be required to meet a critical capital level equal to 1.25 percent of on-balance-sheet assets plus .25 percent of off-balance-sheet mortgage-backed securities outstanding and equivalent instruments and a Director-determined percentage of other off-balance-sheet assets. During the first 18 months after enactment of this bill, capital requirements would equal the sum of 2.25 percent of on-balance-sheet assets, 0.4 percent of outstanding mortgage-backed securities and equivalent instruments, and a Director-determined percentage of other off-balance-sheet assets, excluding commitments with terms of one year or more to purchase mortgages or issue securities. The Director would be given enforcement powers similar to those provided in H.R. 2900, plus the power to impose civil penalties on a director or executive officer of Fannie Mae or Freddie Mac. The Director also would be required each year to have two nationally recognized rating organizations assign a rating to each corporation with an assumption that there is no recourse to any implicit government guarantee.

The bill substantially expands upon the affordable housing requirements in H.R. 2900. The Director would be required to set goals for (1) low- and moderate-income housing, (2) housing in central cities, rural areas, and other underserved areas, and (3) "special affordable housing" for low- and very low-income families. During the first two years after enactment (the "transition period"), the bill sets interim targets for each of the first two goals (units could qualify to meet both goals) equal to 30 percent of the total number of units financed. Thereafter, the Director is authorized to set an annual goal, which could be higher or lower than the interim target. During the transition period, the special affordable housing goals for Fannie Mae and Freddie Mac would total \$2 billion and \$1.5 billion, respectively, of mortgage purchases, divided equally between 1-to-4 family and multifamily housing. Thereafter, the Director is authorized to set an annual special affordable housing goal that is not less than one percent of the dollar amount of the applicable corporation's mortgage purchases in the previous year. The Director would be required to obtain the approval of the Secretary of HUD before issuing regulations concerning housing goals. Unlike H.R. 2900, the bill expressly provides that in certain cases if either Fannie Mae or Freddie Mac failed to meet any housing goal, the Director could require it to submit a housing plan indicating how it intended to meet the goal, and the Director could impose cease and desist orders and civil money penalties.

The bill also provides that the Director, as well as the Secretary of HUD, must approve any new product or program that is significantly different from those previously approved or engaged in, although the Director's approval would not be required at any time when Fannie Mae satisfied final regulations establishing the risk-based capital test. The Director also would be authorized to ensure that Fannie Mae and Freddie Mac are operating safely.

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FEDERAL NATIONAL MORTGAGE ASSOCIATION
INTERIM FINANCIAL STATEMENTS
CONDENSED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended	
	March 31,	
	1992	1991
	(Dollars in millions, except per share amounts)	
Interest income	\$3,235	\$3,137
Interest expense	<u>2,746</u>	<u>2,710</u>
Net interest income	489	427
Guaranty fees	194	156
Gain on sales of mortgages, net	6	3
Miscellaneous income, net	36	19
Provision for losses	(80)	(80)
Administrative expenses	<u>(86)</u>	<u>(72)</u>
Income before federal income taxes and extraordinary item	559	453
Provision for federal income taxes	<u>(171)</u>	<u>(133)</u>
Income before extraordinary item	388	320
Extraordinary loss — repurchase of debt (net of tax effect of \$4 million)	<u>(6)</u>	<u>—</u>
Net income	<u>\$ 382</u>	<u>\$ 320</u>
Per share:		
Earnings before extraordinary item:		
Primary	\$ 1.41	\$ 1.19
Fully diluted	1.41	1.19
Net earnings:		
Primary	1.39	1.19
Fully diluted	1.39	1.19
Cash dividends	0.30	0.22

CONDENSED BALANCE SHEETS
(Unaudited)

	March 31,	December 31,
	1992	1991
	(Dollars in millions)	
Assets		
Mortgage portfolio, net	\$134,086	\$126,486
Investments	11,108	10,999
Other assets	9,971	9,587
Total assets	<u>\$155,165</u>	<u>\$147,072</u>
Liabilities		
Debentures		
Due within one year	\$ 39,944	\$ 34,608
Due after one year	101,371	99,329
Other liabilities	8,020	7,588
Total liabilities	149,335	141,525
Stockholders' equity	5,830	5,547
Total liabilities and stockholders' equity	<u>\$155,165</u>	<u>\$147,072</u>

See Notes to Interim Financial Statements

FEDERAL NATIONAL MORTGAGE ASSOCIATION
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended March 31,	
	1992	1991
	(Dollars in millions)	
Net cash provided by operating activities	<u>\$ 1,799</u>	<u>\$ 883</u>
Cash flows from investing activities:		
Purchases of mortgages	(17,431)	(5,537)
Proceeds from sales of mortgages	1,207	120
Mortgage principal repayments	8,664	2,835
Net increase in investments	<u>(109)</u>	<u>(1,283)</u>
Net cash used by investing activities	<u>(7,669)</u>	<u>(3,865)</u>
Cash flows from financing activities:		
Cash proceeds from issuance of debt	55,106	41,927
Cash payments to retire debt	(47,623)	(40,723)
Other	<u>(105)</u>	<u>453</u>
Net cash provided by financing activities	<u>7,378</u>	<u>1,657</u>
Net increase (decrease) in cash and cash equivalents	1,508	(1,325)
Cash and cash equivalents at beginning of period	<u>3,194</u>	<u>4,178</u>
Cash and cash equivalents at end of period	<u>\$ 4,702</u>	<u>\$ 2,853</u>

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 months ended March 31, 1992 are not necessarily indicative of the results that may be expected for the year ending December 31, 1992. 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, 1992.

NOTES TO INTERIM FINANCIAL STATEMENTS (Continued)

Commitments and Contingencies

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

	<u>March 31, 1992</u> (Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	\$ 7.9
Lender option(1)	7.9
Commitments to issue MBS:	
Mandatory delivery(1)	3.2
Lender option(1)	8.8
Master commitments(2)	84.6

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- (1) Excludes commitments attached to master commitments, which are included in the total for master commitments.
- (2) Under a master commitment, a lender must convert to either a mandatory delivery MBS or mortgage purchase commitment with the guaranty fee or yield established at the time of conversion.

The Corporation also guarantees timely payment of principal and interest on outstanding MBS as summarized below:

	<u>March 31, 1992</u> (Dollars in billions)
Total MBS outstanding	\$389.9
Amount for which the Corporation has primary foreclosure loss risk(1):	
Conventional	288.1
Government-insured or guaranteed	9.0

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

COMPUTATION OF EARNINGS PER SHARE
(Unaudited)

	Three Months Ended March 31,	
	<u>1992</u>	<u>1991</u>
	(In millions, except per share data)	
Primary Earnings Per Share:		
Average common shares outstanding.....	273.3	259.5
Effect of common stock equivalents	<u>1.1</u>	<u>9.3</u>
Average primary shares outstanding	<u>274.4</u>	<u>268.8</u>
Income before extraordinary item	\$387.9	\$ —
Net income	381.6	320.1
Primary earnings per share before extraordinary item	\$ 1.41	\$ —
Primary earnings per share	1.39	1.19
Fully Diluted Earnings Per Share:		
Average common shares outstanding.....	273.3	259.5
Effect of common stock equivalents	<u>1.2</u>	<u>10.0</u>
Average fully diluted shares outstanding	<u>274.5</u>	<u>269.5</u>
Income before extraordinary item	\$387.9	\$ —
Net income	381.6	320.1
Fully diluted earnings per share before extraordinary item	\$ 1.41	\$ —
Fully diluted earnings per share	1.39	1.19