

**Supplement dated November 15, 1999 to
Information Statement dated March 31, 1999**



This Supplement describes the financial condition of the Federal National Mortgage Association (“Fannie Mae”) as of September 30, 1999 and contains unaudited financial statements with respect to Fannie Mae for the quarter and nine months ended September 30, 1999. This Supplement should be read in conjunction with Fannie Mae’s Information Statement dated March 31, 1999 (the “Information Statement”) and the Supplements thereto dated May 14, 1999 and August 13, 1999 (the “Supplements”) which are hereby incorporated by reference. The Information Statement describes the business and operations of Fannie Mae and contains financial data as of December 31, 1998. The Supplements describe the financial condition of Fannie Mae as of March 31, 1999 and June 30, 1999, respectively, and contain unaudited financial statements with respect to Fannie Mae for the quarters and year-to-date periods then ended. Fannie Mae also periodically makes available statistical information on its mortgage purchase and mortgage-backed securities volumes as well as other relevant information about Fannie Mae. Copies of Fannie Mae’s current Information Statement, Supplements, 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 connection with its securities offerings, Fannie Mae may incorporate this Supplement by reference in one or more other documents describing securities offered by Fannie Mae, the selling arrangements therefore and other relevant information. Such documents may be called an Offering Circular, a Prospectus or otherwise. This Supplement does not offer any securities for sale.

Fannie Mae is a federally chartered corporation. Its principal office is located at 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (202/752-7000). Its Internal Revenue Service employer identification number is 52-0883107.

Fannie Mae’s securities are not required to be registered under the Securities Act of 1933. At the close of business on October 29, 1999, approximately 1,020 million shares of Fannie Mae’s common stock (without par value) were outstanding.

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

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SELECTED FINANCIAL DATA

The following selected financial data for the three- and nine-month periods ended September 30, 1999 and 1998 are unaudited and include, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. Operating results for the periods ended September 30, 1999 are not necessarily indicative of the results expected for the entire year.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
Income Statement Data:				
Interest income	\$ 9,079	\$ 7,724	\$ 25,926	\$ 22,100
Interest expense	7,838	6,657	22,338	18,966
Net interest income	1,241	1,067	3,588	3,134
Guaranty fees	320	324	957	968
Fee and other income, net	34	69	146	204
Credit-related expenses	(21)	(65)	(108)	(211)
Administrative expenses	(203)	(179)	(594)	(523)
Income before federal income taxes and extraordinary item	1,371	1,216	3,989	3,572
Provision for federal income taxes	(380)	(354)	(1,106)	(1,027)
Income before extraordinary item	991	862	2,883	2,545
Extraordinary loss, net of tax effect	—	(5)	(9)	(16)
Net income	<u>\$ 991</u>	<u>\$ 857</u>	<u>\$ 2,874</u>	<u>\$ 2,529</u>
Preferred stock dividends	(20)	(16)	(58)	(48)
Net income available to common stockholders	<u>\$ 971</u>	<u>\$ 841</u>	<u>\$ 2,816</u>	<u>\$ 2,481</u>
Basic earnings per common share:				
Earnings before extraordinary item	\$.95	\$.83	\$ 2.76	\$ 2.42
Extraordinary item	—	(.01)	(.01)	(.01)
Net earnings	<u>\$.95</u>	<u>\$.82</u>	<u>\$ 2.75</u>	<u>\$ 2.41</u>
Diluted earnings per common share:				
Earnings before extraordinary item	\$.94	\$.82	\$ 2.74	\$ 2.40
Extraordinary item	—	(.01)	(.01)	(.01)
Net earnings	<u>\$.94</u>	<u>\$.81</u>	<u>\$ 2.73</u>	<u>\$ 2.39</u>
Balance Sheet Data at September 30:				
Mortgage portfolio, net	\$504,303	\$376,078		
Investments	36,407	68,653		
Total assets	551,532	455,099		
Borrowings:				
Due within one year	215,228	189,228		
Due after one year	309,651	241,354		
Total liabilities	534,477	440,247		
Stockholders' equity	17,055	14,852		
Capital(1)	17,857	15,637		
Other Data:				
Average net interest margin	1.00%	1.05%	1.01%	1.08%
Return on average common equity	25.2	25.2	25.0	25.3
Dividend payout ratio	28.5	29.3	29.5	29.9
Average effective guaranty fee rate .....	.192	.210	.193	.214
Credit loss ratio(2) .....	.007	.026	.013	.030
Ratio of earnings to combined fixed charges and preferred stock dividends(3)	1.17:1	1.18:1	1.18:1	1.19:1
Mortgage purchases	\$ 50,298	\$ 47,323	\$159,054	\$119,702
MBS issued	65,773	85,994	250,777	228,133
MBS outstanding at period end(4)	938,484	798,460		
Weighted-average diluted common shares outstanding	1,029	1,034	1,032	1,039

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

(2) Charge-offs and foreclosure expense as a percentage of average net portfolio and average net MBS outstanding.

(3) "Earnings" consists of (i) income before federal income taxes and extraordinary item and (ii) fixed charges. "Fixed charges" represents interest expense.

(4) Includes \$268 billion and \$173 billion of MBS held in portfolio at September 30, 1999 and 1998, respectively.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 1999**

Results of Operations

Fannie Mae's net income for the third quarter 1999 was a record \$991 million, compared with net income of \$857 million in the third quarter of 1998. For the first nine months of 1999, net income grew 14 percent to \$2.874 billion compared with \$2.529 billion for the first nine months of 1998. The growth in net income for the three- and nine-month periods ended September 30, 1999 was mainly attributable to an increase in net interest income and to a continued decline in credit-related expenses.

Net interest income in the third quarter of 1999 increased \$174 million, or 16 percent, to \$1.241 billion, compared with the third quarter of 1998. The growth in net interest income was primarily the result of a 21 percent growth rate in the average net investment portfolio, which more than offset a five basis point decrease in the average net interest margin. Net interest income in the first nine months of 1999 increased \$454 million, or 14 percent, to \$3.588 billion compared with the first nine months of 1998. This increase was the result of a 23 percent growth rate in the average investment portfolio, which more than offset a seven basis point decrease in the average net interest margin. The decline in the average net interest margin stemmed, in part, from the high level of high-coupon mortgages that refinanced in the latter half of 1998 and a decline in the yield on interest-free funds. Management expects that net interest margin will remain relatively stable for the balance of the year.

The following table presents an analysis of net interest income and average balances for the three- and nine-month periods ended September 30, 1999 and 1998.

Net Interest Income and Average Balances
(Dollars in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
Interest income:				
Mortgage portfolio	\$ 8,444	\$ 6,599	\$ 23,743	\$ 18,823
Investments and cash equivalents.....	635	1,125	2,183	3,277
Total interest income	<u>9,079</u>	<u>7,724</u>	<u>25,926</u>	<u>22,100</u>
Interest expense (1):				
Short-term debt	907	1,291	3,046	3,387
Long-term debt	6,931	5,366	19,292	15,579
Total interest expense	<u>7,838</u>	<u>6,657</u>	<u>22,338</u>	<u>18,966</u>
Net interest income	1,241	1,067	3,588	3,134
Tax equivalent adjustment (2)	87	79	249	226
Net interest income tax equivalent basis.....	<u>\$ 1,328</u>	<u>\$ 1,146</u>	<u>\$ 3,837</u>	<u>\$ 3,360</u>
Average balances:				
Interest-earning assets (3):				
Mortgage portfolio, net	\$485,132	\$360,263	\$453,893	\$338,738
Investments and cash equivalents.....	46,329	78,022	53,999	75,624
Total interest-earning assets	<u>\$531,461</u>	<u>\$438,285</u>	<u>\$507,892</u>	<u>\$414,362</u>
Interest-bearing liabilities (1):				
Short-term debt	\$ 74,602	\$ 95,042	\$ 83,983	\$ 83,426
Long-term debt	438,098	325,966	404,641	313,377
Total interest-bearing liabilities.....	512,700	421,008	488,624	396,803
Interest-free funds	<u>18,761</u>	<u>17,277</u>	<u>19,268</u>	<u>17,559</u>
Total interest-bearing liabilities and interest-free funds.....	<u>\$531,461</u>	<u>\$438,285</u>	<u>\$507,892</u>	<u>\$414,362</u>
Average interest rates (2):				
Interest-earning assets:				
Mortgage portfolio, net	7.02%	7.35%	7.04%	7.45%
Investments and cash equivalents.....	5.52	5.81	5.42	5.82
Total interest-earning assets	<u>6.89</u>	<u>7.07</u>	<u>6.87</u>	<u>7.14</u>
Interest-bearing liabilities (1):				
Short-term debt	4.82	5.38	4.79	5.36
Long-term debt	6.33	6.59	6.36	6.63
Total interest-bearing liabilities.....	<u>6.11</u>	<u>6.31</u>	<u>6.09</u>	<u>6.36</u>
Investment spread .....	.78	.76	.78	.78
Interest-free return (4) .....	.22	.29	.23	.30
Net interest margin (5)	<u>1.00%</u>	<u>1.05%</u>	<u>1.01%</u>	<u>1.08%</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 \$3 billion and \$2 billion for the three-month periods ended September 30, 1999 and 1998, respectively, and \$3 billion and \$3 billion for the nine-month periods ended September 30, 1999 and 1998, respectively.
- (4) Consists primarily of the return on that portion of the investment portfolio funded by equity and non-interest-bearing liabilities.
- (5) Net interest income, on a tax equivalent basis, as a percentage of the average investment portfolio.

The following rate/volume analysis shows the relative contribution of asset, debt and interest rate changes to changes in net interest income for the three- and nine-month periods ended September 30, 1999 and 1998.

	Rate / Volume Analysis					
	(Dollars in millions)					
	Third Quarter 1999 vs. Third Quarter 1998			First Nine Months 1999 vs. First Nine Months 1998		
	Increase (Decrease)	Attributable to Changes in (1)		Increase (Decrease)	Attributable to Changes in (1)	
		Volume	Rate		Volume	Rate
Interest income:						
Mortgage portfolio	\$1,845	\$2,188	\$(343)	\$ 4,920	\$6,079	\$(1,159)
Investments and cash equivalents	(490)	(437)	(53)	(1,094)	(886)	(208)
Total interest income	<u>1,355</u>	<u>1,751</u>	<u>(396)</u>	<u>3,826</u>	<u>5,193</u>	<u>(1,367)</u>
Interest expense:						
Short-term debt	(384)	(258)	(126)	(341)	22	(363)
Long-term debt	<u>1,565</u>	<u>1,781</u>	<u>(216)</u>	<u>3,713</u>	<u>4,374</u>	<u>(661)</u>
Total interest expense	<u>1,181</u>	<u>1,523</u>	<u>(342)</u>	<u>3,372</u>	<u>4,396</u>	<u>(1,024)</u>
Net interest income	<u>\$ 174</u>	<u>\$ 228</u>	<u>\$ (54)</u>	<u>\$ 454</u>	<u>\$ 797</u>	<u>\$ (343)</u>

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

Guaranty fee income was \$320 million for the third quarter of 1999, down from \$324 million for the third quarter of 1998. This decline resulted from a two basis point decrease in the average effective guaranty fee rate, which was partially offset by an eight percent increase in average net Mortgage-Backed Securities (“MBS”) outstanding when compared with the third quarter of 1998. For the first nine months of 1999, guaranty fee income decreased \$11 million to \$957 million compared with the corresponding period of 1998. The decrease was the result of a two basis point decrease in the average effective guaranty fee rate, which was partially offset by a ten percent increase in average net MBS outstanding. The decrease in the average effective guaranty fee rate for the three and nine months ended September 30, 1999, as compared to the corresponding periods in 1998, was due to repayments of loans underlying MBS with high fees, an increase in MBS issues incorporating loss sharing arrangements with lower fee rates, and competitive pricing in the MBS market.

Fee and other income decreased \$35 million to \$34 million for the third quarter of 1999, compared with the third quarter of 1998. For the first nine months of 1999, fee and other income decreased \$58 million to \$146 million, compared with the first nine months of 1998. The decrease in both periods was primarily the result of increases in net operating losses from certain tax advantaged investments and from volume-related declines in transaction fees. The increase in net operating losses from tax-advantaged investments was more than offset by tax credits that reduce Fannie Mae’s effective tax rate. Fannie Mae expects to continue to increase its holdings of tax advantaged investments, but the net operating losses expected to be generated from these investments should be more than offset by tax credits that reduce Fannie Mae’s effective tax rate.

Administrative expenses for the third quarter of 1999 increased to \$203 million from \$179 million during the same period in 1998. For the first nine months of 1999, administrative expenses increased to \$594 million from \$523 million for the same period in 1998. The increase in both periods was primarily due to higher compensation costs. The growth in administrative expenses was slower than the growth in Fannie Mae’s net mortgage portfolio plus net MBS outstanding. As a result, the ratio of annualized administrative expenses to the average net mortgage portfolio plus average net MBS

outstanding was .070 and .071 for the three- and nine-month periods ended September 30, 1999, respectively, compared with .073 and .074 for the three- and nine-month periods ended September 30, 1998, respectively. The ratio of administrative expenses to revenues (net interest income, guaranty fees, and fee and other income) was 12.8 percent and 12.7 percent for the third quarter and first nine months of 1999, respectively, compared with 12.2 percent for the comparable periods in 1998.

The effective federal income tax rate was 28 percent for both the three- and nine-month periods ended September 30, 1999, versus 29 percent for the comparable periods ended September 30, 1998.

There were no extraordinary losses in the third quarter of 1999. In the third quarter of 1998, Fannie Mae had an extraordinary loss of \$7 million (\$5 million after tax) from the repurchase or call of debt. Fannie Mae had an extraordinary loss of \$14 million (\$9 million after tax) for the nine months ended September 30, 1999 from the repurchase or call of debt, compared with an extraordinary loss of \$24 million (\$16 million after tax) for the first nine months of 1998.

Credit Data

The following table shows Fannie Mae’s serious delinquencies for conventional loans in portfolio and loans underlying MBS outstanding at September 30, 1999 and 1998, conventional properties acquired and total net charge-offs (recoveries) for the three- and nine-month periods ended September 30, 1999 and 1998.

	Delinquency Rate (1)		Number of Properties Acquired				Net Charge-offs / (Recoveries) (Dollars in millions)			
			Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30, 1999	September 30, 1998	September 30, 1999	September 30, 1998	September 30, 1999	September 30, 1998	September 30, 1999	September 30, 1998	September 30, 1999	September 30, 1998
Single-family . . . .	.49%	.57%	4,140	5,021	12,935	16,044	\$(42)	\$(17)	\$(91)	\$(35)
Multifamily . . . . .	.12	.36	—	4	7	9	<u>1</u>	<u>1</u>	<u>3</u>	<u>5</u>
Total							<u>\$(41)</u>	<u>\$(16)</u>	<u>\$(88)</u>	<u>\$(30)</u>

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

Total credit-related losses, which include loan charge-offs, net of recoveries, and foreclosed property expenses, declined \$44 million to \$20 million for the three months ended September 30, 1999. Total credit-related losses for the nine months ended September 30, 1999 were \$105 million, down from \$211 million for the nine months ended September 30, 1998. The decrease in credit-related losses for both periods was the result of both increased net recoveries on foreclosed properties and decreased foreclosure expenses. In addition to Fannie Mae’s loss mitigation efforts, improvement in the California economy, a healthy national housing market, deeper mortgage insurance requirements on higher loan to value ratio loans, and increased foreclosure management efficiencies also have contributed to reducing credit-related losses.

The inventory of single-family properties was 7,323 as of September 30, 1999, compared with 8,936 as of September 30, 1998. The inventory of multifamily properties was 4 as of September 30, 1999, compared with 13 as of September 30, 1998.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, decreased to \$21 million in the third quarter of 1999, compared with \$65 million in the third quarter of 1998. Total credit-related expenses for the nine months ended September 30, 1999

decreased to \$108 million, compared with \$211 million for the corresponding period in 1998. These decreases were due, in part, to negative \$40 million and negative \$85 million loss provisions recorded in the third quarter and first nine months of 1999, respectively, compared with negative \$15 million and negative \$30 million loss provisions recorded in the comparable periods of 1998. Fannie Mae's current policy is to record a loss provision in line with net charge-offs (recoveries). The decreases also were due to declines in foreclosed property expenses to \$61 million and \$193 million in the third quarter and first nine months of 1999, respectively, compared with \$80 million and \$241 million in the third quarter and first nine months of 1998, respectively.

The allowance for losses increased to \$805 million at September 30, 1999 from \$802 million at December 31, 1998.

Balance Sheet Analysis

Mortgage Portfolio

During the quarter ended September 30, 1999, \$50 billion of mortgages were purchased at an average yield of 7.24 percent, compared with \$47 billion of mortgages purchased at an average yield of 6.66 percent during the corresponding quarter of 1998. During the first nine months of 1999, \$159 billion of mortgages were purchased at an average yield of 6.76 percent, compared with \$120 billion of mortgages purchased at an average yield of 6.72 percent during the first nine months of 1998. The increase in mortgage purchases was primarily due to the increased availability of mortgages offered for sale in the secondary market and market volatility that created attractive mortgage investment opportunities.

Mortgage loan repayments during the third quarter of 1999 totaled \$17 billion, compared with \$20 billion in the third quarter of 1998. During the first nine months of 1999, mortgage loan repayments were \$64 billion, compared with \$58 billion in the first nine months of 1998. The slowdown of mortgage loan repayments in the third quarter of 1999 as compared with the third quarter of 1998 was primarily due to a decreased level of refinance activity in a higher interest rate environment.

As of September 30, 1999, the net mortgage portfolio totaled \$504 billion with a yield (before deducting the allowance for losses) of 7.04 percent, compared with \$415 billion at 7.12 percent as of December 31, 1998 and \$376 billion at 7.30 percent as of September 30, 1998. The decrease in yield was primarily due to increased prepayments of higher coupon mortgages and a decrease in conventional mortgage purchase yields. The portfolio growth during the third quarter and first nine months of 1999 was generated by the purchase of a combination of whole loans, MBS and REMICs. Fannie Mae expects portfolio growth in the fourth quarter of 1999 will be slower than the growth experienced in the first three quarters of the year.

At both September 30, 1999 and December 31, 1998, Fannie Mae had mandatory delivery commitments and lender option commitments outstanding to purchase \$11 billion and \$2 billion of mortgage loans, respectively.

Investments

As of September 30, 1999, Fannie Mae's investment portfolio was \$36 billion, compared with \$59 billion at December 31, 1998 and \$69 billion at September 30, 1998. The decline in the investment portfolio was a result of Fannie Mae taking advantage of market opportunities to invest in higher yielding mortgage investments.

Financing and Other Activities

During the third quarter of 1999, Fannie Mae issued \$361 billion of debt at an average cost of 5.39 percent and redeemed \$336 billion of debt at an average cost of 5.14 percent. Debt issued in the

third quarter of 1998 totaled \$208 billion at an average cost of 5.57 percent, and debt redeemed totaled \$183 billion at an average cost of 5.65 percent. During the first nine months of 1999, Fannie Mae issued \$825 billion of debt at an average cost of 5.23 percent and redeemed \$761 billion of debt at an average cost of 5.12 percent. In the first nine months of 1998, Fannie Mae issued \$644 billion of debt at an average cost of 5.61 percent, and redeemed \$583 billion of debt at an average cost of 5.70 percent. The average cost of debt outstanding at September 30, 1999, December 31, 1998 and September 30, 1998 was 6.13 percent, 6.10 percent, and 6.26 percent, respectively.

The following table presents the amount of option-embedded debt instruments as a percentage of mortgage purchases and the net mortgage portfolio for the three- and nine-month periods ended September 30, 1999 and September 30, 1998. Option-embedded debt instruments include derivative financial instruments.

<u>(Dollars in billions)</u>	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
Issued during the period	\$ 10	\$ 21	\$98	\$67
Percentage of total mortgage purchases	20%	44%	62%	56%
Outstanding at end of period	\$239	\$155		
Percentage of total net mortgage portfolio	47%	41%		

The following table summarizes certain of Fannie Mae's derivative financial instrument activities for the three-month period ended September 30, 1999, the balances as of September 30, 1999 and 1998 and the expected maturities of the derivative instruments outstanding as of September 30, 1999.

Derivative Financial Instruments Table
(Dollars in millions)

	Generic-Pay Fixed/ Receive Variable Swaps (1)			Pay Variable/ Receive Fixed Swaps	Basis Swaps	Caps and Swaptions	Total
	Notional (2)	Pay Rate (3)	Receive Rate (3)				
Balance, June 30, 1999	\$110,287	6.46%	5.07%	\$28,418	\$10,894	\$43,415	\$193,014
Additions	22,582	7.00	5.50	2,989	11,490	250	37,311
Maturities	3,834	6.89	5.08	3,457	3,695	750	11,736
Balance, September 30, 1999 . .	\$129,035	6.54%	5.41%	\$27,950	\$18,689	\$42,915	\$218,589
Balance, September 30, 1998 . .	\$ 83,434	6.77%	5.68%	\$30,515	\$21,313	\$ 9,100	\$144,362
Future Maturities (4)							
1999	\$ 1,850	7.06%	5.34%	\$ 495	\$ 2,375	\$ 250	\$ 4,970
2000	14,648	5.18	5.26	17,625	15,740	5,500	53,513
2001	10,450	6.11	5.30	2,643	150	7,500	20,743
2002	4,725	6.25	5.41	1,230	79	9,500	15,534
2003	4,640	5.95	5.39	550	200	11,865	17,255
Thereafter	92,722	6.84	5.45	5,407	145	8,300	106,574
	\$129,035	6.54%	5.41%	\$27,950	\$18,689	\$42,915	\$218,589

- (1) Included in the notional amounts are callable swaps and swaptions of \$41 billion, \$38 billion and \$18 billion with weighted-average pay rates of 5.50 percent, 5.35 percent and 5.98 percent and weighted-average receive rates of 5.47 percent, 5.11 percent and 5.81 percent at September 30, 1999, June 30, 1999, and September 30, 1998 respectively.
- (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 payable and receivable is as of the date indicated. As the interest rates of the swaps may be floating rate, these rates may change as prevailing interest rates change.
- (4) Based on stated maturities. Assumes that variable interest rates remain constant at September 30, 1999 levels.

The contract amounts of other off-balance-sheet financial instruments, which include futures contracts as well as derivative instruments that simulate the short sale of Treasury securities to provide a hedge against interest rate fluctuations, credit enhancements and other guarantees, were \$14 billion at September 30, 1999, and \$13 billion at December 31, 1998.

The exposure to credit loss for interest rate swaps and other off-balance-sheet financial instruments can be estimated by calculating the cost, on a present value basis, to replace at current market rates all of those off-balance-sheet financial instruments outstanding for which Fannie Mae was in a net gain position. Fannie Mae's net exposure was \$1.2 billion at September 30, 1999, compared with \$46 million at December 31, 1998. The exposure to credit losses can be expected to fluctuate significantly due to changes in interest rates.

Capital Resources

Fannie Mae's shareholders' equity at September 30, 1999 was \$17.1 billion, compared with \$15.5 billion at December 31, 1998, and \$14.9 billion at September 30, 1998. Pursuant, in part, to the

capital restructuring program described in the Information Statement under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Liquidity and Capital Resources,” Fannie Mae repurchased 2.9 million shares of common stock at a weighted average cost of \$63.25 per share during the third quarter of 1999 and issued .5 million common shares for employee and other stock compensation plans. At September 30, 1999, year-to-date common stock repurchases totaled 8.2 million shares at an average cost of \$65.55 per common share and common stock issuances totaled 3.5 million common shares for employee and other stock compensation plans. As of September 30, 1999, there were 1,021 million shares of common stock outstanding. In the event of liquidation of Fannie Mae, preferred stockholders are entitled to receive, out of the remaining assets of Fannie Mae after payment of all liabilities and before any distribution on the common stock, \$50.00 per preferred share plus an amount equal to the dividend for the most current quarterly dividend period accrued to but excluding the date of such liquidation payment.

On October 19, 1999, the Board of Directors approved a dividend for the quarter ended September 30, 1999 of \$.27 per common share, and dividends of \$.80125 per Series A preferred share, \$.81250 per Series B preferred share, \$.80625 per Series C preferred share, \$.65625 per Series D preferred share, and \$.63750 per Series E preferred share for the period from and including September 30, 1999 to but excluding December 31, 1999.

As discussed in the Information Statement under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Capital Requirements,” Fannie Mae is subject to capital standards. Fannie Mae met the applicable capital standards as of September 30, 1999, and management expects to continue to comply with the applicable standards.

Mortgage-Backed Securities

Fannie Mae issued \$66 billion of MBS during the third quarter of 1999, compared with \$86 billion in the third quarter of 1998. MBS issued in the first nine months of 1999 totaled \$251 billion, compared with \$228 billion in the first nine months of 1998. The increase in MBS issued during the first nine months of 1999 was primarily due to an increase in mortgage origination and refinance activity in a lower interest rate environment. The rise in interest rates in the third quarter of 1999 contributed to a decline in MBS issuances as compared to the third quarter of 1998. REMIC issuances were \$13 billion in the third quarter of 1999 and \$44 billion in the first nine months of 1999, compared with \$25 billion and \$67 billion, respectively, in the comparable periods for 1998.

The following table summarizes MBS activity for the three- and nine-month periods ended September 30, 1999 and 1998.

Summary of MBS Activity

(Dollars in millions)

<u>Three Months Ended September 30,</u>	<u>Issued (1)</u>			<u>Outstanding (1)</u>		
	<u>Lender or Shared Risk</u>	<u>Fannie Mae Risk</u>	<u>Total</u>	<u>Lender or Shared Risk (2)</u>	<u>Fannie Mae Risk</u>	<u>Total (3)</u>
1999	\$15,820	\$ 49,953	\$ 65,773	\$202,594	\$735,890	\$938,484
1998	27,432	58,562	85,994	142,164	656,296	798,460
<u>Nine Months Ended September 30,</u>						
1999	\$63,344	\$187,433	\$250,777			
1998	62,569	165,564	228,133			

- (1) This table classifies MBS issued and MBS outstanding based on primary default risk category; however, Fannie Mae bears the ultimate risk of default on all MBS. MBS outstanding includes MBS that have been pooled to back Megas, SMBS or REMICs.
- (2) Included in lender or shared risk are \$158 billion and \$104 billion at September 30, 1999 and 1998, 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 \$268 billion and \$173 billion at September 30, 1999 and 1998, respectively, of Fannie Mae MBS held in portfolio.

Year 2000 Preparation

As discussed in the Information Statement under “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Operational Risk Management,” Fannie Mae has divided its Year 2000 project into three areas of concentration: internal compliance, external compliance, and business continuity planning.

As part of its internal compliance efforts, Fannie Mae completed 100 percent of testing of all systems identified as mission critical prior to December 31, 1998. As of June 30, 1999, Fannie Mae had completed 100 percent of testing of all systems identified as non-mission critical. Fannie Mae will monitor its mission and non-mission critical systems for continued Year 2000 readiness during the remainder of 1999. Enterprise testing is also a part of Fannie Mae’s internal compliance preparation. Fannie Mae began enterprise testing in the second quarter of 1999 and expects to complete this testing before the end of November, 1999. Discretionary changes to Fannie Mae’s production environment will be suspended from the fourth quarter 1999 through January 2000.

As part of its external compliance efforts, Fannie Mae mandated that its single-family servicers validate certain critical business functions using the MBA test, as discussed in the Information Statement, and that its multifamily servicers who were not participating in the MBA test (or who use systems other than those tested in the MBA test) participate in a Fannie Mae Year 2000 test during the second quarter of 1999. Based on test results and other assessment tools, Fannie Mae believes that more than 99 percent of its loans are handled by Year 2000-compliant servicers. Lenders servicing the remaining loans pose limited Year 2000 compliance risk to Fannie Mae. At June 30, 1999, Fannie Mae had substantially completed the testing with its external service providers. As with its internal systems, Fannie Mae will monitor its external interfaces for continued Year 2000 readiness for the remainder of 1999. However, Fannie Mae cannot predict the Year 2000 compliance of these external entities.

Fannie Mae's business continuity plan includes the addition of alternate suppliers, including multiple telephone service providers, vendors, servicers, and trading partners, as necessary, to permit business operations to continue and to minimize possible disruptions if key partners have significant Year 2000 problems. In early June 1999, Fannie Mae distributed detailed instructions to its sellers and servicers to be employed in the event of Year 2000-related interruptions. Since business continuity planning is an iterative process, Fannie Mae's business continuity plan will be refined, tested, and monitored throughout the remainder of 1999.

Fannie Mae's Year 2000 project is proceeding as scheduled and budgeted. Approximately \$53 million has been spent on the project from its inception through September 30, 1999.

The information in this subsection constitutes a Year 2000 Readiness Disclosure Statement.

RECENT LEGISLATIVE AND REGULATORY DEVELOPMENTS

As discussed in the May 14, 1999 Supplement to the Information Statement, on April 13, 1999, OFHEO published in the *Federal Register* for public comment Part II of its proposed regulations to establish the risk-based capital test for Fannie Mae and Freddie Mac. In October 1999, the due date for comments on Part II of the proposed regulations was extended to March 10, 2000.

The current HUD-established housing goals require that 42 percent of Fannie Mae's (and Freddie Mac's) business finance mortgages for low- and moderate-income families, effective through the end of 1999. On August 30, 1999, HUD transmitted to the U.S. Office of Management and Budget a proposed rule that would increase to 50 percent the low- and moderate-income housing goals. The special affordable housing goal for very low-income families and low-income families in low-income areas would increase from 14 percent to 20 percent. In addition, a geographically targeted goal for underserved areas would increase from 24 percent to 31 percent. The pace of these increases should be specified in the new rule when it is published for comment. For example, HUD indicated that the proposed low- and moderate-income housing goal would be 48 percent in 2000. OMB is currently reviewing the proposed rule. Management will not be able to assess the impact on Fannie Mae of changes in these goals until they are finalized. Beginning on December 9, 1999, HUD will host a series of public forums to discuss its pending proposal to increase the affordable housing goals. Fannie Mae will comment on the proposed rule after it is published. Fannie Mae will work hard to meet the HUD Secretary's new goals.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders of Fannie Mae:

We have reviewed the accompanying condensed balance sheet of Fannie Mae as of September 30, 1999 and the related condensed statements of income, changes in stockholders' equity, and cash flows for the three- and nine-month periods ended September 30, 1999 and 1998. 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 upon our review, we are not aware of any material modifications that should be made to the condensed financial statements referred to above for them to be in conformity with 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, 1998 (presented herein in condensed form) and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated January 13, 1999, 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, 1998, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

KPMG LLP

Washington, DC
October 13, 1999

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1999	1998	1999	1998
	(Dollars in millions, except per common share amounts)			
Interest income	\$9,079	\$7,724	\$25,926	\$22,100
Interest expense	7,838	6,657	22,338	18,966
Net interest income	1,241	1,067	3,588	3,134
Guaranty fees	320	324	957	968
Fee and other income, net	34	69	146	204
Credit-related expenses	(21)	(65)	(108)	(211)
Administrative expenses	(203)	(179)	(594)	(523)
Income before federal income taxes and extraordinary item ..	1,371	1,216	3,989	3,572
Provision for federal income taxes	(380)	(354)	(1,106)	(1,027)
Income before extraordinary item	991	862	2,883	2,545
Extraordinary loss—early extinguishment of debt (net of tax effect)	—	(5)	(9)	(16)
Net income	<u>\$ 991</u>	<u>\$ 857</u>	<u>\$ 2,874</u>	<u>\$ 2,529</u>
Preferred dividends	(20)	(16)	(58)	(48)
Net income available to common stockholders	<u>\$ 971</u>	<u>\$ 841</u>	<u>\$ 2,816</u>	<u>\$ 2,481</u>
Basic earnings per common share:				
Earnings before extraordinary item	\$.95	\$.83	\$ 2.76	\$ 2.42
Extraordinary item	—	(.01)	(.01)	(.01)
Net earnings	<u>\$.95</u>	<u>\$.82</u>	<u>\$ 2.75</u>	<u>\$ 2.41</u>
Diluted earnings per common share:				
Earnings before extraordinary item	\$.94	\$.82	\$ 2.74	\$ 2.40
Extraordinary item	—	(.01)	(.01)	(.01)
Net earnings	<u>\$.94</u>	<u>\$.81</u>	<u>\$ 2.73</u>	<u>\$ 2.39</u>

CONDENSED BALANCE SHEETS
(Unaudited)

	September 30, 1999	December 31, 1998
		(Dollars in millions)
Assets		
Mortgage portfolio, net	\$504,303	\$415,223
Investments	36,407	58,515
Other assets	10,822	11,276
Total assets	<u>\$551,532</u>	<u>\$485,014</u>
Liabilities		
Debentures, notes, and bonds, net:		
Due within one year	\$215,228	\$205,413
Due after one year	309,651	254,878
Other liabilities	9,598	9,270
Total liabilities	534,477	469,561
Stockholders' equity	17,055	15,453
Total liabilities and stockholders' equity	<u>\$551,532</u>	<u>\$485,014</u>

See Notes to Interim Financial Statements

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
	(Dollars in millions)			
Balance, beginning of period	\$16,581	\$14,185	\$15,453	\$13,793
Comprehensive income:				
Net income	991	857	2,874	2,529
Other comprehensive income/ (loss), net of tax—Unrealized gains/ (losses) on securities, net	(58)	14	(154)	17
Total comprehensive income	933	871	2,720	2,546
Dividends	(296)	(262)	(888)	(791)
Shares repurchased	(182)	(126)	(540)	(1,022)
Preferred stock issued	—	148	148	148
Treasury stock issued for stock options and benefit plans	19	36	162	178
Balance, end of period	<u>\$17,055</u>	<u>\$14,852</u>	<u>\$17,055</u>	<u>\$14,852</u>

FANNIE MAE
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>1999</u>	<u>1998</u>	<u>1999</u>	<u>1998</u>
	(Dollars in millions)			
Net cash provided by operating activities	\$ 2,839	\$ 1,838	\$ 8,733	\$ 5,479
Cash flows from investing activities:				
Purchases of mortgages	(49,528)	(47,720)	(157,855)	(120,475)
Proceeds from sales of mortgages	1,354	910	2,522	1,306
Mortgage principal repayments	17,423	20,298	66,342	60,155
Net decrease (increase) in investments	5,897	990	22,108	(4,057)
Net cash used in investing activities	<u>(24,854)</u>	<u>(25,522)</u>	<u>(66,883)</u>	<u>(63,071)</u>
Cash flows from financing activities:				
Cash proceeds from issuance of debt	358,858	205,461	819,912	635,062
Cash payments to redeem debt	(336,399)	(182,164)	(761,241)	(577,928)
Other	(470)	(226)	(1,154)	(1,558)
Net cash provided by financing activities	<u>21,989</u>	<u>23,071</u>	<u>57,517</u>	<u>55,576</u>
Net decrease in cash and cash equivalents	(26)	(613)	(633)	(2,016)
Cash and cash equivalents at beginning of period	136	802	743	2,205
Cash and cash equivalents at end of period	<u>\$ 110</u>	<u>\$ 189</u>	<u>\$ 110</u>	<u>\$ 189</u>

See Notes to Interim Financial Statements

NOTES TO INTERIM FINANCIAL STATEMENTS
(Unaudited)

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the three-month and nine-month periods ended September 30, 1999 are not necessarily indicative of the results that may be expected for the year ending December 31, 1999. 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, 1999.

Line of Business Reporting

The following tables set forth Fannie Mae's financial information by line of business for the three- and nine-month periods ended September 30, 1999 and 1998. Significant changes from period to period were due to the same factors discussed under "Results of Operations."

<u>Three months ended September 30,</u>	1999			1998		
	Portfolio Investment	Credit Guaranty	Total	Portfolio Investment	Credit Guaranty	Total
	(Dollars in millions)					
Net interest income.....	\$1,093	\$ 148	\$1,241	\$ 891	\$ 176	\$1,067
Guaranty fees	(248)	568	320	(208)	532	324
Fee and other income, net.....	25	9	34	41	28	69
Credit-related expenses.....	—	(21)	(21)	—	(65)	(65)
Administrative expenses.....	(60)	(143)	(203)	(45)	(134)	(179)
Federal income taxes.....	(227)	(153)	(380)	(187)	(167)	(354)
Extraordinary item—early extinguishment of debt.....	—	—	—	(5)	—	(5)
Net income	<u>\$ 583</u>	<u>\$ 408</u>	<u>\$ 991</u>	<u>\$ 487</u>	<u>\$ 370</u>	<u>\$ 857</u>

<u>Nine months ended September 30,</u>	1999			1998		
	Portfolio Investment	Credit Guaranty	Total	Portfolio Investment	Credit Guaranty	Total
	(Dollars in millions)					
Net interest income	\$3,143	\$ 445	\$ 3,588	\$2,660	\$ 474	\$ 3,134
Guaranty fees	(717)	1,674	957	(608)	1,576	968
Fee and other income, net....	98	48	146	114	90	204
Credit-related expenses	—	(108)	(108)	—	(211)	(211)
Administrative expenses	(175)	(419)	(594)	(132)	(391)	(523)
Federal income taxes	(661)	(445)	(1,106)	(558)	(469)	(1,027)
Extraordinary item—early extinguishment of debt.....	(9)	—	(9)	(16)	—	(16)
Net income	<u>\$1,679</u>	<u>\$1,195</u>	<u>\$ 2,874</u>	<u>\$1,460</u>	<u>\$1,069</u>	<u>\$ 2,529</u>

The Portfolio Investment business represented \$541 billion, or 98 percent of total assets, at September 30, 1999, compared to \$446 billion, or 98 percent of total assets, at September 30, 1998.

Commitments and Contingencies

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

	<u>September 30, 1999</u> (Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	\$ 11
Lender option (1)	2
Average net yield on mandatory delivery	7.31%
Master commitments:	
Mandatory delivery (2)	\$ 44
Lender option	20

- (1) Excludes commitments attached to master commitments, which are included in the total for master commitments.
- (2) Under a mandatory master commitment, a lender must either deliver under an MBS contract at a specified guaranty fee or enter into a mandatory portfolio commitment with the yield established upon executing the portfolio commitment.

Fannie Mae also guarantees timely payment of principal and interest on outstanding MBS and provides credit enhancements or other guarantees as summarized below:

	<u>September 30, 1999</u> (Dollars in billions)
MBS outstanding (1)	\$938
Amount for which Fannie Mae has primary foreclosure loss risk (2)	736
Credit enhancements	7
Other guarantees	3

- (1) Includes \$268 billion of MBS held in portfolio and is net of \$608 million in allowance for losses.
- (2) Fannie Mae, however, assumes the ultimate risk of loss on all MBS.

Computation of Earnings per Common Share

The following table sets forth the computation of basic and diluted earnings per common share:

	Three Months Ended September 30,				Nine Months Ended September 30,			
	1999		1998		1999		1998	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
	(Dollars and shares in millions, except per common share amounts)							
Net income before extraordinary loss	\$ 991	\$ 991	\$ 862	\$ 862	\$2,883	\$2,883	\$2,545	\$2,545
Less: Extraordinary loss	—	—	(5)	(5)	(9)	(9)	(16)	(16)
Preferred stock dividend	(20)	(20)	(16)	(16)	(58)	(58)	(48)	(48)
Net income available to common stockholders	<u>\$ 971</u>	<u>\$ 971</u>	<u>\$ 841</u>	<u>\$ 841</u>	<u>\$2,816</u>	<u>\$2,816</u>	<u>\$2,481</u>	<u>\$2,481</u>
Weighted average common shares	1,022	1,022	1,025	1,025	1,025	1,025	1,030	1,030
Dilutive potential common shares(1)	—	7	—	9	—	7	—	9
Average number of common shares outstanding used to calculate earnings per common share	<u>1,022</u>	<u>1,029</u>	<u>1,025</u>	<u>1,034</u>	<u>1,025</u>	<u>1,032</u>	<u>1,030</u>	<u>1,039</u>
Earnings per common share before extraordinary item ..	\$.95	\$.94	\$.83	\$.82	\$ 2.76	\$ 2.74	\$ 2.42	\$ 2.40
Net earnings per common share .....	.95	.94	.82	.81	2.75	2.73	2.41	2.39

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

MANAGEMENT

On September 13, 1999, Fannie Mae announced that Lawrence M. Small, President and Chief Operating Officer, will step down in early 2000 to become Secretary of the Smithsonian Institution.

