

Supplement dated January 17, 1995 to
Information Statement dated March 31, 1994

Federal National Mortgage Association



This Supplement describes the financial condition of the Federal National Mortgage Association (“Fannie Mae” or the “Corporation”) as of December 31, 1994 and contains preliminary and unaudited financial information with respect to the Corporation for the quarter and year ended December 31, 1994. This Supplement should be read in conjunction with the Corporation’s Information Statement dated March 31, 1994 (the “Information Statement”), and the Supplements dated May 13, 1994, August 15, 1994 and November 14, 1994 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, 1993. The May 13, 1994, August 15, 1994 and November 14, 1994 Supplements describe the financial condition of the Corporation as of March 31, 1994, June 30, 1994 and September 30, 1994, 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 legislative, regulatory, legal and 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, Guide to Debt Securities or otherwise. This Supplement does not itself constitute an offer to sell or a solicitation of an offer to purchase such securities.

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

The Corporation’s securities are not required to be registered under the Securities Act of 1933. At the close of business on December 31, 1994, 272,802,000 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

Selected Financial Information

The following selected financial information for the three-month periods ended December 31, 1994 and 1993, and the year ended December 31, 1994 are preliminary and 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, 1993 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, 1993.

(Dollars in millions, except per share amounts)

	Three Months Ended December 31,		Year Ended December 31,	
	1994	1993	1994	1993
Income Statement Data:				
Net interest income.....	\$ 711	\$ 635	\$ 2,823	\$ 2,533
Guaranty fees	269	253	1,083	961
Loss on sales of mortgages, net	—	(7)	(2)	(1)
Miscellaneous income, net	26	98	145	260
Provision for losses	(35)	(40)	(155)	(175)
Foreclosed property expenses	(52)	(30)	(223)	(130)
Administrative expenses	(139)	(123)	(525)	(443)
Income before federal income taxes and extraordinary item	780	786	3,146	3,005
Provision for federal income taxes	(235)	(254)	(1,005)	(963)
Income before extraordinary item	545	532	2,141	2,042
Extraordinary item — early extinguishment of debt (net of tax effect)	8	(39)	(9)	(169)
Net income	<u>\$ 553</u>	<u>\$ 493</u>	<u>\$ 2,132</u>	<u>\$ 1,873</u>
Per share:				
Earnings before extraordinary item	\$ 1.99	\$ 1.94	\$ 7.80	\$ 7.44
Net earnings	2.02	1.80	7.77	6.82
Cash dividends60	.52	2.40	1.84
Other Data:				
<i>For the period:</i>				
Net interest margin	1.17%	1.25%	1.24%	1.38%
Ratio of earnings to fixed charges(1)	1.20:1	1.22:1	1.22:1	1.22:1
Mortgage purchases	\$11,951	\$29,882	\$ 62,389	\$ 92,037
MBS issued	19,585	69,826	130,622	221,444
<i>At period end:</i>				
Mortgage portfolio, net			220,525	189,892
Total assets			272,508	216,979
Stockholders' equity			9,541	8,052
MBS outstanding			530,343	495,525
Capital(2)			10,367	8,893

(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.

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, 1994 is presented below.

Net Income

Net income for 1994 increased \$259 million, or 14 percent, from the \$1.873 billion earned in 1993. This increase was due primarily to an 11 percent increase in net interest income, a 13 percent increase in guaranty fee income, and a \$160 million after-tax reduction in extraordinary losses on the early retirement of debt. Record earnings were achieved in 1994 despite lower miscellaneous income and higher administrative and foreclosed property expenses.

Investment Portfolio

Net interest income increased due primarily to growth in the average investment balance, which was offset, in part, by a decline in net interest margin.

The Corporation's net interest margin averaged 124 basis points in 1994, compared with 138 basis points in 1993. The net interest margin averaged 117 basis points in the fourth quarter of 1994, compared with an average of 125 basis points in the fourth quarter of 1993. The decline in the net interest margin between the fourth quarter of 1993 and the fourth quarter of 1994 was due primarily to the effects of substantially higher levels of low-yielding liquid investments and significantly lower volumes of mortgage-backed securities prepayment float.

Fannie Mae's net investment balance — mortgage loans held, less unamortized discount and deferred fees, plus other investments — was \$267.2 billion at the end of 1994, compared with \$212.0 billion at the end of 1993.

Fannie Mae's net mortgage portfolio was \$220.5 billion at the end of 1994, compared with \$189.9 billion at the end of 1993. The selective purchase of \$24.6 billion in mortgage securities during 1994, compared with \$6.3 billion in 1993, contributed significantly to mortgage portfolio growth.

MBS

Fannie Mae issued \$130.6 billion of MBS in 1994, of which \$126.2 billion were originated by lenders. In 1993, total MBS issues were \$221.4 billion, including \$208.4 billion that were lender originated. In the fourth quarter of 1994, MBS issues totaled \$19.6 billion, compared with \$69.8 billion in the fourth quarter of 1993. Total MBS issued in the fourth quarter of 1994 included \$0.6 billion originated by Fannie Mae, compared with \$3.9 billion originated by Fannie Mae in the fourth quarter of 1993.

MBS outstanding at the end of 1994 totaled \$530.3 billion, compared with \$495.5 billion at the end of 1993. MBS outstanding net of MBS held in portfolio was \$486.3 billion at the end of 1994, compared with \$471.3 billion at the end of 1993.

MBS guaranty fees were \$1.083 billion in 1994, compared with \$961 million in 1993. In the fourth quarter of 1994, guaranty fees were \$269 million, compared with \$253 million in the fourth quarter of 1993.

Miscellaneous Income

Miscellaneous income totaled \$145 million in 1994, compared with \$260 million in 1993. REMIC fees, which are included in miscellaneous income, were \$80 million in 1994, compared with \$126 million in 1993. Miscellaneous income also includes multifamily prepayment fees, which totaled \$18 million in 1994, compared with \$35 million in 1993.

In the fourth quarter of 1994 miscellaneous income was \$26 million, compared with \$98 million for the fourth quarter of 1993. REMIC fees were \$12 million for the fourth quarter of 1994, compared with \$39 million for the fourth quarter of 1993. Multifamily prepayment fees were \$2 million in the fourth quarter of 1994, compared with \$30 million in the fourth quarter of 1993.

Other Income

Results for 1994 included \$2 million of losses on sales of mortgages, compared with \$1 million of losses for 1993. There were no significant gains or losses on sales of mortgages in the fourth quarter of 1994. In the fourth quarter of 1993, losses on sales of mortgages totaled \$7 million.

Losses from the call or repurchase of debt were \$15 million (\$9 million after tax) in 1994, compared with \$260 million (\$169 million after tax) in 1993. Gains from the call or repurchase of debt were \$12 million (\$8 million after tax) in the fourth quarter of 1994, compared with losses of \$60 million (\$39 million after tax) in the fourth quarter of 1993.

Debt called or repurchased in 1994 totaled \$14.1 billion, compared with \$15.5 billion in 1993. Debt called or repurchased in the fourth quarter of 1994 totaled \$4.1 billion, compared with \$3.0 billion in the fourth quarter of 1993.

Foreclosures and Inventory of Acquired Properties

The Corporation acquired 13,216 conventional single-family properties through foreclosure in 1994, compared with 11,557 properties in 1993. Acquisitions were 3,109 in the fourth quarter of 1994, compared with 2,814 in the fourth quarter of 1993. The inventory of single-family acquired property totaled 6,162 properties as of December 31, 1994, compared with 5,323 at December 31, 1993.

Credit-Related Expenses and Loan Charge-Offs

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were \$378 million in 1994, compared with \$305 million in 1993. Total credit-related expenses were \$87 million in the fourth quarter of 1994, compared with \$70 million in the fourth quarter of 1993.

Charge-offs were \$169 million in 1994, including \$25 million of charge-offs related to the California earthquake in the first quarter of 1994, compared with \$114 million in 1993. Charge-offs in the fourth quarter of 1994 were \$34 million, compared with \$23 million in the fourth quarter of 1993.

The allowance for losses was \$827 million at December 31, 1994, compared with \$841 million at December 31, 1993.

Administrative Expenses

Administrative expenses totaled \$525 million in 1994, compared with \$443 million in 1993. For the fourth quarter of 1994, administrative expenses were \$139 million, compared with \$123 million in the fourth quarter of 1993.

Administrative expenses in the fourth quarter of 1994 included \$10 million in contributions to the Fannie Mae Foundation; in the fourth quarter of 1993, the Corporation contributed \$15 million to the Fannie Mae Foundation.

Income Taxes

Federal income tax expense totaled \$1.0 billion in 1994, compared with \$872 million in 1993. The effective federal income tax rate was 32 percent in both 1994 and 1993. Federal income tax expense was \$239 million in the fourth quarter of 1994, compared with \$233 million in the fourth quarter of 1993. The effective tax rate was 30 percent in the fourth quarter of 1994, compared with 32 percent in the fourth quarter of 1993.

Capital

Fannie Mae's capital, defined as stockholders' equity plus allowance for losses, was \$10.4 billion at December 31, 1994, compared with \$8.9 billion at December 31, 1993.

Fannie Mae repurchased 0.5 million shares of common stock during the fourth quarter of 1994, and 0.9 million shares during the full year. These shares were purchased to offset the dilutive effect of shares previously issued or anticipated to be issued under employee stock-related benefit plans. As of December 31, 1994, Fannie Mae had 273 million shares outstanding.

CAPITALIZATION

The following table sets forth the capitalization of the Corporation as of December 31, 1994.

	<u>Average Maturity</u>	<u>Average Cost (1)</u>	<u>Outstanding (Dollars in millions)</u>
Debtures, notes, and bonds, net:			
Due within one year:			
Short-term notes	2 mos.	5.86%	\$ 92,603
Debentures	5 mos.	9.81	6,477
Other (2)	—	5.56	<u>13,522</u>
Total due within one year			<u>112,602</u>
Due after one year:			
Debentures	5 yrs. 8 mos.	7.61	77,773
Medium-term notes (3)	4 yrs. 11 mos.	6.10	64,547
Other	15 yrs. 3 mos.	9.82	<u>2,308</u>
Total due after one year			<u>144,628</u>
Total debtures, notes, and bonds....			<u><u>\$257,230</u></u>
Stockholders' equity:			
Common stock, \$2.10 stated value, no maximum authorization —			
282,193,291 shares issued			\$ 593
Additional paid-in capital			1,365
Retained earnings			<u>7,933</u>
			9,891
Less treasury stock, at cost —			
9,391,093 shares			<u>350</u>
Total stockholders' equity			<u><u>\$ 9,541</u></u>

- (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) Average maturity is indeterminate because the outstanding amount includes investment agreements that have varying maturities.
- (3) Medium-term notes may have maturities ranging from one day to thirty years.

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, 1994 may differ from that shown in the table above.

