

**Supplement dated November 13, 1997 to
Information Statement dated March 31, 1997**



This Supplement describes the financial condition of the Federal National Mortgage Association ("Fannie Mae" or the "Corporation") as of September 30, 1997 and contains unaudited financial statements with respect to the Corporation for the quarter and nine months ended September 30, 1997. This Supplement should be read in conjunction with the Corporation's Information Statement dated March 31, 1997 (the "Information Statement") and the Supplements thereto dated May 14, 1997 and August 14, 1997 (the "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, 1996. The Supplements describe the financial condition of the Corporation as of March 31, 1997 and June 30, 1997, respectively, and contain unaudited financial statements with respect to the Corporation for the quarters and year-to-date periods then ended. In addition, the 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, the Supplements, this Supplement and any other supplements to the Information Statement 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 or a Prospectus. This Supplement does not offer 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.

The Corporation's securities are not required to be registered under the Securities Act of 1933. At the close of business on October 31, 1997, approximately 1,038 million shares of the Corporation's common stock (without par value) were outstanding.

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

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SELECTED FINANCIAL DATA

The following selected financial data for the three-month and nine-month periods ended September 30, 1997 and 1996 are unaudited and include, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. Certain amounts in 1996 have been reclassified to conform with the current presentation. Operating results for the periods ended September 30, 1997 are not necessarily indicative of the results expected for the entire year.

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

Income Statement Data:	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Interest income	\$ 6,651	\$ 5,993	\$ 19,494	\$ 17,583
Interest expense	5,657	5,093	16,580	14,914
Net interest income	994	900	2,914	2,669
Guaranty fees	319	303	949	887
Miscellaneous income, net	33	20	95	57
Provision for losses	(20)	(50)	(100)	(145)
Foreclosed property expenses	(71)	(52)	(198)	(157)
Administrative expenses	(159)	(142)	(468)	(415)
Income before federal income taxes and extraordinary item	1,096	979	3,192	2,896
Provision for federal income taxes	(319)	(289)	(929)	(855)
Income before extraordinary item	777	690	2,263	2,041
Extraordinary loss, net of tax effect	(2)	—	(1)	(29)
Net income	<u>\$ 775</u>	<u>\$ 690</u>	<u>\$ 2,262</u>	<u>\$ 2,012</u>
Preferred stock dividends	(16)	(12)	(48)	(25)
Net income available to common stockholders	<u>\$ 759</u>	<u>\$ 678</u>	<u>\$ 2,214</u>	<u>\$ 1,987</u>
Per common share:				
Earnings before extraordinary item	\$.72	\$.63	\$ 2.08	\$ 1.86
Net earnings .....	.72	.63	2.08	1.83
Cash dividends .....	.21	.19	.63	.57
	September 30,			
	1997	1996		
Balance Sheet Data:				
Mortgage portfolio, net	\$306,756	\$277,016		
Investments	63,353	53,944		
Total assets	379,225	338,534		
Borrowings:				
Due within one year	173,344	151,549		
Due after one year	184,659	167,604		
Total liabilities	365,867	326,267		
Stockholders' equity	13,358	12,267		
Capital(1)	14,136	13,006		
	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Other Data:				
Net interest margin	1.17%	1.17%	1.17%	1.18%
Return on average common equity	24.8	24.5	24.5	24.1
Dividend payout ratio	28.9	29.8	30.0	30.9
Average effective guaranty fee rate .....	.228	.224	.227	.223
Credit loss ratio(2) .....	.036	.047	.043	.054
Ratio of earnings to combined fixed charges and preferred stock dividends(3)	1.19:1	1.19:1	1.19:1	1.19:1
Mortgage purchases	\$ 20,567	\$ 16,058	\$ 47,988	\$ 51,400
MBS issued	40,702	33,844	102,029	118,195
Average common shares outstanding	1,055	1,075	1,064	1,086
MBS outstanding at period end(4)	\$690,919	\$636,362		
Book value per common share at period end	11.89	10.62		

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

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

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

(4) Includes \$125 billion and \$93 billion of MBS held in portfolio at September 30, 1997 and 1996, respectively.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 1997**

Results of Operations

In the third quarter of 1997, Fannie Mae again reported record earnings as net income increased \$85 million to \$775 million or 12 percent over the results for the third quarter of 1996. For the first nine months of 1997, net income increased \$250 million or 12 percent to \$2.262 billion, compared with \$2.012 billion for the first nine months of 1996. The growth in net income for the three- and nine-month periods ended September 30, 1997 was attributable mainly to increases in net interest income and guaranty fees, and a reduction in the provision for losses.

Net interest income in the third quarter of 1997 increased 10 percent, compared with the third quarter of 1996, primarily as a result of 11 percent growth in the average net investment balance. The net interest margin was 117 basis points in the third quarter of both 1997 and 1996. Net interest income in the first nine months of 1997 increased 9 percent, compared with the first nine months of 1996, primarily as a result of 11 percent growth in the average net investment balance, which was partially offset by a 1 basis point decrease in the net interest margin. Management believes that net interest income will continue to expand in the fourth quarter of 1997 due to portfolio growth and that the net interest margin for 1997 as a whole will not be significantly different from the average for the first nine months of the year.

The following table presents an analysis of net interest income for the three-month and nine-month periods ended September 30, 1997 and 1996.

Net Interest Income and Average Balances
(Dollars in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1997	1996	1997	1996
Interest income:				
Mortgage portfolio	\$ 5,722	\$ 5,216	\$ 16,827	\$ 15,194
Investments and cash equivalents	929	777	2,667	2,389
Total interest income	<u>6,651</u>	<u>5,993</u>	<u>19,494</u>	<u>17,583</u>
Interest expense (1):				
Short-term debt	935	786	2,682	2,613
Long-term debt	4,722	4,307	13,898	12,301
Total interest expense	<u>5,657</u>	<u>5,093</u>	<u>16,580</u>	<u>14,914</u>
Net interest income	994	900	2,914	2,669
Tax equivalent adjustment (2)	72	64	210	182
Net interest income tax equivalent basis	<u>\$ 1,066</u>	<u>\$ 964</u>	<u>\$ 3,124</u>	<u>\$ 2,851</u>
Average balances:				
Interest-earning assets (3):				
Mortgage portfolio, net	\$300,950	\$272,952	\$294,600	\$264,617
Investments and cash equivalents	63,701	55,236	61,921	56,821
Total interest-earning assets	<u>\$364,651</u>	<u>\$328,188</u>	<u>\$356,521</u>	<u>\$321,438</u>
Interest-bearing liabilities (1):				
Short-term debt	\$ 69,593	\$ 59,980	\$ 67,509	\$ 65,304
Long-term debt	279,148	253,328	273,043	241,034
Total interest-bearing liabilities	348,741	313,308	340,552	306,338
Interest-free funds	15,910	14,880	15,969	15,100
Total interest-bearing liabilities and interest-free funds	<u>\$364,651</u>	<u>\$328,188</u>	<u>\$356,521</u>	<u>\$321,438</u>
Average interest rates (2):				
Interest-earning assets:				
Mortgage portfolio, net	7.67%	7.70%	7.68%	7.72%
Investments and cash equivalents	5.89	5.69	5.80	5.66
Total interest-earning assets	<u>7.36</u>	<u>7.37</u>	<u>7.35</u>	<u>7.36</u>
Interest-bearing liabilities (1):				
Short-term debt	5.34	5.16	5.27	5.24
Long-term debt	6.77	6.81	6.79	6.82
Total interest-bearing liabilities	<u>6.48</u>	<u>6.50</u>	<u>6.49</u>	<u>6.49</u>
Investment spread .....	.88	.87	.86	.87
Interest free return (4) .....	.29	.30	.31	.31
Net interest margin (5)	<u>1.17%</u>	<u>1.17%</u>	<u>1.17%</u>	<u>1.18%</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 \$2.1 billion for the three-month period ended September 30, 1997 and \$2.2 billion for the nine-month period ended September 30, 1997 and \$2.2 billion for the three- and nine-month periods ended September 30, 1996.
- (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 and debt growth and interest rate changes to changes in net interest income for the three-month and nine-month periods ended September 30, 1997 and 1996.

Rate/Volume Analysis

(Dollars in millions)

	Third Quarter 1997 vs. Third Quarter 1996			First Nine Months 1997 vs. First Nine Months 1996		
	Increase (Decrease)	Attributable to Changes in (1)		Increase (Decrease)	Attributable to Changes in (1)	
		Volume	Rate		Volume	Rate
Interest income:						
Mortgage portfolio	\$506	\$533	\$(27)	\$1,633	\$1,713	\$(80)
Investments and cash equivalents	<u>152</u>	<u>123</u>	<u>29</u>	<u>278</u>	<u>219</u>	<u>59</u>
Total interest income	<u>658</u>	<u>656</u>	<u>2</u>	<u>1,911</u>	<u>1,932</u>	<u>(21)</u>
Interest expense:						
Short-term debt	149	129	20	69	88	(19)
Long-term debt	<u>415</u>	<u>437</u>	<u>(22)</u>	<u>1,597</u>	<u>1,629</u>	<u>(32)</u>
Total interest expense	<u>564</u>	<u>566</u>	<u>(2)</u>	<u>1,666</u>	<u>1,717</u>	<u>(51)</u>
Net interest income	<u>\$ 94</u>	<u>\$ 90</u>	<u>\$ 4</u>	<u>\$ 245</u>	<u>\$ 215</u>	<u>\$ 30</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.

In the third quarter of 1997, guaranty fee income increased by \$16 million to \$319 million, compared with \$303 million in the third quarter of 1996. For the first nine months of 1997, guaranty fee income increased by \$62 million to \$949 million, compared with \$887 million for the same period in 1996. The increases were due to a .4 basis point increase in the average effective guaranty fee rate for both the three- and nine-month periods ended September 30, 1997, as compared to the same periods in 1996, and 4 and 5 percent increases in average net MBS outstanding for the same periods, respectively.

In the third quarter of 1997, miscellaneous income increased by 65 percent to \$33 million, compared with \$20 million in the third quarter of 1996. For the first nine months of 1997, miscellaneous income increased by 67 percent to \$95 million versus \$57 million in the first nine months of 1996. The increase in both periods was the result of increased other miscellaneous fees and REMIC fees.

Administrative expenses for the quarter ended September 30, 1997 were \$159 million, compared with \$142 million during the same period in 1996. For the nine months ended September 30, 1997, administrative expenses were \$468 million, compared with \$415 million for the same period in 1996. The increase for the three- and nine-month periods was primarily due to additional systems development expenses and the Corporation's restructuring of its regional offices. The ratio of administrative expenses to the average mortgage portfolio plus average MBS outstanding was .074 percent (annualized) for the three months ended September 30, 1997 and .073 percent (annualized) for the nine months ended September 30, 1997, compared with .070 percent (annualized) for both the three months and the nine months ended September 30, 1996. The ratio of administrative expenses to revenues (net interest income, guaranty fees and miscellaneous income) was 11.8 percent for the three months and nine months ended September 30, 1997, compared with 11.6 percent and 11.5 percent for the same periods in 1996.

The effective federal income tax rate was 29 percent for both the three and nine months ended September 30, 1997, compared with 30 percent and 29 percent for the three and nine months ended September 30, 1996, respectively.

In the third quarter of 1997, the Corporation had an extraordinary loss of \$3 million (\$2 million after tax) from the repurchase or call of debt, compared with no losses from repurchases or calls in the third quarter of 1996. An extraordinary loss of \$2 million (\$1 million after tax) was reported in the first nine months of 1997 from the repurchase or call of debt, compared with a loss of \$44 million (\$29 million after tax) from the repurchase or call of debt in the first nine months of 1996.

Net Income by Line of Business

The following tables set forth the Corporation's financial information by line of business for the three months and nine months ended September 30, 1997 and 1996. Significant changes from period to period were due to the same factors discussed under "Results of Operations."

<u>Three Months Ended September 30,</u>	<u>1997</u>			<u>1996</u>		
	<u>Portfolio Investment</u>	<u>Credit Guaranty</u>	<u>Total</u>	<u>Portfolio Investment</u>	<u>Credit Guaranty</u>	<u>Total</u>
	(Dollars in millions)					
Net interest income	\$ 874	\$ 120	\$ 994	\$ 800	\$ 100	\$ 900
Guaranty fees	(193)	512	319	(181)	484	303
Miscellaneous, net	7	26	33	6	14	20
Provision for losses	—	(20)	(20)	—	(50)	(50)
Foreclosed property expenses	—	(71)	(71)	—	(52)	(52)
Administrative expenses	(38)	(121)	(159)	(33)	(109)	(142)
Federal income taxes	(180)	(139)	(319)	(166)	(123)	(289)
Extraordinary item—early extinguishment of debt...	(2)	—	(2)	—	—	—
Net income	<u>\$ 468</u>	<u>\$ 307</u>	<u>\$ 775</u>	<u>\$ 426</u>	<u>\$ 264</u>	<u>\$ 690</u>
	(Dollars in millions)					
<u>Nine Months Ended September 30,</u>	<u>1997</u>			<u>1996</u>		
	<u>Portfolio Investment</u>	<u>Credit Guaranty</u>	<u>Total</u>	<u>Portfolio Investment</u>	<u>Credit Guaranty</u>	<u>Total</u>
Net interest income	\$2,581	\$ 333	\$2,914	\$2,355	\$ 314	\$2,669
Guaranty fees	(573)	1,522	949	(538)	1,425	887
Miscellaneous, net	19	76	95	20	37	57
Provision for losses	—	(100)	(100)	—	(145)	(145)
Foreclosed property expenses	—	(198)	(198)	—	(157)	(157)
Administrative expenses	(111)	(357)	(468)	(96)	(319)	(415)
Federal income taxes	(533)	(396)	(929)	(490)	(365)	(855)
Extraordinary item—early extinguishment of debt...	(1)	—	(1)	(29)	—	(29)
Net income	<u>\$1,382</u>	<u>\$ 880</u>	<u>\$2,262</u>	<u>\$1,222</u>	<u>\$ 790</u>	<u>\$2,012</u>

The Portfolio Investment business represented \$365 billion, or 96 percent of total assets, at September 30, 1997 and \$326 billion, or 96 percent of total assets, at September 30, 1996.

Credit Data

The following table shows the Corporation's serious delinquencies for conventional loans in portfolio and underlying MBS at September 30, 1997 and 1996, and conventional properties acquired and total net charge-offs for the three and nine months ended September 30, 1997 and 1996.

	Delinquency Rate (1)		Number of Properties Acquired				Net Charge-offs (Dollars in millions)			
			Three Months Ended		Nine Months Ended		Three Months Ended		Nine Months Ended	
	September 30, 1997	September 30, 1996	September 30, 1997	September 30, 1996	September 30, 1997	September 30, 1996	September 30, 1997	September 30, 1996	September 30, 1997	September 30, 1996
Single-family .....	.59%	.56%	5,686	5,572	16,834	15,139	\$4	\$42	\$68	\$152
Multifamily .....	.43	.91	4	14	22	41	<u>2</u>	<u>1</u>	<u>8</u>	<u>9</u>
Total							<u>\$6</u>	<u>\$43</u>	<u>\$76</u>	<u>\$161</u>

- (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 or in 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.

Total credit-related losses, which include net charge-offs and foreclosed property expenses, were \$77 million for the three months ended September 30, 1997, compared with \$95 million for the same period of 1996. Total credit-related losses for the nine months ended September 30, 1997 and 1996 were \$274 million and \$318 million, respectively. The decrease in credit-related losses for both the three- and nine-month periods resulted from a reduction in charge-offs which was partly offset by an increase in foreclosed property expense. Charge-offs declined primarily as a result of a reduction in the average loss per foreclosed property. Foreclosed property expenses increased primarily as a result of a higher number of single-family acquisitions. The increase in single-family properties acquired for the nine-month period in 1997, compared with the same period in 1996, was primarily the result of loans reaching their peak default years on a growing book of business and continued acquisitions in California.

The inventory of single-family properties was 9,599 as of September 30, 1997, compared with 9,115 as of September 30, 1996. The inventory of multifamily properties was 20 as of September 30, 1997, compared with 37 as of September 30, 1996.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were \$91 million in the third quarter of 1997, compared with \$102 million in the third quarter of 1996. Total credit-related expenses for the nine months ended September 30, 1997 and 1996 were \$298 million and \$302 million, respectively. These decreases were due to a reduction in the provision for losses in both the three and nine months ended September 30, 1997.

The allowance for losses increased to \$805 million at September 30, 1997, compared with \$780 million at December 31, 1996 and \$779 million at September 30, 1996. The allowance for losses increases through the provision for losses and is reduced through charge-offs. The provision for losses was \$20 million in the third quarter of 1997, compared with \$50 million in the third quarter of 1996, and \$100 million in the first nine months of 1997 versus \$145 million in the comparable period in 1996. Management anticipates that the provision for losses will be adjusted periodically in line with its analysis of actual and expected loss experience.

Balance Sheet Analysis

Mortgage Portfolio

The Corporation purchased \$21 billion of mortgages at an average yield of 7.35 percent in the third quarter of 1997, compared with \$16 billion of mortgages at an average yield of 7.92 percent in the third quarter of 1996. In the first nine months of 1997, mortgage purchases were \$48 billion at an average yield of 7.52 percent, compared with \$51 billion at an average yield of 7.58 percent in the first nine months of 1996. The increase in mortgage purchases for the three months ended September 30, 1997, compared with the same period in 1996, was primarily due to the increase in the number of seasoned mortgages offered for sale in the secondary market and wider spreads between mortgage yields and the Corporation's cost of debt due to temporary declines in interest rates.

Mortgage loan repayments during the third quarter of 1997 totaled \$9.9 billion, compared with \$7.6 billion in the third quarter of 1996. During the first nine months of 1997, mortgage loan repayments were \$25.7 billion, compared with \$25.3 billion in the first nine months of 1996.

As of September 30, 1997, the net mortgage portfolio totaled \$307 billion with a yield (before deducting the allowance for losses) of 7.65 percent, compared with \$286 billion at 7.69 percent as of December 31, 1996 and \$277 billion at 7.71 percent as of September 30, 1996.

At September 30, 1997, the Corporation had mandatory delivery commitments and lender option commitments outstanding to purchase \$4.7 billion and \$1.3 billion of mortgage loans, respectively, compared with \$1.9 billion and \$1.2 billion, respectively, of such commitments outstanding at December 31, 1996.

Financing and Other Activities

During the third quarter of 1997, the Corporation issued \$228 billion of debt at an average cost of 5.65 percent and redeemed \$215 billion of debt at an average cost of 5.68 percent. Debt issued in the third quarter of 1996 totaled \$181 billion at an average cost of 5.54 percent, and debt redeemed totaled \$170 billion at an average cost of 5.46 percent. During the first nine months of 1997, \$639 billion of debt was issued at an average cost of 5.60 percent and \$612 billion of debt was redeemed at an average cost of 5.57 percent. In the first nine months of 1996, debt issued totaled \$527 billion at an average cost of 5.51 percent, and debt redeemed totaled \$507 billion at an average cost of 5.53 percent. The average cost of debt outstanding at September 30, 1997, December 31, 1996, and September 30, 1996 was 6.46 percent, 6.49 percent, and 6.52 percent, respectively.

The following table presents the amount of callable debt and the notional amount of callable swaps issued and outstanding for the three- and nine-months periods ended September 30, 1997 and September 30, 1996.

<u>(Dollars in billions)</u>	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months</u> <u>Ended</u> <u>September 30,</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
Issued during the period	\$ 12	\$ 9	\$ 25	\$ 33
Percentage of total long-term debt issued(1)	46%	51%	48%	52%
Outstanding at end of period	\$134	\$123		
Percentage of total long-term debt outstanding(1)	47%	48%		

(1) Includes the notional amount of callable swaps, and excludes long-term debt with a repricing frequency of one year or less.

The following table summarizes the Corporation's interest rate swap activity, the notional amount of, and weighted-average interest rates to be received and paid on, interest rate swaps

outstanding for the quarters ended March 31, 1997, June 30, 1997, and September 30, 1997, together with the expected maturities for the interest rate swaps outstanding at September 30, 1997.

Interest Rate Swap Activity Table

(Dollars in millions)	Generic-pay fixed/ receive variable (1)		Receive Rate (3)	Basis Swaps	Other (4)	Total
	Notional (2)	Pay Rate (3)				
Balance at December 31, 1996	\$100,111	6.73%	5.59%	\$39,875	\$15,827	\$155,813
Additions	2,300	6.70	5.60	4,197	6,125	12,622
Maturities	3,326	6.18	5.84	6,175	776	10,277
Balance at March 31, 1997 ...	99,085	6.75	5.59	37,897	21,176	158,158
Additions	2,750	7.10	5.90	3,720	7,576	14,046
Maturities	5,224	6.33	5.48	10,735	3,231	19,190
Balance at June 30, 1997	96,611	6.78	5.82	30,882	25,521	153,014
Additions	2,517	6.42	5.51	2,075	5,734	10,326
Maturities	3,289	6.41	5.66	10,125	3,801	17,215
Balance at September 30, 1997	<u>\$ 95,839</u>	<u>6.78%</u>	<u>5.78%</u>	<u>\$22,832</u>	<u>\$27,454</u>	<u>\$146,125</u>
Balance at September 30, 1996	<u>\$ 94,878</u>	<u>6.76%</u>	<u>5.61%</u>	<u>\$42,716</u>	<u>\$15,303</u>	<u>\$152,897</u>
Future Maturities (5)						
1997	\$ 2,560	6.19%	5.85%	\$ 5,550	\$ 1,300	\$ 9,410
1998	8,740	5.32	5.77	11,240	10,684	30,664
1999	6,125	6.73	5.44	3,692	4,385	14,202
2000	4,367	6.09	5.80	1,020	4,475	9,862
2001	7,850	6.67	5.76	—	650	8,500
Thereafter	66,197	7.06	5.82	1,330	5,960	73,487
	<u>\$ 95,839</u>	<u>6.78%</u>	<u>5.78%</u>	<u>\$22,832</u>	<u>\$27,454</u>	<u>\$146,125</u>

(1) Included in the notional amounts are callable swaps of \$25 billion, \$26 billion, \$27 billion, \$28 billion and \$31 billion at September 30, 1997, June 30, 1997, March 31, 1997, December 31, 1996, and September 30, 1996, respectively, with weighted-average pay rates of 6.61 percent, 6.67 percent, 6.68 percent, 6.68 percent, and 6.67 percent and weighted-average receive rates of 5.88 percent, 5.82 percent, 5.61 percent, 5.62 percent, and 5.65 percent, at September 30, 1997, June 30, 1997, March 31, 1997, December 31, 1996 and September 30, 1996, 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 receivable and payable is as of the date indicated. The interest rates of the swaps may be floating rate, so these rates may change as prevailing interest rates change.

(4) Amounts principally consist of generic-pay variable/receive fixed swaps.

(5) Assumes that variable interest rates remain constant at September 30, 1997 levels.

The contract amounts of other off-balance-sheet financial instruments, which included futures contracts as well as derivative instruments that simulate the short sale of Treasury securities to provide a hedge against interest rate fluctuations, were \$10.1 billion at September 30, 1997, compared with \$8.3 billion at December 31, 1996.

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 the Corporation was in a net gain position. The Corporation's net exposure at September 30, 1997 was \$19 million, compared with \$8 million at December 31, 1996. The exposure to credit losses from interest rate swaps can be expected to fluctuate significantly due to changes in interest rates.

Capital Resources

The Corporation's shareholders' equity at September 30, 1997 was \$13.4 billion, compared with \$12.8 billion at December 31, 1996, and \$12.3 billion at September 30, 1996. 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—Overview" and "—Balance Sheet Analysis—Liquidity and Capital Resources," the Corporation repurchased 11 million shares of common stock at a weighted average cost of \$43.90 per share during the third quarter of 1997. Common stock repurchases during the first nine months of 1997 totaled 28 million shares at an average cost of \$40.75. As of September 30, 1997, there were 1,039 million shares of common stock outstanding.

On October 21, 1997, the Board of Directors approved a dividend for the quarter ended September 30, 1997 of \$0.21 per common share, and dividends of \$0.80125 per Series A preferred share, \$0.81250 per Series B preferred share, and \$0.80625 per Series C preferred share for the period from and including September 30, 1997 to but excluding December 31, 1997.

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," the Corporation is subject to capital standards. The Corporation met the applicable capital standards as of September 30, 1997.

Mortgage-Backed Securities

The Corporation issued \$41 billion of MBS during the third quarter of 1997, compared with \$34 billion in the third quarter of 1996. The increase for the three months ended September 30, 1997 was primarily due to an issuance of MBS backed by seasoned mortgage loans. MBS issued in the first nine months of 1997 totaled \$102 billion, compared with \$118 billion in the first nine months of 1996. The decrease in MBS issued in the first nine months of 1997 was primarily due to the decrease in the first half of 1997 in the supply of conforming mortgage product in the secondary market as compared to the same period in 1996. This decrease resulted from reduced interest rate volatility and favorable credit-related factors that encouraged some originators and investors to assume more credit risk and hold mortgage loans in their portfolio.

REMIC issuances were \$18.4 billion in the third quarter of 1997 and \$53.3 billion in the first nine months of 1997, compared with \$3.6 billion and \$10.8 billion, respectively, in the comparable periods for 1996. This increase for the first nine months of 1997, as compared to the same period in 1996, reflected an increase in demand for REMICs.

The following table summarizes MBS activity for the three- and nine-month periods ended September 30, 1997 and 1996.

Summary of MBS Activity

(Dollars in millions)

	Issued				Outstanding (1)		
	Lender Originated (1)				Lender Risk (2)	Fannie Mae Risk	Total (3)
Three Months Ended September 30,	Lender Risk	Fannie Mae Risk	Fannie Mae Originated	Total			
1997	\$11,075	\$ 29,363	\$ 264	\$ 40,702	\$84,173	\$606,746	\$690,919
1996	3,362	29,950	532	33,844	67,557	568,805	636,362
	Nine Months Ended September 30,						
1997	\$21,752	\$ 78,073	\$2,204	\$102,029			
1996	8,329	109,085	781	118,195			

- (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 \$47 billion and \$29 billion at September 30, 1997 and 1996, 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 \$125 billion and \$93 billion at September 30, 1997 and 1996, respectively, of Fannie Mae MBS held in portfolio.

The increases in the percentage of total MBS issued in the lender risk category in the three- and nine-month periods ended September 30, 1997, as compared to the same periods in 1996, were a result of favorable credit-related factors that led some lenders to accept more credit risk.

RECENT LEGISLATIVE AND REGULATORY DEVELOPMENTS

As discussed in the Information Statement under “Government Regulation and Charter Act,” the Office of Federal Housing Enterprise Oversight (“OFHEO”) released part one of the proposed risk-based capital regulations in 1996. OFHEO has indicated that it will publish for comment the second part of this risk-based capital regulation in September 1998.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors
Fannie Mae:

We have reviewed the accompanying condensed balance sheet of Fannie Mae as of September 30, 1997 and the related condensed statements of income and cash flows for the three- and nine-month periods ended September 30, 1997 and 1996. 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, 1996 (presented herein in condensed form) and the related statements of income and cash flows for the year then ended (not presented herein); and in our report dated January 14, 1997, 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, 1996, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

KPMG PEAT MARWICK LLP

Washington, DC
October 9, 1997

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

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
	(Dollars in millions, except per share amounts)			
Interest income	\$6,651	\$5,993	\$19,494	\$17,583
Interest expense	<u>5,657</u>	<u>5,093</u>	<u>16,580</u>	<u>14,914</u>
Net interest income	994	900	2,914	2,669
Guaranty fees	319	303	949	887
Miscellaneous income, net	33	20	95	57
Provision for losses	(20)	(50)	(100)	(145)
Foreclosed property expenses	(71)	(52)	(198)	(157)
Administrative expenses	<u>(159)</u>	<u>(142)</u>	<u>(468)</u>	<u>(415)</u>
Income before federal income taxes and extraordinary item	1,096	979	3,192	2,896
Provision for federal income taxes	<u>(319)</u>	<u>(289)</u>	<u>(929)</u>	<u>(855)</u>
Income before extraordinary item	777	690	2,263	2,041
Extraordinary loss—early extinguishment of debt (net of tax effect)	(2)	—	(1)	(29)
Net income	<u>\$ 775</u>	<u>\$ 690</u>	<u>\$ 2,262</u>	<u>\$ 2,012</u>
Preferred dividends	(16)	(12)	(48)	(25)
Net income available to common stockholders	<u>\$ 759</u>	<u>\$ 678</u>	<u>\$ 2,214</u>	<u>\$ 1,987</u>
Per common share:				
Earnings before extraordinary item	\$.72	\$.63	\$ 2.08	\$ 1.86
Net earnings .....	.72	.63	2.08	1.83
Cash dividends .....	.21	.19	.63	.57

CONDENSED BALANCE SHEETS
(Unaudited)

	<u>September 30,</u> <u>1997</u>	<u>December 31,</u> <u>1996</u>
	(Dollars in millions)	
Assets		
Mortgage portfolio, net	\$306,756	\$286,259
Investments	63,353	56,606
Other assets	9,116	8,176
Total assets	<u>\$379,225</u>	<u>\$351,041</u>
Liabilities		
Debtures, notes, and bonds, net:		
Due within one year	\$173,344	\$159,900
Due after one year	184,659	171,370
Other liabilities	7,864	6,998
Total liabilities	365,867	338,268
Stockholders' equity	13,358	12,773
Total liabilities and stockholders' equity	<u>\$379,225</u>	<u>\$351,041</u>

See Notes to Interim Financial Statements

FANNIE MAE
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	<u>Three Months</u> <u>Ended September 30,</u>		<u>Nine Months</u> <u>Ended September 30,</u>	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
	(Dollars in millions)			
Net cash provided by operating activities	\$ 2,240	\$ 1,788	\$ 5,356	\$ 5,406
Cash flows from investing activities:				
Purchases of mortgages	(20,717)	(15,885)	(48,182)	(51,143)
Proceeds from sales of mortgages	396	—	526	46
Mortgage principal repayments	10,689	8,183	27,992	27,038
Net (increase) decrease in investments	<u>(4,071)</u>	<u>(4,370)</u>	<u>(6,747)</u>	<u>3,328</u>
Net cash used in investing activities	<u>(13,703)</u>	<u>(12,072)</u>	<u>(26,411)</u>	<u>(20,731)</u>
Cash flows from financing activities:				
Cash proceeds from issuance of debt	220,167	176,077	624,676	500,408
Cash payments to redeem debt	(208,755)	(166,309)	(601,580)	(483,662)
Other	<u>(704)</u>	<u>(187)</u>	<u>(1,725)</u>	<u>(1,079)</u>
Net cash provided by financing activities	<u>10,708</u>	<u>9,581</u>	<u>21,371</u>	<u>15,667</u>
Net (decrease) increase in cash and cash equivalents	(755)	(703)	316	342
Cash and cash equivalents at beginning of period	<u>1,921</u>	<u>1,363</u>	<u>850</u>	<u>318</u>
Cash and cash equivalents at end of period	<u>\$ 1,166</u>	<u>\$ 660</u>	<u>\$ 1,166</u>	<u>\$ 660</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-month and nine-month periods ended September 30, 1997 are not necessarily indicative of the results that may be expected for the year ending December 31, 1997. 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, 1997.

Hedging Instruments

The Corporation utilizes certain off-balance sheet financial instruments, such as interest rate swaps, deferred rate setting agreements and foreign currency swaps, as well as derivative instruments that simulate the short sale of Treasury securities, to achieve a specific financing or investment objective at a desired cost or yield. Financial instruments meeting specific criteria are accounted for as hedges on either an accrual or deferral basis.

NOTES TO INTERIM FINANCIAL STATEMENTS (Continued)

Interest rate swaps are used to extend the effective maturity of certain short-term debt obligations and to adjust the effective maturity of certain long-term debt obligations. These swaps are accounted for on an accrual basis with the net payable or receivable recognized as an adjustment to interest expense on the related liabilities. Gains or losses on terminated interest rate swaps are deferred and amortized over the remaining life of the hedged items.

Deferred rate setting agreements and derivative instruments that simulate the short sale of Treasury securities are used to hedge planned debt issuances. Gains and losses that result from the hedge position are deferred and recognized as an adjustment to the debt cost over the life of the debt issuance. Gains and losses resulting from transactions that do not perform effectively as hedges, or that hedge events no longer anticipated, are recognized in earnings currently.

Foreign currency swaps are used to hedge investments or debt issuance denominated in foreign currencies and are accounted for on an accrual basis with the net differential received or paid under such swaps recognized as an adjustment to interest income or expense on the related asset or liability.

Commitments and Contingencies

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

	<u>September 30, 1997</u> (Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	\$ 4.7
Optional delivery (1)	1.3
Average net yield on mandatory delivery	7.28%
Commitments to issue MBS:	
Mandatory delivery (1)	\$ —
Optional delivery (1) .....	.6
Master commitments:	
Mandatory delivery (2)	38.5
Optional delivery	59.3

(1) Excludes commitments attached to master commitments, which are included in the total for master commitments.

(2) Under a mandatory master commitment, a lender must either deliver under an MBS contract at a specified guaranty fee or enter into a mandatory portfolio commitment with the yield established upon executing the portfolio commitment.

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

	<u>September 30, 1997</u> (Dollars in billions)
MBS(1)	\$690
MBS in Portfolio	<u>125</u>
Net MBS outstanding	565
Credit enhancements	7.4
Other guarantees	2.1

(1) Net of related allowance for losses. Includes \$84 billion of MBS with lender or third party recourse at September 30, 1997.

COMPUTATION OF EARNINGS PER COMMON SHARE
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>1997</u>	<u>1996</u>	<u>1997</u>	<u>1996</u>
	(In millions, except per share data)			
Average common shares outstanding	1,044	1,064	1,052	1,075
Effect of common stock equivalents	<u>11</u>	<u>11</u>	<u>12</u>	<u>11</u>
Average common shares outstanding	<u>1,055</u>	<u>1,075</u>	<u>1,064</u>	<u>1,086</u>
Income before extraordinary item	\$ 777	\$ 690	\$2,263	\$2,041
Net income	775	690	2,262	2,012
Net income available to common stockholders	759	678	2,214	1,987
Earnings per common share before extraordinary item	\$.72	\$.63	\$ 2.08	\$ 1.86
Net earnings per common share72	.63	2.08	1.83



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