

Supplement dated November 12, 1993 to
Information Statement dated February 16, 1993

Federal National Mortgage Association



This Supplement describes the financial condition of the Federal National Mortgage Association (“Fannie Mae” or the “Corporation”) as of September 30, 1993 and contains unaudited financial statements with respect to the Corporation for the quarter and nine months ended September 30, 1993. This Supplement should be read in conjunction with the Corporation’s Information Statement dated February 16, 1993 (the “Information Statement”), and the Supplements dated April 22, 1993 and August 13, 1993 thereto (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, 1992. The April 22, 1993 and August 13, 1993 Supplements describe the financial condition of the Corporation as of March 31, 1993 and June 30, 1993 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 legislative, regulatory, accounting, 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 Paul Paquin, Senior Vice President—Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: 202-752-7115).

In conjunction with its securities offerings, the Corporation may incorporate this Supplement by reference in one or more other documents describing the securities offered thereby, the selling arrangements therefor, and other relevant information. Such other documents may be called an Offering Circular, Prospectus, Guide to Debt Securities or otherwise. This Supplement does not itself constitute an offer 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 October 31, 1993, 272,655,000 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

The following selected financial data for the three-month and nine-month periods ended September 30, 1993 and 1992 are unaudited and include, in the opinion of management, all adjustments (consisting of normal accruals) necessary for a fair presentation. Operating results for the periods ended September 30, 1993 are not necessarily indicative of the results expected for the entire year.

(Dollars in millions, except per share amounts)

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>1993</u>	<u>1992</u>	<u>1993</u>	<u>1992</u>
Income Statement Data:				
Interest income	\$ 3,759	\$ 3,390	\$ 10,955	\$ 10,013
Interest expense	3,097	2,883	9,057	8,499
Net interest income	662	507	1,898	1,514
Guaranty fees	243	215	708	612
Gain on sales of mortgages, net	3	14	6	25
Miscellaneous income, net	66	51	162	132
Provision for losses	(45)	(80)	(135)	(240)
Foreclosed property expenses	(31)	—	(100)	—
Administrative expenses	(110)	(97)	(320)	(278)
Income before federal income taxes and extraordinary item	788	610	2,219	1,765
Provision for federal income taxes	(260)	(188)	(709)	(544)
Income before extraordinary item	528	422	1,510	1,221
Extraordinary loss—early extinguishment of debt	(50)	(9)	(130)	(24)
Net income	<u>\$ 478</u>	<u>\$ 413</u>	<u>\$ 1,380</u>	<u>\$ 1,197</u>
Per share:				
Earnings before extraordinary item:				
Primary	\$ 1.93	\$ 1.54	\$ 5.50	\$ 4.45
Fully diluted	1.93	1.54	5.50	4.45
Net earnings:				
Primary	1.74	1.51	5.02	4.36
Fully diluted	1.74	1.51	5.02	4.36
Cash dividends	0.46	0.34	1.32	0.98
September 30,				
Balance Sheet Data:				
Mortgage portfolio, net	\$178,857	\$142,683		
Total assets	211,442	170,055		
Borrowings:				
Due within one year	70,295	46,236		
Due after one year	125,491	108,996		
Total liabilities	203,723	163,602		
Stockholders' equity	7,719	6,453		
September 30,				
Other Data:				
Net interest margin	1.40%	1.33%	1.43%	1.39%
Return on average equity	25.3	26.3	25.4	26.7
Return on average assets	1.0	1.0	1.0	1.0
Ratio of earnings to fixed charges(1)	1.23:1	1.20:1	1.22:1	1.20:1
Dividend payout ratio	26.3%	22.5%	26.2%	22.4%
Equity to assets ratio	3.7	3.8	3.7	3.8
Mortgage purchases	\$ 24,896	\$ 14,621	\$ 62,155	\$ 50,713
MBS issued	62,283	41,332	151,618	136,369
MBS outstanding at period end	481,880	429,935	481,880	429,935

(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.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION
AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND
NINE-MONTH PERIODS ENDED SEPTEMBER 30, 1993**

Results of Operations

As a result of record business volumes and strong portfolio growth, Fannie Mae recorded \$478 million in net income in the third quarter of 1993, a 16 percent increase from \$413 million recorded in the third quarter of 1992. When compared to the first nine months of 1992, net income rose 15 percent to \$1.380 billion in 1993. The growth in net income in the three-month and nine-month periods ended September 30, 1993 was attributable mainly to increases in net interest income and guaranty fee income and was offset, in part, by higher losses on repurchases and calls of debt.

Net interest income in the third quarter of 1993 increased 31 percent compared with the third quarter of 1992, primarily due to 24 percent growth in the average net mortgage portfolio and a 7 basis point increase in the average net interest margin. Net interest income in the first nine months of 1993 increased 25 percent compared with the first nine months of 1992 as a result of 21 percent growth in the average net mortgage portfolio and a 4 basis point increase in the average net interest margin.

The Corporation has experienced compression in the net interest margin during the third quarter of 1993 compared with the second quarter of 1993 as a result of the continued high level of loan prepayments. However, the repurchase or call of high-coupon debt will offset, in part, the negative effect of refinancings on future periods. In addition, the low interest rate environment fosters continued portfolio growth as the spread between mortgage yields and the Corporation's cost of funds widens, increased float income from Mortgage-Backed Securities ("MBS") prepayments, and higher REMIC fee income. Float income arises due to reinvestment of funds during the period between the Corporation's receipt of scheduled and prepaid amounts from servicers and payment of those amounts to MBS investors.

The following table presents an analysis of net interest income for the three-month and nine-month periods ended September 30, 1993 and 1992.

Net Interest Income and Average Balances

(Dollars in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1993	1992	1993	1992
Interest income:				
Mortgage portfolio	\$ 3,536	\$ 3,168	\$ 10,348	\$ 9,383
Investments and cash equivalents	223	222	607	630
Total interest income	3,759	3,390	10,955	10,013
Interest expense	3,097	2,883	9,057	8,499
Net interest income	662	507	1,898	1,514
Tax equivalent adjustment (1)	29	29	90	87
Net interest income tax equivalent basis	<u>\$ 691</u>	<u>\$ 536</u>	<u>\$ 1,988</u>	<u>\$ 1,601</u>
Average balances:				
Interest-earning assets:				
Mortgage portfolio, net (2)	\$174,152	\$140,083	\$164,932	\$135,765
Investments and cash equivalents	23,975	20,870	20,928	18,186
Total interest-earning assets	<u>\$198,127</u>	<u>\$160,953</u>	<u>\$185,860</u>	<u>\$153,951</u>
Interest-bearing liabilities	\$181,935	\$148,935	\$170,967	\$141,942
Interest-free funds	16,192	12,018	14,893	12,009
Total interest-bearing liabilities and interest-free funds	<u>\$198,127</u>	<u>\$160,953</u>	<u>\$185,860</u>	<u>\$153,951</u>
Average interest rates:				
Interest-earning assets (1):				
Mortgage portfolio, net	8.15%	9.07%	8.40%	9.25%
Investments and cash equivalents	3.79	4.26	3.93	4.67
Total interest-earning assets	7.62	8.44	7.89	8.71
Interest-bearing liabilities	6.76	7.69	7.00	7.92
Investment spread .....	.86	.75	.89	.79
Interest-free return (3) .....	.56	.57	.56	.62
Miscellaneous	(.02)	.01	(.02)	(.02)
Net interest margin	<u>1.40%</u>	<u>1.33%</u>	<u>1.43%</u>	<u>1.39%</u>

(1) Reflects pro forma adjustments to permit comparison of yields on tax-advantaged and taxable assets.

(2) Includes average balance of nonperforming loans of \$1.3 billion for the three months and nine months ended September 30, 1993, and \$1.1 billion for the three months and nine months ended September 30, 1992.

(3) The return on that portion of the investment portfolio funded by equity and non-interest-bearing liabilities.

The following rate/volume analysis shows the relative contribution of asset and debt growth and interest rate changes to changes in net interest income for the three-month and nine-month periods ended September 30, 1993 and 1992.

Rate/Volume Analysis

	(Dollars in millions)					
	Third Quarter 1993 vs. Third Quarter 1992			First Nine Months 1993 vs. First Nine Months 1992		
	Increase (Decrease)	Attributable to Changes in (1)		Increase (Decrease)	Attributable to Changes in (1)	
Volume		Rate	Volume		Rate	
Interest income:						
Mortgage portfolio	\$368	\$715	\$(347)	\$965	\$1,827	\$(862)
Investments and cash equivalents ...	1	31	(30)	(23)	61	(84)
Total interest income	369	746	(377)	942	1,888	(946)
Interest expense	214	590	(376)	558	1,534	(976)
Net interest income	<u>\$155</u>	<u>\$156</u>	<u>\$(1)</u>	<u>\$384</u>	<u>\$354</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.

Guaranty fee income in the third quarter increased by \$28 million, or 13 percent, to \$243 million, resulting from a 12 percent increase in average MBS outstanding when compared with the third quarter of 1992. For the first nine months of 1993, guaranty fee income increased by \$96 million, or 16 percent, to \$708 million, also resulting from a 15 percent increase in average MBS outstanding over the comparable period in 1992.

In the third quarter of 1993, miscellaneous income rose 29 percent to \$66 million versus \$51 million in the third quarter of 1992. For the first nine months of 1993, miscellaneous income rose 23 percent to \$162 million versus \$132 million in the first nine months of 1992. The increases in miscellaneous income were primarily a result of an increase in REMIC and other miscellaneous fees. Net REMIC fees were \$38 million for the third quarter of 1993 compared with \$29 million for the third quarter of 1992, and \$87 million for the first nine months of 1993 compared with \$73 million in the first nine months of 1992.

Administrative expenses for the quarter ended September 30, 1993 were \$110 million, compared with \$97 million during the same period in 1992. For the nine months ended September 30, 1993, administrative expenses were \$320 million, compared with \$278 million for the same period in 1992. Increased staffing and technology-related expenses were the primary reasons for the overall increases. Compensation expense was \$64 million in the third quarter of 1993, compared with \$53 million in the third quarter of 1992. For the first nine months of 1993, compensation expense was \$184 million, compared with \$154 million in the first nine months of 1992. The ratio of administrative expenses to the average mortgage portfolio plus average MBS outstanding was .07 percent (annualized) for each of the periods presented. The ratio of administrative expenses to revenues (net interest income, guaranty fees, and miscellaneous income) was 11.3 percent for the third quarter of 1993, compared with 12.5 percent for the third quarter of 1992 and was 11.6 percent for the first nine months of 1993, compared with 12.3 percent for the first nine months of 1992.

As a result of the enactment of the Omnibus Budget Reconciliation Act of 1993, which increased the corporate income tax rate from 34 percent to 35 percent retroactive to January 1, 1993, the third quarter results reflected additional federal income taxes of \$9 million, net of a deferred tax benefit of \$9 million. The effective federal income tax rates for the three-month and nine-month periods ended September 30, 1993 were 33 percent and 32 percent, respectively. The effective federal income tax rate was 31 percent in each of the corresponding periods in 1992.

As expected, the Corporation continued to repurchase and call debt, which resulted in an extraordinary loss of \$80 million (\$50 million after tax) in the third quarter of 1993 compared with a loss of \$14 million (\$9 million after tax) in the third quarter of 1992. An extraordinary loss of

\$201 million (\$130 million after tax) was reported for the nine-month period ended September 30, 1993 from the repurchase and call of debt, compared with a \$37 million loss (\$24 million after tax) from such repurchases and calls in the same period in 1992. Management expects that, with interest rates at current levels, additional calls of debt are likely in the fourth quarter of 1993. The repurchase or call of high-coupon debt favorably affects the Corporation's cost of funds in future periods.

Credit Data

The following table shows the Corporation's serious delinquencies for conventional loans in portfolio and underlying MBS at September 30, 1993 and 1992, and conventional foreclosures and total net charge-offs for the quarters and nine months ended September 30, 1993 and 1992.

	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,		September 30,		September 30,		September 30,		September 30,	
	1993	1992	1993	1992	1993	1992	1993	1992	1993	1992
Single-family .....	.56%	.61%	3,206	2,470	8,743	7,099	\$23	\$54	\$70	\$144
Multifamily	2.53	2.81	8	10	26	19	6	9	21	34
Total							\$29	\$63	\$91	\$178

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

The inventory of single-family properties was 5,459 as of September 30, 1993, compared with 4,001 properties as of September 30, 1992. The inventory of multifamily properties was 47 as of September 30, 1993, compared with 32 properties as of September 30, 1992.

Credit-related expenses and net charge-offs in 1993 reflect the adoption of a new accounting standard for foreclosed assets. Under the new standard, foreclosure, holding, and disposition costs, which previously were charged against the loss allowances are recorded in the income statement as foreclosed property expenses. Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were \$76 million in the third quarter of 1993, compared with \$80 million in the third quarter of 1992. The sum of net charge-offs and foreclosed property expenses in the three months ended September 30, 1993 was \$60 million, compared with \$63 million in net charge-offs during the same period in 1992. Total credit-related expenses for the nine-month periods ended September 30, 1993 and 1992 were \$235 million and \$240 million, respectively. The sum of net charge-offs and foreclosed property expenses for the nine months ended September 30, 1993 and 1992 were \$192 million and \$178 million, respectively.

The allowance for losses increased to \$824 million at September 30, 1993 from \$780 million at December 31, 1992 and \$766 million at September 30, 1992.

Balance Sheet Analysis

Mortgage Portfolio

The Corporation purchased \$24.9 billion of mortgages at an average yield of 6.79 percent in the third quarter of 1993, compared with \$14.6 billion of mortgages at an average yield of 7.55 percent in the third quarter of 1992. In the first nine months of 1993, mortgage purchases were \$62.2 billion at an average yield of 7.01 percent, compared with \$50.7 billion at an average yield of 7.91 percent in the first nine months of 1992. The high level of mortgage purchases in the first nine months of 1993 and in 1992 was primarily due to an increase in the number of mortgages offered for sale in the secondary market, resulting in large part from substantial refinancing activity because of a significant decline in mortgage rates.

Mortgage loan repayments during the third quarter of 1993 totaled \$13.3 billion, compared with \$8.6 billion in the third quarter of 1992. During the first nine months of 1993, mortgage loan repayments were \$33.6 billion compared with \$25.7 billion in the first nine months of 1992. The increase in loan repayments was primarily due to the high level of refinancing activity. Sales from portfolio totaled \$2.5 billion for the third quarter of 1993 compared with \$3.1 billion for the third quarter of 1992, while sales from portfolio totaled \$5.9 billion for the first nine months of 1993 compared with \$8.5 billion for the first nine months of 1992.

As of September 30, 1993, the net mortgage portfolio totaled \$178.9 billion with a yield (before deducting the allowance for losses) of 8.04 percent, compared with \$156.0 billion at 8.68 percent as of December 31, 1992 and \$142.7 billion at 8.95 percent as of September 30, 1992. The decrease in yield was primarily due to a decline in conventional mortgage purchase yields as interest rates declined.

At September 30, 1993, the Corporation had mandatory delivery commitments and lender option commitments outstanding to purchase \$9.2 billion and \$7.4 billion of mortgage loans, respectively, compared with \$4.7 billion and \$9.2 billion, respectively, of such commitments outstanding at December 31, 1992.

Financing and Other Activities

During the third quarter of 1993, the Corporation issued \$99.2 billion of debt at an average cost of 3.52 percent and redeemed \$79.8 billion at an average cost of 3.51 percent. Debt issued in the third quarter of 1992 totaled \$51.4 billion at an average cost of 3.36 percent, and debt redeemed was \$45.3 billion at an average cost of 3.85 percent. During the first nine months of 1993, \$231.6 billion of debt was issued at an average cost of 3.47 percent and \$201.7 billion was redeemed at an average cost of 3.55 percent. In the first nine months of 1992, debt issued totaled \$158.5 billion at an average cost of 3.98 percent, and debt redeemed totaled \$137.0 billion at an average cost of 4.27 percent. The average cost of debt outstanding at September 30, 1993, December 31, 1992, and September 30, 1992 was 6.57 percent, 7.21 percent, and 7.49 percent, respectively.

The Corporation's shareholders' equity at September 30, 1993 was \$7.7 billion, compared with \$6.8 billion at December 31, 1992, and \$6.5 billion at September 30, 1992. During the second quarter of 1993, the Corporation announced that it intends to repurchase from time to time shares of its common stock, primarily to offset the dilutive effect of shares issued or anticipated to be issued for stock options and benefit plans. The Corporation repurchased 1.2 million shares at a cost of \$93 million in the second quarter of 1993 and 400,000 shares at a cost of \$33 million in the third quarter of 1993. On October 19, 1993, the Board of Directors approved an increase in the dividend on the Corporation's common stock to 52 cents per share for the quarter ended September 30, 1993 from 46 cents per share. As of September 30, 1993, there were 273 million shares of common stock outstanding.

As discussed in the Information Statement under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Developments," the Corporation, effective October 28, 1992, is subject to revised capital standards. As of September 30, 1993, the Corporation met the applicable standards, although the precise level of capital required cannot be definitively determined until regulations relating to off-balance-sheet obligations other than MBS are published. Management expects that growth in retained earnings will ensure continued compliance with the applicable standards.

Mortgage-Backed Securities

The Corporation issued \$62.3 billion of MBS during the third quarter of 1993, compared with \$41.3 billion in the third quarter of 1992. MBS issued in the first nine months of 1993 totaled \$151.6 billion, compared with \$136.4 billion in the first nine months of 1992. The increase in MBS issuances was primarily due to increased availability of mortgages due to the high level of refinancings.

The following table summarizes MBS activity for the three-month and nine-month periods ended September 30, 1993 and 1992.

Summary of MBS Activity

(Dollars in millions)

Three Months Ended September 30,	Issued				Outstanding (1)		
	Lender Originated (1)				Lender Risk (2)	Fannie Mae Risk (3)	Total (4)
	Lender Risk	Fannie Mae Risk	Fannie Mae Originated	Total			
1993	\$1,951	\$ 56,471	\$ 3,861	\$ 62,283	\$65,822	\$416,058	\$481,880
1992	2,556	35,647	3,129	41,332	85,191	344,744	429,935
Nine Months							
Ended September 30,							
1993	\$4,518	\$137,909	\$ 9,191	\$151,618			
1992	9,286	115,415	11,668	136,369			

- (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 \$35.1 billion and \$40.9 billion at September 30, 1993 and 1992, 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 \$6.9 billion at September 30, 1993 and \$8.3 billion at September 30, 1992 that are backed by government insured or guaranteed mortgages.
- (4) Included are \$19.3 billion and \$18.4 billion at September 30, 1993 and 1992, respectively, of Fannie Mae MBS in portfolio.

The increase in MBS outstanding where Fannie Mae has primary default risk is primarily due to lender reaction to capital rules that require lenders to have more capital for MBS where they bear default risk.

RECENT LEGISLATIVE AND REGULATORY DEVELOPMENTS

On October 13, 1993, the Department of Housing and Urban Development (“HUD”) issued a final Notice that establishes 1993-1994 interim housing goals for Fannie Mae under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (the “Act”). Pursuant to the Act, the Notice addresses three goals for the 1993-1994 period: goals on the percentage of units supporting housing for low- and moderate-income households relative to total units financed; goals on the percentage of units supporting housing located in central cities relative to total units financed; and a dollar-based Special Affordable Housing goal—targeting lower-income borrowers and renters—for the 2-year period.

The goals with respect to low- and moderate-income housing are 30 percent for 1993 and 1994. For housing located in central cities, the goals are 28 percent and 30 percent for 1993 and 1994, respectively. The proposed Special Affordable Housing goal is \$2 billion for the 1993-1994 period. The Notice provides that in both 1993 and 1994 only business that is over and above the Corporation’s 1992 level of business activity supporting households targeted by this goal will count toward meeting the \$2 billion goal. It also sets forth various counting and measurement standards for determining performance relative to the goals. Attainment of the goals is a major Fannie Mae priority.

LEGAL PROCEEDINGS

Additional information regarding the legal proceedings discussed in the Information Statement is presented in Notes to Interim Financial Statements, “Income Taxes.”

MANAGEMENT

In October 1993, the President of the United States appointed five members to the Board of Directors of the Corporation. Their age and background, as of October 15, 1993, are as follows:

<u>Name and Age</u>	<u>Principal Occupation, Business Experience, and Residence</u>	<u>Other Directorships (1)</u>
Russell G. Barakat, 53	Executive Director, Broward County Housing Authority, a low- and moderate-income housing authority, 1972 to present; Lauderhill, Florida	
William M. Daley, 45	Partner, Mayer, Brown & Platt, a law firm, May 1993 to present; Special Counsellor to the President of the United States for North American Free Trade Agreement, September 1993 to present; President and Chief Operating Officer, Amalgamated Bank of Chicago, a financial institution, October 1990 to May 1993; Vice Chairman, Amalgamated Bank of Chicago, October 1989 to October 1990; Of Counsel, Mayer, Brown & Platt, October 1989 to October 1990; Partner, Mayer, Brown & Platt, 1985 to October 1989; Chicago, Illinois	
Thomas A. Leonard, 47	Partner, Obermayer, Rebmann, Maxwell & Hippel, a law firm, January 1992 to present; Partner, Dilworth, Paxson, Kalish & Kauffman, a law firm, January 1983 to December 1991; Philadelphia, Pennsylvania	
John R. Sasso, 46	President, Advanced Strategies, Inc., a corporate communications and public affairs consulting firm, January 1990 to present; Senior Vice President, Hill, Holiday, Connors and Cosmopolos, Inc., January 1988 to December 1989; Boston, Massachusetts	
Jose H. Villarreal, 40	Partner, McGinnis, Lochridge, & Kilgore, L.L.P., a law firm, July 1993 to present; White House Office of Presidential Personnel, April 1993 to June 1993; Presidential Transition Team, November 1992 to March 1993; Deputy Campaign Manager, Clinton Campaign, June 1992 to November 1992; Associate, McGinnis, Lockridge & Kilgore, February 1991 to May 1992; Assistant Attorney General for Public Finance, State of Texas, November 1988 to January 1991; San Antonio, Texas	

(1) Companies with a class of securities registered pursuant to Section 12 of the Securities Exchange Act of 1934 or subject to the requirements of Section 15(d) of that Act or any company registered as an investment company under the Investment Company Act of 1940. Certain directorships of other companies are also noted in the occupation column.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors
Federal National Mortgage Association:

We have reviewed the accompanying condensed balance sheet of Federal National Mortgage Association (the "Corporation") as of September 30, 1993 and the related condensed statements of income and cash flows for the three-month and nine-month periods then ended. These financial statements are the responsibility of the Corporation'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 accompanying condensed financial statements for the three-month and nine-month periods ended September 30, 1993, 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 Federal National Mortgage Corporation as of December 31, 1992 (presented herein) and the related statements of income and cash flows for the year then ended (not presented herein); and in our report dated January 11, 1993, we expressed an unqualified opinion on those financial statements. We have not audited or reviewed the accompanying condensed statements of income and cash flows for the three and nine-month periods ended September 30, 1992, and, accordingly, do not express an opinion or any other form of assurance on them.

KPMG PEAT MARWICK

Washington, DC
October 12, 1993

FEDERAL NATIONAL MORTGAGE ASSOCIATION
INTERIM FINANCIAL STATEMENTS
CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1993	1992	1993	1992
	(Dollars in millions, except per share amounts)			
Interest income.....	\$3,759	\$3,390	\$10,955	\$10,013
Interest expense.....	3,097	2,883	9,057	8,499
Net interest income.....	662	507	1,898	1,514
Guaranty fees.....	243	215	708	612
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Miscellaneous income, net.....	66	51	162	132
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Administrative expenses.....	(110)	(97)	(320)	(278)
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Provision for federal income taxes.....	(260)	(188)	(709)	(544)
Income before extraordinary item.....	528	422	1,510	1,221
Extraordinary loss—early extinguishment of debt (net of tax effect).....	(50)	(9)	(130)	(24)
Net income.....	<u>\$ 478</u>	<u>\$ 413</u>	<u>\$ 1,380</u>	<u>\$ 1,197</u>
Per share:				
Earnings before extraordinary item:				
Primary.....	\$1.93	\$1.54	\$5.50	\$4.45
Fully diluted.....	1.93	1.54	5.50	4.45
Net earnings:				
Primary.....	1.74	1.51	5.02	4.36
Fully diluted.....	1.74	1.51	5.02	4.36
Cash dividends.....	0.46	0.34	1.32	0.48

CONDENSED BALANCE SHEETS

(Unaudited)

	September 30, 1993	December 31, 1992
	(Dollars in millions)	
Assets		
Mortgage portfolio, net.....	\$178,857	\$156,021
Investments.....	18,576	14,786
Cash and cash equivalents.....	8,947	5,193
Other assets.....	5,062	4,978
Total assets.....	<u>\$211,442</u>	<u>\$180,978</u>
Liabilities		
Debentures, notes, and bonds, net		
Due within one year.....	\$ 70,295	\$ 56,404
Due after one year.....	125,491	109,896
Total.....	195,786	166,300
Other liabilities.....	7,937	7,904
Total liabilities.....	203,723	174,204
Stockholders' equity.....	7,719	6,774
Total liabilities and stockholders' equity.....	<u>\$211,442</u>	<u>\$180,978</u>

See Notes to Interim Financial Statements

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	<u>1993</u>	<u>1992</u>	<u>1993</u>	<u>1992</u>
	(Dollars in millions)			
Net cash provided by operating activities	\$ 270	\$ 1,349	\$ 1,510	\$ 3,046
Cash flows from investing activities:				
Purchases of mortgages	(25,232)	(14,737)	(62,874)	(50,760)
Proceeds from sales of mortgages	2,578	3,115	5,999	8,534
Mortgage principal repayments	13,666	8,803	34,593	26,201
Net decrease in investments	<u>(7,720)</u>	<u>(5,544)</u>	<u>(3,790)</u>	<u>(4,498)</u>
Net cash used in investing activities	<u>(16,708)</u>	<u>(8,363)</u>	<u>(26,072)</u>	<u>(20,523)</u>
Cash flows from financing activities:				
Cash proceeds from issuance of debt	98,733	51,332	230,532	157,793
Cash payments to retire debt	(79,823)	(45,317)	(201,783)	(136,978)
Other	<u>(157)</u>	<u>(92)</u>	<u>(433)</u>	<u>(297)</u>
Net cash provided by financing activities	<u>18,753</u>	<u>5,923</u>	<u>28,316</u>	<u>20,518</u>
Net increase (decrease) in cash and cash equivalents . . .	2,315	(1,091)	3,754	3,041
Cash and cash equivalents at beginning of period	<u>6,632</u>	<u>8,489</u>	<u>5,193</u>	<u>4,357</u>
Cash and cash equivalents at end of period	<u>\$ 8,947</u>	<u>\$ 7,398</u>	<u>\$ 8,947</u>	<u>\$ 7,398</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. Certain amounts in 1992 have been reclassified to conform with the current presentation. Operating results for the three-month and nine-month periods ended September 30, 1993 are not necessarily indicative of the results that may be expected for the year ending December 31, 1993. 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 February 16, 1993.

NOTES TO INTERIM FINANCIAL STATEMENTS (Continued)

Commitments and Contingencies

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

	<u>September 30, 1993</u> (Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	\$ 9.2
Lender option(1) .....	.7
Average net yield on mandatory delivery	6.47%
Commitments to issue MBS:	
Mandatory delivery(1)	4.0
Lender option(1)	7.1
Master commitments:	
Mandatory delivery(2)	85.9
Lender option	36.6

(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 as summarized below:

	<u>September 30, 1993</u> (Dollars in billions)
Total MBS outstanding	\$481.9
Amount for which the Corporation has primary foreclosure loss risk(1):	
Conventional	409.2
Government-insured or guaranteed	6.9

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

Income Taxes

The Corporation's tax provision reflects an additional \$9 million, which is net of a deferred tax benefit of \$9 million from the effect of the change in tax rate on net deferred tax assets.

On June 17, 1993, the U. S. Tax Court ruled in the Corporation's favor on an issue relating to the proper tax treatment of certain hedging gains and losses resulting from 1984-85 transactions. The Corporation had claimed ordinary net losses on its tax returns, but the IRS asserted that the losses were capital, not ordinary. At this time it is not known whether the IRS will file an appeal on this issue. In the same case, the Tax Court also ruled that Fannie Mae must defer losses on certain 1984-85 foreign currency transactions to later years. This ruling will not have a material adverse impact on the Corporation's current net income.

The IRS has also audited the Corporation's 1986 and 1987 tax returns and has proposed adjustments related to certain hedging transactions that it indicates also should be recharacterized as

NOTES TO INTERIM FINANCIAL STATEMENTS (Continued)

capital gains and losses. The Corporation's taxable income for 1988 through 1992 includes similar deductions that may be challenged in future IRS audits.

If the IRS appeals the Tax Court hedging decision and pursues similar hedging issues for subsequent years, and their position is sustained for all outstanding tax years, the Corporation's current net income would be reduced by approximately \$160 million.

In the audit of the Corporation's 1986 and 1987 tax returns, the IRS has also proposed additional adjustments on hedging related transactions that involve additional legal arguments different from those involved in the Tax Court decision. If the position of the IRS is sustained on these deductions, the Corporation's net income would be reduced by approximately \$110 million.

The Corporation believes the positions and deductions taken in its tax returns are proper and will contest vigorously any effort to change their timing or characterization.

COMPUTATION OF EARNINGS PER SHARE (Unaudited)

	<u>Three Months</u> <u>Ended</u> <u>September 30,</u>		<u>Nine Months</u> <u>Ended</u> <u>September 30,</u>	
	<u>1993</u>	<u>1992</u>	<u>1993</u>	<u>1992</u>
	(In millions, except per share data)			
Primary Earnings Per Share:				
Average common shares outstanding	273.0	273.0	273.6	273.1
Effect of common stock equivalents	<u>1.1</u>	<u>1.1</u>	<u>1.0</u>	<u>1.1</u>
Average primary shares outstanding	<u>274.1</u>	<u>274.1</u>	<u>274.6</u>	<u>274.2</u>
Income before extraordinary item	\$ 528	\$ 422	\$1,510	\$1,221
Net income	478	413	1,380	1,197
Primary earnings per share before extraordinary item	\$ 1.93	\$ 1.54	\$ 5.50	\$ 4.45
Primary earnings per share	1.74	1.51	5.02	4.36
Fully Diluted Earnings Per Share:				
Average common shares outstanding	273.0	273.0	273.6	273.1
Effect of common stock equivalents	<u>1.2</u>	<u>1.2</u>	<u>1.2</u>	<u>1.3</u>
Average fully diluted shares outstanding	<u>274.2</u>	<u>274.2</u>	<u>274.8</u>	<u>274.4</u>
Income before extraordinary item	\$ 528	\$ 422	\$1,510	\$1,221
Net income	478	413	1,380	1,197
Fully diluted earnings per share before extraordinary item	\$ 1.93	\$ 1.54	\$ 5.50	\$ 4.45
Fully diluted earnings per share	1.74	1.51	5.02	4.36

