

**Supplement dated August 14, 2000 to
Information Statement dated March 30, 2000**



This Supplement describes the financial condition of the Federal National Mortgage Association ("Fannie Mae") as of June 30, 2000, and it contains unaudited financial statements with respect to Fannie Mae for the three months and six months ended June 30, 2000. This Supplement should be read in conjunction with Fannie Mae's Information Statement dated March 30, 2000 (the "Information Statement") and the Supplement dated May 15, 2000 thereto (the "May 15 Supplement"), which are hereby incorporated by reference. The Information Statement describes the business and operations of Fannie Mae, and it contains financial data as of December 31, 1999. The May 15 Supplement describes the financial condition of Fannie Mae as of March 31, 2000, and it contains unaudited financial statements with respect to Fannie Mae for the three months ended March 31, 2000. Fannie Mae also periodically makes available statistical information on its mortgage purchase and mortgage-backed securities volumes, as well as other relevant information about Fannie Mae. Copies of Fannie Mae's current Information Statement, any supplements thereto, and other available information, including Fannie Mae's Proxy Statement dated March 27, 2000, 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). The Information Statement and any supplements thereto can also be accessed on Fannie Mae's worldwide website at <http://www.fanniemae.com/investors>.

In connection with its offerings of securities, Fannie Mae 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, a Prospectus, or otherwise. This Supplement does not offer any securities for sale.

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

Fannie Mae's securities are not required to be registered under the Securities Act of 1933. At the close of business on July 31, 2000, approximately 999 million shares of Fannie Mae's common stock (without par value) were outstanding.

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

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SELECTED FINANCIAL DATA

The following selected financial data for the three-month and six-month periods ended June 30, 2000 and 1999 are unaudited and include, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. Operating results for the periods ended June 30, 2000 are not necessarily indicative of the results expected for the entire year.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Income Statement Data:				
Interest income	\$ 10,365	\$ 8,564	\$ 20,338	\$ 16,847
Interest expense	8,966	7,376	17,577	14,500
Net interest income	1,399	1,188	2,761	2,347
Guaranty fees	339	320	671	637
Fee and other income (expense), net	(46)	54	(46)	112
Credit-related expenses	(21)	(40)	(51)	(87)
Administrative expenses	(224)	(199)	(441)	(391)
Income before federal income taxes and extraordinary item	1,447	1,323	2,894	2,618
Provision for federal income taxes	(383)	(365)	(768)	(726)
Income before extraordinary item	1,064	958	2,126	1,892
Extraordinary item, gain (loss), net of tax effect	33	—	33	(9)
Net income	\$ 1,097	\$ 958	\$ 2,159	\$ 1,883
Preferred stock dividends	(32)	(20)	(52)	(38)
Net income available to common stockholders	\$ 1,065	\$ 938	\$ 2,107	\$ 1,845
Basic earnings per common share:				
Earnings before extraordinary item	\$ 1.03	\$.92	\$ 2.06	\$ 1.81
Extraordinary item .....	.03	—	.03	(.01)
Net earnings	\$ 1.06	\$.92	\$ 2.09	\$ 1.80
Diluted earnings per common share:				
Earnings before extraordinary item	\$ 1.02	\$.91	\$ 2.05	\$ 1.79
Extraordinary item .....	.03	—	.03	—
Net earnings	\$ 1.05	\$.91	\$ 2.08	\$ 1.79
Balance Sheet Data at June 30:				
	2000	1999		
Mortgage portfolio, net	\$549,985	\$473,463		
Investments	47,395	42,304		
Total assets	608,775	526,263		
Borrowings:				
Due within one year	239,281	192,833		
Due after one year	339,246	307,064		
Total liabilities	589,984	509,682		
Stockholders' equity	18,791	16,581		
Capital(1)	19,597	17,375		
Other Data:				
	2000	1999	2000	1999
Average net interest margin	1.02%	1.01%	1.02%	1.01%
Total tax-equivalent revenue(2)	\$ 1,897	\$ 1,723	\$ 3,789	\$ 3,401
Return on average common equity	25.8%	24.9%	25.8%	24.9%
Dividend payout ratio	26.4	29.5	26.9	30.0
Average effective guaranty fee rate .....	.196	.194	.195	.194
Credit loss ratio(3) .....	.006	.014	.008	.016
Ratio of earnings to combined fixed charges and preferred stock dividends(4)	1.16:1	1.18:1	1.16:1	1.18:1
Mortgage purchases	\$ 31,971	\$ 55,799	\$ 61,291	\$108,756
MBS issued	48,586	78,553	87,553	185,004
MBS outstanding at period end(5)	995,815	911,435	995,815	911,435
Weighted-average diluted common shares outstanding	1,010	1,032	1,014	1,033

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

(2) Includes revenues net of operating losses plus tax-equivalent adjustments for tax-exempt income and investment tax credits using the applicable federal income tax rate.

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

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

(5) Includes \$299 billion and \$250 billion of MBS in portfolio at June 30, 2000 and 1999, respectively.

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND
RESULTS OF OPERATIONS FOR THE THREE-MONTH AND SIX-MONTH PERIODS
ENDED JUNE 30, 2000**

Results of Operations

In the second quarter of 2000, Fannie Mae reported record earnings of \$1.097 billion, compared with \$958 million in the second quarter of 1999. For the first six months of 2000, earnings increased \$276 million to \$2.159 billion. The 15 percent increase in earnings for the three- and six-month periods ended June 30, 2000 was primarily due to increases in net interest income, lower credit-related expenses, and an extraordinary gain on the extinguishment of debt.

Fannie Mae's tax-equivalent revenue totaled \$1.897 billion in the second quarter of 2000, a 10 percent increase over the comparable period from the prior year. Fannie Mae generated \$3.789 billion in tax-equivalent revenue during the first half of 2000, an 11 percent increase over the first half of 1999. Tax-equivalent revenue is total revenue net of operating losses adjusted to include the full pre-tax value of tax-exempt income and investment tax credits based on applicable federal income tax rates. The growth in tax-equivalent revenue in both periods was primarily attributable to increases in net interest income.

Net interest income in the second quarter of 2000 increased 18 percent compared with the second quarter of 1999. Net interest income for the first six months of 2000 increased 18 percent compared with 1999. The increase for both the three- and six-month periods was the result of 17 percent growth in the average investment portfolio and a one basis point increase in the net interest margin. Management expects that the net interest margin will decline slightly over the remainder of the year as lower cost debt matures.

The following table presents an analysis of net interest income and average balances for the three- and six-month periods ended June 30, 2000 and 1999.

Net Interest Income and Average Balances

(Dollars in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Interest income:				
Mortgage portfolio	\$ 9,569	\$ 7,865	\$ 18,860	\$ 15,299
Investments and cash equivalents	796	699	1,478	1,548
Total interest income	<u>10,365</u>	<u>8,564</u>	<u>20,338</u>	<u>16,847</u>
Interest expense(1):				
Short-term debt	955	947	1,865	2,139
Long-term debt	8,011	6,429	15,712	12,361
Total interest expense	<u>8,966</u>	<u>7,376</u>	<u>17,577</u>	<u>14,500</u>
Net interest income	1,399	1,188	2,761	2,347
Tax equivalent adjustment(2)	102	84	197	162
Net interest income tax equivalent basis ...	<u>\$ 1,501</u>	<u>\$ 1,272</u>	<u>\$ 2,958</u>	<u>\$ 2,509</u>
Average balances:				
Interest-earning assets(3):				
Mortgage portfolio, net	\$539,282	\$452,572	\$533,576	\$438,274
Investments and cash equivalents	49,372	52,693	47,104	57,834
Total interest-earning assets	<u>\$588,654</u>	<u>\$505,265</u>	<u>\$580,680</u>	<u>\$496,108</u>
Interest-bearing liabilities(1):				
Short-term debt	\$ 67,621	\$ 80,460	\$ 68,074	\$ 88,673
Long-term debt	500,670	405,533	492,664	387,913
Total interest-bearing liabilities	568,291	485,993	560,738	476,586
Interest-free funds	20,363	19,272	19,942	19,522
Total interest-bearing liabilities and interest-free funds	<u>\$588,654</u>	<u>\$505,265</u>	<u>\$580,680</u>	<u>\$496,108</u>
Average interest rates(2):				
Interest-earning assets:				
Mortgage portfolio, net	7.13%	7.02%	7.11%	7.05%
Investments and cash equivalents	6.50	5.33	6.31	5.38
Total interest-earning assets	<u>7.07</u>	<u>6.84</u>	<u>7.04</u>	<u>6.86</u>
Interest-bearing liabilities(1):				
Short-term debt	5.63	4.67	5.44	4.78
Long-term debt	6.40	6.34	6.38	6.37
Total interest-bearing liabilities	<u>6.31</u>	<u>6.06</u>	<u>6.26</u>	<u>6.08</u>
Investment spread .....	.76	.78	.78	.78
Interest-free return(4) .....	.26	.23	.24	.23
Net interest margin(5)	<u>1.02%</u>	<u>1.01%</u>	<u>1.02%</u>	<u>1.01%</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 \$2.2 billion and \$2.3 billion for the three- and six-month periods ended June 30, 2000, respectively, and \$3.3 billion for the three- and six-month periods ended June 30, 1999.
- (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- and six-month periods ended June 30, 2000 and 1999.

	Rate / Volume Analysis					
	(Dollars in millions)					
	Second Quarter 2000 vs. Second Quarter 1999			First Six Months 2000 vs. First Six Months 1999		
	Increase (Decrease)	Attributable to Changes in (1)		Increase (Decrease)	Attributable to Changes in (1)	
Volume		Rate	Volume		Rate	
Interest income:						
Mortgage portfolio	\$1,704	\$1,535	\$ 169	\$3,561	\$3,366	\$ 195
Investments and cash equivalents	<u>97</u>	<u>(46)</u>	<u>143</u>	<u>(70)</u>	<u>(313)</u>	<u>243</u>
Total interest income	<u>1,801</u>	<u>1,489</u>	<u>312</u>	<u>3,491</u>	<u>3,053</u>	<u>438</u>
Interest expense:						
Short-term debt	8	(165)	173	(274)	(540)	266
Long-term debt	<u>1,582</u>	<u>1,522</u>	<u>60</u>	<u>3,351</u>	<u>3,341</u>	<u>10</u>
Total interest expense	<u>1,590</u>	<u>1,357</u>	<u>233</u>	<u>3,077</u>	<u>2,801</u>	<u>276</u>
Net interest income	<u>\$ 211</u>	<u>\$ 132</u>	<u>\$ 79</u>	<u>\$ 414</u>	<u>\$ 252</u>	<u>\$ 162</u>

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

Guaranty fee income increased by \$19 million, or six percent, to \$339 million, compared with \$320 million in the second quarter of 1999. This change resulted from a five percent increase in average net Mortgage-Backed Securities (“MBS”) outstanding and a .2 basis point increase in the average effective guaranty fee rate when compared with the second quarter of 1999. For the first half of 2000, guaranty fee income increased by \$34 million, or five percent, to \$671 million compared with the first half of 1999. The increase was the result of a five percent increase in average net MBS outstanding and a .1 basis point increase in the average effective guaranty fee rate. The average effective guaranty fee rate in the second quarter of 2000 increased slightly to 19.6 basis points compared with 19.4 in the second quarter of 1999, in part because of a reduction in the percentage of MBS issued with pool insurance, a decline in refinance activity and other turnover of pools with higher effective guaranty fee rates, and efforts by Fannie Mae to shift the business mix toward products with higher fee rates.

Fee and other income (expense) decreased to a net expense of \$46 million for the second quarter of 2000 versus income of \$54 million in the second quarter of 1999. For the first half of 2000, fee and other income (expense) decreased to a net expense of \$46 million versus income of \$112 million in the first half of 1999. The decrease in both periods was largely the result of an increase in tax advantaged investments which generate operating losses, the recognition of a loss on a Benchmark Note hedge early in the second quarter of 2000, and a reduction in volume-related fees. Dislocation in the agency debt markets caused a hedge of an anticipated issuance of debt to go out of correlation, which resulted in immediate recognition of a loss.

Administrative expenses for the quarter ended June 30, 2000 increased to \$224 million from \$199 million during the same period in 1999 primarily due to higher compensation costs. For the first half of 2000, administrative expenses were \$441 million, compared to \$391 million for the same period in 1999. The ratio of administrative expenses to the average mortgage portfolio plus average MBS outstanding was .073 percent and .072 percent for the three- and six-month periods ended June 30,

2000, respectively, compared with .071 percent for the three- and six-month periods ended June 30, 1999. The ratio of administrative expenses to revenues (net interest income, guaranty fees, and fee and other income (expense)) was 13.2 percent for the second quarter of 2000, compared with 12.7 percent for the second quarter of 1999, and was 13.0 percent for the first half of 2000, compared with 12.6 percent for the first half of 1999.

The effective federal income tax rate was 27 percent for the three- and six-month periods ended June 30, 2000, compared with 28 percent for the three- and six-month periods ended June 30, 1999.

In the second quarter of 2000, Fannie Mae reported a \$50 million gain (\$33 million after tax) from the repurchase or call of debt, compared with no extraordinary gains or losses in the second quarter of 1999. Extraordinary gains from the repurchase or call of debt were \$50 million (\$33 million after tax) for the first half of 2000, compared with extraordinary losses of \$14 million (\$9 million after tax) for the first half of 1999.

Credit Data

The following table shows Fannie Mae's serious delinquencies for conventional loans in portfolio and underlying MBS at June 30, 2000 and 1999 and conventional properties acquired and total net recoveries or charge-offs for the three- and six-month periods ended June 30, 2000 and 1999.

	Delinquency Rate (1)		Number of Properties Acquired				Net Charge-offs / (Recoveries) (Dollars in millions)			
			Three Months Ended		Six Months Ended		Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,	June 30,
	2000	1999	2000	1999	2000	1999	2000	1999	2000	1999
Single-family . . .	.41%	.49%	3,649	4,357	7,602	8,795	\$(32)	\$(26)	\$(65)	\$(49)
Multifamily . . . .	.05	.19	—	3	1	7	—	1	1	2
Total							\$(32)	\$(25)	\$(64)	\$(47)

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

Total credit-related losses, which include loan charge-offs, net of recoveries, and foreclosed property expenses, were \$19 million for the three months ended June 30, 2000, compared with \$40 million for the same period in 1999. Total credit-related losses for the six-months ended June 30, 2000 and 1999 were \$47 million and \$85 million, respectively. The declines in credit-related losses were the result of both increased net recoveries on foreclosed properties as well as decreases in foreclosed property expenses in the second quarter and first half of 2000 versus the second quarter and first half of 1999. In addition to Fannie Mae's loss mitigation efforts, deeper mortgage insurance requirements on higher loan-to-value ratio loans have contributed to increasing net recoveries on foreclosed properties. The decline in foreclosed property expenses in both periods was partially attributable to a decline in single-family property acquisitions. Single-family property acquisitions dropped 16 percent to 3,649 in the second quarter of 2000 from 4,357 in the second quarter of 1999. In the first half of 2000, single-family acquisitions fell 14 percent to 7,602 from 8,795 in the comparable period.

The inventory of single-family properties was 6,785 as of June 30, 2000, compared with 7,490 as of June 30, 1999. The inventory of multifamily properties was 2 as of June 30, 2000, compared with 7 as of June 30, 1999.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, decreased to \$21 million in the second quarter of 2000 from \$40 million in the second quarter of 1999. Total credit-related expenses for the first six months of 2000 and 1999 were \$51 million and \$87 million, respectively. These decreases were due in part to negative \$30 million and negative \$60 million loss provisions recorded in the second quarter and first half of 2000, respectively, compared with negative \$25 million and negative \$45 million loss provisions recorded in the second quarter and first half of 1999, respectively. The decreases in total credit-related expenses also were due to declines in foreclosed property expenses to \$51 million and \$111 million in the second quarter and first half of 2000, respectively, from \$65 million and \$132 million in the second quarter and first half of 1999, respectively.

The allowance for losses increased to \$809 million at June 30, 2000 from \$804 million at December 31, 1999. 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

Fannie Mae purchased \$32 billion of mortgages at an average yield of 7.62 percent in the second quarter of 2000, compared with \$56 billion of mortgages at an average yield of 6.66 percent in the second quarter of 1999. During the first six months of 2000, mortgage purchases were \$61 billion at an average yield of 7.64 percent, compared with \$109 billion at an average yield of 6.53 percent for the first six months of 1999. The decrease in mortgage purchases was primarily due to a higher interest rate environment and the decreased availability of mortgages offered for sale in the secondary market.

Mortgage loan repayments during the second quarter of 2000 totaled \$14 billion, compared with \$22 billion in the second quarter of 1999. During the first half of 2000, mortgage loan repayments were \$25 billion, compared with \$48 billion in the first half of 1999. The decline in loan repayments was primarily due to a higher interest rate environment.

As of June 30, 2000, the net mortgage portfolio totaled \$550 billion with a yield (before deducting the allowance for losses) of 7.15 percent, compared with \$523 billion at a yield of 7.08 percent as of December 31, 1999, and \$473 billion at a yield of 7.00 percent as of June 30, 1999. The increase in yield was primarily due to an increase in conventional mortgage purchase yields as interest rates increased and prepayments slowed. The portfolio growth during the second quarter and first half of 2000 was generated by a combination of MBS, REMIC, and whole loan purchases.

At June 30, 2000, Fannie Mae had mandatory delivery commitments and lender option commitments outstanding to purchase \$9 billion and \$2 billion of mortgage loans, respectively, compared with \$7 billion and \$2 billion, respectively, of such commitments outstanding at December 31, 1999.

Financing and Other Activities

Fannie Mae's financing activities for the second quarters and first half of 2000 and 1999 are summarized below.

(Dollars in Billions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
Debt Issued	\$ 291	\$ 274	\$ 643	\$ 464
Average Cost	6.48%	5.11%	6.15%	5.11%
Debt Redeemed	\$ 270	\$ 249	\$ 611	\$ 424
Average Cost	6.12%	5.03%	5.87%	5.11%

The average cost of debt outstanding at June 30, 2000, December 31, 1999, and June 30, 1999 was 6.38 percent, 6.18 percent, and 6.05 percent, respectively.

The following table presents the amount of option-embedded debt instruments as a percentage of mortgage purchases and the net mortgage portfolio for the three- and six-month periods ended June 30, 2000 and June 30, 1999. Option-embedded debt instruments include derivative financial instruments.

<u>(Dollars in billions)</u>	<u>Three Months Ended June 30,</u>		<u>Six Months Ended June 30,</u>	
	<u>2000</u>	<u>1999</u>	<u>2000</u>	<u>1999</u>
Issued during the period	\$ 19	\$ 33	\$33	\$88
Percentage of total mortgage purchases	59%	59%	53%	81%
Outstanding at end of period	\$272	\$236		
Percentage of total net mortgage portfolio	49%	50%		

The following table summarizes certain of Fannie Mae's derivative financial instrument activities for the quarter ended June 30, 2000, the balances as of June 30, 2000 and 1999, and the expected maturities of the derivative instruments outstanding as of June 30, 2000.

Derivative Financial Instruments Table (1)

(Dollars in millions)

	<u>Generic-Pay Fixed / Receive Variable Swaps (2)</u>			<u>Pay Variable / Receive Fixed Swaps</u>	<u>Basis Swaps</u>	<u>Caps and Swaptions</u>	<u>Total</u>
	<u>Notional</u>	<u>Pay Rate (3)</u>	<u>Receive Rate (3)</u>				
Balance at March 31, 2000	\$141,199	6.56%	6.15%	\$38,663	\$18,144	\$58,615	\$256,621
Additions	6,235	7.42	6.82	5,357	8,825	14,950	35,367
Maturities	1,205	6.27	6.15	8,332	2,125	2,500	14,162
Balance at June 30, 2000	<u>\$146,229</u>	<u>6.60%</u>	<u>6.59%</u>	<u>\$35,688</u>	<u>\$24,844</u>	<u>\$71,065</u>	<u>\$277,826</u>
Balance at June 30, 1999	<u>\$110,287</u>	<u>6.46%</u>	<u>5.07%</u>	<u>\$28,418</u>	<u>\$10,894</u>	<u>\$43,415</u>	<u>\$193,014</u>
Future Maturities (4)							
2000	\$ 13,172	5.07%	6.54%	\$ 6,350	\$14,015	\$ 4,750	\$ 38,287
2001	11,025	6.12	6.40	17,193	9,325	11,300	48,843
2002	6,900	6.13	6.56	5,336	679	9,650	22,565
2003	6,859	5.99	6.58	831	200	11,915	19,805
2004	9,975	7.21	6.60	460	120	5,950	16,505
Thereafter	98,298	6.88	6.61	5,518	505	27,500	131,821
	<u>\$146,229</u>	<u>6.60%</u>	<u>6.59%</u>	<u>\$35,688</u>	<u>\$24,844</u>	<u>\$71,065</u>	<u>\$277,826</u>

- (1) Dollars represent notional amounts that only indicate the amount on which swap payments are being calculated and do not represent the amount at risk of loss.
- (2) Included in the notional amounts are callable swaps and swaptions of \$66 billion, \$55 billion, and \$38 billion with weighted-average pay rates of 3.59 percent, 4.34 percent and 5.35 percent and weighted-average receive rates of 6.56 percent, 6.21 percent, and 5.11 percent at June 30, 2000, March 31, 2000 and June 30, 1999, respectively.
- (3) The weighted-average interest rate payable and receivable is as of the date indicated. The receive rate of the swaps are floating rate, so these rates may change as prevailing interest rates change.
- (4) Based on stated maturities. Assumes that variable interest rates remain constant at June 30, 2000 levels.

The notional amounts of other off-balance-sheet financial instruments, which include futures contracts and derivative instruments that simulate the short sale of Treasury securities to provide a hedge against interest rate fluctuations, credit enhancements, and other guarantees were \$18 billion at June 30, 2000 and \$35 billion at December 31, 1999.

The exposure to credit loss for interest rate swaps and other off-balance-sheet financial instruments is estimated by calculating the cost, on a present value basis, to replace at current market rates all those off-balance-sheet financial instruments outstanding for which Fannie Mae was in a gain position. Fannie Mae's net exposure was \$4 billion at June 30, 2000 and December 31, 1999, taking into account master agreements that allow for netting of payments. The exposure to credit loss can be expected to fluctuate significantly due to changes in interest rates. Fannie Mae held \$4 billion and \$3 billion of collateral through custodians for derivatives at June 30, 2000 and December 31, 1999, respectively.

Capital Resources

Fannie Mae's stockholders' equity at June 30, 2000 was \$18.8 billion, compared with \$17.6 billion at December 31, 1999 and \$16.6 billion at June 30, 1999. Pursuant, in part, to the capital restructuring program described in the Information Statement under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Liquidity and Capital Resources," Fannie Mae repurchased 7 million common shares at a weighted-average cost of \$57.54 per common share during the second quarter of 2000 and issued one million common shares for employee and other stock compensation plans. As of June 30, 2000, there were approximately 1,001 million common shares outstanding.

On July 18, 2000, the Board of Directors approved a dividend for the quarter ended June 30, 2000 of \$.28 per common share, as well as dividends of \$.80125 per Series A preferred share, \$.81250 per Series B preferred share, \$.80625 per Series C preferred share, \$.65625 per Series D preferred share, \$.63750 per Series E preferred share, and \$.78690 per Series F preferred share, for the period from and including June 30, 2000 to but excluding September 30, 2000.

As discussed in the Information Statement under "Government Regulation and Charter Act" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Capital Requirements," Fannie Mae is subject to capital standards. Fannie Mae met the applicable capital standards as of June 30, 2000, and management expects to continue to comply with the applicable standards.

Mortgage-Backed Securities

Fannie Mae issued \$49 billion of MBS during the second quarter of 2000, compared with \$79 billion in the second quarter of 1999. MBS issued for the first six months of 2000 totaled \$88 billion, compared with \$185 billion in the first six months of 1999. The decrease in MBS issued during the first six months of 2000, compared with 1999, was due to an increase in interest rates and a slow down in mortgage originations. REMIC issuances were \$7 billion in the second quarter of 2000 and \$15 billion in the first six months of 2000, compared with \$15 billion and \$32 billion, respectively, for the comparable periods of 1999.

The following table summarizes MBS activity for the three- and six-month periods ended June 30, 2000 and 1999.

Summary of MBS Activity

(Dollars in millions)

Three Months Ended June 30,	Issued (1)			Outstanding (1)		
	Lender or Shared Risk	Fannie Mae Risk	Total	Lender or Shared Risk (2)	Fannie Mae Risk	Total (3)
2000	\$ 6,546	\$ 42,040	\$ 48,586	\$214,447	\$781,368	\$995,815
1999	18,585	59,968	78,553	191,409	720,026	911,435
Six Months						
Ended June 30,						
2000	\$11,799	\$ 75,754	\$ 87,553			
1999	47,663	137,341	185,004			

- (1) This table classifies MBS issued and MBS outstanding based on primary default risk category; however, Fannie Mae bears the ultimate risk of default on all MBS. MBS outstanding includes MBS that have been pooled to back Megas, SMBS, or REMICs.
- (2) Included in lender or shared risk are \$168 billion and \$148 billion at June 30, 2000 and 1999, 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 \$299 billion and \$250 billion at June 30, 2000 and 1999, respectively, of Fannie Mae MBS held in portfolio.

RECENT LEGISLATIVE AND REGULATORY DEVELOPMENTS

In March 2000, Representative Richard Baker (R-LA) introduced a bill, H.R. 3703, that proposes a plan to consolidate the regulation of Fannie Mae, Freddie Mac and the Federal Home Loan Banks into a new board composed of the secretaries of Treasury and HUD and three presidential appointees. The bill proposes other changes to the regulation of Fannie Mae and Freddie Mac, including approval of new activities by the proposed five-member regulatory board. Representative Baker has held four hearings on his proposal, and at various times has stated publicly that he may redraft H.R. 3703. Recently, Representative Baker announced plans to hold a meeting of all interested parties to discuss the bill. Management believes that no action will be taken on the proposed legislation this year.

MATTERS SUBMITTED TO STOCKHOLDERS

At the 2000 Annual Meeting of Stockholders of Fannie Mae held on May 18, 2000, the following matters were presented for a vote: (i) election of 13 members to the Board of Directors, each for a term ending on the date of the next Annual Meeting of Stockholders of Fannie Mae; (ii) ratification of the appointment of KPMG LLP as auditors of Fannie Mae for 2000; and (iii) a stockholder proposal to reinstate cumulative voting for directors. Under the stockholder proposal relating to cumulative voting, the Board of Directors would have been requested to take the necessary steps to provide for cumulative voting in the election of directors, which would mean that each stockholder would be entitled to as many votes as the number of common shares the stockholder owns multiplied by the number of directors to be elected, and the stockholder could cast all such votes for a single candidate or distribute them among several nominees.

Of the 1,008,076,660 shares of common stock outstanding on the record date for the meeting, 869,946,725 shares were present in person or by proxy at the meeting.

The following persons were elected as directors of Fannie Mae by the respective votes indicated following their names: Stephen B. Ashley (864,502,518 votes for; 5,444,207 votes withheld); Roger E. Birk (859,730,948 votes for; 10,215,777 votes withheld); Kenneth M. Duberstein (854,834,374 votes for; 15,112,351 votes withheld); Stephen Friedman (864,225,707 votes for; 5,721,018 votes withheld); Thomas P. Gerrity (864,424,739 votes for; 5,521,986 votes withheld); Jamie S. Gorelick (860,166,601 votes for; 9,780,124 votes withheld); Vincent A. Mai (864,542,763 votes for; 5,403,962 votes withheld); Ann McLaughlin (864,216,522 votes for; 5,730,203 votes withheld); Anne M. Mulcahy (864,580,732 votes for; 5,365,993 votes withheld); Daniel H. Mudd (860,306,871 votes for; 9,639,854 votes withheld); Joe K. Pickett (855,004,334 votes for; 14,942,391 votes withheld); Franklin D. Raines (860,097,390 votes for; 9,849,335 votes withheld); H. Patrick Swygert (856,009,627 votes for; 13,937,098 votes withheld).

As noted under “Management,” the President of the United States has the authority to appoint five directors.

The ratification of KPMG LLP as auditors was approved by a vote of 866,904,655 for ratification and 731,888 against ratification.

The stockholder proposal to reinstate cumulative voting was defeated by a vote of 270,739,773 for the proposal and 492,189,417 against the proposal.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Stockholders of Fannie Mae:

We have reviewed the accompanying condensed balance sheet of Fannie Mae as of June 30, 2000 and the related condensed statements of income, changes in stockholders' equity, and cash flows for the three- and six-month periods ended June 30, 2000 and 1999. 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 on 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, 1999 (presented herein in condensed form) and the related statements of income, changes in stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated January 13, 2000, 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, 1999, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

KPMG LLP

Washington, D.C.
July 13, 2000

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
	(Dollars in millions, except per common share amounts)			
Interest income	\$10,365	\$8,564	\$20,338	\$16,847
Interest expense	8,966	7,376	17,577	14,500
Net interest income	1,399	1,188	2,761	2,347
Guaranty fees	339	320	671	637
Fee and other income (expense), net	(46)	54	(46)	112
Credit-related expenses	(21)	(40)	(51)	(87)
Administrative expenses	(224)	(199)	(441)	(391)
Income before federal income taxes and extraordinary item	1,447	1,323	2,894	2,618
Provision for federal income taxes	(383)	(365)	(768)	(726)
Income before extraordinary item	1,064	958	2,126	1,892
Extraordinary item—gain (loss) from early extinguishment of debt (net of tax effect)	33	—	33	(9)
Net income	<u>\$ 1,097</u>	<u>\$ 958</u>	<u>\$ 2,159</u>	<u>\$ 1,883</u>
Preferred dividends	(32)	(20)	(52)	(38)
Net income available to common stockholders	<u>\$ 1,065</u>	<u>\$ 938</u>	<u>\$ 2,107</u>	<u>\$ 1,845</u>
Basic earnings per common share:				
Earnings before extraordinary item	\$ 1.03	\$.92	\$ 2.06	\$ 1.81
Extraordinary item .....	.03	—	.03	(.01)
Net earnings	<u>\$ 1.06</u>	<u>\$.92</u>	<u>\$ 2.09</u>	<u>\$ 1.80</u>
Diluted earnings per common share:				
Earnings before extraordinary item	\$ 1.02	\$.91	\$ 2.05	\$ 1.79
Extraordinary item .....	.03	—	.03	—
Net earnings	<u>\$ 1.05</u>	<u>\$.91</u>	<u>\$ 2.08</u>	<u>\$ 1.79</u>

CONDENSED BALANCE SHEETS
(Unaudited)

	June 30,	December 31,
	2000	1999
	(Dollars in millions)	
Assets		
Mortgage portfolio, net	\$549,985	\$522,780
Investments	47,395	39,751
Other assets	11,395	12,636
Total assets	<u>\$608,775</u>	<u>\$575,167</u>
Liabilities		
Debentures, notes, and bonds, net:		
Due within one year	\$239,281	\$226,582
Due after one year	339,246	321,037
Other liabilities	11,457	9,919
Total liabilities	589,984	557,538
Stockholders' equity	18,791	17,629
Total liabilities and stockholders' equity	<u>\$608,775</u>	<u>\$575,167</u>

See Notes to Interim Financial Statements

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
	(Dollars in millions)			
Balance, beginning of period	\$18,371	\$16,134	\$17,629	\$15,453
Comprehensive income:				
Net income	1,097	958	2,159	1,883
Other comprehensive income (loss), net of tax—Unrealized gains (losses) on securities, net	13	(90)	(7)	(96)
Total comprehensive income	1,110	868	2,152	1,787
Dividends	(314)	(296)	(618)	(592)
Shares repurchased	(403)	(297)	(1,119)	(358)
Preferred stock issued	—	148	683	148
Treasury stock issued for stock options and benefit plans	27	24	64	143
Balance, end of period	<u>\$18,791</u>	<u>\$16,581</u>	<u>\$18,791</u>	<u>\$16,581</u>

FANNIE MAE
CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2000	1999	2000	1999
	(Dollars in millions)			
Net cash provided by operating activities	\$ 3,117	\$ 2,699	\$ 6,058	\$ 5,895
Cash flows from investing activities:				
Purchases of mortgages	(31,271)	(55,415)	(59,847)	(108,327)
Proceeds from sales of mortgages	4,177	532	6,895	1,168
Mortgage principal repayments	14,474	22,284	26,314	48,919
Net (increase) decrease in investments	(9,070)	7,612	(7,644)	16,211
Net cash used in investing activities	(21,690)	(24,987)	(34,282)	(42,029)
Cash flows from financing activities:				
Cash proceeds from issuance of debt	286,691	272,066	635,971	461,054
Cash payments to redeem debt	(267,511)	(249,254)	(608,815)	(424,843)
Other	(700)	(429)	(1,002)	(684)
Net cash provided by financing activities	18,480	22,383	26,154	35,527
Net (decrease) increase in cash and cash equivalents	(93)	95	(2,070)	(607)
Cash and cash equivalents at beginning of period	122	41	2,099	743
Cash and cash equivalents at end of period	<u>\$ 29</u>	<u>\$ 136</u>	<u>\$ 29</u>	<u>\$ 136</u>

See Notes to Interim Financial Statements

NOTES TO INTERIM FINANCIAL STATEMENTS
(Unaudited)

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain amounts in 1999 have been reclassified to conform with the current presentation. Operating results for the three- and six-month periods ended June 30, 2000 are not necessarily indicative of the results that may be expected for the year ending December 31, 2000. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Information Statement dated March 30, 2000.

Line of Business Reporting

The following table sets forth Fannie Mae's financial information by line of business for the three- and six-month periods ended June 30, 2000 and 1999. Significant changes from period to period were due to the same factors discussed under "Results of Operations."

<u>Three months ended June 30,</u>	<u>2000</u>			<u>1999</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	\$1,243	\$ 156	\$1,399	\$1,042	\$ 146	\$1,188
Guaranty fees	(263)	602	339	(241)	561	320
Fee and other income (expense), net..	(38)	(8)	(46)	33	21	54
Credit-related expenses	—	(21)	(21)	—	(40)	(40)
Administrative expenses	(63)	(161)	(224)	(58)	(141)	(199)
Federal income taxes	(243)	(140)	(383)	(217)	(148)	(365)
Extraordinary item—early extinguishment of debt	33	—	33	—	—	—
Net income	<u>\$ 669</u>	<u>\$ 428</u>	<u>\$1,097</u>	<u>\$ 559</u>	<u>\$ 399</u>	<u>\$ 958</u>

<u>Six months ended June 30,</u>	<u>2000</u>			<u>1999</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	\$2,476	\$ 285	\$2,761	\$2,050	\$ 297	\$2,347
Guaranty fees	(522)	1,193	671	(469)	1,106	637
Fee and other income (expense), net..	(19)	(27)	(46)	73	39	112
Credit-related expenses	—	(51)	(51)	—	(87)	(87)
Administrative expenses	(125)	(316)	(441)	(115)	(276)	(391)
Federal income taxes	(508)	(260)	(768)	(434)	(292)	(726)
Extraordinary item—early extinguishment of debt	33	—	33	(9)	—	(9)
Net income	<u>\$1,335</u>	<u>\$ 824</u>	<u>\$2,159</u>	<u>\$1,096</u>	<u>\$ 787</u>	<u>\$1,883</u>

The Portfolio Investment line of business represented \$598 billion, or 98 percent of total assets, at June 30, 2000 and \$516 billion, or 98 percent of total assets, at June 30, 1999.

Commitments and Contingencies

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

	<u>June 30, 2000</u> (Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	\$ 9
Lender option(1)	2
Average net yield on mandatory delivery	7.83%
Master commitments:	
Mandatory delivery(2)	\$ 31
Lender option	15
Other investments	2

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

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

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

	<u>June 30, 2000</u> (Dollars in billions)
MBS outstanding(1)	\$995
Amount for which Fannie Mae has primary foreclosure loss risk(2)	781
Credit enhancements	8
Other guarantees	4

(1) Includes \$299 billion of MBS held in portfolio and is net of \$611 million in allowance for losses.

(2) Fannie Mae, however, assumes the ultimate risk of loss on all MBS.

Computation of Earnings per Common Share

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2000		1999		2000		1999	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
	(Dollars and shares in millions, except per common share amounts)							
Net income before extraordinary loss	\$1,064	\$1,064	\$ 958	\$ 958	\$2,126	\$2,126	\$1,892	\$1,892
Extraordinary gain (loss) ..	33	33	—	—	33	33	(9)	(9)
Preferred stock dividend . . .	(32)	(32)	(20)	(20)	(52)	(52)	(38)	(38)
Net income available to common stockholders	<u>\$1,065</u>	<u>\$1,065</u>	<u>\$ 938</u>	<u>\$ 938</u>	<u>\$2,107</u>	<u>\$2,107</u>	<u>\$1,845</u>	<u>\$1,845</u>
Weighted average common shares	1,004	1,004	1,025	1,025	1,009	1,009	1,026	1,026
Dilutive potential common shares(1)	—	6	—	7	—	5	—	7
Average number of common shares outstanding used to calculate earnings per common share	<u>1,004</u>	<u>1,010</u>	<u>1,025</u>	<u>1,032</u>	<u>1,009</u>	<u>1,014</u>	<u>1,026</u>	<u>1,033</u>
Earnings per common share before extraordinary item	\$ 1.03	\$ 1.02	\$.92	\$.91	\$ 2.06	\$ 2.05	\$ 1.81	\$ 1.79
Net earnings per common share	1.06	1.05	.92	.91	2.09	2.08	1.80	1.79

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

MANAGEMENT

In May, the President appointed Maynard H. Jackson to Fannie Mae's Board of Directors for a term expiring on the date of the May 2001 Annual Meeting. Mr. Maynard H. Jackson, 62, has been the Chairman of Jackson Securities Inc., a full service broker-dealer headquartered in Atlanta, Georgia, since 1990. He was Mayor of Atlanta from 1990 to 1994 and from 1974 to 1982.

Julie St. John, 48, was elected to the position of Executive Vice President and Chief Technology Officer in July, 2000. She was Senior Vice President — Mortgage Business Technology (previously Senior Vice President of Guaranty and Franchise Technologies and Senior Vice President of Transaction Processing and Management Systems) since June 1993.

Mercy Jimenez, 46, was elected Senior Vice President — Southwestern Regional Office in July, 2000. She has been Vice President of Marketing in the Southwestern Regional Office, Vice President for Senior Products Development and Vice President for Corporate Development since joining Fannie Mae in April, 1996.

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