Supplement dated August 13, 1993 to
Information Statement dated February 16, 1993

Federal National Mortgage Association

FannieMae

This Supplement describes the financial condition of the Federal National Mortgage Association ("Fannie Mae" or the "Corporation") as of June 30, 1993 and contains unaudited financial statements with respect to the Corporation for the quarter and six months ended June 30, 1993. This Supplement should be read in conjunction with the Corporation's Information Statement dated February 16, 1993 (the "Information Statement") and the Supplement dated April 22, 1993 thereto (the "April 22 Supplement"), 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 Supplement describes the financial condition of the Corporation as of March 31, 1993 and contains unaudited financial statements with respect to the Corporation for the quarter ended March 31, 1993. 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 July 31, 1993, 273,059,000 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 six-month periods ended June 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 June 30, 1993 are not necessarily indicative of the results expected for the entire year.

(Dollars in millions, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
Income Statement Data:	**1993**	**1992**	**1993**	**1992**
Interest income	$ 3,614	$ 3,389	$ 7,196	$ 6,623
Interest expense	2,982	2,871	5,960	5,616
Net interest income	632	518	1,236	1,007
Guaranty fees	235	204	465	397
Gain (loss) on sales of mortgages, net	(1)	4	3	11
Miscellaneous income, net	49	45	96	81
Provision for losses	(45)	(80)	(90)	(160)
Foreclosed property expenses	(36)	—	(69)	—
Administrative expenses	(107)	(95)	(210)	(181)
Income before federal income taxes and extraordinary item	727	596	1,431	1,155
Provision for federal income taxes	(229)	(185)	(449)	(356)
Income before extraordinary item	498	411	982	799
Extraordinary loss—early extinguishment of debt	(40)	(9)	(80)	(15)
Net income	$ 458	$ 402	$ 902	$ 784
Per share:				
Earnings before extraordinary item:				
Primary	$ 1.82	$ 1.50	$ 3.57	$ 2.91
Fully diluted	1.81	1.50	3.57	2.91
Net earnings:				
Primary	1.67	1.47	3.28	2.86
Fully diluted	1.67	1.47	3.28	2.86
Cash dividends	0.46	0.34	0.86	0.64

	June 30,	
Balance Sheet Data:	**1993**	**1992**
Mortgage portfolio, net	$169,672	$139,755
Total assets	192,043	162,478
Borrowings:		
Due within one year	56,387	45,375
Due after one year	120,140	103,638
Total liabilities	184,644	156,346
Stockholders' equity	7,399	6,132

	Three Months Ended June 30,		Six Months Ended June 30,	
Other Data:	**1993**	**1992**	**1993**	**1992**
Net interest margin	1.45%	1.39%	1.44%	1.42%
Return on average equity	25.3	27.0	25.4	27.0
Return on average assets	1.0	1.0	1.0	1.0
Ratio of earnings to fixed charges(1)	1.22:1	1.20:1	1.22:1	1.20:1
Dividend payout ratio	27.5%	23.0%	26.1%	22.3%
Equity to assets ratio	3.9	3.8	3.9	3.8
Mortgage purchases	$ 23,418	$ 18,643	$ 37,259	$ 36,092
MBS issued	50,365	53,815	89,335	95,037
MBS outstanding at period end	465,220	413,226	465,220	413,226

(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 SIX-MONTH PERIODS ENDED JUNE 30, 1993

Results of Operations

In the second quarter of 1993, Fannie Mae reported record earnings as net income increased $56 million or 14 percent from the $402 million earned in the second quarter of 1992. For the first six months of 1993, net income increased $118 million or 15 percent from the $784 million earned in the first half of 1992. The growth in net income, for the three-month and six-month periods ended June 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 second quarter of 1993 increased 22 percent compared with the second quarter of 1992, primarily due to 19 percent growth in the average net mortgage portfolio and a 6 basis point increase in the net interest margin. Net interest income in the first six months of 1993 increased 23 percent compared with the first six months of 1992, as a result of 20 percent growth in the average net mortgage portfolio and a 2 basis point increase in the net interest margin.

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

Net Interest Income and Average Balances

(Dollars in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1993	1992	1993	1992
Interest income:				
Mortgage portfolio	$ 3,429	$ 3,158	$ 6,812	$ 6,215
Investments and cash equivalents	185	231	384	408
Total interest income	3,614	3,389	7,196	6,623
Interest expense	2,982	2,871	5,960	5,616
Net interest income	632	518	1,236	1,007
Tax equivalent adjustment(1)	30	28	60	58
Net interest income tax equivalent basis	$ 662	$ 546	$ 1,296	$ 1,065
Average balances:				
Interest-earning assets:				
Mortgage portfolio, net(2)	$163,393	$137,499	$160,322	$133,606
Investments and cash equivalents	18,869	19,895	19,405	16,844
Total interest-earning assets	$182,262	$157,394	$179,727	$150,450
Interest-bearing liabilities	$167,193	$144,401	$165,483	$138,446
Interest-free funds	15,069	12,993	14,244	12,004
Total interest-bearing liabilities and interest-free funds	$182,262	$157,394	$179,727	$150,450
Average interest rates:				
Interest-earning assets(1):				
Mortgage portfolio, net	8.43%	9.23%	8.54%	9.34%
Investments and cash equivalents	3.98	4.69	4.01	4.92
Total interest-earning assets	7.97	8.65	8.05	8.85
Interest-bearing liabilities	7.07	7.87	7.14	8.04
Investment spread	.90	.78	.91	.81
Interest-free return(3)	.58	.65	.56	.64
Miscellaneous	(.03)	(.04)	(.03)	(.03)
Net interest margin	1.45%	1.39%	1.44%	1.42%

(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 six months ended June 30, 1993, and $1.1 billion for the three months and six months ended June 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 six-month periods ended June 30, 1993 and 1992.

Rate/Volume Analysis

(Dollars in millions)

	Second Quarter 1993 vs. Second Quarter 1992			First Six Months 1993 vs. First Six Months 1992		
	Increase (Decrease)	Attributable to Changes in (1)		Increase (Decrease)	Attributable to Changes in (1)	
		Volume	Rate		Volume	Rate
Interest income:						
Mortgage portfolio	$271	$560	$(289)	$597	$1,168	$(571)
Investments and cash equivalents	(46)	(11)	(35)	(24)	57	(81)
Total interest income	225	549	(324)	573	1,225	(652)
Interest expense	111	425	(314)	344	1,019	(675)
Net interest income	$114	$124	$ (10)	$229	$ 206	$ 23

(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 second quarter increased by $31 million, or 15 percent, to $235 million, resulting from a 15 percent increase in average Mortgage-Backed Securities ("MBS") outstanding when compared with the second quarter of 1992. For the first six months of 1993, guaranty fee income increased by $68 million, or 17 percent, to $465 million, also resulting from a 17 percent increase in average MBS outstanding over the comparable period in 1992.

In the second quarter of 1993, miscellaneous income rose 9 percent to $49 million versus $45 million in the second quarter of 1992. For the first half of 1993, miscellaneous income rose 19 percent to $96 million versus $81 million in the first half of 1992. The increases in miscellaneous income were primarily a result of an increase in REMIC and other miscellaneous fees. Net REMIC fees were $26 million for the second quarter of 1993 compared with $22 million for the second quarter of 1992, and $49 million for the first half of 1993 compared with $45 million in the first half of 1992.

Administrative expenses for the quarter ended June 30, 1993 were $107 million, compared with $95 million during the same period in 1992. For the six months ended June 30, 1993, administrative expenses were $210 million, compared with $181 million for the same period in 1992. Increased staffing and technology-related expenses were the primary reasons for the overall increases. Compensation expense was $61 million in the second quarter of 1993, compared with $52 million in the second quarter of 1992. For the first half of 1993, compensation expense was $120 million, compared with $101 million in the first half 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 11.6 percent for the second quarter of 1993, compared with 12.4 percent for the second quarter of 1992 and was 11.7 percent for the first half of 1993, compared with 12.2 percent for the first half of 1992.

The effective federal income tax rates for the second quarter of 1993 and 1992 and the first half of 1993 and 1992 were 31 percent.

In the second quarter of 1993, the Corporation had an extraordinary loss of $60 million ($40 million after tax) from the repurchase or call of debt compared with a loss of $13 million ($9 million after tax) in the second quarter of 1992. An extraordinary loss of $121 million ($80 million after tax) was reported in the first half of 1993 from the repurchase or call of debt compared with a loss of $23 million ($15 million after tax) from such repurchases or calls in the first half of 1992. Management expects that, with interest rates at current levels, additional calls of debt are likely in 1993, and further repurchases of high-coupon debt are possible. 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 June 30, 1993 and 1992, and conventional foreclosures and total net charge-offs for the quarters and six months ended June 30, 1993 and 1992.

	Delinquency Rate (1)		Number of Properties Acquired				Net Charge-offs (Dollars in millions)			
	June 30,		Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	1993	1992	1993	1992	1993	1992	1993	1992	1993	1992
Single-family	0.58%	0.58%	2,790	2,391	5,537	4,629	$22	$47	$47	$ 90
Multifamily	2.54	2.93	12	6	18	9	10	12	16	25
Total							$32	$59	$63	$115

(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 4,952 as of June 30, 1993, compared with 3,638 properties as of June 30, 1992. The inventory of multifamily properties was 48 as of June 30, 1993, compared with 27 properties as of June 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 $81 million in the second quarter of 1993, compared with $80 million in the second quarter of 1992. The sum of net charge-offs and foreclosed property expenses in the three months ended June 30, 1993 was $69 million, compared with $59 million in net charge-offs during the same period in 1992. Total credit-related expenses for the six month periods ended June 30, 1993 and 1992 were $159 million and $160 million, respectively. The sum of net charge-offs and foreclosed property expense for the six months ended June 30, 1993 and 1992 were $132 million and $115 million, respectively.

The allowance for losses increased to $807 million at June 30, 1993 from $780 million at December 31, 1992 and $749 million at June 30, 1992.

Balance Sheet Analysis

Mortgage Portfolio

The Corporation purchased $23.4 billion of mortgages at an average yield of 7.00 percent in the second quarter of 1993, compared with $18.6 billion of mortgages at an average yield of 8.10 percent in the second quarter of 1992. In the first six months of 1993, mortgage purchases were $37.3 billion at an average yield of 7.16 percent, compared with $36.1 billion at an average yield of 8.06 percent in the first six months of 1992. The high level of mortgage purchases in the first six 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 second quarter of 1993 totaled $12.7 billion, compared with $8.6 billion in the second quarter of 1992. During the first half of 1993, mortgage loan repayments were $20.3 billion compared with $17.2 billion in the first half of 1992. The increase in loan repayments was primarily due to the high level of refinancing activity. Sales from portfolio totaled $0.4 billion for the second quarter of 1993 compared with $4.2 billion for the second quarter of 1992, while sales from portfolio totaled $3.4 billion for the first half of 1993 compared with $5.4 billion for the first half of 1992.

As of June 30, 1993, the net mortgage portfolio totaled $169.7 billion with a yield (before deducting the allowance for losses) of 8.29 percent, compared with $156.0 billion at 8.68 percent as of December 31, 1992 and $139.8 billion at 9.15 percent as of June 30, 1992. The decrease in yield was primarily due to a decline in conventional mortgage purchase yields as interest rates declined.

At June 30, 1993, the Corporation had mandatory delivery commitments and lender option commitments outstanding to purchase $7.4 billion and $11.0 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 second quarter of 1993, the Corporation issued $74.4 billion of debt at an average cost of 3.43 percent and redeemed $63.3 billion at an average cost of 3.46 percent. Debt issued in the second quarter of 1992 totaled $51.6 billion at an average cost of 4.20 percent, and debt redeemed was $44.0 billion at an average cost of 4.39 percent. During the first six months of 1993, $132.4 billion of debt was issued at an average cost of 3.39 percent and $121.9 billion was redeemed at an average cost of 3.57 percent. In the first six months of 1992, debt issued totaled $107.1 billion at an average cost of 4.28 percent, and debt redeemed totaled $91.6 billion at an average cost of 4.49 percent. The average cost of debt outstanding at June 30, 1993, December 31, 1992, and June 30, 1992 was 6.89 percent, 7.21 percent, and 7.76 percent, respectively.

The Corporation's shareholders' equity at June 30, 1993 was $7.4 billion, compared with $6.8 billion at December 31, 1992, and $6.1 billion at June 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 and repurchased 1.2 million shares at a cost of $93 million. On July 20, 1993, the Board of Directors approved a dividend on the Corporation's common stock of 46 cents per share for the quarter ended June 30, 1993. As of June 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 June 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 continued growth in retained earnings will ensure continued compliance with the applicable standards.

Mortgage-Backed Securities

The Corporation issued $50.4 billion of MBS during the second quarter of 1993, compared with $53.8 billion in the second quarter of 1992. MBS issued in the first half of 1993 totaled $89.3 billion, compared with $95.0 billion in the first half of 1992. The reduction in MBS issuances was primarily due to widening in the spread between mortgage yields and the Corporation's debt cost, which created a preference for retained mortgage portfolio growth.

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

Summary of MBS Activity

(Dollars in millions)

	Issued				Outstanding (1)		
	Lender Originated (1)						
Three Months Ended June 30,	Lender Risk	Fannie Mae Risk	Fannie Mae Originated	Total	Lender Risk (2)	Fannie Mae Risk (3)	Total (4)
1993	$1,483	$47,001	$1,881	$50,365	$70,997	$394,223	$465,220
1992	4,013	44,287	5,515	53,815	89,477	323,749	413,226
Six Months Ended June 30,							
1993	$2,567	$81,438	$5,330	$89,335			
1992	6,730	79,768	8,539	95,037			

(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 $36.8 billion and $40.8 billion at June 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 $7.2 billion at June 30, 1993 and $8.6 billion at June 30, 1992 that are backed by government insured or guaranteed mortgages.

(4) Included are $19.7 billion and $19.2 billion at June 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.

New Accounting Standards

In May 1993, the Financial Accounting Standards Board issued Financial Accounting Standard No. 114, "Accounting by Creditors for Impairment of a Loan" ("FAS 114") and Financial Accounting Standard No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("FAS 115").

FAS 114 requires that impaired loans be measured based on the present value of expected future cash flows using the loan's effective interest rate as the discount factor. Alternatively, the loan's market price or the fair value of the collateral, if the loan is collateral dependent, can be used. Except for the provisions related to troubled debt restructurings, smaller balance homogeneous loans that are collectively evaluated for impairment are excluded from the scope of the statement. Implementation of FAS 114 is required beginning in 1995.

FAS 115 requires that debt securities (including MBS) be classified as either held-to-maturity, available-for-sale, or trading securities beginning in 1994. Securities classified as held-to-maturity will continue to be reported at amortized cost. Securities classified as available-for-sale or trading securities must be reported at fair value with unrealized gains and losses reported in shareholders' equity for available-for-sale securities or earnings for trading securities.

In management's opinion, neither statement is expected to have a material impact on the Corporation.

RECENT LEGISLATIVE AND REGULATORY DEVELOPMENTS

On July 22, 1993, the Department of Housing and Urban Development ("HUD") solicited Fannie Mae's comments on a draft 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 draft 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 proposed goals with respect to low- and moderate-income housing are 30 percent for 1993 and 1994. For housing located in central cities, the proposed 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 proposed 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.

Fannie Mae has evaluated the draft Notice and submitted comments to HUD. Most of the comments centered on the counting and measurement conventions and data collection and reporting requirements set forth in the proposed Notice. Attainment of the goals is a major Fannie Mae priority. HUD has indicated that it intends to finalize the draft Notice 30 days from Fannie Mae's receipt of the draft.

On June 1, 1993, Aida Alvarez was sworn in for a five-year term as Director (the "Director") of the Office of Federal Housing Enterprise Oversight (the "Office"), an independent office within HUD created to oversee the Corporation's and the Federal Home Loan Mortgage Corporation's capital adequacy and to ensure that the companies operate safely. The Director is required to develop a risk-based capital standard for the Corporation and is authorized to take other actions, as described in the Corporation's Information Statement dated February 16, 1993 under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Developments" and "Government Regulation and Charter Act." At the time of her nomination as Director of the Office, Ms. Alvarez was vice president in the public finance department of The First Boston Corporation, an investment banking firm.

A new law changing the statutory federal income tax rate for corporations is discussed in Notes to Interim Financial Statements, "Events Subsequent to Periods Covered."

LEGAL PROCEEDINGS

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

MATTERS SUBMITTED TO STOCKHOLDERS

The 1993 annual meeting of stockholders of Fannie Mae was held on May 20, 1993. At this meeting, a stockholder proposal to reinstate cumulative voting for directors, which the Board of Directors recommended that stockholders vote against, was defeated by a vote of 154,187,363 against the proposal to 54,595,568 for the proposal. Under the proposal, 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 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.

In addition, at the 1993 annual meeting the Board of Directors recommended the adoption of the Federal National Mortgage Association Stock Compensation Plan of 1993 (the "Plan"). This proposal was approved by a vote of 173,679,473 for the proposal to 53,628,105 against the proposal. The Plan is a means for the Corporation to continue to attract and retain persons important to its success by granting stock options, restricted stock, performance shares, and other forms of incentive benefits related to the Corporation's common stock. Under the Plan, 13,500,000 shares of common stock are available for issuance or transfer to all participants. The Proxy Statement for the Corporation's 1993 Annual Meeting of Shareholders contains further information regarding the Plan. Copies of the Proxy Statement can be obtained from the person identified on the cover of this Supplement.

MANAGEMENT

The terms of the five members of the Board of Directors appointed by the President of the United States (*i.e.,* Mr. Salvador Bonilla-Mathé, Mr. George L. Clark, Jr., Ms. Christine Diemer, Mr. J. Brian Gaffney, and Dr. Gloria E.A. Toote) expired in May 1993. As of August 12, 1993, the President of the United States had not appointed their successors, so the positions remained vacant. At the annual meeting of stockholders on May 20, 1993, the other members of the Board of Directors identified in the Information Statement were elected to another term that expires on the date of the 1994 annual meeting.

In May 1993, William G. Ehrhorn, 45, was elected Senior Vice President—Mortgage Operations. Mr. Ehrhorn is a former executive vice president and division manager for operations, automation management, securities lending, and the Trust Company with Nomura Securities International, which he joined in May 1985. Mr. Ehrhorn also was a member of the firm's management committee.

In May 1993, Lynda C. Horvath, 40, was appointed Senior Vice President—Corporate Development. Ms. Horvath was Senior Vice President—Mortgage Operations from February 1991 to May 1993, Acting Senior Vice President—Mortgage Operations from November 1990 to February 1991, Vice President for Product Acquisition and Development from January 1989 to November 1990, and Vice President for MBS Financial Analysis from September 1985 to January 1989.

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FEDERAL NATIONAL MORTGAGE ASSOCIATION

INTERIM FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1993	1992	1993	1992
	(Dollars in millions, except per share amounts)			
Interest income	$3,614	$3,389	$7,196	$6,623
Interest expense	2,982	2,871	5,960	5,616
Net interest income	632	518	1,236	1,007
Guaranty fees	235	204	465	397
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Extraordinary loss—early extinguishment of debt (net of tax effect)	(40)	(9)	(80)	(15)
Net income	$ 458	$ 402	$ 902	$ 784
Per share:				
Earnings before extraordinary item:				
Primary	$ 1.82	$ 1.50	$ 3.57	$ 2.91
Fully diluted	1.81	1.50	3.57	2.91
Net earnings:				
Primary	1.67	1.47	3.28	2.86
Fully diluted	1.67	1.47	3.28	2.86
Cash dividends	0.46	0.34	0.86	0.64

CONDENSED BALANCE SHEETS

(Unaudited)

	June 30, 1993	December 31, 1992
	(Dollars in millions)	
Assets		
Mortgage portfolio, net	$169,672	$156,021
Investments	10,857	14,786
Cash and cash equivalents	6,632	5,193
Other assets	4,882	4,978
Total assets	$192,043	$180,978
Liabilities		
Debentures, notes, and bonds, net		
Due within one year	$ 56,387	$ 56,404
Due after one year	120,140	109,896
Other liabilities	8,117	7,904
Total liabilities	184,644	174,204
Stockholders' equity	7,399	6,774
Total liabilities and stockholders' equity	$192,043	$180,978

See Notes to Interim Financial Statements

FEDERAL NATIONAL MORTGAGE ASSOCIATION

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1993	1992	1993	1992
	(Dollars in millions)			
Net cash provided (used) by operating activities	$ 1,080	$ (102)	$ 1,240	$ 1,697
Cash flows from investing activities:				
Purchases of mortgages	(23,659)	(18,593)	(37,641)	(36,024)
Proceeds from sales of mortgages	405	4,212	3,421	5,419
Mortgage principal repayments	13,029	8,734	20,927	17,399
Net decrease in investments	857	1,156	3,929	1,047
Net cash used in investing activities	(9,368)	(4,491)	(9,364)	(12,159)
Cash flows from financing activities:				
Cash proceeds from issuance of debt	73,988	51,354	131,799	106,460
Cash payments to retire debt	(63,320)	(44,038)	(121,960)	(91,661)
Other	(219)	(99)	(276)	(205)
Net cash provided by financing activities	10,449	7,217	9,563	14,594
Net increase in cash and cash equivalents	2,161	2,624	1,439	4,132
Cash and cash equivalents at beginning of period	4,471	5,865	5,193	4,357
Cash and cash equivalents at end of period	$ 6,632	$ 8,489	$ 6,632	$ 8,489

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 six-month periods ended June 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:

	June 30, 1993 (Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	$ 7.4
Lender option(1)	4.4
Average net yield on mandatory delivery	6.90%
Commitments to issue MBS:	
Mandatory delivery(1)	$ 0.7
Lender option(1)	3.2
Master commitments:	
Mandatory delivery(2)	86.6
Lender option	25.1

(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:

	June 30, 1993 (Dollars in billions)
Total MBS outstanding	$465.2
Amount for which the Corporation has primary foreclosure loss risk(1):	
Conventional	387.0
Government-insured or guaranteed	7.2

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

Income Taxes

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. Neither ruling will 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 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.

Events Subsequent to Periods Covered

On August 10, 1993, the Omnibus Budget Reconciliation Act of 1993 (the "1993 Act") was signed into law by the President of the United States. The 1993 Act changes the statutory federal income tax rate for all corporations in the United States from 34 percent to 35 percent. The new tax rate is to be applied retroactively to January 1, 1993. The change in the tax rate is not expected to have a material impact on the annual earnings of the Corporation.

COMPUTATION OF EARNINGS PER SHARE

(Unaudited)

	Three Months Ended June 30, 1993	Three Months Ended June 30, 1992	Six Months Ended June 30, 1993	Six Months Ended June 30, 1992
	(In millions, except per share data)			
Primary Earnings Per Share:				
Average common shares outstanding	273.7	273.1	273.8	273.2
Effect of common stock equivalents	1.0	1.0	1.1	1.1
Average primary shares outstanding	274.7	274.1	274.9	274.3
Income before extraordinary item	$ 498	$ 411	$ 982	$ 799
Net income	458	402	902	784
Primary earnings per share before extraordinary item	$ 1.82	$ 1.50	$ 3.57	$ 2.91
Primary earnings per share	1.67	1.47	3.28	2.86
Fully Diluted Earnings Per Share:				
Average common shares outstanding	273.7	273.1	273.8	273.2
Effect of common stock equivalents	1.2	1.1	1.3	1.2
Average fully diluted shares outstanding	274.9	274.2	275.1	274.4
Income before extraordinary item	$ 498	$ 411	$ 982	$ 799
Net income	458	402	902	784
Fully diluted earnings per share before extraordinary item	$ 1.81	$ 1.50	$ 3.57	$ 2.91
Fully diluted earnings per share	1.67	1.47	3.28	2.86