**Supplement dated August 14, 1995 to**
**Information Statement dated March 31, 1995**

# Federal National Mortgage Association

This Supplement describes the financial condition of the Federal National Mortgage Association ("Fannie Mae" or the "Corporation") as of June 30, 1995 and contains unaudited financial statements with respect to the Corporation for the quarter and six months ended June 30, 1995. This Supplement should be read in conjunction with the Corporation's Information Statement dated March 31, 1995 (the "Information Statement") and the Supplement dated May 12, 1995 thereto (the "May 12 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, 1994. The May 12 Supplement describes the financial condition of the Corporation as of March 31, 1995 and contains unaudited financial statements with respect to the Corporation for the quarter ended March 31, 1995. Fannie Mae also periodically makes available statistical information on its mortgage purchase and mortgage-backed securities volumes as well as other relevant information about Fannie Mae. Copies of the Corporation's current Information Statement, any supplements thereto and other available information can be obtained without charge from the Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: 202-752-7115).

In conjunction with its securities offerings, the Corporation may incorporate this Supplement by reference in one or more other documents describing the securities offered thereby, the selling arrangements therefor, and other relevant information. Such other documents may be called an Offering Circular, Prospectus, Guide to Debt Securities or otherwise. This Supplement does not itself constitute an offer 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, 1995, 272,812,612 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, 1995 and 1994 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, 1995 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:** | **1995** | **1994** | **1995** | **1994** |
| Interest income | $ 5,162 | $ 4,196 | $ 10,149 | $ 8,169 |
| Interest expense | 4,441 | 3,476 | 8,719 | 6,785 |
| Net interest income | 721 | 720 | 1,430 | 1,384 |
| Guaranty fees | 267 | 272 | 534 | 542 |
| Gain (loss) on sales of mortgages, net | 1 | (4) | 3 | (2) |
| Miscellaneous income, net | 22 | 32 | 56 | 91 |
| Provision for losses | (35) | (40) | (70) | (80) |
| Foreclosed property expenses | (49) | (58) | (100) | (118) |
| Administrative expenses | (135) | (130) | (264) | (254) |
| Income before federal income taxes and extraordinary item | 792 | 792 | 1,589 | 1,563 |
| Provision for federal income taxes | (214) | (257) | (447) | (510) |
| Income before extraordinary item | 578 | 535 | 1,142 | 1,053 |
| Extraordinary item—net of tax effect | (5) | (9) | (3) | (17) |
| Net income | $ 573 | $ 526 | $ 1,139 | $ 1,036 |
| Per share: | | | | |
| Earnings before extraordinary item | $ 2.10 | $ 1.95 | $ 4.16 | $ 3.84 |
| Net earnings | 2.08 | 1.91 | 4.15 | 3.77 |
| Cash dividends | 0.68 | 0.60 | 1.36 | 1.20 |

| | June 30, | |
|---|---|---|
| **Balance Sheet Data:** | **1995** | **1994** |
| Mortgage portfolio, net | $231,339 | $207,012 |
| Investments | 48,340 | 29,424 |
| Total assets | 287,274 | 243,173 |
| Borrowings: | | |
| Due within one year | 126,429 | 90,802 |
| Due after one year | 144,508 | 137,095 |
| Total liabilities | 276,951 | 234,346 |
| Stockholders' equity | 10,323 | 8,827 |

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| **Other Data:** | **1995** | **1994** | **1995** | **1994** |
| Net interest margin | 1.13% | 1.29% | 1.14% | 1.27% |
| Return on average equity | 22.7 | 24.4 | 23.1 | 24.6 |
| Return on average assets | 0.8 | 0.9 | 0.8 | 0.9 |
| Ratio of earnings to fixed charges(1) | 1.18:1 | 1.22:1 | 1.18:1 | 1.23:1 |
| Dividend payout ratio | 32.4% | 31.2% | 32.6% | 31.7 |
| Equity to assets ratio | 3.6 | 3.6 | 3.6 | 3.6 |
| Mortgage purchases | $ 14,071 | $ 18,301 | $ 20,417 | $37,467 |
| MBS issued | 21,330 | 33,595 | 34,400 | 86,400 |
| MBS outstanding at period end | 543,669 | 514,855 | | |
| Capital at period end(2) | 11,141 | 9,651 | | |

(1) For the purpose of calculating the ratio of earnings to fixed charges, "earnings" consists of income before federal taxes and fixed charges. "Fixed charges" represents interest expense.

(2) Stockholders' equity plus allowance for losses.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 1995

### Results of Operations

In the second quarter of 1995, Fannie Mae again reported record earnings as net income increased $47 million to $573 million or 9 percent over the results for the second quarter of 1994. For the first six months of 1995, net income increased $103 million or 10 percent to $1.139 billion compared with $1.036 billion for the first half of 1994. The growth in net income for the three-month and six-month periods ended June 30, 1995 was attributable mainly to a reduction in federal income tax expense, and, in the six-month period, an increase in net interest income, which in both periods was partially offset by a reduction in miscellaneous income. The lower tax expense was primarily due to the settlement of several items relating to the 1986 and 1987 tax years and the impact of net operating losses and tax credits from investments in affordable housing projects. Earnings for the first quarter of 1995 have been restated and increased by $12 million, or $.04 per share, to reflect a change in the method of accounting for investments in affordable housing projects, retroactive to January 1, 1995.

Net interest income in the second quarter of 1995 was largely unchanged when compared with the second quarter of 1994 on a pretax basis, but increased by $22 million or 3 percent on a tax equivalent basis. This reflects higher interest rates and an increase in income from tax-advantaged investments. An increase in the average investment balance was largely offset by a reduction in the net interest margin. Net interest income in the first six months of 1995 increased 3 percent on a pretax basis and 6 percent on a tax equivalent basis as a result of 19 percent growth in the average net investment balance plus an increase in tax-advantaged investment income, which was partially offset by a 13 basis point decrease in the net interest margin. Management believes net interest margin for the remainder of the year will be positively affected by the completion of liability lengthening during the first half of 1995, favorable long-term debt rollover, and favorable short-term debt repricings and will average somewhat above the first half of 1995 net interest margin of 114 basis points for all of 1995.

The following table presents an analysis of net interest income for the three-month and six-month periods ended June 30, 1995 and 1994.

## Net Interest Income and Average Balances

**(Dollars in millions)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1995 | 1994 | 1995 | 1994 |
| Interest income: | | | | |
| Mortgage portfolio | $ 4,432 | $ 3,867 | $ 8,761 | $ 7,598 |
| Investments and cash equivalents | 730 | 329 | 1,388 | 571 |
| Total interest income | 5,162 | 4,196 | 10,149 | 8,169 |
| Interest expense(1): | | | | |
| Short-term debt | 995 | 544 | 1,943 | 942 |
| Long-term debt | 3,446 | 2,932 | 6,776 | 5,843 |
| Total interest expense | 4,441 | 3,476 | 8,719 | 6,785 |
| Net interest income | 721 | 720 | 1,430 | 1,384 |
| Tax equivalent adjustment(2) | 53 | 32 | 102 | 61 |
| Net interest income tax equivalent basis | $ 774 | $ 752 | $ 1,532 | $ 1,445 |
| Average balances: | | | | |
| Interest-earning assets(3): | | | | |
| Mortgage portfolio, net | $226,292 | $202,292 | $223,852 | $198,033 |
| Investments and cash equivalents | 47,012 | 31,438 | 45,102 | 28,884 |
| Total interest-earning assets | $273,304 | $233,730 | $268,954 | $226,917 |
| Interest-bearing liabilities(1): | | | | |
| Short-term debt | $ 66,457 | $ 55,097 | $ 65,880 | $ 49,788 |
| Long-term debt | 193,752 | 164,654 | 190,274 | 162,585 |
| Total interest-bearing liabilities | 260,209 | 219,751 | 256,154 | 212,373 |
| Interest-free funds | 13,095 | 13,979 | 12,800 | 14,544 |
| Total interest-bearing liabilities and interest-free funds | $273,304 | $233,730 | $268,954 | $226,917 |
| Average interest rates(2): | | | | |
| Interest-earning assets: | | | | |
| Mortgage portfolio, net | 7.87% | 7.67% | 7.86% | 7.70% |
| Investments and cash equivalents | 6.33 | 4.29 | 6.26 | 4.04 |
| Total interest-earning assets | 7.60 | 7.22 | 7.59 | 7.23 |
| Interest-bearing liabilities(1): | | | | |
| Short-term debt | 6.05 | 3.90 | 5.99 | 3.71 |
| Long-term debt | 7.11 | 7.13 | 7.12 | 7.19 |
| Total interest-bearing liabilities | 6.84 | 6.32 | 6.83 | 6.38 |
| Investment spread | .76 | .90 | .76 | .85 |
| Interest-free return(4) | .37 | .39 | .38 | .42 |
| Net interest margin | 1.13% | 1.29% | 1.14% | 1.27% |

(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 $1.9 billion for the three- and six-month periods ended June 30, 1995 and $1.5 billion and $1.4 billion for the three- and six-month periods, respectively, ended June 30, 1994.

(4) Consists primarily of 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, 1995 and 1994.

**Rate/Volume Analysis**

**(Dollars in millions)**

| | Second Quarter 1995 vs. Second Quarter 1994 | | | First Six Months 1995 vs. First Six Months 1994 | | |
|---|---|---|---|---|---|---|
| | Increase (Decrease) | Attributable to Changes in (1) | | Increase (Decrease) | Attributable to Changes in (1) | |
| | | Volume | Rate | | Volume | Rate |
| Interest income: | | | | | | |
| Mortgage portfolio | $565 | $468 | $ 97 | $1,163 | $1,008 | $155 |
| Investments and cash equivalents | 401 | 203 | 198 | 817 | 410 | 407 |
| Total interest income | 966 | 671 | 295 | 1,980 | 1,418 | 562 |
| Interest expense: | | | | | | |
| Short-term debt | 451 | 129 | 322 | 1,001 | 367 | 634 |
| Long-term debt | 514 | 518 | (4) | 933 | 987 | (54) |
| Total interest expense | 965 | 647 | 318 | 1,934 | 1,354 | 580 |
| Net interest income | $ 1 | $ 24 | $(23) | $ 46 | $ 64 | $(18) |

(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 decreased by $5 million to $267 million when compared with the second quarter of 1994. This change resulted from a reduction in the average guaranty fee rate from 22.6 basis points in the second quarter of 1994 to 21.9 basis points in the second quarter of 1995, the effect of which was offset, in part, by a one percent increase in average net Mortgage-Backed Securities ("MBS") outstanding. For the first half of 1995, guaranty fee income decreased by $8 million to $534 million, also reflecting a lower average guaranty fee rate versus the comparable period in 1994. The reduction in the average guaranty fee rate was, in part, a result of the issuance of lender risk MBS backed by seasoned loans, primarily ARMs, which have lower guaranty fee rates.

In the second quarter of 1995, miscellaneous income declined 31 percent to $22 million versus $32 million in the second quarter of 1994. For the first half of 1995, miscellaneous income declined 38 percent to $56 million versus $91 million in the first half of 1994. The decline in miscellaneous income for the second quarter of 1995 versus the second quarter of 1994 was primarily the result of $12 million of net operating losses on affordable housing project investments. In response to an accounting pronouncement issued during the second quarter of 1995, the Corporation changed to the equity method of accounting for these investments, retroactive to January 1, 1995. Previously, the Corporation used the cost recovery method. The decline in miscellaneous income for the first half of 1995 versus the first half of 1994 was primarily a result of lower REMIC fees and miscellaneous fees, and net operating losses due to the change in accounting for affordable housing investments. Net REMIC fees were $21 million for the second quarter of 1995 compared with $19 million for the second quarter of 1994, and $40 million for the first half of 1995 compared with $54 million in the first half of 1994. In the first half of 1995, the Corporation recognized additional deferred REMIC fees due to lower expected REMIC processing costs; however, REMIC fees were lower overall primarily because of a decline in the volume of REMIC issuances. The Corporation believes miscellaneous income for the remainder of 1995 will be slightly lower than that recorded in the first half of the year.

Administrative expenses for the quarter ended June 30, 1995 were $135 million, compared with $130 million during the same period in 1994. For the six months ended June 30, 1995, administrative expenses were $264 million, compared with $254 million for the same period in 1994. The primary

reason for the increases was compensation expense, which was $78 million in the second quarter of 1995, compared with $71 million in the second quarter of 1994. For the first half of 1995, compensation expense was $155 million, compared with $142 million in the first half of 1994. The ratio of administrative expenses to the average mortgage portfolio plus average MBS outstanding was .076 percent for the three-month period ended June 30, 1995 and .074 percent for the six-month period ended on that date, compared with .076 and .075 percent, respectively, for the comparable periods in 1994. The ratio of administrative expenses to revenues (net interest income, guaranty fees, and miscellaneous income) was 13.4 percent for the second quarter of 1995, compared with 12.7 percent for the second quarter of 1994, and was 13.1 percent for the first half of 1995, compared with 12.6 percent for the first half of 1994.

The effective federal income tax rate was 27 percent for the second quarter of 1995 and 28 percent for the first half of 1995, compared with 32 percent for the second quarter and 33 percent for the first half of 1994. The reduction in the effective tax rate for the second quarter and first half of 1995 resulted primarily from the settlement of several items relating to the 1986 and 1987 tax years and from recognition of additional tax benefits related to the change in accounting for affordable housing project investments.

In the second quarter of 1995, the Corporation had an extraordinary loss of $8 million ($5 million after tax) from the repurchase or call of debt compared with a loss of $14 million ($9 million after tax) in the second quarter of 1994. An extraordinary net loss of $4 million ($3 million after tax) was reported in the first half of 1995 from the repurchase or call of debt compared with a loss of $27 million ($17 million after tax) from repurchases or calls in the first half of 1994. The repurchase or call of high-coupon debt favorably affects the Corporation's cost of funds in future periods.

**Net Income by Line of Business**

Management views itself as being in three separate businesses: Portfolio Investment, Credit Guaranty and Fee-based Services. The Portfolio Investment business includes the management of asset purchase and funding activities for the Corporation's mortgage and investment portfolios. Income is primarily derived from the difference, or spread, between the yield on mortgage loans and investments and the borrowing costs related to these investments. The Portfolio Investment business represented $272.0 billion, or 95 percent, of total assets at June 30, 1995 and $232.8 billion, or 96 percent, of total assets at June 30, 1994. The Credit Guaranty business involves guaranteeing the credit performance of both single-family and multifamily loans for a fee. Net interest income for the Credit Guaranty business also includes income from the temporary investment of principal and interest payments on guaranteed mortgages prior to remittance to investors. The Fee-based Services business provides a supplemental source of income for the Corporation through offering various services to lenders and others for a fee. These services include the issuance of REMICs, Stripped MBS, and Fannie Megas, technology services for originating and underwriting loans, and facilitating securities transactions.

The following tables set forth the Corporation's financial information by line of business for the three months and six months ended June 30, 1995 and 1994 and net income by business for the years

ended December 31, 1994, 1993, and 1992. Significant changes from period to period were due to the same factors discussed under "Results of Operations."

| Three months ended June 30, | 1995 Portfolio Investment | 1995 Credit Guaranty | 1995 Fee-based Services | 1995 Total | 1994 Portfolio Investment | 1994 Credit Guaranty | 1994 Fee-based Services | 1994 Total |
|---|---|---|---|---|---|---|---|---|
| | (Dollars in millions) | | | | | | | |
| Net interest income | $ 626 | $ 88 | $ 7 | $ 721 | $ 630 | $ 83 | $ 7 | $ 720 |
| Guaranty fees | (155) | 422 | — | 267 | (141) | 413 | — | 272 |
| Gain (loss) on sale of mortgages, net | 1 | — | — | 1 | (4) | — | — | (4) |
| Miscellaneous, net | 2 | (7) | 27 | 22 | 1 | 3 | 28 | 32 |
| Provision for losses | — | (35) | — | (35) | — | (40) | — | (40) |
| Foreclosed property expenses | — | (49) | — | (49) | — | (58) | — | (58) |
| Administrative expenses | (34) | (91) | (10) | (135) | (25) | (88) | (17) | (130) |
| Federal income taxes | (110) | (96) | (8) | (214) | (142) | (109) | (6) | (257) |
| Extraordinary item—early extinguishment of debt | (5) | — | — | (5) | (9) | — | — | (9) |
| Net income | $ 325 | $232 | $ 16 | $ 573 | $ 310 | $ 204 | $ 12 | $ 526 |

| Six months ended June 30, | 1995 Portfolio Investment | 1995 Credit Guaranty | 1995 Fee-based Services | 1995 Total | 1994 Portfolio Investment | 1994 Credit Guaranty | 1994 Fee-based Services | 1994 Total |
|---|---|---|---|---|---|---|---|---|
| | (Dollars in millions) | | | | | | | |
| Net interest income | $1,237 | $ 177 | $ 16 | $1,430 | $1,204 | $ 166 | $ 14 | $1,384 |
| Guaranty fees | (307) | 841 | — | 534 | (278) | 820 | — | 542 |
| Gain (loss) on sale of mortgages, net | 3 | — | — | 3 | (2) | — | — | (2) |
| Miscellaneous, net | 5 | 1 | 50 | 56 | 5 | 9 | 77 | 91 |
| Provision for losses | — | (70) | — | (70) | — | (80) | — | (80) |
| Foreclosed property expenses | — | (100) | — | (100) | — | (118) | — | (118) |
| Administrative expenses | (64) | (175) | (25) | (264) | (50) | (172) | (32) | (254) |
| Federal income taxes | (231) | (202) | (14) | (447) | (271) | (218) | (21) | (510) |
| Extraordinary item—early extinguishment of debt | (3) | — | — | (3) | (17) | — | — | (17) |
| Net income | $ 640 | $ 472 | $ 27 | $1,139 | $ 591 | $ 407 | $ 38 | $1,036 |

| Years ended December 31, | 1994 | 1993 | 1992 |
|---|---|---|---|
| | (Dollars in millions) | | |
| Net income: | | | |
| Portfolio Investment | $1,254 | $1,010 | $ 925 |
| Credit Guaranty | 828 | 760 | 626 |
| Fee-based Services | 50 | 103 | 72 |
| Total | $2,132 | $1,873 | $1,623 |

*Significant Allocation Assumptions*

The Portfolio Investment business is charged with a guaranty fee on all mortgages held in portfolio. These fees are paid to the Credit Guaranty business, which assumes the credit risk on all loans.

Administrative expenses are allocated based on direct expenses for the line of business, and, where not identifiable to a particular associated business, based primarily on revenues, profit, or volumes, as applicable.

Net interest income also includes income on capital. Capital is allocated to the separate businesses based on an assessment of the risks associated with each business.

## Credit Data

The following table shows the Corporation's serious delinquencies for conventional loans in portfolio and underlying MBS at June 30, 1995 and 1994, and conventional foreclosures and total net charge-offs for the quarters and six months ended June 30, 1995 and 1994.

| | Delinquency Rate (1) | | Number of Properties Acquired | | | | Net Charge-offs (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, | |
| | 1995 | 1994 | 1995 | 1994 | 1995 | 1994 | 1995 | 1994 | 1995 | 1994 |
| Single-family | 0.55% | 0.57% | 3,500 | 3,428 | 6,850 | 6,550 | $34 | $39 | $72 | $78 |
| Multifamily | 1.02 | 1.77 | 17 | 8 | 59 | 19 | 6 | 4 | 7 | 18 |
| Total | | | | | | | $40 | $43 | $79 | $96 |

(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 6,554 as of June 30, 1995, compared with 5,746 properties as of June 30, 1994. The inventory of multifamily properties was 48 as of June 30, 1995, compared with 44 properties as of June 30, 1994. The increase in the number of single-family properties acquired through foreclosure was primarily due to the growth in business volumes in recent years. First half 1995 multifamily REO acquisitions included 53 properties from a portfolio that transferred from lender risk to Fannie Mae risk. As part of that transaction, the Corporation received an investment account established by the lender to cover expected losses at the time of the transfer.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were $84 million in the second quarter of 1995, compared with $98 million in the second quarter of 1994. Total credit-related expenses for the six-month periods ended June 30, 1995 and 1994 were $170 million and $198 million, respectively. The decreases in credit-related expenses were primarily due to a lower average loss per case on single-family properties and an increase on the gain on sale of multifamily properties in the first half of 1995.

The sum of net charge-offs and foreclosed property expenses in the three months ended June 30, 1995 was $89 million, compared with $102 million during the same period in 1994. The sum of net charge-offs and foreclosed property expenses for the six months ended June 30, 1995 and 1994 were $179 million and $215 million, respectively. Charge-offs in the first half of 1994 included $25 million related to the January 17, 1994 Northridge, California earthquake, of which $15 million related to single-family loans and $10 million related to multifamily loans.

The allowance for losses was $818 million at June 30, 1995, compared with $827 million at December 31, 1994 and $825 million at June 30, 1994.

## Balance Sheet Analysis

### *Mortgage Portfolio*

The Corporation purchased $14.1 billion of mortgages at an average yield of 8.07 percent in the second quarter of 1995, compared with $18.3 billion of mortgages at an average yield of 7.77 percent in the second quarter of 1994. In the first six months of 1995, mortgage purchases were $20.4 billion at an average yield of 8.31 percent, compared with $37.5 billion at an average yield of 7.28 percent in the first six months of 1994. The decrease in mortgage purchases in 1995 was primarily due to the higher

level of interest rates and the reduction in the number of mortgages offered for sale in the secondary market, due, in part, to a higher volume of adjustable-rate mortgages being originated in the higher interest rate environment.

Mortgage loan repayments during the second quarter of 1995 totaled $5.4 billion, compared with $7.4 billion in the second quarter of 1994. During the first half of 1995, mortgage loan repayments were $9.6 billion compared with $18.4 billion in the first half of 1994. Sales from portfolio totaled $0.1 billion for the second quarter of 1995 compared with $0.5 billion for the second quarter of 1994, while sales from portfolio totaled $0.3 billion for the first half of 1995 compared with $1.7 billion for the first half of 1994.

As of June 30, 1995, the net mortgage portfolio totaled $231.3 billion with a yield (before deducting the allowance for losses) of 7.87 percent, compared with $220.5 billion at 7.80 percent as of December 31, 1994 and $207.0 billion at 7.67 percent as of June 30, 1994. The increase in yield was primarily due to an increase in conventional mortgage purchase yields as interest rates increased in the first half of 1995. The portfolio growth during the first half of 1995 was generated by the purchase of a combination of whole loans, MBS, and REMIC tranches. By selectively accessing these markets, the Corporation expects to achieve continued portfolio growth.

At June 30, 1995, the Corporation had mandatory delivery commitments and lender option commitments outstanding to purchase $3.5 billion and $1.1 billion of mortgage loans, respectively, compared with $1.4 billion and $1.6 billion, respectively, of such commitments outstanding at December 31, 1994.

*Financing and Other Activities*

During the second quarter of 1995, the Corporation issued $176.0 billion of debt at an average cost of 6.05 percent and redeemed $164.7 billion at an average cost of 5.87 percent. Debt issued in the second quarter of 1994 totaled $120.6 billion at an average cost of 4.34 percent, and debt redeemed was $109.2 billion at an average cost of 3.92 percent. During the first six months of 1995, $379.7 billion of debt was issued at an average cost of 6.06 percent and $366.1 billion was redeemed at an average cost of 5.95 percent. In the first six months of 1994, debt issued totaled $240.1 billion at an average cost of 3.93 percent, and debt redeemed totaled $213.5 billion at an average cost of 3.73 percent. The average cost of debt outstanding at June 30, 1995 was 6.78 percent, unchanged from December 31, 1994. The average cost of debt outstanding at June 30, 1994 was 6.35 percent.

The following table presents the amount of callable debt and the notional amount of callable swaps issued and outstanding for the periods ended June 30, 1995 and June 30, 1994.

| | Three months ended June 30, | | Six months ended June 30, | |
|---|---|---|---|---|
| **(Dollars in billions)** | **1995** | **1994** | **1995** | **1994** |
| Issued during the period | $ 4.0 | $ 7.0 | $6.5 | $13.8 |
| Percentage of total long-term debt issued(1) | 25% | 54% | 27% | 61% |
| Outstanding at end of period | $100.6 | $99.6 | | |
| Percentage of total long-term debt outstanding(1) | 51% | 58% | | |

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

The shift during recent quarters from callable to noncallable debt reflected both market conditions and routine mortgage portfolio restructuring. The increase in interest rates during 1994 caused the duration of the mortgage portfolio's assets to extend relative to that of its liabilities, and the issuance of noncallable long-term debt helps to lengthen the duration of the liabilities funding the mortgage portfolio. For the remainder of 1995, the Corporation expects the proportion of debt issued that is callable will increase compared with the second quarter of 1995. This expectation is based on

projected market conditions (which can change quickly and considerably), as well as expected mortgage portfolio restructuring activity.

The Corporation uses interest rate swaps and other off-balance-sheet financial instruments in its financing activities to manage interest rate risk and to reduce the cost of debt issuance. The Corporation does not engage in trading or other speculative use of such off-balance-sheet financial instruments. Counterparty risk is the primary risk associated with these instruments. The Corporation reduces that risk by dealing only with institutions that meet certain credit guidelines, and by requiring collateral in certain circumstances.

The Corporation uses interest rate swaps primarily to extend or adjust the effective maturity of certain debt obligations. Under these swaps, the Corporation generally pays a fixed rate and receives a floating rate based on a notional principal amount. Asset swaps are used to achieve a specific investment objective at a desired yield. The notional amount of interest rate swap agreements outstanding, the weighted-average interest rates receivable and payable under the agreements, and the weighted-average remaining life of the swaps at June 30, 1995 and December 31, 1994 are presented in the following table.

| (Dollars in millions) | Notional Amount (1) | Weighted-Average Interest Rate Receivable (2) | Weighted-Average Interest Rate Payable (2) | Weighted-Average Remaining Life |
|---|---|---|---|---|
| **June 30, 1995** | | | | |
| Interest rate swaps: | | | | |
| Debt | $105,668 | 6.24% | 6.62% | 55 mos |
| Asset | 2,143 | 6.16 | 5.70 | 23 |
| | $107,811 | | | |
| **December 31, 1994** | | | | |
| Interest rate swaps: | | | | |
| Debt | $ 86,358 | 5.81% | 6.50% | 50 mos |
| Asset | 1,517 | 6.37 | 5.96 | 25 |
| | $ 87,875 | | | |

(1) The notional amount only indicates the amount on which swap payments are being calculated and does not represent the amount at risk of loss.

(2) The weighted-average interest rate receivable and payable is as of the date indicated. Some of the swaps are floating rate, so these rates may change as prevailing interest rates change.

During the first half of 1995, the Corporation entered into $26.0 billion notional amount of interest rate swaps and $6.1 billion of swaps matured or were called or repurchased.

The exposure to credit loss for interest rate swaps can be estimated by calculating the cost, on a present value basis, to replace at current market rates those swaps outstanding for which the Corporation was in a net gain position. The Corporation's net exposure at June 30, 1995 was $0.2 billion, compared with $3.0 billion at December 31, 1994. At June 30, 1995 the Corporation had no pledged collateral. At December 31, 1994, the Corporation had collateral with a market value of $1.2 billion pledged from counterparties to offset credit risk. The exposure to credit loss can be expected to fluctuate significantly due to changes in interest rates.

The Corporation's shareholders' equity at June 30, 1995 was $10.3 billion, compared with $9.5 billion at December 31, 1994, and $8.8 billion at June 30, 1994. On July 19, 1995, the Board of Directors approved a dividend on the Corporation's common stock of 68 cents per share for the quarter ended June 30, 1995. As of June 30, 1995, 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 Capital Requirements," the Corporation is subject to capital standards. The Corporation met the applicable capital standards as of June 30, 1995. Management expects that continued growth in retained earnings will ensure continued compliance with the applicable standards.

**Mortgage-Backed Securities**

The Corporation issued $21.3 billion of MBS during the second quarter of 1995, compared with $33.6 billion in the second quarter of 1994. MBS issued in the first half of 1995 totaled $34.4 billion, compared with $86.4 billion in the first half of 1994. The reduction in MBS issuances in 1995 versus 1994 was primarily due to a reduction in refinance activity in a higher interest rate environment. It also appears to be due, in part, to higher interest rates prompting a higher percentage of adjustable-rate mortgages to be originated, which many lenders desire to hold in their portfolio.

REMIC issuances were $3.2 billion in the second quarter and $4.5 billion in the first six months of 1995, compared with $13.8 billion and $46.5 billion, respectively, in the comparable periods for 1994. These declines reflected the lower volume of fixed-rate MBS in a higher interest rate environment. In addition, higher interest rates caused a substantial amount of outstanding REMICs to become available for sale and reduced opportunities for dealers to create profitable new REMIC structures.

The following table summarizes MBS activity for the three-month and six-month periods ended June 30, 1995 and 1994. The higher percentage of MBS issued with lender risk in 1995 was due to an increase in the issuance of MBS backed by seasoned loans, where lenders more frequently retained the primary default risk.

**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) |
| 1995 | $5,174 | $16,022 | $ 134 | $21,330 | $62,346 | $481,323 | $543,669 |
| 1994 | 779 | 31,466 | 1,350 | 33,595 | 53,403 | 461,452 | 514,855 |
| Six Months Ended June 30, | | | | | | | |
| 1995 | $7,539 | $26,478 | $ 383 | $34,400 | | | |
| 1994 | 2,233 | 80,499 | 3,668 | 86,400 | | | |

(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 $28.7 billion and $30.4 billion at June 30, 1995 and 1994, 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 $4.9 billion at June 30, 1995 and $5.7 billion at June 30, 1994 that are backed by government insured or guaranteed mortgages.

(4) Included are $54.1 billion and $32.8 billion at June 30, 1995 and 1994, respectively, of Fannie Mae MBS in portfolio.

## MATTERS SUBMITTED TO STOCKHOLDERS

The 1995 Annual Meeting of Stockholders of Fannie Mae was held on May 18, 1995. At this meeting, 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 the Corporation; (ii) ratification of the appointment of KPMG Peat Marwick LLP as auditors of the Corporation for 1995; and (iii) a stockholder proposal to reinstate cumulative voting for directors, which the Board of Directors recommended that stockholders vote against. Under the stockholder 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.

Of the 272,582,792 shares of common stock outstanding on the record date for the meeting, 237,746,401 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:

| | Votes For | Votes Withheld |
|---|---|---|
| Stephen B. Ashley | 236,696,228 | 1,050,173 |
| Felix M. Beck | 236,514,264 | 1,232,137 |
| Roger E. Birk | 236,342,360 | 1,404,041 |
| Thomas P. Gerrity | 236,874,620 | 871,781 |
| James A. Johnson | 236,358,536 | 1,387,865 |
| Vincent A. Mai | 236,823,568 | 922,833 |
| Ann McLaughlin | 236,813,305 | 933,096 |
| Richard D. Parsons | 236,573,838 | 1,172,563 |
| Franklin D. Raines | 236,363,718 | 1,382,683 |
| Antonia Shusta | 236,425,137 | 1,321,264 |
| Lawrence M. Small | 236,352,610 | 1,393,791 |
| Christopher J. Sumner | 236,539,967 | 1,206,434 |
| Karen Hastie Williams | 236,809,341 | 937,060 |

Mr. Ashley was the only new director elected, and he filled the seat vacated by Eli Broad when his term expired at the May 1995 Annual Meeting. See the May 12 Supplement and the Proxy Statement for the May 1995 Annual Meeting for further information regarding Mr. Ashley.

As noted under ''Management,'' four other directors have been reappointed by the President of the United States for terms expiring on the date of the May 1996 Annual Meeting.

The ratification of KPMG Peat Marwick LLP as auditors was approved by a vote of 236,687,719 for ratification and 637,490 against ratification. The holders of 421,192 shares of common stock abstained from voting on ratification.

The stockholder proposal was defeated by a vote of 46,076,519 for the proposal and 164,917,548 against the proposal. The holders of 3,497,167 shares of common stock abstained from voting on the stockholder proposal, and broker non-votes represented 23,255,167 shares.

## INDEX TO INTERIM FINANCIAL STATEMENTS


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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors
Fannie Mae:

We have reviewed the accompanying condensed balance sheet of Fannie Mae (Federal National Mortgage Association) as of June 30, 1995 and the related condensed statements of income and cash flows for the three and six-month periods ended June 30, 1995 and 1994. These financial statements are the responsibility of Fannie Mae's management.

We conducted our reviews 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 reviews, we are not aware of any material modifications that should be made to the accompanying condensed financial statements as of June 30, 1995, and for the three and six-month periods ended June 30, 1995 and 1994, 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, 1994 (presented herein in condensed format) and the related statements of income and cash flows for the year then ended (not presented herein); and in our report dated January 11, 1995, 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, 1994, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

KPMG PEAT MARWICK LLP

Washington, DC
July 12, 1995

## FANNIE MAE

## INTERIM FINANCIAL STATEMENTS

## CONDENSED STATEMENTS OF INCOME

**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | **1995** | **1994** | **1995** | **1994** |
| | (Dollars in millions, except per share amounts) | | | |
| Interest income | $5,162 | $4,196 | $10,149 | $8,169 |
| Interest expense | 4,441 | 3,476 | 8,719 | 6,785 |
| Net interest income | 721 | 720 | 1,430 | 1,384 |
| Guaranty fees | 267 | 272 | 534 | 542 |
| Gain (loss) on sales of mortgages, net | 1 | (4) | 3 | (2) |
| Miscellaneous income, net | 22 | 32 | 56 | 91 |
| Provision for losses | (35) | (40) | (70) | (80) |
| Foreclosed property expenses | (49) | (58) | (100) | (118) |
| Administrative expenses | (135) | (130) | (264) | (254) |
| Income before federal income taxes and extraordinary item | 792 | 792 | 1,589 | 1,563 |
| Provision for federal income taxes | (214) | (257) | (447) | (510) |
| Income before extraordinary item | 578 | 535 | 1,142 | 1,053 |
| Extraordinary item—early extinguishment of debt (net of tax effect) | (5) | (9) | (3) | (17) |
| Net income | $ 573 | $ 526 | $ 1,139 | $1,036 |
| Per share: | | | | |
| Earnings before extraordinary item | $ 2.10 | $ 1.95 | $ 4.16 | $ 3.84 |
| Net earnings | 2.08 | 1.91 | 4.15 | 3.77 |
| Cash dividends | 0.68 | 0.60 | 1.36 | 1.20 |

## CONDENSED BALANCE SHEETS

**(Unaudited)**

| | June 30, 1995 | December 31, 1994 |
|---|---|---|
| | (Dollars in millions) | |
| Assets | | |
| Mortgage portfolio, net | $231,339 | $220,525 |
| Investments | 48,340 | 46,335 |
| Other assets | 7,595 | 5,648 |
| Total assets | $287,274 | $272,508 |
| Liabilities | | |
| Debentures, notes, and bonds, net: | | |
| Due within one year | $126,429 | $112,602 |
| Due after one year | 144,508 | 144,628 |
| Other liabilities | 6,014 | 5,737 |
| Total liabilities | 276,951 | 262,967 |
| Stockholders' equity | 10,323 | 9,541 |
| Total liabilities and stockholders' equity | $287,274 | $272,508 |

See Notes to Interim Financial Statements

## FANNIE MAE

## CONDENSED STATEMENTS OF CASH FLOWS

**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1995 | 1994 | 1995 | 1994 |
| | (Dollars in millions) | | | |
| Net cash provided by operating activities | $ 1,080 | $ 84 | $ 3,012 | $ 62 |
| Cash flows from investing activities: | | | | |
| Purchases of mortgages | (14,236) | (18,007) | (20,509) | (37,129) |
| Proceeds from sales of mortgages | 79 | 503 | 320 | 1,716 |
| Mortgage principal repayments | 5,494 | 7,593 | 9,714 | 18,821 |
| Net increase in investments | (2,233) | (804) | (2,005) | (8,029) |
| Net cash used in investing activities | (10,896) | (10,715) | (12,480) | (24,621) |
| Cash flows from financing activities: | | | | |
| Cash proceeds from issuance of debt | 175,537 | 119,920 | 377,745 | 245,071 |
| Cash payments to redeem debt | (164,682) | (109,189) | (366,824) | (219,600) |
| Other | (172) | (174) | (381) | (273) |
| Net cash provided by financing activities | 10,683 | 10,557 | 10,540 | 25,198 |
| Net increase (decrease) in cash and cash equivalents | 867 | (74) | 1,072 | 639 |
| Cash and cash equivalents at beginning of period | 436 | 1,690 | 231 | 977 |
| Cash and cash equivalents at end of period | $ 1,303 | $ 1,616 | $ 1,303 | $ 1,616 |

## 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 1994 have been reclassified to conform with the current presentation. Operating results for the three-month and six-month periods ended June 30, 1995 are not necessarily indicative of the results that may be expected for the year ending December 31, 1995. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Information Statement dated March 31, 1995.

### Change in Accounting Principle

In the second quarter of 1995, Fannie Mae adopted the equity method of accounting for investments in affordable housing projects in response to an accounting pronouncement issued during the quarter. Previously, the company used the cost recovery method in accounting for these investments. Earnings for the first quarter of 1995 have been restated and increased by $12 million, or

$.04 per share, to reflect the change in accounting for investments in affordable housing projects, retroactive to January 1, 1995. The effect of the change on second quarter 1995 earnings was not material.

**Commitments and Contingencies**

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

| | June 30, 1995 (Dollars in billions) |
|---|---|
| Commitments to purchase mortgages: | |
| Mandatory delivery | $ 3.5 |
| Lender option(1) | 0.3 |
| Average net yield on mandatory delivery | 7.55% |
| Commitments to issue MBS: | |
| Mandatory delivery(1) | $ 0.1 |
| Lender option(1) | 2.5 |
| Master commitments: | |
| Mandatory delivery(2) | 59.2 |
| Lender option | 26.5 |

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

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

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

| | June 30, 1995 (Dollars in billions) |
|---|---|
| MBS outstanding, net of $54.1 billion of MBS held in portfolio | $489.6 |
| Amount for which the Corporation has primary foreclosure loss risk(1): | |
| Conventional | 476.4 |
| Government-insured or guaranteed | 4.9 |
| Credit enhancements | 2.9 |
| Other guarantees | 1.2 |

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

## COMPUTATION OF EARNINGS PER SHARE

**(Unaudited)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| | 1995 | 1994 | 1995 | 1994 |
| | (In millions, except per share data) | | | |
| **Earnings Per Share:** | | | | |
| Average common shares outstanding | 272.7 | 273.5 | 272.7 | 273.4 |
| Effect of common stock equivalents (fully diluted) | 2.0 | 1.2 | 2.0 | 1.2 |
| Average shares outstanding | 274.7 | 274.7 | 274.7 | 274.6 |
| Income before extraordinary item | $ 578 | $ 535 | $1,142 | $1,053 |
| Net income | 573 | 526 | 1,139 | 1,036 |
| Earnings per share before extraordinary item | $ 2.10 | $ 1.95 | $ 4.16 | $ 3.84 |
| Net earnings per share | 2.08 | 1.91 | 4.15 | 3.77 |

## MANAGEMENT

In May 1995, the President of the United States reappointed the following four members of the Board of Directors for a term expiring on the date of the May 1996 Annual Meeting: William M. Daley, Thomas A. Leonard, John R. Sasso, and José H. Villarreal.

As discussed under "Matters Submitted to Stockholders," at the Annual Meeting of Stockholders in May 1995, thirteen directors, including one new director, were elected to serve a one-year term ending on the date of the May 1996 Annual Meeting.

FannieMae