Supplement dated August 14, 1997 to
Information Statement dated March 31, 1997

This Supplement describes the financial condition of the Federal National Mortgage Association ("Fannie Mae" or the "Corporation") as of June 30, 1997 and contains unaudited financial statements with respect to the Corporation for the quarter and six months ended June 30, 1997. This Supplement should be read in conjunction with the Corporation's Information Statement dated March 31, 1997 (the "Information Statement") and the Supplement dated May 14, 1997 thereto (the "May 14 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, 1996. The May 14 Supplement describes the financial condition of the Corporation as of March 31, 1997 and contains unaudited financial statements with respect to the Corporation for the quarter ended March 31, 1997. Fannie Mae also periodically makes available statistical information on its mortgage purchase and mortgage-backed securities volumes as well as other relevant information about Fannie Mae. Copies of the Corporation's current Information Statement, the May 14 Supplement, this Supplement, any other supplements to the Information Statement and other available information can be obtained without charge from the Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: 202/752-7115).

In connection with its securities offerings, the Corporation may incorporate this Supplement by reference in one or more other documents describing the securities offered thereby, the selling arrangements therefor and other relevant information. Such other documents may be called an Offering Circular or a Prospectus. This Supplement does not offer 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.

The Corporation's securities are not required to be registered under the Securities Act of 1933. At the close of business on July 31, 1997, approximately 1,045 million shares of the Corporation's common stock (without par value) were outstanding.

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

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SELECTED FINANCIAL DATA

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

(Dollars in millions, except per common share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
Income Statement Data:	1997	1996	1997	1996
Interest income	$ 6,514	$ 5,832	$12,843	$11,590
Interest expense	5,544	4,949	10,923	9,821
Net interest income	970	883	1,920	1,769
Guaranty fees	317	296	630	584
Miscellaneous income, net	32	18	62	37
Provision for losses	(40)	(50)	(80)	(95)
Foreclosed property expenses	(61)	(52)	(127)	(105)
Administrative expenses	(158)	(138)	(309)	(273)
Income before federal income taxes and extraordinary item	1,060	957	2,096	1,917
Provision for federal income taxes	(308)	(281)	(610)	(566)
Income before extraordinary item	752	676	1,486	1,351
Extraordinary gain/(loss), net of tax effect	1	(8)	1	(29)
Net income	$ 753	$ 668	$ 1,487	$ 1,322
Preferred stock dividends	(16)	(11)	(32)	(13)
Net income available to common stockholders	$ 737	$ 657	$ 1,455	$ 1,309
Per common share:				
Earnings before extraordinary item	$ .69	$ .61	$ 1.36	$ 1.23
Net earnings	.69	.61	1.36	1.20
Cash dividends	.21	.19	.42	.38

	June 30,	
Balance Sheet Data:	1997	1996
Mortgage portfolio, net	$296,799	$269,179
Investments	59,282	49,574
Total assets	365,997	326,910
Borrowings:		
Due within one year	167,682	141,833
Due after one year	177,780	166,552
Total liabilities	352,733	315,159
Stockholders' equity	13,264	11,751
Capital(1)	14,019	12,477

	Three Months Ended June 30,		Six Months Ended June 30,	
Other Data:	1997	1996	1997	1996
Net interest margin	1.17%	1.18%	1.17%	1.19%
Return on average common equity	24.4	24.0	24.3	23.9
Dividend payout ratio	29.9	31.1	30.5	31.4
Average effective guaranty fee rate	.227	.223	.227	.222
Credit loss ratio(2)	.047	.056	.046	.057
Ratio of earnings to combined fixed charges and preferred stock dividends(3)	1.19:1	1.19:1	1.19:1	1.19:1
Mortgage purchases	$ 14,425	$ 17,480	$27,421	$35,342
MBS issued	30,446	45,981	61,327	84,351
Average common shares outstanding (in millions)	1,062	1,084	1,068	1,091
MBS outstanding at period end(4) (in millions)	$673,931	$621,285		
Book value per common share at period end	11.69	10.31		

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

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

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

(4) Includes $116 billion and $84 billion of MBS held in portfolio at June 30, 1997 and 1996, respectively.

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

Results of Operations

In the second quarter of 1997, Fannie Mae again reported record earnings as net income increased 13 percent, or $85 million, to $753 million, compared with the results for the second quarter of 1996. For the first six months of 1997, net income increased $165 million, or 12 percent, to $1.487 billion compared with $1.322 billion for the first half of 1996. The growth in net income for the three-month and six-month periods ended June 30, 1997 was mainly attributable to increases in net interest income, guaranty fees and miscellaneous income.

Net interest income in the second quarter of 1997 increased 10 percent compared with the second quarter of 1996 as a result of 11 percent growth in the average investment portfolio, which was partly offset by a one basis point decrease in the net interest margin. Net interest income in the first six months of 1997 increased 9 percent compared with the first six months of 1996. This increase was the result of an 11 percent growth in the average investment portfolio and a 2 basis point decrease 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, 1997 and 1996.

Net Interest Income and Average Balances

(Dollars in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	**1996**	**1997**	**1996**
Interest income:				
Mortgage portfolio	$ 5,621	$ 5,051	$ 11,105	$ 9,978
Investments and cash equivalents	893	781	1,738	1,612
Total interest income	6,514	5,832	12,843	11,590
Interest expense(1):				
Short-term debt	908	842	1,747	1,827
Long-term debt	4,636	4,107	9,176	7,994
Total interest expense	5,544	4,949	10,923	9,821
Net interest income	970	883	1,920	1,769
Tax equivalent adjustment(2)	72	61	138	118
Net interest income tax equivalent basis	$ 1,042	$ 944	$ 2,058	$ 1,887
Average balances:				
Interest-earning assets(3):				
Mortgage portfolio, net	$294,953	$264,761	$291,425	$260,450
Investments and cash equivalents	61,978	56,352	61,031	57,613
Total interest-earning assets	$356,931	$321,113	$352,456	$318,063
Interest-bearing liabilities(1):				
Short-term debt	$ 68,389	$ 63,569	$ 66,467	$ 67,967
Long-term debt	272,522	241,830	269,990	234,887
Total interest-bearing liabilities	340,911	305,399	336,457	302,854
Interest-free funds	16,020	15,714	15,999	15,209
Total interest-bearing liabilities and interest-free funds	$356,931	$321,113	$352,456	$318,063
Average interest rates(2):				
Interest-earning assets:				
Mortgage portfolio, net	7.68%	7.69%	7.68%	7.72%
Investments and cash equivalents	5.82	5.60	5.75	5.65
Total interest-earning assets	7.36	7.33	7.35	7.35
Interest-bearing liabilities(1):				
Short-term debt	5.29	5.19	5.23	5.28
Long-term debt	6.80	6.82	6.80	6.83
Total interest-bearing liabilities	6.50	6.48	6.49	6.48
Investment spread	.86	.85	.86	.87
Interest-free return(4)	.31	.33	.31	.32
Net interest margin(5)	1.17%	1.18%	1.17%	1.19%

(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 for the three-month period ended June 30, 1997 and $2.3 billion for the six-month period ended June 30, 1997 and $2.2 billion for the three- and six-month periods ended June 30, 1996.

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

(5) Net interest income, on a tax equivalent basis, as a percentage of the average investment portfolio.

The following rate/volume analysis shows the relative contribution of asset and debt growth and interest rate changes to changes in net interest income for the three-month and six-month periods ended June 30, 1997 and 1996.

Rate/Volume Analysis

(Dollars in millions)

	Second Quarter 1997 vs. Second Quarter 1996			First Six Months 1997 vs. First Six Months 1996		
		Attributable to Changes in (1)			Attributable to Changes in (1)	
	Increase (Decrease)	Volume	Rate	Increase (Decrease)	Volume	Rate
Interest income:						
Mortgage portfolio	$570	$575	$ (5)	$1,127	$1,181	$ (54)
Investments and cash equivalents	112	80	32	126	97	29
Total interest income	682	655	27	1,253	1,278	(25)
Interest expense:						
Short-term debt	66	64	2	(80)	(40)	(40)
Long-term debt	529	522	7	1,182	1,193	(11)
Total interest expense	595	586	9	1,102	1,153	(51)
Net interest income	$ 87	$ 69	$ 18	$ 151	$ 125	$ 26

(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 $21 million to $317 million when compared with the second quarter of 1996. This change resulted from an increase in the average guaranty fee rate to 22.7 basis points in the second quarter of 1997 from 22.3 basis points in the second quarter of 1996 and a 5 percent increase in average net Mortgage-Backed Securities (''MBS'') outstanding. For the first half of 1997, guaranty fee income increased by $46 million to $630 million compared with the first half of 1996. This increase was the result of an increase in the average guaranty fee rate and average net MBS outstanding.

Miscellaneous income increased 78 percent to $32 million for the second quarter of 1997 compared with $18 million in the second quarter of 1996. For the first half of 1997, miscellaneous income increased 68 percent to $62 million versus $37 million in the first half of 1996. The increase in both periods was the result of increased other miscellaneous fees and REMIC fees.

Administrative expenses for the quarter ended June 30, 1997 were $158 million, compared with $138 million during the same period in 1996. For the six months ended June 30, 1997, administrative expenses were $309 million, compared with $273 million for the same period in 1996. The increase was primarily due to additional systems development expenses associated with new products, infrastructure requirements, and year 2000 conversion, as well as expenses associated with restructuring the Corporation's regional offices. The ratio of administrative expenses to the average mortgage portfolio plus average MBS outstanding was .075 percent and .073 percent for the three- and six-month periods ended June 30, 1997, respectively, compared with .070 for the comparable periods in 1996. The ratio of administrative expenses to revenues (net interest income, guaranty fees and miscellaneous income) was 12.0 percent for the second quarter of 1997, compared with 11.5 percent for the second quarter of 1996, and was 11.8 percent for the first half of 1997, compared with 11.4 percent for the first half of 1996.

The effective federal income tax rate was 29 percent for both the three and six months ended June 30, 1997, and the three and six months ended June 30, 1996.

In the second quarter of 1997, the Corporation had an extraordinary net gain of $2 million ($1 million after tax) from the repurchase or call of debt compared with a loss of $12 million

($8 million after tax) in the second quarter of 1996. An extraordinary net gain of $2 million ($1 million after tax) was reported in the first half of 1997 from the repurchase or call of debt compared with a loss of $44 million ($29 million after tax) from repurchases or calls in the first half of 1996.

Line of Business Reporting

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

Three months ended June 30,	1997			1996		
	Portfolio Investment	Credit Guaranty	Total	Portfolio Investment	Credit Guaranty	Total
	(Dollars in millions)					
Net interest income	$ 859	$ 111	$ 970	$ 773	$ 110	$ 883
Guaranty fees	(191)	508	317	(180)	476	296
Miscellaneous, net	4	28	32	6	12	18
Provision for losses	—	(40)	(40)	—	(50)	(50)
Foreclosed property expenses	—	(61)	(61)	—	(52)	(52)
Administrative expenses	(37)	(121)	(158)	(32)	(106)	(138)
Federal income taxes	(176)	(132)	(308)	(158)	(123)	(281)
Extraordinary item—early extinguishment of debt	1	—	1	(8)	—	(8)
Net income	$ 460	$ 293	$ 753	$ 401	$ 267	$ 668

Six months ended June 30,	1997			1996		
	Portfolio Investment	Credit Guaranty	Total	Portfolio Investment	Credit Guaranty	Total
	(Dollars in millions)					
Net interest income	$1,707	$ 213	$1,920	$1,555	$ 214	$1,769
Guaranty fees	(380)	1,010	630	(357)	941	584
Miscellaneous, net	12	50	62	14	23	37
Provision for losses	—	(80)	(80)	—	(95)	(95)
Foreclosed property expenses	—	(127)	(127)	—	(105)	(105)
Administrative expenses	(73)	(236)	(309)	(63)	(210)	(273)
Federal income taxes	(353)	(257)	(610)	(324)	(242)	(566)
Extraordinary item—early extinguishment of debt	1	—	1	(29)	—	(29)
Net income	$ 914	$ 573	$1,487	$ 796	$ 526	$1,322

The Portfolio Investment business represented $351 billion, or 96 percent of total assets, at June 30, 1997 and $316 billion, or 97 percent of total assets, at June 30, 1996.

Credit Data

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

	Delinquency Rate (1) June 30,		Number of Properties Acquired — Three Months Ended June 30,		Number of Properties Acquired — Six Months Ended June 30,		Net Charge-offs (Dollars in millions) — Three Months Ended June 30,		Net Charge-offs (Dollars in millions) — Six Months Ended June 30,	
	1997	**1996**	**1997**	**1996**	**1997**	**1996**	**1997**	**1996**	**1997**	**1996**
Single-family	.58%	.56%	5,717	5,177	11,148	9,567	$34	$57	$64	$110
Multifamily	.47	1.00	10	12	18	27	5	2	6	8
Total							$39	$59	$70	$118

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

The increase in single-family properties acquired for the three- and six-month periods in 1997 was primarily the result of loans reaching their peak default years and continued acquisitions in California. Total credit-related losses, which include net charge-offs and foreclosed property expenses, were $100 million for the three months ended June 30, 1997, compared with $111 million for the same period in 1996. Total credit-related losses for the six months ended June 30, 1997 and 1996 were $197 million and $223 million, respectively. Charge-offs declined primarily as a result of a reduction in the single-family loss per case. Foreclosed property expenses increased primarily as a result of a higher single-family foreclosed property inventory for both the three- and six-month periods ended June 30, 1997, compared with the same periods in 1996.

The inventory of single-family properties was 9,514 as of June 30, 1997, compared with 8,147 as of June 30, 1996. The inventory of multifamily properties was 19 as of June 30, 1997, compared with 32 as of June 30, 1996.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were $101 million in the second quarter of 1997, compared with $102 million in the second quarter of 1996. Total credit-related expenses for the six months ended June 30, 1997 and 1996 were $207 million and $200 million, respectively. Management continues to believe that credit-related expenses for all of 1997 will be relatively level compared with 1996.

The allowance for losses increased to $790 million at June 30, 1997, compared with $780 million at December 31, 1996 and $772 million at June 30, 1996. The allowance for losses increases through the provision for losses and is reduced through charge-offs. The provision for losses was $40 million in the second quarter of 1997 compared with $50 million in the second quarter of 1996 and $80 million in the first half of 1997 versus $95 million in the comparable period in 1996. The Corporation's loss coverage ratio at June 30, 1997 was 4.9 times the past twelve months' charge-offs compared with 3.7 times at June 30, 1996.

Balance Sheet Analysis

Mortgage Portfolio

The Corporation purchased $14 billion of mortgages at an average yield of 7.71 percent in the second quarter of 1997, compared with $17 billion of mortgages at an average yield of 7.78 percent in the second quarter of 1996. During the first six months of 1997, mortgage purchases were $27 billion at an average yield of 7.65 percent, compared with $35 billion at an average yield of 7.43 percent for the first six months of 1996. Mortgage portfolio growth slowed in the second quarter and first six months of 1997 compared with the same periods in 1996 as a result of narrower spreads between mortgage yields and the Corporation's debt costs. Management believes that with selective purchasing of various types of mortgage products, continued access to favorably priced debt, and continued product innovation, the rate of portfolio growth for all of 1997 will be greater than the rate of portfolio growth for the first six months of 1997.

Mortgage loan repayments during the second quarter of 1997 totaled $8 billion, compared with $9 billion in the second quarter of 1996. During the first half of 1997, mortgage loan repayments were $16 billion compared with $18 billion in the first half of 1996.

As of June 30, 1997, the net mortgage portfolio totaled $297 billion with a yield (before deducting the allowance for losses) of 7.68 percent, compared with $286 billion at 7.69 percent as of December 31, 1996 and $269 billion at 7.69 percent as of June 30, 1996.

At June 30, 1997, the Corporation had mandatory delivery commitments and lender option commitments outstanding to purchase $4.5 billion and $1.3 billion of mortgage loans, respectively, compared with $1.9 billion and $1.2 billion, respectively, of such commitments outstanding at December 31, 1996.

Financing and Other Activities

During the second quarter of 1997, the Corporation issued $229 billion of debt at an average cost of 5.64 percent and redeemed $219 billion at an average cost of 5.58 percent. Debt issued in the second quarter of 1996 totaled $161 billion at an average cost of 5.56 percent and redeemed $160 billion at an average cost of 5.42 percent. During the first six months of 1997, $411 billion of debt was issued at an average cost of 5.57 percent and $397 billion was redeemed at an average cost of 5.52 percent. In the first six months of 1996, the Corporation issued $345 billion of debt at an average cost of 5.50 percent and redeemed $336 billion at an average cost of 5.56 percent. The average cost of debt outstanding at June 30, 1997, December 31, 1996 and June 30, 1996 was 6.50 percent, 6.49 percent and 6.51 percent, respectively.

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, 1997 and June 30, 1996.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in billions)	**1997**	**1996**	**1997**	**1996**
Issued during the period	$ 7	$ 12	$14	$24
Percentage of total long-term debt issued(1)	44%	57%	49%	52%
Outstanding at end of period	$131	$116		
Percentage of total long-term debt outstanding(1)	48%	47%		

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

The Corporation's issuance of less callable debt in the second quarter and first six months of 1997 as compared with the second quarter and first six months of 1996, respectively, reflected market conditions and restructuring of the duration of the Corporation's debt, which supports the mortgage portfolio.

The following table summarizes the Corporation's interest rate swap activity, the notional amount of, and weighted-average interest rates to be received and paid on, interest rate swaps outstanding for the quarters ended March 31, 1997 and June 30, 1997, together with the expected maturities for the interest rate swaps outstanding at June 30, 1997.

Interest Rate Swap Activity Table

	Generic–pay fixed / receive variable (1)					
(Dollars in millions)	Notional (2)	Pay Rate (3)	Receive Rate (3)	Basis Swaps	Other (4)	Total
Balance at December 31, 1996	$100,111	6.73%	5.59%	$39,875	$15,827	$155,813
Additions	2,300	6.70	5.60	4,197	6,125	12,622
Maturities	3,326	6.18	5.84	6,175	776	10,277
Balance at March 31, 1997	99,085	6.75	5.59	37,897	21,176	158,158
Additions	2,750	7.10	5.90	3,720	7,576	14,046
Maturities	5,224	6.33	5.48	10,735	3,231	19,190
Balance at June 30, 1997	$ 96,611	6.78%	5.82%	$30,882	$25,521	$153,014
Balance at June 30, 1996	$ 87,743	6.72%	5.50%	$39,791	$13,557	$141,091
Future Maturities (5)						
1997	$ 4,410	6.08%	5.84%	$15,675	$ 3,100	$ 23,185
1998	8,740	5.32	5.76	9,165	8,134	26,039
1999	6,125	6.73	5.52	3,692	4,435	14,252
2000	4,050	6.10	5.79	1,020	3,600	8,670
2001	7,850	6.67	5.80	—	700	8,550
Thereafter	65,436	7.08	5.85	1,330	5,552	72,318
	$ 96,611	6.78%	5.82%	$30,882	$25,521	$153,014

(1) Included are callable swaps with notional amounts aggregating $26 billion, $27 billion, $28 billion, and $28 billion at June 30, 1997, March 31, 1997, December 31, 1996, and June 30, 1996, respectively, with weighted-average pay rates of 6.67 percent, 6.68 percent, 6.68 percent, and 6.68 percent and weighted-average receive rates of 5.82 percent, 5.61 percent, 5.62 percent, and 5.62 percent, at June 30, 1997, March 31, 1997, December 31, 1996, and June 30, 1996, respectively.

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

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

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

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

The contract amounts of other off-balance-sheet financial instruments, which included futures contracts to provide a hedge against interest rate fluctuations, credit enhancements and other guarantees, were $10 billion at June 30, 1997, compared with $8 billion at December 31, 1996. In addition, the Corporation uses short sales of Treasury securities and deferred rate setting agreements to hedge against fluctuations in interest rates.

The exposure to credit loss for interest rate swaps and other off-balance-sheet financial instruments can be estimated by calculating the cost, on a present value basis, to replace at current market rates all of those off-balance-sheet financial instruments outstanding for which the Corporation was in a net gain position. The Corporation's net exposure at June 30, 1997 was $17 million, compared with $8 million at December 31, 1996. The exposure to credit loss can be expected to fluctuate significantly due to changes in interest rates.

Capital Resources

The Corporation's stockholders' equity at June 30, 1997 was $13.3 billion, compared with $12.8 billion at December 31, 1996, and $11.8 billion at June 30, 1996. Pursuant, in part, to the capital restructuring program described in the Information Statement under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Liquidity and Capital Resources," the Corporation repurchased 11.7 million shares of common stock at a weighted average cost of $38.59 per share during the second quarter of 1997. The related reduction in the number of shares of common stock outstanding, net of the additional interest expense incurred to finance common stock repurchases during the second quarter, added a penny to annualized second quarter earnings per common share. At June 30, 1997, year-to-date common stock repurchases totaled 16.9 million shares at a weighted average cost of $38.69 per share. As of June 30, 1997, there were 1,049 million shares of common stock outstanding.

On July 15, 1997, the Board of Directors approved a dividend for the quarter ended June 30, 1997 of $0.21 per common share, and dividends of $0.80125 per Series A preferred share, $0.81250 per Series B preferred share and $0.80625 per Series C preferred share for the periods from and including June 30, 1997 to, but excluding, September 30, 1997.

As discussed in the Information Statement under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Capital Requirements," the Corporation is subject to capital standards. The Corporation met the applicable capital standards as of June 30, 1997. Management expects that continued growth in retained earnings will ensure continued compliance with the applicable standards.

Mortgage-Backed Securities

The Corporation issued $30 billion of MBS during the second quarter of 1997, compared with $46 billion in the second quarter of 1996. MBS issued in the first half of 1997 totaled $61 billion, compared with $84 billion in the first half of 1996. The decrease in MBS issued for the three- and six-month periods ended June 30, 1997 versus the comparable periods in 1996 was primarily due to narrower spreads between mortgage yields and the Corporation's debt cost in the first six months of 1997 compared with 1996 as a result of a falloff in the supply of conforming mortgage product, lower interest rate volatility, and favorable credit-related factors that encouraged some originators and investors to assume more credit risk.

REMIC issuances were $17 billion in the second quarter of 1997 and $35 billion in the first six months of 1997, compared with $4 billion and $7 billion, respectively, for the comparable periods for 1996.

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

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	Total (3)
1997	$ 6,983	$22,479	$ 984	$30,446	$76,859	$597,072	$673,931
1996	3,049	42,719	213	45,981	66,700	554,585	621,285
Six Months Ended June 30,							
1997	$10,677	$48,710	$1,940	$61,327			
1996	4,967	79,135	249	84,351			

(1) This table classifies lender originated MBS issued and MBS outstanding based on primary default risk category; Fannie Mae, however, 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 $40 billion and $27 billion at June 30, 1997 and 1996, respectively, on which the lender or a third party agreed to bear default risk limited to a certain portion or percentage of the loans delivered and, in some cases, the lender has pledged collateral to secure that obligation.

(3) Included are $116 billion and $84 billion at June 30, 1997 and June 30, 1996, respectively, of Fannie Mae MBS in portfolio.

The increase in the percentage of total MBS issued in 1997 in the lender risk category was a result of favorable credit-related factors that led some lenders to accept more credit risk.

New Accounting Standards

During the second quarter, the Financial Accounting Standards Board issued Financial Accounting Standards No. 130, "Reporting Comprehensive Income" (FAS 130), and Financial Accounting Standards No. 131, "Disclosure about Segments of an Enterprise and Related Information" (FAS 131).

FAS 130 requires reporting in the financial statements comprehensive income by its components and in total. Comprehensive income is defined as, "the change in equity of a business enterprise during a period from transactions and other events and circumstances from nonowner sources. It includes all changes in equity during a period except those resulting from investments by owners and distributions to owners."

FAS 131 establishes standards for reporting operating segment information in annual financial statements and requires including selected information in interim financial reports. The standard requires disclosure of operating segments that management uses in evaluating performance and allocating resources.

These standards become effective in 1998. Management believes that these standards will not have a material impact on the Corporation's financial results.

RECENT LEGISLATIVE AND REGULATORY DEVELOPMENTS

The Department of Housing and Urban Development ("HUD") issued revised Book-Entry Regulations (the "HUD Book-Entry Regulations"), which became effective in final form on June 30, 1997. (See Federal Register, vol. 61, p. 63,944 (December 2, 1996) and vol. 62, p. 28,975 (May 29, 1997).) The HUD Book-Entry Regulations apply to all Fannie Mae securities that are issued or maintained on the book-entry system of the U.S. Federal Reserve Banks.

MATTERS SUBMITTED TO STOCKHOLDERS

At the 1997 Annual Meeting of Stockholders of Fannie Mae held on May 15, 1997, the following matters were presented for a vote: (i) election of 12 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 1997; and (iii) a stockholder proposal to reinstate cumulative voting for directors. The Board of Directors recommended that stockholders vote against the stockholder proposal for cumulative voting. 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 1,060,937,310 shares of common stock outstanding on the record date for the meeting, 915,936,694 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 (908,753,218 votes for; 4,638,074 votes withheld); Roger E. Birk (907,602,481 votes for; 5,788,811 votes withheld); Stephen Friedman (907,844,015 votes for; 5,547,277 votes withheld); Thomas P. Gerrity (908,608,847 votes for; 4,782,445 votes withheld); James A. Johnson (907,688,865 votes for; 5,702,427 votes withheld); Vincent A. Mai (908,778,930 votes for; 4,612,362 votes withheld); Ann McLaughlin (908,500,276 votes for; 4,891,016 votes withheld); Richard D. Parsons (908,615,153 votes for; 4,776,139 votes withheld); Joe K. Pickett (907,850,448 votes for; 5,540,844 votes withheld); Antonia Shusta (908,806,388 votes for; 4,584,904 votes withheld); Lawrence M. Small (907,837,022 votes for; 5,554,270 votes withheld); Karen Hastie Williams (907,515,633 votes for; 5,875,659 votes withheld).

As noted under "Management," five other directors have been appointed by the President of the United States for terms expiring on the date of the May 1998 Annual Meeting and Jamie S. Gorelick has been elected Vice Chair.

The ratification of KPMG Peat Marwick LLP as auditors was approved by a vote of 911,193,221 for ratification and 704,273 against ratification. The holders of 4,039,201 shares of common stock abstained from voting on ratification.

The stockholder proposal relating to cumulative voting was defeated by a vote of 248,497,113 for the proposal and 544,665,547 against the proposal. The holders of 6,829,017 shares abstained from voting on this stockholder proposal and broker non-votes represented 260,945,633 shares of common stock.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors
Fannie Mae:

We have reviewed the accompanying condensed balance sheet of Fannie Mae as of June 30, 1997 and the related condensed statements of income and cash flows for the three- and six-month periods ended June 30, 1997 and 1996. These condensed 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 condensed financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of Fannie Mae as of December 31, 1996 (presented herein in condensed form) and the related statements of income and cash flows for the year then ended (not presented herein); and in our report dated January 14, 1997, we expressed an unqualified opinion on those financial statements. In our opinion, the information set forth in the accompanying condensed balance sheet as of December 31, 1996, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

KPMG PEAT MARWICK LLP

Washington, DC
July 10, 1997

FANNIE MAE

INTERIM FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
	(Dollars in millions, except per common share amounts)			
Interest income	$6,514	$5,832	$12,843	$11,590
Interest expense	5,544	4,949	10,923	9,821
Net interest income	970	883	1,920	1,769
Guaranty fees	317	296	630	584
Miscellaneous income, net	32	18	62	37
Provision for losses	(40)	(50)	(80)	(95)
Foreclosed property expenses	(61)	(52)	(127)	(105)
Administrative expenses	(158)	(138)	(309)	(273)
Income before federal income taxes and extraordinary item	1,060	957	2,096	1,917
Provision for federal income taxes	(308)	(281)	(610)	(566)
Income before extraordinary item	752	676	1,486	1,351
Extraordinary gain (loss)—early extinguishment of debt (net of tax effect)	1	(8)	1	(29)
Net income	$ 753	$ 668	$ 1,487	$ 1,322
Preferred dividends	(16)	(11)	(32)	(13)
Net income available to common stockholders	$ 737	$ 657	$ 1,455	$ 1,309
Per common share:				
Earnings before extraordinary item	$ .69	$ .61	$ 1.36	$ 1.23
Net earnings	.69	.61	1.36	1.20
Cash dividends	.21	.19	.42	.38

CONDENSED BALANCE SHEETS

(Unaudited)

	June 30, 1997	December 31, 1996
	(Dollars in millions)	
Assets		
Mortgage portfolio, net	$296,799	$286,259
Investments	59,282	56,606
Other assets	9,916	8,176
Total assets	$365,997	$351,041
Liabilities		
Debentures, notes, and bonds, net:		
Due within one year	$167,682	$159,900
Due after one year	177,780	171,370
Other liabilities	7,271	6,998
Total liabilities	352,733	338,268
Stockholders' equity	13,264	12,773
Total liabilities and stockholders' equity	$365,997	$351,041

See Notes to Interim Financial Statements

FANNIE MAE

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
	(Dollars in millions)			
Net cash provided by operating activities	$ 985	$ 1,371	$ 3,116	$ 3,618
Cash flows from investing activities:				
Purchases of mortgages	(14,386)	(17,340)	(27,465)	(35,259)
Proceeds from sales of mortgages	34	14	131	46
Mortgage principal repayments	9,249	9,548	17,303	18,856
Net (increase) decrease in investments	(2,165)	6,942	(2,676)	7,698
Net cash used in investing activities	(7,268)	(836)	(12,707)	(8,659)
Cash flows from financing activities:				
Cash proceeds from issuance of debt	225,529	150,959	404,509	324,331
Cash payments to redeem debt	(217,644)	(150,414)	(392,826)	(317,353)
Other	(667)	(283)	(1,021)	(892)
Net cash provided by financing activities	7,218	262	10,662	6,086
Net increase in cash and cash equivalents	935	797	1,071	1,045
Cash and cash equivalents at beginning of period	986	566	850	318
Cash and cash equivalents at end of period	$ 1,921	$ 1,363	$ 1,921	$ 1,363

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 1996 have been reclassified to conform with the current presentation. Operating results for the three-month and six-month periods ended June 30, 1997 are not necessarily indicative of the results that may be expected for the year ending December 31, 1997. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Information Statement dated March 31, 1997.

Hedging Instruments

The Corporation utilizes certain off-balance sheet financial instruments, such as interest rate swaps, deferred rate setting agreements and foreign currency swaps, as well as short sales on Treasury securities, to achieve a specific financing or investment objective at a desired cost or yield. Financial instruments meeting specific criteria are accounted for as hedges on either an accrual or deferral basis. The remaining financial instruments not qualifying as hedges are marked to market through earnings.

Interest rate swaps are accounted for on an accrual basis with the net payable or receivable recognized as an adjustment to interest income or expense on the related assets or liabilities. Gains or

losses on terminated interest rate swaps are deferred and amortized over the remaining life of the hedged items.

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

Foreign currency swaps are accounted for on an accrual basis with the net differential received or paid under such swaps recognized as an adjustment to interest income or expense on the related asset or liability.

Commitments and Contingencies

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

	June 30, 1997 (Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	$ 4.5
Optional delivery(1)	1.3
Average net yield on mandatory delivery	7.49%
Commitments to issue MBS:	
Mandatory delivery(1)	$ .1
Optional delivery(1)	.2
Master commitments:	
Mandatory delivery(2)	53.5
Optional delivery	62.2

(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.

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, 1997 (Dollars in billions)
MBS(1)	$674
MBS in Portfolio	116
Net MBS outstanding	558
Credit enhancements	3.9
Other guarantees	5.7

(1) Net of related allowance for losses. Includes $77 billion of MBS with lender or third party recourse at June 30, 1997.

COMPUTATION OF EARNINGS PER COMMON SHARE

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1997	1996	1997	1996
	(In millions, except per share data)			
Average common shares outstanding	1,051	1,073	1,057	1,080
Effect of common stock equivalents	11	11	11	11
Average common shares outstanding	1,062	1,084	1,068	1,091
Income before extraordinary item	$752	$676	$1,486	$1,351
Net income	753	668	1,487	1,322
Net income available to common stockholders	737	657	1,455	1,309
Earnings per common share before extraordinary item	$ .69	$ .61	$ 1.36	$ 1.23
Net earnings per common share	.69	.61	1.36	1.20

MANAGEMENT

In July 1997, the President of the United States reappointed Thomas A. Leonard, Kathryn G. Thompson and José H. Villarreal as members of the Board of Directors and also appointed Kevin O'Keefe and Eli Segel as new members of the Board of Directors, in each case for a term expiring on the date of the May 1998 Annual Meeting.

Kevin M. O'Keefe, 50, is a partner with the Chicago law firm, O'Keefe, Ashenden, Lyons & Ward. He was Deputy Assistant to the President of the United States for Intergovernmental Affairs from June 1994 to April 1997. He was Special Assistant to the President of the United States for Presidential Personnel from January 1993 to April 1994. Prior to January 1993, Mr. O'Keefe was a partner with the Chicago law firm, O'Keefe, Ashenden, Lyons & Ward. His principal residence is in Chicago, Illinois.

Eli J. Segal, 54, has been the President and Chief Executive Officer of The Welfare to Work Partnership, a non-profit organization located in Washington, D.C., since February 1997. He was Assistant to the President of the United States from January 1993 to February 1996 and the first Chief Executive Officer of the Corporation for National Service from October 1993 to October 1995 where he was responsible for the launch of AmeriCorps. From February 1992 to November 1992, Mr. Segal was the Chief of Staff for the Clinton/Gore presidential campaign. He is a member of the board of directors of: Home Shopping Network, an electronic retailer; the Citizens Financial Network, a Rhode Island based commercial bank; the Corporation for National Service; and the National Alliance to End Homelessness. His principal residence is in Washington, D.C.

As discussed under "Matters Submitted to Stockholders," at the Annual Meeting of Stockholders in May 1997, twelve directors were elected to serve a one-year term ending on the date of the May 1998 Annual Meeting. On May 15, 1997, the Corporation announced that Jamie S. Gorelick had been elected Vice Chair by the Board of Directors.

Robert B. Zoellick, Executive Vice President for Housing & Law, has announced that he will resign his position and will remain with the Corporation in an advisory position through January 1998.

FannieMae