Supplement dated August 13, 1999 to
Information Statement dated March 31, 1999

FannieMae

This Supplement describes the financial condition of the Federal National Mortgage Association (''Fannie Mae'' or the ''Corporation'') as of June 30, 1999, and contains unaudited financial statements with respect to Fannie Mae for the quarter and six months ended June 30, 1999. This Supplement should be read in conjunction with Fannie Mae's Information Statement dated March 31, 1999 (the ''Information Statement'') and the Supplement dated May 14, 1999 thereto (the ''May 14 Supplement''), which are hereby incorporated by reference. The Information Statement describes the business and operations of Fannie Mae, and contains financial data as of December 31, 1998. The May 14 Supplement describes the financial condition of Fannie Mae as of March 31, 1999, and contains unaudited financial statements with respect to Fannie Mae for the quarter ended March 31, 1999. Fannie Mae also periodically makes available statistical information on its mortgage purchase and mortgage-backed securities volumes, as well as other relevant information about Fannie Mae. Copies of Fannie Mae's current Information Statement, any supplements thereto and other available information, including Fannie Mae's Proxy Statement dated March 29, 1999, 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 offerings of securities, Fannie Mae may incorporate this Supplement by reference in one or more other documents describing the securities offered thereby, the selling arrangements therefor and other relevant information. Such other documents may be called an Offering Circular, a Prospectus or otherwise. This Supplement does not offer any securities for sale.

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

Fannie Mae's securities are not required to be registered under the Securities Act of 1933. At the close of business on July 31, 1999, approximately 1,023 million shares of Fannie Mae's common stock (without par value) were outstanding.

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

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SELECTED FINANCIAL DATA

The following selected financial data for the three-month and six-month periods ended June 30, 1999 and 1998 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, 1999 are not necessarily indicative of the results expected for the entire year.

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

	Three Months Ended June 30, 1999	Three Months Ended June 30, 1998	Six Months Ended June 30, 1999	Six Months Ended June 30, 1998
Income Statement Data:				
Interest income	$ 8,564	$ 7,351	$ 16,847	$ 14,376
Interest expense	7,376	6,320	14,500	12,309
Net interest income	1,188	1,031	2,347	2,067
Guaranty fees	320	323	637	644
Fee and other income, net	54	79	112	135
Credit-related expenses	(40)	(69)	(87)	(146)
Administrative expenses	(199)	(174)	(391)	(344)
Income before federal income taxes and extraordinary item	1,323	1,190	2,618	2,356
Provision for federal income taxes	(365)	(339)	(726)	(673)
Income before extraordinary item	958	851	1,892	1,683
Extraordinary loss, net of tax effect	—	(3)	(9)	(11)
Net income	$ 958	$ 848	$ 1,883	$ 1,672
Preferred stock dividends	(20)	(16)	(38)	(32)
Net income available to common stockholders	$ 938	$ 832	$ 1,845	$ 1,640
Basic earnings per common share:				
Earnings before extraordinary item	$ .92	$ .81	$ 1.81	$ 1.60
Extraordinary item	—	—	(.01)	(.01)
Net earnings	$ .92	$ .81	$ 1.80	$ 1.59
Diluted earnings per common share:				
Earnings before extraordinary item	$ .91	$ .80	$ 1.79	$ 1.59
Extraordinary item	—	—	—	(.01)
Net earnings	$ .91	$ .80	$ 1.79	$ 1.58

Balance Sheet Data at June 30:	1999	1998
Mortgage portfolio, net	$473,463	$349,282
Investments	42,304	69,643
Total assets	526,263	429,448
Borrowings:		
Due within one year	192,833	174,942
Due after one year	307,064	231,220
Total liabilities	509,682	415,263
Stockholders' equity	16,581	14,185
Capital(1)	17,375	14,973

Other Data:	Three Months Ended June 30, 1999	Three Months Ended June 30, 1998	Six Months Ended June 30, 1999	Six Months Ended June 30, 1998
Average net interest margin	1.01%	1.07%	1.01%	1.10%
Return on average common equity	24.9	25.6	24.9	25.3
Dividend payout ratio	29.5	29.7	30.0	30.3
Average effective guaranty fee rate	.194	.215	.194	.217
Credit loss ratio(2)	.014	.030	.016	.032
Ratio of earnings to combined fixed charges and preferred stock dividends(3)	1.18:1	1.19:1	1.18:1	1.19:1
Mortgage purchases	$ 55,799	$ 44,007	$108,756	$ 72,379
MBS issued	78,553	83,880	185,004	142,139
MBS outstanding at period end(4)	911,435	761,359		
Weighted-average diluted common shares outstanding	1,032	1,037	1,033	1,041

(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 income taxes and extraordinary item and (ii) fixed charges. "Fixed charges" represents interest expense.

(4) Includes $250 billion and $156 billion of MBS in portfolio at June 30, 1999 and 1998, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 1999

Results of Operations

In the second quarter of 1999, Fannie Mae reported record earnings of $958 million, compared with $848 million in the second quarter of 1998. For the first six months of 1999, net income increased $211 million to $1.883 billion. The 13 percent increase in earnings for the three- and six-month periods ended June 30, 1999 was primarily due to increases in net interest income and lower credit-related expenses.

Net interest income in the second quarter of 1999 increased 15 percent, compared with the second quarter of 1998. The growth in net interest income was primarily a result of a 22 percent growth in the average investment portfolio, which was partly offset by a six basis point decrease in the net interest margin. Net interest income for the first six months of 1999 increased 14 percent compared with 1998. This increase was the result of a 23 percent growth rate in the average investment portfolio, which was partially offset by a nine basis point decrease in the net interest margin. Management expects that the net interest margin will remain relatively stable for the remainder of 1999.

The following table presents an analysis of net interest income and average balances for the three- and six-month periods ended June 30, 1999 and 1998.

Net Interest Income and Average Balances

(Dollars in millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	**1998**	**1999**	**1998**
Interest income:				
Mortgage portfolio	$ 7,865	$ 6,222	$ 15,299	$ 12,224
Investments and cash equivalents	699	1,129	1,548	2,152
Total interest income	8,564	7,351	16,847	14,376
Interest expense(1):				
Short-term debt	947	1,131	2,139	2,096
Long-term debt	6,429	5,189	12,361	10,213
Total interest expense	7,376	6,320	14,500	12,309
Net interest income	1,188	1,031	2,347	2,067
Tax equivalent adjustment(2)	84	76	162	148
Net interest income tax equivalent basis	$ 1,272	$ 1,107	$ 2,509	$ 2,215
Average balances:				
Interest-earning assets(3):				
Mortgage portfolio, net	$452,572	$336,064	$438,274	$327,976
Investments and cash equivalents	52,693	78,360	57,834	74,424
Total interest-earning assets	$505,265	$414,424	$496,108	$402,400
Interest-bearing liabilities(1):				
Short-term debt	$ 80,460	$ 83,455	$ 88,673	$ 77,619
Long-term debt	405,533	313,083	387,913	307,082
Total interest-bearing liabilities	485,993	396,538	476,586	384,701
Interest-free funds	19,272	17,886	19,522	17,699
Total interest-bearing liabilities and interest-free funds	$505,265	$414,424	$496,108	$402,400
Average interest rates(2):				
Interest-earning assets:				
Mortgage portfolio, net	7.02%	7.45%	7.05%	7.50%
Investments and cash equivalents	5.33	5.80	5.38	5.82
Total interest-earning assets	6.84	7.14	6.86	7.19
Interest-bearing liabilities(1):				
Short-term debt	4.67	5.36	4.78	5.35
Long-term debt	6.34	6.63	6.37	6.66
Total interest-bearing liabilities	6.06	6.37	6.08	6.39
Investment spread	.78	.77	.78	.80
Interest-free return(4)	.23	.30	.23	.30
Net interest margin(5)	1.01%	1.07%	1.01%	1.10%

(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 $3.3 billion for the three- and six-month periods ended June 30, 1999 and $2.6 billion for the three- and six-month periods ended June 30, 1998.

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

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

The following rate/volume analysis shows the relative contribution of asset and debt growth and interest rate changes to changes in net interest income for the three- and six-month periods ended June 30, 1999 and 1998.

Rate / Volume Analysis

(Dollars in millions)

	Second Quarter 1999 vs. Second Quarter 1998			First Six Months 1999 vs. First Six Months 1998		
		Attributable to Changes in (1)			Attributable to Changes in (1)	
	Increase (Decrease)	Volume	Rate	Increase (Decrease)	Volume	Rate
Interest income:						
Mortgage portfolio	$1,643	$2,045	$(402)	$3,075	$3,892	$(817)
Investments and cash equivalents	(430)	(346)	(84)	(604)	(453)	(151)
Total interest income	1,213	1,699	(486)	2,471	3,439	(968)
Interest expense:						
Short-term debt	(184)	(39)	(145)	43	280	(237)
Long-term debt	1,240	1,474	(234)	2,148	2,591	(443)
Total interest expense	1,056	1,435	(379)	2,191	2,871	(680)
Net interest income	$ 157	$ 264	$(107)	$ 280	$ 568	$(288)

(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 $3 million, or one percent, to $320 million, compared with $323 million in the second quarter of 1998. This change resulted from a two basis point decrease in the average effective guarantee fee rate, which was partially offset by a ten percent increase in average net Mortgage-Backed Securities ("MBS") outstanding when compared with the second quarter of 1998. For the first half of 1999, guaranty fee income decreased by $7 million to $637 million compared with the first half of 1998. The decrease was the result of a two basis point decrease in the average effective guaranty fee rate, partially offset by an 11 percent increase in average net MBS outstanding. The average effective guaranty fee rate in the second quarter of 1999 was unchanged from the prior quarter, in part because of a reduction in the percentage of MBS issued with pool insurance, a decline in refinance activity and other turnover of pools with higher effective guaranty fee rates, and efforts by Fannie Mae to shift the business mix toward products with higher fee rates.

Fee and other income decreased 32 percent to $54 million for the second quarter of 1999 versus $79 million in the second quarter of 1998. For the first half of 1999, fee and other income decreased 17 percent to $112 million versus $135 million in the first half of 1998. The decrease in both periods was largely the result of a decline in multifamily fees.

Administrative expenses for the quarter ended June 30, 1999 increased to $199 million from $174 million during the same period in 1998, primarily due to higher compensation costs. For the first half of 1999, administrative expenses were $391 million, compared to $344 million for the same period in 1998. Compensation expense was $125 million in the second quarter of 1999, compared with $111 million in the second quarter of 1998. The ratio of administrative expenses to the average mortgage portfolio plus average MBS outstanding was .071 percent for the three- and six-month periods ended June 30, 1999, compared with .074 percent and .075 percent for the three- and six-month periods ended June 30, 1998, respectively. The ratio of administrative expenses to revenues (net interest income, guaranty fees, and fee and other income) was 12.7 percent for the second quarter of 1999, compared with 12.2 percent for the second quarter of 1998, and was 12.6 percent for the first half of 1999, compared with 12.1 percent for the first half of 1998.

The effective federal income tax rate was 28 percent for the three- and six-month periods ended June 30, 1999, compared with 29 percent for the three- and six-month periods ended June 30, 1998.

In the second quarter of 1999, Fannie Mae had no extraordinary losses from the repurchase or call of debt compared with an extraordinary loss of $4 million ($3 million after tax) in the second quarter of 1998. An extraordinary loss of $14 million ($9 million after tax) was reported in the first half of 1999 from the repurchase or call of debt compared with an extraordinary loss of $16 million ($11 million after tax) in the first half of 1998.

Credit Data

The following table shows Fannie Mae's serious delinquencies for conventional loans in portfolio and underlying MBS at June 30, 1999 and 1998, and conventional properties acquired and total net recoveries or charge-offs for the three- and six-month periods ended June 30, 1999 and 1998.

	Delinquency Rate (1)		Number of Properties Acquired				Net Charge-offs / (Recoveries) (Dollars in millions)			
	June 30,		Three Months Ended June 30,		Six Months Ended June 30,		Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998	1999	1998	1999	1998	1999	1998
Single-family . . .	.49%	.57%	4,357	5,365	8,795	11,023	$(26)	$(11)	$(49)	$(18)
Multifamily	.19	.36	3	1	7	5	1	1	2	4
Total							$(25)	$(10)	$(47)	$(14)

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

Total credit-related losses, which include loan charge-offs, net of recoveries, and foreclosed property expenses, were $40 million for the three months ended June 30, 1999, compared with $69 million for the same period in 1998. Total credit-related losses for the six-months ended June 30, 1999 and 1998 were $85 million and $147 million, respectively. The declines in credit-related losses were the result of both increased net recoveries on foreclosed properties, as well as decreases in foreclosed property expenses, in the second quarter and first half of 1999 versus the second quarter and first half of 1998. In addition to Fannie Mae's loss mitigation efforts, a strong economy, strong housing market, and deeper mortgage insurance requirements on higher loan-to-value ratio loans have contributed to reducing credit-related losses.

The inventory of single-family properties was 7,490 as of June 30, 1999, compared with 9,408 as of June 30, 1998. The inventory of multifamily properties was 7 as of June 30, 1999, compared with 13 as of June 30, 1998.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were $40 million in the second quarter of 1999, compared with $69 million in the second quarter of 1998. Total credit-related expenses for the first six months of 1999 and 1998 were $87 million and $146 million, respectively. These decreases were due in part to negative $25 million and negative $45 million loss provisions recorded in the second quarter and first half of 1999, respectively, compared with negative $10 million and negative $15 million loss provisions recorded in the second quarter and first half of 1998. The decreases also were due to decreases in foreclosed property expenses to $65 million and $132 million in the second quarter and first half of 1999, respectively, compared with $79 million and $161 million in the second quarter and first half of 1998, respectively.

The allowance for losses increased to $804 million at June 30, 1999 from $802 million at December 31, 1998. Management anticipates that the provision for losses will be adjusted periodically in line with its analysis of actual and expected loss experience.

Balance Sheet Analysis

Mortgage Portfolio

Fannie Mae purchased $56 billion of mortgages at an average yield of 6.66 percent in the second quarter of 1999, compared with $44 billion of mortgages at an average yield of 6.73 percent in the second quarter of 1998. During the first six months of 1999, mortgage purchases were $109 billion at an average yield of 6.53 percent, compared with $72 billion at an average yield of 6.75 percent for the first six months of 1998. The increase in mortgage purchases was primarily due to the availability of mortgages offered for sale in the secondary market, market volatility that created attractive mortgage investment opportunities, and Fannie Mae's increased capacity to add mortgages to its portfolio due to new debt products such as Callable Benchmark Notes℠ and Benchmark Bonds℠.

Mortgage loan repayments during the second quarter of 1999 totaled $22 billion, compared with $21 billion in the second quarter of 1998. During the first half of 1999, mortgage loan repayments were $48 billion, compared with $38 billion in the first half of 1998. The increase in loan repayments was primarily due to an increased level of refinance activity in a lower interest rate environment and higher home resales.

As of June 30, 1999, the net mortgage portfolio totaled $473 billion with a yield (before deducting the allowance for losses) of 7.00 percent, compared with $415 billion at 7.12 percent as of December 31, 1998, and $349 billion at 7.41 percent as of June 30, 1998. The decrease in yield was primarily due to increased prepayments of higher coupon mortgages and a decrease in conventional mortgage purchase yields. The portfolio growth during the second quarter and first half of 1999 was generated by the purchase of a combination of whole loans, MBS and REMICs. Fannie Mae expects the net mortgage portfolio growth rate to decline somewhat during the second half of the year as refinance activity slows.

At June 30, 1999, Fannie Mae had mandatory delivery commitments and lender option commitments outstanding to purchase $21 billion and $2 billion of mortgage loans, respectively, compared with $11 billion and $2 billion, respectively, of such commitments outstanding at December 31, 1998.

Financing and Other Activities

During the second quarter of 1999, Fannie Mae issued $274 billion of debt at an average cost of 5.11 percent and redeemed $249 billion at an average cost of 5.03 percent. Debt issued in the second quarter of 1998 totaled $218 billion at an average cost of 5.63 percent, and debt redeemed was $193 billion at an average cost of 5.71 percent. During the first six months of 1999, $464 billion of debt was issued at an average cost of 5.11 percent and $424 billion was redeemed at an average cost of 5.11 percent. In the first six months of 1998, Fannie Mae issued $437 billion of debt at an average cost of 5.63 percent and redeemed $400 billion at an average cost of 5.73 percent. The average cost of debt outstanding at June 30, 1999, December 31, 1998, and June 30, 1998 was 6.05 percent, 6.10 percent, and 6.33 percent, respectively.

The following table presents the amount of option-embedded debt instruments as a percentage of mortgage purchases and the net mortgage portfolio for the three- and six-month periods ended June 30, 1999 and June 30, 1998. Option-embedded debt instruments include derivative financial instruments.

(Dollars in billions)	Three Months Ended June 30, 1999	Three Months Ended June 30, 1998	Six Months Ended June 30, 1999	Six Months Ended June 30, 1998
Issued during the period	$ 33	$ 27	$88	$46
Percentage of total mortgage purchases	59%	61%	81%	63%
Outstanding at end of period	$236	$155		
Percentage of total net mortgage portfolio	50%	44%		

The following table summarizes certain of Fannie Mae's derivative financial instrument activities for the quarter ended June 30, 1999, the balances as of June 30, 1999 and 1998, and the expected maturities of the derivative instruments outstanding as of June 30, 1999.

Derivative Financial Instruments Table

(Dollars in millions)

	Generic-Pay Fixed/Receive Variable Swaps(1) Notional(2)	Pay Rate(3)	Receive Rate(3)	Pay Variable/Receive Fixed Swaps	Basis Swaps	Caps and Swaptions	Total
Balance at March 31, 1999	$102,346	6.47%	5.07%	$28,082	$15,444	$42,165	$188,037
Additions	12,800	6.76	5.18	7,951	2,025	1,750	24,526
Maturities	4,859	7.40	5.05	7,615	6,575	500	19,549
Balance at June 30, 1999	$110,287	6.46%	5.07%	$28,418	$10,894	$43,415	$193,014
Balance at June 30, 1998	$ 84,971	6.76%	5.70%	$32,907	$20,593	$ 5,600	$144,071
Future Maturities(4)							
1999	$ 2,425	7.06%	5.03%	$ 3,695	$ 4,570	$ 250	$ 10,940
2000	14,648	5.18	5.02	15,550	5,925	5,500	41,623
2001	10,650	6.19	5.02	2,593	—	7,500	20,743
2002	5,225	6.22	5.05	1,260	79	10,000	16,564
2003	4,649	5.95	5.08	550	200	11,865	17,264
Thereafter	72,690	6.79	5.09	4,770	120	8,300	85,880
	$110,287	6.46%	5.07%	$28,418	$10,894	$43,415	$193,014

(1) Included in the notional amounts are callable swaps and swaptions of $38 billion, $33 billion, and $22 billion with weighted-average pay rates of 5.35 percent, 5.17 percent and 6.00 percent and weighted-average receive rates of 5.11 percent, 5.10 percent, and 5.79 percent at June 30, 1999, March 31, 1999 and June 30, 1998, 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 payable and receivable is as of the date indicated. The receive rate of the swaps are floating rate, so these rates may change as prevailing interest rates change.

(4) Based on stated maturities. Assumes that variable interest rates remain constant at June 30, 1999 levels.

The contract amounts of other off-balance-sheet financial instruments, which include futures contracts and derivative instruments that simulate the short sale of Treasury securities to provide a hedge against interest rate fluctuations, credit enhancements and other guarantees, were $14.9 billion at June 30, 1999 and $13.0 billion at December 31, 1998.

The exposure to credit loss for interest rate swaps and other off-balance-sheet financial instruments was estimated by calculating the cost, on a present value basis, to replace at current market rates all those off-balance-sheet financial instruments outstanding for which Fannie Mae was in a gain position. Fannie Mae's net exposure was $1.43 billion at June 30, 1999, compared with $46 million at December 31, 1998. The exposure to credit loss can be expected to fluctuate significantly due to changes in interest rates.

Capital Resources

Fannie Mae's stockholders' equity at June 30, 1999 was $16.6 billion, compared with $15.5 billion at December 31, 1998, and $14.2 billion at June 30, 1998. Pursuant, in part, to the capital restructuring program described in the Information Statement under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Liquidity and Capital Resources," Fannie Mae repurchased 4.5 million common shares at a weighted-average cost of $66.59 per common share during the second quarter of 1999 and issued .7 million common shares for employee and other stock compensation plans. As of June 30, 1999, there were approximately 1,023 million common shares outstanding. In April 1999, Fannie Mae issued 3.0 million shares of 5.10 percent non-cumulative preferred stock, Series E, with a stated value of $50.00 per share. The Series E preferred stock is not redeemable before April 15, 2004. In the event of liquidation of Fannie Mae, holders of all series of Fannie Mae preferred stock are entitled to receive, out of the remaining assets of Fannie Mae after payment of all liabilities and before any distribution on the common stock, $50.00 per preferred share, plus an amount equal to the dividend for the most current quarterly dividend period accrued to but excluding the date of such liquidation period.

On July 20, 1999, the Board of Directors approved a dividend for the quarter ended June 30, 1999 of $.27 per common share, as well as dividends of $.80125 per Series A preferred share, $.81250 per Series B preferred share, $.80625 per Series C preferred share, $.65625 per Series D preferred share, and $.63750 per Series E preferred share, for the period from and including June 30, 1999 to but excluding September 30, 1999.

As discussed in the Information Statement under "Government Regulation and Charter Act" and "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Capital Requirements" and in this Supplement under "Recent Legislative and Regulatory Developments," Fannie Mae is subject to capital standards. Fannie Mae met the applicable capital standards as of June 30, 1999, and management expects to continue to comply with the applicable standards.

Mortgage-Backed Securities

Fannie Mae issued $79 billion of MBS during the second quarter of 1999, compared with $84 billion in the second quarter of 1998. MBS issued for the first six months of 1999 totaled $185 billion, compared with $142 billion in the first six months of 1998. The increase in MBS issued during the first six months of 1999, compared with 1998, was primarily due to an increase in mortgage origination and refinance activity in a lower interest rate environment. REMIC issuances were $15 billion in the second quarter of 1999 and $32 billion in the first six months of 1999, compared with $25 billion and $42 billion, respectively, for the comparable periods of 1998.

The following table summarizes MBS activity for the three- and six-month periods ended June 30, 1999 and 1998.

Summary of MBS Activity

(Dollars in millions)

	Issued (1)			Outstanding (1)		
Three Months Ended June 30,	**Lender or Shared Risk**	**Fannie Mae Risk**	**Total**	**Lender or Shared Risk (2)**	**Fannie Mae Risk**	**Total (3)**
1999	$18,585	$ 59,968	$ 78,553	$191,409	$720,026	$911,435
1998	21,935	61,945	83,880	118,451	642,908	761,359
Six Months Ended June 30,						
1999	$47,663	$137,341	$185,004			
1998	35,137	107,002	142,139			

(1) This table classifies MBS issued and MBS outstanding based on primary default risk category; however, Fannie Mae bears the ultimate risk of default on all MBS. MBS outstanding includes MBS that have been pooled to back Megas, SMBS, or REMICs.

(2) Included in lender or shared risk are $148 billion and $82 billion at June 30, 1999 and 1998, 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 $250 billion and $156 billion at June 30, 1999 and 1998, respectively, of Fannie Mae MBS held in portfolio.

Year 2000 Preparation

As discussed in the Information Statement under ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Risk Management—Operational Risk Management,'' Fannie Mae has divided its Year 2000 project into three areas of concentration: internal compliance, external compliance, and business continuity planning.

As part of its internal compliance efforts, Fannie Mae completed 100 percent of testing of all systems identified as mission critical prior to December 31, 1998. As of June 30, 1999, Fannie Mae had completed 100 percent of testing of all systems identified as non-mission critical. Fannie Mae will monitor its mission and non-mission critical systems for continued Year 2000 readiness during the remainder of 1999. Enterprise testing is also a part of Fannie Mae's internal compliance preparation. Fannie Mae began enterprise testing in the second quarter of 1999 and expects to complete this testing early in the fourth quarter of 1999, followed by a suspension of discretionary changes in Fannie Mae's production environment through January 2000.

As part of its external compliance efforts, Fannie Mae mandated that its single-family servicers validate certain critical business functions using the MBA test, as discussed in the Information Statement, and that its multifamily servicers who were not participating in the MBA test (or who use systems other than those tested in the MBA test) participate in a Fannie Mae Year 2000 test during the second quarter of 1999. Based on test results and other assessment tools, Fannie Mae believes that more than 99 percent of its loans are handled by Year 2000-compliant servicers. Lenders servicing the remaining loans pose limited Year 2000 compliance risk to Fannie Mae. At June 30, 1999, Fannie Mae had substantially completed the testing with its external service providers. As with its internal systems, Fannie Mae will monitor its external interfaces for continued Year 2000 readiness for the remainder of 1999. However, Fannie Mae cannot predict the Year 2000 compliance of these external entities.

Fannie Mae's business continuity plan includes the addition of alternate suppliers, including multiple telephone service providers, vendors, servicers, and trading partners, as necessary, to permit business operations to continue and to minimize possible disruptions if key partners have significant Year 2000 problems. In early June 1999, Fannie Mae distributed detailed instructions to its sellers and servicers to be employed in the event of Year 2000-related interruptions. Since business continuity planning is an iterative process, Fannie Mae's business continuity plan will be refined, tested, and monitored throughout the remainder of 1999.

Fannie Mae's Year 2000 project is proceeding as scheduled and budgeted. Approximately $49 million has been spent on the project from its inception through June 30, 1999.

The information in this subsection constitutes a Year 2000 Readiness Disclosure Statement.

New Accounting Standard

In the second quarter of 1999, the Financial Accounting Standards Board voted to defer the effective date of Financial Accounting Standards No. 133 ("FAS 133"), *Accounting for Derivative Instruments and Hedging Activities*. The new standard will now become effective for Fannie Mae on January 1, 2001. If Fannie Mae continues with its current business strategies, this standard will not have a significant effect on net income, although it is likely to have a material effect on the "other comprehensive income" component of stockholders' equity.

RECENT LEGISLATIVE AND REGULATORY DEVELOPMENTS

As discussed in the May 14, 1999 Supplement to the Information Statement, on April 13, 1999, OFHEO published in the *Federal Register* for public comment Part II of its proposed regulations to establish the risk-based capital test for Fannie Mae and Freddie Mac. In June 1999, the due date for comments on Part II of the proposed regulations was extended to November 10, 1999.

The current HUD-established housing goals for Fannie Mae and Freddie Mac are effective through the end of 1999. On July 29, 1999, HUD indicated that they will shortly transmit to the U.S. Office of Management and Budget a proposed rule that would increase the housing goal levels in the future. The HUD Secretary announced that they propose to increase to 50 percent the low- and moderate-income housing goal, which currently requires that 42 percent of Fannie Mae's (and Freddie Mac's) business finance mortgages for low- and moderate-income families. The special affordable housing goal for very low-income families and low-income families in low-income areas would increase from 14 percent to 20 percent. In addition, a geographically targeted goal for underserved areas would increase from 24 percent to 31 percent. The pace of these increases should be specified in the new rule when it is published for comment. For example, HUD indicated that the proposed low- and moderate-income housing goal would be 48 percent in 2000. Management will not be able to assess the possible impact on Fannie Mae of changes in these goals until they are finalized. Fannie Mae will comment on the proposed rule after it is published. However, Fannie Mae will work very hard to meet the HUD Secretary's new goals.

MATTERS SUBMITTED TO STOCKHOLDERS

At the 1999 Annual Meeting of Stockholders of Fannie Mae held on May 20, 1999, 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 LLP as auditors of the Corporation for 1999; (iii) approval of an amendment to increase by five million shares the aggregate number of shares of common stock available for purchase under Fannie Mae's employee stock purchase plan; and (iv) a stockholder proposal to reinstate cumulative voting for directors. Under the stockholder proposal relating to cumulative voting, the Board of Directors would have been requested to take the necessary steps to provide for cumulative voting in the election of directors, which would mean that each stockholder would be entitled to as many votes as the number of common shares the stockholder owns multiplied by the number of directors to be elected, and the stockholder could cast all such votes for a single candidate or distribute them among several nominees.

Of the 1,027,016,691 shares of common stock outstanding on the record date for the meeting, 895,841,526 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 (891,277,653 votes for; 4,551,658 votes withheld); Roger E. Birk (888,174,536 votes for; 7,654,775 votes withheld); Kenneth M. Duberstein (883,617,551 votes for; 12,211,760 votes withheld); Stephen Friedman (891,341,493 votes for; 4,487,818 votes withheld); Thomas P. Gerrity (891,204,490 votes for; 4,624,821 votes withheld); Jamie S. Gorelick (888,123,732 votes for; 7,705,579 votes withheld); James A. Johnson (888,219,733 votes for; 7,609,578 votes withheld); Vincent A. Mai (891,357,832 votes for; 4,471,479 votes withheld); Ann McLaughlin (890,836,836 votes for; 4,992,475 votes withheld); Joe K. Pickett (883,779,947 votes for; 12,049,364 votes withheld); Franklin D. Raines (888,450,048 votes for; 7,379,263 votes withheld); Lawrence M. Small (888,423,432 votes for; 7,405,879 votes withheld); Karen Hastie Williams (891,203,263 votes for; 4,626,048 votes withheld).

As noted under "Management," the President of the United States has the authority to appoint five directors and in May appointed three directors.

The ratification of KPMG LLP as auditors was approved by a vote of 892,638,799 for ratification and 668,543 against ratification. The holders of 2,521,969 shares of common stock abstained from voting on ratification.

The amendment to increase the aggregate number of shares available for purchase under Fannie Mae's employee stock purchase plan was approved by a vote of 878,587,773 for the amendment and 12,945,842 against the amendment. The holders of 4,295,696 shares abstained from voting on the amendment.

The stockholder proposal to reinstate cumulative voting was defeated by a vote of 240,104,291 for the proposal and 555,133,074 against the proposal. The holders of 6,002,058 shares abstained from voting on this stockholder proposal and broker non-votes represented 94,589,888 shares of common stock.

INDEX TO INTERIM FINANCIAL STATEMENTS

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Stockholders of Fannie Mae:

We have reviewed the accompanying condensed balance sheet of Fannie Mae as of June 30, 1999 and the related condensed statements of income, changes in stockholders' equity, and cash flows for the three- and six-month periods ended June 30, 1999 and 1998. These condensed financial statements are the responsibility of Fannie Mae's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed financial statements referred to above for them to be in conformity with generally accepted accounting principles.

We have previously audited, in accordance with generally accepted auditing standards, the balance sheet of Fannie Mae as of December 31, 1998 (presented herein in condensed form) and the related statements of income, changes in stockholders' equity and cash flows for the year then ended (not presented herein); and in our report dated January 13, 1999, 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, 1998, is fairly stated, in all material respects, in relation to the balance sheet from which it has been derived.

KPMG LLP

Washington, D.C.
July 13, 1999

FANNIE MAE

INTERIM FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	1999	1998	1999	1998
	(Dollars in millions, except per common share amounts)			
Interest income	$8,564	$7,351	$16,847	$14,376
Interest expense	7,376	6,320	14,500	12,309
Net interest income	1,188	1,031	2,347	2,067
Guaranty fees	320	323	637	644
Fee and other income, net	54	79	112	135
Credit-related expenses	(40)	(69)	(87)	(146)
Administrative expenses	(199)	(174)	(391)	(344)
Income before federal income taxes and extraordinary item	1,323	1,190	2,618	2,356
Provision for federal income taxes	(365)	(339)	(726)	(673)
Income before extraordinary item	958	851	1,892	1,683
Extraordinary loss—early extinguishment of debt (net of tax effect)	—	(3)	(9)	(11)
Net income	$ 958	$ 848	$ 1,883	$ 1,672
Preferred dividends	(20)	(16)	(38)	(32)
Net income available to common stockholders	$ 938	$ 832	$ 1,845	$ 1,640
Basic earnings per common share:				
Earnings before extraordinary item	$ .92	$ .81	$ 1.81	$ 1.60
Extraordinary item	—	—	(.01)	(.01)
Net earnings	$ .92	$ .81	$ 1.80	$ 1.59
Diluted earnings per common share:				
Earnings before extraordinary item	$ .91	$ .80	$ 1.79	$ 1.59
Extraordinary item	—	—	—	(.01)
Net earnings	$ .91	$ .80	$ 1.79	$ 1.58

CONDENSED BALANCE SHEETS

(Unaudited)

	June 30, 1999	December 31, 1998
	(Dollars in millions)	
Assets		
Mortgage portfolio, net	$473,463	$415,223
Investments	42,304	58,515
Other assets	10,496	11,276
Total assets	$526,263	$485,014
Liabilities		
Debentures, notes, and bonds, net:		
Due within one year	$192,833	$205,413
Due after one year	307,064	254,878
Other liabilities	9,785	9,270
Total liabilities	509,682	469,561
Stockholders' equity	16,581	15,453
Total liabilities and stockholders' equity	$526,263	$485,014

See Notes to Interim Financial Statements

FANNIE MAE

CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

	Three Months Ended June 30, 1999	Three Months Ended June 30, 1998	Six Months Ended June 30, 1999	Six Months Ended June 30, 1998
	(Dollars in millions)			
Balance, beginning of period	$16,134	$14,071	$15,453	$13,793
Comprehensive income:				
Net income	958	848	1,883	1,672
Other comprehensive income, net of tax—Unrealized (losses) gains on securities, net	(90)	—	(96)	2
Total comprehensive income	868	848	1,787	1,674
Dividends	(296)	(264)	(592)	(529)
Shares repurchased	(297)	(518)	(358)	(895)
Preferred stock issued	148	—	148	—
Treasury stock issued for stock options and benefit plans	24	48	143	142
Balance, end of period	$16,581	$14,185	$16,581	$14,185

FANNIE MAE

CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Three Months Ended June 30, 1999	Three Months Ended June 30, 1998	Six Months Ended June 30, 1999	Six Months Ended June 30, 1998
	(Dollars in millions)			
Net cash provided by operating activities	$ 2,699	$ 1,937	$ 5,895	$ 3,641
Cash flows from investing activities:				
Purchases of mortgages	(55,415)	(44,152)	(108,327)	(72,755)
Proceeds from sales of mortgages	532	—	1,168	396
Mortgage principal repayments	22,284	22,013	48,919	39,857
Net (increase) decrease in investments	7,612	(2,434)	16,211	(5,047)
Net cash used in investing activities	(24,987)	(24,573)	(42,029)	(37,549)
Cash flows from financing activities:				
Cash proceeds from issuance of debt	272,066	213,139	461,054	429,601
Cash payments to redeem debt	(249,254)	(189,284)	(424,843)	(395,764)
Other	(429)	(771)	(684)	(1,332)
Net cash provided by financing activities	22,383	23,084	35,527	32,505
Net increase (decrease) in cash and cash equivalents	95	448	(607)	(1,403)
Cash and cash equivalents at beginning of period	41	354	743	2,205
Cash and cash equivalents at end of period	$ 136	$ 802	$ 136	$ 802

See Notes to Interim Financial Statements

NOTES TO INTERIM FINANCIAL STATEMENTS

(Unaudited)

Basis of Presentation

The accompanying unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain amounts in 1998 have been reclassified to conform with the current presentation. Operating results for the three- and six-month periods ended June 30, 1999 are not necessarily indicative of the results that may be expected for the year ending December 31, 1999. 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, 1999.

Line of Business Reporting

The following table sets forth Fannie Mae's financial information by line of business for the three- and six-month periods ended June 30, 1999 and 1998. Significant changes from period to period were due to the same factors discussed under "Results of Operations."

	1999			1998		
Three months ended June 30,	**Portfolio Investment**	**Credit Guaranty**	**Total**	**Portfolio Investment**	**Credit Guaranty**	**Total**
	(Dollars in millions)					
Net interest income	$1,042	$ 146	$1,188	$ 869	$ 162	$1,031
Guaranty fees	(241)	561	320	(203)	526	323
Fee and other income, net	33	21	54	37	42	79
Credit-related expenses	—	(40)	(40)	—	(69)	(69)
Administrative expenses	(58)	(141)	(199)	(43)	(131)	(174)
Federal income taxes	(217)	(148)	(365)	(178)	(161)	(339)
Extraordinary item—early extinguishment of debt	—	—	—	(3)	—	(3)
Net income	$ 559	$ 399	$ 958	$ 479	$ 369	$ 848

	1999			1998		
Six months ended June 30,	**Portfolio Investment**	**Credit Guaranty**	**Total**	**Portfolio Investment**	**Credit Guaranty**	**Total**
	(Dollars in millions)					
Net interest income	$2,050	$ 297	$2,347	$1,769	$ 298	$2,067
Guaranty fees	(469)	1,106	637	(400)	1,044	644
Fee and other income, net	73	39	112	72	63	135
Credit-related expenses	—	(87)	(87)	—	(146)	(146)
Administrative expenses	(115)	(276)	(391)	(87)	(257)	(344)
Federal income taxes	(434)	(292)	(726)	(371)	(302)	(673)
Extraordinary item—early extinguishment of debt	(9)	—	(9)	(11)	—	(11)
Net income	$1,096	$ 787	$1,883	$ 972	$ 700	$1,672

The Portfolio Investment line of business represented $516 billion, or 98 percent of total assets, at June 30, 1999 and $418 billion, or 97 percent of total assets, at June 30, 1998.

Commitments and Contingencies

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

	June 30, 1999 (Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	$ 21
Lender option(1)	2
Average net yield on mandatory delivery	7.15%
Master commitments:	
Mandatory delivery(2)	$ 26
Lender option	27

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

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

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

	June 30, 1999 (Dollars in billions)
MBS outstanding(1)	$911
Amount for which Fannie Mae has primary foreclosure loss risk(2)	720
Credit enhancements	7
Other guarantees	3

(1) Includes $250 billion of MBS held in portfolio and is net of $612 million in allowance for losses.

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

Computation of Earnings per Common Share

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	1999		1998		1999		1998	
	Basic	Diluted	Basic	Diluted	Basic	Diluted	Basic	Diluted
	(Dollars and shares in millions, except per common share amounts)							
Net income before extraordinary loss	$ 958	$ 958	$ 851	$ 851	$1,892	$1,892	$1,683	$1,683
Less: Extraordinary loss	—	—	(3)	(3)	(9)	(9)	(11)	(11)
Preferred stock dividend	(20)	(20)	(16)	(16)	(38)	(38)	(32)	(32)
Net income available to common stockholders	$ 938	$ 938	$ 832	$ 832	$1,845	$1,845	$1,640	$1,640
Weighted average common shares	1,025	1,025	1,029	1,029	1,026	1,026	1,033	1,033
Dilutive potential common shares(1)	—	7	—	8	—	7	—	8
Average number of common shares outstanding used to calculate earnings per common share	1,025	1,032	1,029	1,037	1,026	1,033	1,033	1,041
Earnings per common share before extraordinary item	$ .92	$ .91	$ .81	$ .80	$ 1.81	$ 1.79	$ 1.60	$ 1.59
Net earnings per common share	.92	.91	.81	.80	1.80	1.79	1.59	1.58

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

MANAGEMENT

The President of the United States has the authority to appoint five directors. In May, the President reappointed Eli J. Segal and Jack Quinn and appointed Garry Mauro to the Corporation's Board of Directors for a term expiring on the date of the May 2000 Annual Meeting.

Mr. Mauro, 51, is an attorney in private practice. Previously, he was elected to four consecutive terms as Commissioner of the Texas General Land Office, from 1983 to 1998. He resides in Austin, Texas.

FannieMae

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