**Supplement dated May 14, 1999 to**
**Information Statement dated March 31, 1999**

FannieMae[SM]

This Supplement describes the financial condition of the Federal National Mortgage Association ("Fannie Mae" or the "Corporation") as of March 31, 1999, and contains unaudited financial statements with respect to Fannie Mae for the quarter ended March 31, 1999. This Supplement should be read in conjunction with Fannie Mae's Information Statement dated March 31, 1999 (the "Information Statement"), which is hereby incorporated by reference. The Information Statement describes the business and operations of Fannie Mae, and contains financial data as of December 31, 1998. 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 April 30, 1999, approximately 1,026 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 months ended March 31, 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 three months ended March 31, 1999 are not necessarily indicative of the results expected for the entire year.

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

| | 1999 | 1998 |
|---|---|---|
| **Income Statement Data for the three months ended March 31:** | | |
| Interest income | $ 8,283 | $ 7,025 |
| Interest expense | (7,124) | (5,989) |
| Net interest income | 1,159 | 1,036 |
| Guaranty fees | 317 | 321 |
| Fee and other income, net | 58 | 56 |
| Credit-related expenses | (47) | (77) |
| Administrative expenses | (192) | (170) |
| Income before federal income taxes and extraordinary item | 1,295 | 1,166 |
| Provision for federal income taxes | (361) | (334) |
| Income before extraordinary item | 934 | 832 |
| Extraordinary item—loss on early extinguishment of debt, net of tax effect | (9) | (8) |
| Net income | $ 925 | $ 824 |
| Preferred stock dividends | (18) | (16) |
| Net income available to common stockholders | $ 907 | $ 808 |
| Basic earnings per common share: | | |
| Earnings before extraordinary item | $ .89 | $ .79 |
| Extraordinary item | (.01) | (.01) |
| Net earnings | $ .88 | $ .78 |
| Diluted earnings per common share: | | |
| Earnings before extraordinary item | $ .88 | $ .78 |
| Extraordinary item | — | (.01) |
| Net earnings | $ .88 | $ .77 |
| **Balance Sheet Data at March 31:** | | |
| Mortgage portfolio, net | $440,726 | $326,909 |
| Investments | 49,916 | 67,209 |
| Total assets | 501,058 | 403,993 |
| Borrowings: | | |
| Due within one year | 190,275 | 168,919 |
| Due after one year | 285,143 | 212,174 |
| Total liabilities | 484,924 | 389,922 |
| Stockholders' equity | 16,134 | 14,071 |
| Capital(1) | 16,930 | 14,854 |
| **Other Data for the three months ended March 31:** | | |
| Average net interest margin | 1.02% | 1.14% |
| Return on average common equity | 24.8 | 25.0 |
| Dividend payout ratio | 30.6 | 30.8 |
| Average effective guaranty fee rate | .194 | .219 |
| Credit loss ratio(2) | .017 | .034 |
| Ratio of earnings to combined fixed charges and preferred stock dividends(3) | 1.18:1 | 1.19:1 |
| Mortgage purchases | $ 52,957 | $ 28,372 |
| MBS issued | 106,451 | 58,259 |
| MBS outstanding at period end(4) | 881,815 | 730,832 |
| Weighted-average diluted common shares outstanding | 1,035 | 1,045 |

(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 $222 billion and $138 billion of MBS in portfolio at March 31, 1999 and 1998, respectively.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE MONTHS ENDED MARCH 31, 1999

### Results of Operations

In the first quarter of 1999, Fannie Mae reported record earnings of $925 million, compared with $824 million in the first quarter of 1998. The 12 percent increase in earnings was primarily due to increases in net interest income and lower credit-related expenses.

Net interest income in the first quarter of 1999 increased 12 percent, compared with the first quarter of 1998. The growth in net interest income was primarily a result of a 25 percent growth in the average investment portfolio, which was partly offset by a 12 basis point decrease in the net interest margin. Management expects that the net interest margin will continue near current levels for the remainder of 1999.

The following table presents an analysis of net interest income and average balances for the three months ended March 31, 1999 and 1998.

**Net Interest Income and Average Balances**

**(Dollars in millions)**

| | Three Months Ended March 31, 1999 | Three Months Ended March 31, 1998 |
|---|---|---|
| Interest income: | | |
| Mortgage portfolio | $ 7,434 | $ 6,002 |
| Investments and cash equivalents | 849 | 1,023 |
| Total interest income | 8,283 | 7,025 |
| Interest expense(1): | | |
| Short-term debt | 1,192 | 965 |
| Long-term debt | 5,932 | 5,024 |
| Total interest expense | 7,124 | 5,989 |
| Net interest income | 1,159 | 1,036 |
| Tax equivalent adjustment(2) | 79 | 72 |
| Net interest income tax equivalent basis | $ 1,238 | $ 1,108 |
| Average balances: | | |
| Interest-earning assets(3): | | |
| Mortgage portfolio, net | $423,975 | $319,888 |
| Investments and cash equivalents | 62,976 | 70,488 |
| Total interest-earning assets | $486,951 | $390,376 |
| Interest-bearing liabilities(1): | | |
| Short-term debt | $ 96,886 | $ 71,782 |
| Long-term debt | 370,292 | 301,083 |
| Total interest-bearing liabilities | 467,178 | 372,865 |
| Interest-free funds | 19,773 | 17,511 |
| Total interest-bearing liabilities and interest-free funds | $486,951 | $390,376 |
| Average interest rates(2): | | |
| Interest-earning assets: | | |
| Mortgage portfolio, net | 7.08% | 7.55% |
| Investments and cash equivalents | 5.43 | 5.84 |
| Total interest-earning assets | 6.86 | 7.24 |
| Interest-bearing liabilities(1): | | |
| Short-term debt | 4.88 | 5.33 |
| Long-term debt | 6.41 | 6.68 |
| Total interest-bearing liabilities | 6.09 | 6.42 |
| Investment spread | .77 | .82 |
| Interest-free return(4) | .25 | .32 |
| Net interest margin(5) | 1.02% | 1.14% |

(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 and $2.6 billion for the three months ended March 31, 1999 and 1998, respectively.
(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 months ended March 31, 1999 and 1998.

## Rate/Volume Analysis

**(Dollars in millions)**

| First Quarter 1999 vs. First Quarter 1998 | Increase (Decrease) | Attributable to Changes in (1) Volume | Rate |
|---|---|---|---|
| Interest income: | | | |
| Mortgage portfolio | $1,432 | $1,847 | $(415) |
| Investments and cash equivalents | (174) | (105) | (69) |
| Total interest income | 1,258 | 1,742 | (484) |
| Interest expense: | | | |
| Short-term debt | 227 | 314 | (87) |
| Long-term debt | 908 | 1,116 | (208) |
| Total interest expense | 1,135 | 1,430 | (295) |
| Net interest income | $ 123 | $ 312 | $(189) |

(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 $4 million, or 1 percent, to $317 million, compared with $321 million in the first quarter of 1998. This change resulted from an 11 percent increase in average net Mortgage-Backed Securities ("MBS") outstanding which was more than offset by a 2.5 basis point decrease in the effective average guaranty fee rate when compared with the first quarter of 1998. The decrease in the effective average guaranty fee rate resulted from repayments of loans backing MBS with higher fee rates and from new MBS issues at fee rates below the average due, in part, to loss sharing arrangements and higher credit quality refinance business.

In the first three months of 1999, fee and other income increased 4 percent to $58 million versus $56 million in the first three months of 1998. The increase in fee and other income was primarily the result of higher technology fee income.

Administrative expenses for the quarter ended March 31, 1999 increased to $192 million from $170 million during the same period in 1998, primarily due to higher compensation costs. Compensation expense was $121 million in the first quarter of 1999, compared with $107 million in the first quarter of 1998. The ratio of administrative expenses to the average mortgage portfolio plus average MBS outstanding was .071 percent in the first quarter of 1999 and .075 percent in the first quarter of 1998. The ratio of administrative expenses to revenues (net interest income, guaranty fees, and fee and other income) was 12.5 percent for the first quarter of 1999, compared with 12.0 percent for the first quarter of 1998.

The effective federal income tax rate for the first three months of 1999 was 28 percent, compared with 29 percent for the first three months of 1998.

Fannie Mae had extraordinary losses of $14 million ($9 million after tax) from the repurchase or call of debt in the first quarter of 1999, compared with $13 million ($8 million after tax) in the first quarter of 1998.

## Credit Data

The following table shows Fannie Mae's serious delinquencies for conventional loans in portfolio and underlying MBS at March 31, 1999 and 1998, and conventional properties acquired and total net recoveries or charge-offs for the three months ended March 31, 1999 and 1998.

| | Delinquency Rate(1) | | Number of Properties Acquired | | Net (Recoveries) / Charge-offs | |
|---|---|---|---|---|---|---|
| | March 31, 1999 | March 31, 1998 | March 31, 1999 | March 31, 1998 | March 31, 1999 | March 31, 1998 |
| | | | | | (Dollars in millions) | |
| Single-family | .55% | .61% | 4,438 | 5,658 | $(23) | $(7) |
| Multifamily | .21 | .36 | 4 | 4 | 1 | 3 |
| Total | | | | | $(22) | $(4) |

(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 $45 million for the three months ended March 31, 1999, compared with $78 million for the same period in 1998. The change in credit-related losses was the result of an increase in net recoveries on foreclosed properties, as well as a decrease in foreclosure expenses in the first quarter of 1999. 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 8,013 as of March 31, 1999, compared with 9,614 as of March 31, 1998. The inventory of multifamily properties was 7 as of March 31, 1999, compared with 17 as of March 31, 1998.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were $47 million in the first quarter of 1999, compared with $77 million in the first quarter of 1998. This decrease partly was due to a negative $20 million loss provision recorded in the first quarter of 1999, compared with a negative $5 million loss provision recorded in the first quarter of 1998. The remainder of the decrease was due to a decrease in foreclosed property expenses to $67 million in the first quarter of 1999, compared with $82 million in the first quarter of 1998.

The allowance for losses increased to $804 million at March 31, 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 $53 billion of mortgages at an average yield of 6.40 percent in the first quarter of 1999, compared with $28 billion of mortgages at an average yield of 6.79 percent in the first quarter of 1998. The increase in mortgage purchases was primarily due to the availability of mortgages offered for sale in the secondary market.

Mortgage loan repayments during the first quarter of 1999 totaled $26 billion, compared with $17 billion in the first quarter of 1998. The increase in loan repayments was primarily due to an increased level of refinance activity in a lower interest rate environment.

As of March 31, 1999, the net mortgage portfolio totaled $441 billion with a yield (before deducting the allowance for losses) of 7.04 percent, compared with $415 billion at 7.12 percent as of December 31, 1998, and $327 billion at 7.50 percent as of March 31, 1998. The decrease in yield was primarily due to increased prepayments of higher coupon mortgages and a decrease in conventional mortgage purchase yields as interest rates declined. The portfolio growth during the first quarter of 1999 was generated by the purchase of a combination of whole loans, MBS and REMICs. Fannie Mae expects net mortgage portfolio growth to remain at a high level in the second quarter of 1999 and then to decline somewhat during the second half of the year as refinance activity slows.

At March 31, 1999, Fannie Mae had mandatory delivery commitments and lender option commitments outstanding to purchase $24 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 first three months of 1999, Fannie Mae issued $190 billion of debt at an average cost of 5.10 percent and redeemed $175 billion at an average cost of 5.21 percent. Debt issued in the first three months of 1998 totaled $218 billion at an average cost of 5.62 percent, and debt redeemed was $207 billion at an average cost of 5.75 percent. The average cost of debt outstanding at March 31, 1999, December 31, 1998, and March 31, 1998 was 6.06 percent, 6.10 percent, and 6.38 percent, respectively.

The following table presents the amount of option-embedded debt instruments as a percentage of mortgage purchases and the net mortgage portfolio at March 31, 1999 and March 31, 1998. Option-embedded debt instruments include derivative financial instruments.

| | **Three Months Ended March 31,** | |
|---|---|---|
| **(Dollars in billions)** | **1999** | **1998** |
| Issued during the period | $ 55 | $ 19 |
| Percentage of total mortgage purchases | 104% | 67% |
| Outstanding at end of period | $219 | $143 |
| 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 March 31, 1999, the balances as of March 31, 1999 and 1998, and the expected maturities of the derivative instruments outstanding as of March 31, 1999.

**Derivative Financial Instruments Table**

**(Dollars in millions)**

| | Generic-Pay Fixed/ Receive Variable Swaps(1) | | | Pay Variable/ Receive Fixed Swaps | Basis Swaps | Caps and Swaptions | Total |
|---|---|---|---|---|---|---|---|
| | Notional(2) | Pay Rate(3) | Receive Rate(3) | | | | |
| Balance at December 31, 1998 | $ 96,014 | 6.53% | 5.30% | $29,470 | $16,919 | $27,165 | $169,568 |
| Additions | 7,925 | 6.14 | 5.08 | 6,463 | 2,700 | 15,000 | 32,088 |
| Maturities | 1,593 | 5.94 | 4.15 | 7,851 | 4,175 | — | 13,619 |
| Balance at March 31, 1999 | $102,346 | 6.47% | 5.07% | $28,082 | $15,444 | $42,165 | $188,037 |
| Balance at March 31, 1998 | $ 89,720 | 6.77% | 5.73% | $31,738 | $21,598 | $ — | $143,056 |
| Future Maturities(4) | | | | | | | |
| 1999 | $ 4,075 | 6.95% | 5.02% | $10,685 | $10,945 | $ 250 | $ 25,955 |
| 2000 | 14,648 | 5.18 | 5.01 | 8,075 | 3,900 | 5,500 | 32,123 |
| 2001 | 9,950 | 6.21 | 5.06 | 2,393 | — | 6,750 | 19,093 |
| 2002 | 5,225 | 6.22 | 5.05 | 1,560 | 79 | 10,500 | 17,364 |
| 2003 | 4,558 | 5.94 | 5.10 | 550 | 200 | 11,865 | 17,173 |
| Thereafter | 63,890 | 6.83 | 5.09 | 4,819 | 320 | 7,300 | 76,329 |
| | $102,346 | 6.47% | 5.07% | $28,082 | $15,444 | $42,165 | $188,037 |

(1) Included in the notional amounts are callable swaps and swaptions of $33 billion, $26 billion, and $22 billion with weighted-average pay rates of 5.17 percent, 4.93 percent and 6.60 percent and weighted-average receive rates of 5.10 percent, 5.44 percent, and 5.82 percent at March 31, 1999, December 31, 1998 and March 31, 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 March 31, 1999 levels.

The contract amounts of other off-balance-sheet financial instruments, which included 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 $13.1 billion at March 31, 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 $117 million at March 31, 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 March 31, 1999 was $16.1 billion, compared with $15.5 billion at December 31, 1998, and $14.1 billion at March 31, 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 0.9 million common shares at a weighted-average cost of $67.73 per common share during the first quarter of 1999 and issued 2.3 million common shares for employee and other stock compensation plans. As of March 31, 1999, there were approximately 1,027 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 April 20, 1999, the Board of Directors approved a dividend for the quarter ended March 31, 1999 of $0.27 per common share; dividends of $0.80125 per Series A preferred share, $0.81250 per Series B preferred share, $0.80625 per Series C preferred share, and $0.65625 per Series D preferred share for the period from and including March 31, 1999 to but excluding June 30, 1999; and a dividend of $0.53125 per Series E preferred share for the period from and including April 15, 1999 to but excluding June 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 March 31, 1999, and management expects to continue to comply with the applicable standards.

## Mortgage-Backed Securities

Fannie Mae issued $106 billion of MBS during the first three months of 1999, compared with $58 billion in the first three months of 1998. The increase in MBS issued during the first quarter of 1999, compared with the first quarter of 1998, was primarily due to an increase in mortgage origination and refinance activity in a lower interest rate environment. REMIC issuances were $16 billion in both the first quarter of 1999 and in the first quarter of 1998.

The following table summarizes MBS activity for the three months ended March 31, 1999 and 1998.

### Summary of MBS Activity

**(Dollars in millions)**

| | Issued (1) | | | Outstanding (1) | | |
|---|---|---|---|---|---|---|
| Three Months Ended March 31, | Lender or Shared Risk | Fannie Mae Risk | Total | Lender or Shared Risk (2) | Fannie Mae Risk | Total (3) |
| 1999 | $29,078 | $77,373 | $106,451 | $177,936 | $703,879 | $881,815 |
| 1998 | 13,202 | 45,057 | 58,259 | 103,343 | 627,489 | 730,832 |

(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 $134 billion and $67 billion at March 31, 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 $222 billion and $138 billion at March 31, 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 March 31, 1999, Fannie Mae has completed 95 percent of testing of all systems identified as non-mission critical. Enterprise testing will also be part of Fannie Mae's internal compliance preparation. Fannie Mae expects to begin enterprise testing in the second quarter of 1999 and 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 servicers validate certain critical business functions using the MBA test, discussed in the Information Statement, by March 31, 1999. Scheduled retesting will continue through June 1999. Fannie Mae is continuing to test with certain of its external service providers, with the degree of testing commensurate with the perceived level of business risk. 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. Fannie Mae will test key aspects of its business continuity plan throughout the remainder of 1999.

Fannie Mae's Year 2000 project is proceeding as scheduled and budgeted. Approximately $43 million has been spent on the project from its inception through March 31, 1999.

## RECENT LEGISLATIVE AND REGULATORY DEVELOPMENTS

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. Comments on the proposal are due by August 11, 1999, although management believes that the comment period may be extended in order to provide adequate time for evaluation of the proposal. Based on a preliminary evaluation, management believes that the final risk-based standard could be modified substantially from its current proposed form. Management expects, however, that even if the standard were to be adopted as currently proposed, Fannie Mae would be able to comply with the proposal with no significant impact on its financial performance.

## INDEX TO INTERIM FINANCIAL STATEMENTS


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## INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors and Stockholders of Fannie Mae:

We have reviewed the accompanying condensed balance sheet of Fannie Mae as of March 31, 1999 and the related condensed statements of income, changes in stockholders' equity, and cash flows for the three-months ended March 31, 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.
April 12, 1999

# FANNIE MAE

## INTERIM FINANCIAL STATEMENTS

## CONDENSED STATEMENTS OF INCOME

### (Unaudited)

| | Three Months Ended March 31, 1999 | Three Months Ended March 31, 1998 |
|---|---|---|
| | (Dollars in millions, except per share amounts) | |
| Interest income | $8,283 | $ 7,025 |
| Interest expense | (7,124) | (5,989) |
| Net interest income | 1,159 | 1,036 |
| Guaranty fees | 317 | 321 |
| Fee and other income, net | 58 | 56 |
| Credit-related expenses | (47) | (77) |
| Administrative expenses | (192) | (170) |
| Income before federal income taxes and extraordinary item | 1,295 | 1,166 |
| Provision for federal income taxes | (361) | (334) |
| Income before extraordinary item | 934 | 832 |
| Extraordinary item—loss on early extinguishment of debt (net of tax effect) | (9) | (8) |
| Net income | $ 925 | $ 824 |
| Preferred dividends | (18) | (16) |
| Net income available to common stockholders | $ 907 | $ 808 |
| Basic earnings per common share: | | |
| Earnings before extraordinary item | $ .89 | $ .79 |
| Extraordinary item | (.01) | (.01) |
| Net earnings | $ .88 | $ .78 |
| Diluted earnings per common share: | | |
| Earnings before extraordinary item | $ .88 | $ .78 |
| Extraordinary item | — | (.01) |
| Net earnings | $ .88 | $ .77 |

## CONDENSED BALANCE SHEETS

### (Unaudited)

| | March 31, 1999 | December 31, 1998 |
|---|---|---|
| | (Dollars in millions) | |
| Assets | | |
| Mortgage portfolio, net | $440,726 | $415,223 |
| Investments | 49,916 | 58,515 |
| Other assets | 10,416 | 11,276 |
| Total assets | $501,058 | $485,014 |
| Liabilities | | |
| Debentures, notes, and bonds, net: | | |
| Due within one year | $190,275 | $205,413 |
| Due after one year | 285,143 | 254,878 |
| Other liabilities | 9,506 | 9,270 |
| Total liabilities | 484,924 | 469,561 |
| Stockholders' equity | 16,134 | 15,453 |
| Total liabilities and stockholders' equity | $501,058 | $485,014 |

See Notes to Interim Financial Statements

## FANNIE MAE

## CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(Unaudited)

| | Number of Common Shares Outstanding | Preferred Stock | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income | Treasury Stock | Total Stockholders' Equity |
|---|---|---|---|---|---|---|---|---|
| | | | | (Dollars and shares in millions) | | | | |
| **Balance, December 31, 1997** | 1,037 | $1,000 | $593 | $1,495 | $13,326 | $ (1) | $(2,620) | $13,793 |
| Comprehensive income: | | | | | | | | |
| Net income | — | — | — | — | 824 | — | — | 824 |
| Other comprehensive income, net of tax—Unrealized losses on securities, net | — | — | — | — | — | 2 | — | 2 |
| Total comprehensive income | | | | | | | | 826 |
| Dividends | — | — | — | — | (265) | — | — | (265) |
| Shares repurchased | (6) | — | — | — | — | — | (377) | (377) |
| Treasury stock issued for stock options and benefit plans | 3 | — | — | 10 | — | — | 84 | 94 |
| **Balance, March 31, 1998** | 1,034 | $1,000 | $593 | $1,505 | $13,885 | $ 1 | $(2,913) | $14,071 |
| **Balance, December 31, 1998** | 1,025 | $1,150 | $593 | $1,533 | $15,689 | $(13) | $(3,499) | $15,453 |
| Comprehensive income: | | | | | | | | |
| Net income | — | — | — | — | 925 | — | — | 925 |
| Other comprehensive income, net of tax—Unrealized losses on securities, net | — | — | — | — | — | (6) | — | (6) |
| Total comprehensive income | | | | | | | | 919 |
| Dividends | — | — | — | — | (296) | — | — | (296) |
| Shares repurchased | (1) | — | — | — | — | — | (61) | (61) |
| Treasury shares issued for stock options and benefit plans | 3 | — | — | 47 | — | — | 72 | 119 |
| **Balance, March 31, 1999** | 1,027 | $1,150 | $593 | $1,580 | $16,318 | $(19) | $(3,488) | $16,134 |

See Notes to Interim Financial Statements

## FANNIE MAE

## CONDENSED STATEMENTS OF CASH FLOWS

**(Unaudited)**

| | Three Months Ended March 31, 1999 | 1998 |
|---|---|---|
| | (Dollars in millions) | |
| Net cash provided by operating activities | $ 4,824 | $ 1,703 |
| Cash flows from investing activities: | | |
| Purchases of mortgages | (52,912) | (28,603) |
| Proceeds from sales of mortgages | 635 | 396 |
| Mortgage principal repayments | 26,636 | 17,844 |
| Net decrease (increase) in investments | 8,599 | (2,613) |
| Net cash used by investing activities | (17,042) | (12,976) |
| Cash flows from financing activities: | | |
| Cash proceeds from issuance of debt | 196,745 | 216,462 |
| Cash payments to retire debt | (184,975) | (206,479) |
| Other | (254) | (562) |
| Net cash provided by financing activities | 11,516 | 9,421 |
| Net decrease in cash and cash equivalents | (702) | (1,852) |
| Cash and cash equivalents at beginning of period | 743 | 2,205 |
| Cash and cash equivalents at end of period | $ 41 | $ 353 |

## 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 months ended March 31, 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 months ended March 31, 1999 and 1998. Significant changes from period to period were due to the same factors discussed under "Results of Operations."

| Three Months Ended March 31, | 1999 Portfolio Investment | 1999 Credit Guaranty | 1999 Total | 1998 Portfolio Investment | 1998 Credit Guaranty | 1998 Total |
|---|---|---|---|---|---|---|
| | (Dollars in millions) | | | | | |
| Net interest income | $1,008 | $ 151 | $1,159 | $ 900 | $ 136 | $1,036 |
| Guaranty fees | (228) | 545 | 317 | (197) | 518 | 321 |
| Fee and other income, net | 40 | 18 | 58 | 35 | 21 | 56 |
| Credit-related expenses | — | (47) | (47) | — | (77) | (77) |
| Administrative expenses | (57) | (135) | (192) | (44) | (126) | (170) |
| Federal income taxes | (217) | (144) | (361) | (193) | (141) | (334) |
| Extraordinary item—loss on early extinguishment of debt (net of tax effect) | (9) | — | (9) | (8) | — | (8) |
| Net income | $ 537 | $ 388 | $ 925 | $ 493 | $ 331 | $ 824 |

The Portfolio Investment line of business represented $489 billion, or 98 percent of total assets, at March 31, 1999 and $393 billion, or 97 percent of total assets, at March 31, 1998.

## Commitments and Contingencies

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

| | March 31, 1999 |
|---|---|
| | (Dollars in billions) |
| Commitments to purchase mortgages: | |
| Mandatory delivery | $ 24 |
| Lender option(1) | 2 |
| Average net yield on mandatory delivery | 6.61% |
| Master commitments: | |
| Mandatory delivery(2) | $ 22 |
| Lender option | 41 |

(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:

| | March 31, 1999 |
|---|---|
| | (Dollars in billions) |
| MBS outstanding(1) | $881 |
| Amount for which Fannie Mae has primary foreclosure loss risk(2) | 704 |
| Credit enhancements | 7 |
| Other guarantees | 3 |

(1) Includes $222 billion of MBS held in portfolio and is net of $602 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 March 31, | | | |
|---|---|---|---|---|
| | 1999 | | 1998 | |
| | Basic | Diluted | Basic | Diluted |
| | (Dollars and shares in millions, except per common share amounts) | | | |
| Net income before extraordinary loss | $ 934 | $ 934 | $ 832 | $ 832 |
| Less: Extraordinary loss | (9) | (9) | (8) | (8) |
| Preferred stock dividend | (18) | (18) | (16) | (16) |
| Net income available to common stockholders | $ 907 | $ 907 | $ 808 | $ 808 |
| Weighted average common shares | 1,027 | 1,027 | 1,037 | 1,037 |
| Dilutive potential common shares(1) | — | 8 | — | 8 |
| Average number of common shares outstanding used to calculate earnings per common share | 1,027 | 1,035 | 1,037 | 1,045 |
| Earnings per common share before extraordinary item | $ .89 | $ .88 | $ .79 | $ .78 |
| Net earnings per common share | .88 | .88 | .78 | .77 |

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

## MANAGEMENT

The thirteen elected directors currently on the Board of Directors, whose terms expire at the annual meeting of stockholders on May 20, 1999, have been nominated for reelection as described in Fannie Mae's 1999 Proxy Statement.

FannieMae