Supplement dated November 14, 1994 to
Information Statement dated March 31, 1994

Federal National Mortgage Association

This Supplement describes the financial condition of the Federal National Mortgage Association ("Fannie Mae" or the "Corporation") as of September 30, 1994 and contains unaudited financial statements with respect to the Corporation for the quarter and nine months ended September 30, 1994. This Supplement should be read in conjunction with the Corporation's Information Statement dated March 31, 1994 (the "Information Statement"), and the Supplements dated May 13, 1994 and August 15, 1994 thereto (the "Supplements"), 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, 1993. The May 13, 1994 and August 15, 1994 Supplements describe the financial condition of the Corporation as of March 31, 1994 and June 30, 1994, respectively, and contain unaudited financial statements with respect to the Corporation for the quarters and year-to-date periods then ended. In addition, the Supplements discuss certain legislative, regulatory, legal and other developments that may affect the Corporation. Fannie Mae also periodically makes available statistical information on its mortgage purchase and mortgage-backed securities volumes as well as other relevant information about Fannie Mae. Copies of the Corporation's current Information Statement, any supplements thereto and other available information can be obtained without charge from the Office of Investor Relations, Fannie Mae, 3900 Wisconsin Avenue, N.W., Washington, D.C. 20016 (telephone: 202-752-7115).

In conjunction with its securities offerings, the Corporation may incorporate this Supplement by reference in one or more other documents describing the securities offered thereby, the selling arrangements therefor, and other relevant information. Such other documents may be called an Offering Circular, Prospectus, Guide to Debt Securities or otherwise. This Supplement does not itself constitute an offer or a solicitation of an offer to purchase such securities.

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

The Corporation's securities are not required to be registered under the Securities Act of 1933. At the close of business on October 31, 1994, 273,086,000 shares of the Corporation's common stock (without par value) were outstanding.

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

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SELECTED FINANCIAL DATA

The following selected financial data for the three-month and nine-month periods ended September 30, 1994 and 1993 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 September 30, 1994 are not necessarily indicative of the results expected for the entire year.

(Dollars in millions, except per share amounts)

	Three Months Ended September 30,		Nine Months Ended September 30,	
Income Statement Data:	**1994**	**1993**	**1994**	**1993**
Interest income	$ 4,435	$ 3,759	$ 12,604	$ 10,955
Interest expense	3,707	3,097	10,492	9,057
Net interest income	728	662	2,112	1,898
Guaranty fees	272	243	814	708
Gain (loss) on sales of mortgages, net	—	3	(2)	6
Miscellaneous income, net	29	66	120	162
Provision for losses	(40)	(45)	(120)	(135)
Foreclosed property expenses	(54)	(31)	(172)	(100)
Administrative expenses	(132)	(110)	(386)	(320)
Income before federal income taxes and extraordinary item	803	788	2,366	2,219
Provision for federal income taxes	(260)	(260)	(770)	(709)
Income before extraordinary item	543	528	1,596	1,510
Extraordinary loss—early extinguishment of debt	—	(50)	(17)	(130)
Net income	$ 543	$ 478	$ 1,579	$ 1,380
Per share:				
Earnings before extraordinary item	$ 1.98	$ 1.93	$ 5.81	$ 5.50
Net earnings	1.98	1.74	5.75	5.02
Cash dividends	0.60	0.46	1.80	1.32

	September 30,	
Balance Sheet Data:	**1994**	**1993**
Mortgage portfolio, net	$214,003	$178,857
Total assets	254,805	211,442
Borrowings:		
Due within one year	96,350	70,295
Due after one year	142,970	125,491
Total liabilities	245,619	203,723
Stockholders' equity	9,186	7,719

	Three Months Ended September 30,		Nine Months Ended September 30,	
Other Data:	**1994**	**1993**	**1994**	**1993**
Net interest margin	1.25%	1.40%	1.27%	1.43%
Return on average equity	24.2	25.3	24.5	25.4
Return on average assets	0.9	1.0	0.9	1.0
Ratio of earnings to fixed charges(1)	1.22:1	1.23:1	1.22:1	1.22:1
Dividend payout ratio	30.2%	26.3%	31.2%	26.2%
Equity to assets ratio	3.6	3.7	3.6	3.7
Mortgage purchases	$ 12,971	$ 24,896	$ 50,438	$ 62,155
MBS issued	24,637	62,283	111,037	151,618
MBS outstanding at period end	523,512	481,880		
Capital(2)	10,012	8,543		

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

(2) Stockholders' equity plus allowance for losses.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 1994

Results of Operations

In the third quarter of 1994, Fannie Mae again reported record earnings as net income increased $65 million to $543 million or 14 percent over the results for the third quarter of 1993. For the first nine months of 1994, net income increased $199 million or 14 percent to $1.579 billion compared with $1.380 billion for the first nine months of 1993. The growth in net income, for the three-month and nine-month periods ended September 30, 1994, was attributable mainly to increases in net interest income and guaranty fee income and lower losses on early redemptions of debt. The Corporation suspended repurchases of debt in the third quarter of 1994 in response to higher interest rates and lower levels of mortgage loan prepayments.

Net interest income in the third quarter of 1994 increased 10 percent compared with the third quarter of 1993, primarily due to 23 percent growth in the average net investment balance, which was partially offset by a 15 basis point decrease in the net interest margin. Net interest income in the first nine months of 1994 increased 11 percent compared with the first nine months of 1993, as a result of 25 percent growth in the average net investment balance, which was partially offset by a 16 basis point decrease in the net interest margin. The decline in net interest margin is primarily due to a lengthening of debt and lower MBS float income, both as a result of higher interest rates and lower liquidations.

The following table presents an analysis of net interest income for the three-month and nine-month periods ended September 30, 1994 and 1993.

Net Interest Income and Average Balances

(Dollars in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1994	**1993**	**1994**	**1993**
Interest income:				
Mortgage portfolio	$ 4,038	$ 3,536	$ 11,636	$ 10,348
Investments and cash equivalents	397	223	968	607
Total interest income	4,435	3,759	12,604	10,955
Interest expense(1):				
Short-term debt	612	356	1,554	983
Long-term debt	3,095	2,741	8,938	8,074
Total interest expense	3,707	3,097	10,492	9,057
Net interest income	728	662	2,112	1,898
Tax equivalent adjustment(2)	33	29	94	90
Net interest income tax equivalent basis	$ 761	$ 691	$ 2,206	$ 1,988
Average balances:				
Interest-earning assets(3):				
Mortgage portfolio, net	$210,311	$174,152	$202,126	$164,932
Investments and cash equivalents	32,906	23,975	30,225	20,928
Total interest-earning assets	$243,217	$198,127	$232,351	$185,860
Interest-bearing liabilities(1):				
Short-term debt	$ 55,766	$ 39,746	$ 51,781	$ 34,490
Long-term debt	174,609	142,189	166,593	136,477
Total interest-bearing liabilities	230,375	181,935	218,374	170,967
Interest-free funds	12,842	16,192	13,977	14,893
Total interest-bearing liabilities and interest-free funds	$243,217	$198,127	$232,351	$185,860
Average interest rates(2):				
Interest-earning assets:				
Mortgage portfolio, net	7.69%	8.15%	7.69%	8.40%
Investments and cash equivalents	4.88	3.79	4.34	3.93
Total interest-earning assets	7.31	7.62	7.26	7.89
Interest-bearing liabilities(1):				
Short-term debt	4.49	3.36	3.99	3.49
Long-term debt	7.09	7.71	7.15	7.89
Total interest-bearing liabilities	6.46	6.76	6.41	7.00
Investment spread	.85	.86	.85	.89
Miscellaneous(4)	.40	.54	.42	.54
Net interest margin	1.25%	1.40%	1.27%	1.43%

(1) Classification of interest expense and interest-bearing liabilities as short-term or long-term is based on effective maturity or repricing date, taking into consideration the effect of interest rate swaps.

(2) Reflects pro forma adjustments to permit comparison of yields on tax-advantaged and taxable assets.

(3) Includes average balance of nonperforming loans of $1.8 billion and $1.5 billion for the three- and nine-month periods, respectively, ended September 30, 1994 and $1.3 billion for the three- and nine-month periods ended September 30, 1993.

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

The following rate/volume analysis shows the relative contribution of asset and debt growth and interest rate changes to changes in net interest income for the three-month and nine-month periods ended September 30, 1994 and 1993.

Rate / Volume Analysis

(Dollars in millions)

	Third Quarter 1994 vs. Third Quarter 1993			First Nine Months 1994 vs. First Nine Months 1993		
		Attributable to Changes in (1)			Attributable to Changes in (1)	
	Increase (Decrease)	Volume	Rate	Increase (Decrease)	Volume	Rate
Interest income:						
Mortgage portfolio	$502	$702	$(200)	$1,288	$2,193	$(905)
Investments and cash equivalents	174	97	77	361	292	69
Total interest income	676	799	(123)	1,649	2,485	(836)
Interest expense:						
Short-term debt	256	164	92	571	516	55
Long-term debt	354	588	(234)	864	1,665	(801)
Total interest expense	610	752	(142)	1,435	2,181	(746)
Net interest income	$ 66	$ 47	$ 19	$ 214	$ 304	$ (90)

(1) Combined rate/volume variances, a third element of the calculation, are allocated to the rate and volume variances based on their relative size.

Guaranty fee income in the third quarter increased by $29 million, or 12 percent, to $272 million, resulting from a 6 percent increase in average MBS outstanding when compared with the third quarter of 1993 and an increase in the average guaranty fee rate to 22.5 basis points in the third quarter of 1994 from 21.3 basis points in the third quarter of 1993. For the first nine months of 1994, guaranty fee income increased by $106 million, or 15 percent, to $814 million, due to an 8 percent increase in average MBS outstanding over the comparable period in 1993 and an increase in the average guaranty fee rate to 22.6 basis points in the first nine months of 1994, from 21.3 basis points in the comparable period in 1993. Management expects that guaranty fees for the remainder of 1994 will remain relatively unchanged from the third quarter of 1994.

In the third quarter of 1994, miscellaneous income decreased by 56 percent to $29 million versus $66 million in the third quarter of 1993. For the first nine months of 1994, miscellaneous income declined by 26 percent to $120 million versus $162 million in the first nine months of 1993. The decreases in miscellaneous income were primarily a result of a decrease in REMIC and other miscellaneous fees. Net REMIC fees were $14 million for the third quarter of 1994 compared with $38 million for the third quarter of 1993, and $68 million for the first nine months of 1994 compared with $87 million in the first nine months of 1993. Net REMIC fees were lower in the third quarter of 1994, primarily because of a decline in the volume of MBS in a higher interest rate environment. In addition, higher interest rates caused a substantial amount of already outstanding REMICs to become available for sale and reduced opportunities for dealers to create profitable new REMIC structures, which reduced demand for new REMICs. Management believes that the level of REMIC fees during the remainder of 1994 will be approximately the same as the third quarter of 1994 and lower than the fourth quarter of last year for similar reasons. Also, there were record REMIC volumes in last year's fourth quarter, primarily due to a heavy volume of refinancings in a declining interest rate environment.

Administrative expenses for the quarter ended September 30, 1994 were $132 million, compared with $110 million during the same period in 1993. For the nine months ended September 30, 1994, administrative expenses were $386 million, compared with $320 million for the same period in 1993.

Increased staffing, technology-related expenses, and affordable housing initiatives were the primary reasons for the overall increases. Compensation expense was $74 million in the third quarter of 1994, compared with $64 million in the third quarter of 1993. For the first nine months of 1994, compensation expense was $217 million, compared with $184 million in the first nine months of 1993. The ratio of administrative expenses to the average mortgage portfolio plus average MBS outstanding was .076 percent (annualized) for the three months and .075 percent for the nine months ended September 30, 1994 compared with .070 percent for the comparable periods in 1993. The ratio of administrative expenses to revenues (net interest income, guaranty fees, and miscellaneous income) was 12.8 percent for the third quarter of 1994, compared with 11.3 percent for the third quarter of 1993, and was 12.7 percent for the first nine months of 1994, compared with 11.6 percent for the first nine months of 1993.

The effective federal income tax rate for the three-month and nine-month periods ended September 30, 1994 was 32 percent. The effective federal income tax rates were 33 percent and 32 percent in each of the corresponding periods in 1993.

The Corporation suspended the repurchase of debt in the third quarter of 1994, but continued to call debt. There was no loss on the call or repurchase of debt in the third quarter of 1994 compared with a loss of $80 million ($50 million after tax) for the third quarter of 1993. An extraordinary loss of $27 million ($17 million after tax) was reported for the nine-month period ended September 30, 1994 from the repurchase and call of debt, compared with a $201 million loss ($130 million after tax) from such repurchases and calls in the same period in 1993. Management suspended the repurchase of debt in the third quarter of 1994 in response to higher interest rates and lower levels of prepayments and does not expect to resume repurchases in the current interest rate environment.

Credit Data

The following table shows the Corporation's serious delinquencies for conventional loans in portfolio and underlying MBS at September 30, 1994 and 1993, and conventional foreclosures and total net charge-offs for the quarters and nine months ended September 30, 1994 and 1993.

	Delinquency Rate(1)		Number of Properties Acquired				Net Charge-offs (Dollars in millions)			
	September 30,		Three Months Ended September 30,		Nine Months Ended September 30,		Three Months Ended September 30,		Nine Months Ended September 30,	
	1994	1993	1994	1993	1994	1993	1994	1993	1994	1993
Single-family	.56%	.56%	3,557	3,206	10,107	8,743	$36	$23	$114	$70
Multifamily	1.21	2.53	5	8	24	26	3	6	21	21
Total							$39	$29	$135	$91

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

The inventory of single-family properties was 6,306 as of September 30, 1994, compared with 5,459 properties as of September 30, 1993. The inventory of multifamily properties was 41 properties as of September 30, 1994, compared with 47 properties as of September 30, 1993. The increase in the number of single-family properties acquired through foreclosure was primarily due to the growth in business volumes in recent years.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, were $94 million in the third quarter of 1994, compared with $76 million in the third quarter of 1993. The sum of net charge-offs and foreclosed property expenses in the three months ended September 30, 1994 was $92 million, compared with $60 million during the same period in 1993. Total credit-related expenses for the nine-month periods ended September 30, 1994 and 1993 were $292 million and $235 million, respectively. The sum of net charge-offs and foreclosed property expenses for the nine months ended September 30, 1994 and 1993 were $307 million and $192 million, respectively. The increase in net charge-offs and foreclosed property expenses was primarily due to growth in business volumes in recent years.

The allowance for losses was $825 million at September 30, 1994, compared with $841 million at December 31, 1993 and $824 million at September 30, 1993. The Corporation's loss coverage ratio was 5.6 times the previous twelve months' charge-offs at September 30, 1994. Management expects this coverage ratio to decline somewhat over the next few years as the large volume of loans from the early nineties reach their high credit loss years and as the Corporation's initiative to execute more preforeclosure sales gains momentum.

Balance Sheet Analysis

Mortgage Portfolio

The Corporation purchased $13.0 billion of mortgages at an average yield of 8.23 percent in the third quarter of 1994, compared with $24.9 billion of mortgages at an average yield of 6.79 percent in the third quarter of 1993. In the first nine months of 1994, mortgage purchases were $50.4 billion at an average yield of 7.52 percent, compared with $62.2 billion at an average yield of 7.01 percent in the first nine months of 1993. The lower level of mortgage purchases in the first nine months of 1994 as compared with 1993 was primarily due to a decrease in the number of mortgages offered for sale in the secondary market, resulting in large part from a substantial slow-down in refinancing activity because of rising mortgage rates. The rising interest rate environment also prompted more adjustable-rate loans to be originated, which lenders are more likely to retain or purchase for their portfolio.

Mortgage loan repayments during the third quarter of 1994 totaled $5.4 billion, compared with $13.3 billion in the third quarter of 1993. During the first nine months of 1994, mortgage loan repayments were $23.3 billion compared with $33.6 billion in the first nine months of 1993. The decrease in loan repayments was primarily due to a reduced level of refinancing activity because of rising interest rates. Sales from portfolio were minimal in the third quarter of 1994, compared with $2.5 billion for the third quarter of 1993; sales from portfolio totaled $1.7 billion for the first nine months of 1994 compared with $5.9 billion for the first nine months of 1993.

As of September 30, 1994, the net mortgage portfolio totaled $214.0 billion with a yield (before deducting the allowance for losses) of 7.69 percent, compared with $189.9 billion at 7.79 percent as of December 31, 1993 and $178.9 billion at 8.04 percent as of September 30, 1993. The portfolio growth during the third quarter of 1994 was generated by the purchase of a combination of whole loans, MBS, and REMIC tranches. By selectively accessing these markets, the Corporation expects to achieve continued portfolio growth, despite the decline in mortgage originations.

At September 30, 1994, the Corporation had mandatory delivery commitments and lender option commitments outstanding to purchase $3.5 billion and $1.8 billion of mortgage loans, respectively, compared with $7.0 billion and $7.4 billion, respectively, of such commitments outstanding at December 31, 1993.

Financing and Other Activities

During the third quarter of 1994, the Corporation issued $162.0 billion of debt at an average cost of 4.93 percent and redeemed $150.6 billion at an average cost of 4.42 percent. Debt issued in the third quarter of 1993 totaled $99.2 billion at an average cost of 3.52 percent, and debt redeemed was $79.8 billion at an average cost of 3.51 percent. During the first nine months of 1994, $402.1 billion of debt was issued at an average cost of 4.33 percent and $364.0 billion was redeemed at an average cost of 4.01 percent. In the first nine months of 1993, debt issued totaled $231.6 billion at an average cost of 3.47 percent, and debt redeemed totaled $201.7 billion at an average cost of 3.55 percent. The average cost of debt outstanding at September 30, 1994, December 31, 1993, and September 30, 1993 was 6.56 percent, 6.53 percent, and 6.57 percent, respectively.

The following table presents the amount of callable debt and the notional amount of callable swaps issued and outstanding at September 30, 1994, December 31, 1993 and September 30, 1993.

(Dollars in billions)	Nine months ended September 30, 1994	Year ended December 31, 1993	Nine months ended September 30, 1993
Issued during the period	$ 19.7	$43.9	$32.9
Percentage of total long-term debt issued(1)	52%	80%	80%
Outstanding at end of period	$103.5	$93.5	$85.3
Percentage of total long-term debt outstanding(1)	57%	58%	56%

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

The shift during the first nine months of 1994 from callable to noncallable debt reflected both market conditions and routine mortgage portfolio restructuring. The increase in interest rates during 1994 has caused the duration of the mortgage portfolio's assets to extend relative to that of its liabilities, and the issuance of noncallable long-term debt helps to lengthen the duration of the liabilities funding the mortgage portfolio. In addition, the pricing of noncallable debt during the third quarter was attractive relative to that of callable debt. For the remainder of 1994, the Corporation expects the proportion of debt issued that is callable will remain low relative to that experienced over the past few years. This expectation is based on projected market conditions (which can change quickly and considerably), as well as expected mortgage portfolio restructuring activity.

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

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

the weighted-average remaining life of the swaps at September 30, 1994 and December 31, 1993 are presented in the following table.

(Dollars in millions)	Notional Amount (1)	Weighted-Average Interest Rate Receivable (2)	Weighted-Average Interest Rate Payable (2)	Weighted-Average Remaining Life
September 30, 1994				
Interest rate swaps:				
Debt	$73,313	5.01%	6.10%	60 mos
Asset	1,102	5.15	5.36	25
Other off-balance-sheet instruments	3,074			
	$77,489			
December 31, 1993				
Interest rate swaps:				
Debt	$48,218	3.84%	5.63%	63 mos
Asset	875	3.63	6.13	27
Other off-balance-sheet instruments	3,222			
	$52,315			

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

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

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 those off-balance-sheet financial instruments outstanding for which the Corporation was in a gain position. The Corporation's estimate of its exposure to credit loss for off-balance-sheet financial instruments in a gain position at September 30, 1994 was $2.5 billion, compared with $246 million at December 31, 1993. The exposure to credit loss can be expected to fluctuate significantly due to changes in interest rates.

The Corporation's shareholders' equity at September 30, 1994 was $9.2 billion, compared with $8.1 billion at December 31, 1993, and $7.7 billion at September 30, 1993. During the third quarter of 1994, the Corporation repurchased 0.2 million shares at a cost of $20 million. On October 18, 1994, the Board of Directors approved a dividend on the Corporation's common stock of 60 cents per share for the quarter ended September 30, 1994. As of September 30, 1994, there were 273 million shares of common stock outstanding.

As discussed in the Information Statement under "Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Developments," the Corporation, effective October 28, 1992, became subject to revised capital standards. As of June 30, 1994, the Corporation met the applicable standards, and management believes that the Corporation met the standards as of September 30, 1994. Management expects that growth in retained earnings will ensure continued compliance with the applicable standards.

Mortgage-Backed Securities

The Corporation issued $24.6 billion of MBS during the third quarter of 1994, compared with $62.3 billion in the third quarter of 1993. MBS issued in the first nine months of 1994 totaled $111.0 billion, compared with $151.6 billion in the first nine months of 1993. The decrease in MBS issuances was primarily due to a reduction in refinance activity in a higher rate environment and, in part, to higher interest rates prompting a higher percentage of adjustable-rate mortgages to be originated, which many lenders desire to hold in their portfolio.

The following table summarizes MBS activity for the three-month and nine-month periods ended September 30, 1994 and 1993.

Summary of MBS Activity

(Dollars in millions)

	Issued				Outstanding (1)		
	Lender Originated (1)						
Three Months Ended September 30,	**Lender Risk**	**Fannie Mae Risk**	**Fannie Mae Originated**	**Total**	**Lender Risk (2)**	**Fannie Mae Risk (3)**	**Total (4)**
1994	$6,434	$ 18,061	$ 142	$ 24,637	$58,131	$465,381	$523,512
1993	1,951	56,471	3,861	62,283	65,822	416,058	481,880
Nine Months Ended September 30,							
1994	$8,667	$ 98,560	$3,810	$111,037			
1993	4,518	137,909	9,191	151,618			

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

(2) Included in lender risk are $29.9 billion and $35.1 billion at September 30, 1994 and 1993, 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 $5.4 billion at September 30, 1994 and $6.9 billion at September 30, 1993 that are backed by government insured or guaranteed mortgages.

(4) Included are $38.0 billion and $19.3 billion at September 30, 1994 and 1993, respectively, of Fannie Mae MBS in portfolio.

New Accounting Standards

In October 1994, the Financial Accounting Standards Board issued Financial Accounting Standard No. 118, "Accounting by Creditors for Impairment of a Loan—Income Recognition and Disclosures" ("FAS 118"), and Financial Accounting Standard No. 119, "Disclosure about Derivative Financial Instruments and Fair Value of Financial Instruments" ("FAS 119").

FAS 118 is an amendment of Financial Accounting Standard No. 114, "Accounting by Creditors for Impairment of a Loan" ("FAS 114") and allows a creditor to use existing methods for recognizing interest income on an impaired loan. It does not, however, change the requirement that a creditor measure impairment based on the present value of expected future cash flows discounted at the loan's effective interest rate, or, alternatively, the observable market price of the loan or the fair value of the collateral, if the loan is collateral dependent. Implementation is required beginning in 1995.

FAS 119 requires disclosures about the amounts, nature and terms of derivative financial instruments. It also requires that a distinction be made between financial instruments held or issued for trading purposes and those issued for purposes other than trading. Implementation is required for the year ending December 31, 1994.

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

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors
Fannie Mae:

We have reviewed the accompanying condensed balance sheet of Fannie Mae (Federal National Mortgage Association) as of September 30, 1994 and the related condensed statements of income and cash flows for the three-month and nine-month periods ended September 30, 1994 and 1993. 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, 1993 (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 11, 1994, 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, 1993, 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
October 12, 1994

FANNIE MAE

INTERIM FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1994	1993	1994	1993
	(Dollars in millions, except per share amounts)			
Interest income	$4,435	$3,759	$12,604	$10,955
Interest expense	3,707	3,097	10,492	9,057
Net interest income	728	662	2,112	1,898
Guaranty fees	272	243	814	708
Gain (loss) on sales of mortgages, net	—	3	(2)	6
Miscellaneous income, net	29	66	120	162
Provision for losses	(40)	(45)	(120)	(135)
Foreclosed property expenses	(54)	(31)	(172)	(100)
Administrative expenses	(132)	(110)	(386)	(320)
Income before federal income taxes and extraordinary item	803	788	2,366	2,219
Provision for federal income taxes	(260)	(260)	(770)	(709)
Income before extraordinary item	543	528	1,596	1,510
Extraordinary loss—early extinguishment of debt (net of tax effect)	—	(50)	(17)	(130)
Net income	$ 543	$ 478	$ 1,579	$ 1,380
Per share:				
Earnings before extraordinary item	$ 1.98	$ 1.93	$ 5.81	$ 5.50
Net earnings	1.98	1.74	5.75	5.02
Cash dividends	0.60	0.46	1.80	1.32

CONDENSED BALANCE SHEETS

(Unaudited)

	September 30, 1994	December 31, 1993
	(Dollars in millions)	
Assets		
Mortgage portfolio, net	$214,003	$189,892
Investments	34,492	21,396
Other assets	6,310	5,691
Total assets	$254,805	$216,979
Liabilities		
Debentures, notes, and bonds, net		
Due within one year	$ 96,350	$ 71,950
Due after one year	142,970	129,162
Other liabilities	6,299	7,815
Total liabilities	245,619	208,927
Stockholders' equity	9,186	8,052
Total liabilities and stockholders' equity	$254,805	$216,979

See Notes to Interim Financial Statements

FANNIE MAE

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1994	**1993**	**1994**	**1993**
	(Dollars in millions)			
Net cash provided by operating activities	$ 1,113	$ 270	$ 1,175	$ 1,510
Cash flows from investing activities:				
Purchases of mortgages	(12,810)	(25,232)	(49,939)	(62,874)
Proceeds from sales of mortgages	5	2,578	1,721	5,999
Mortgage principal repayments	5,953	13,666	24,774	34,593
Net increase in investments	(5,067)	(10,881)	(13,096)	(6,438)
Net cash used in investing activities	(11,919)	(19,869)	(36,540)	(28,720)
Cash flows from financing activities:				
Cash proceeds from issuance of debt	161,120	98,733	406,190	230,532
Cash payments to retire debt	(150,553)	(79,823)	(370,152)	(201,783)
Other	(182)	(157)	(455)	(433)
Net cash provided by financing activities	10,385	18,753	35,583	28,316
Net (decrease) increase in cash and cash equivalents	(421)	(846)	218	1,106
Cash and cash equivalents at beginning of period	1,616	2,357	977	405
Cash and cash equivalents at end of period	$ 1,195	$ 1,511	$ 1,195	$ 1,511

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 1993 have been reclassified to conform with the current presentation. Operating results for the three-month and nine-month periods ended September 30, 1994 are not necessarily indicative of the results that may be expected for the year ending December 31, 1994. 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, 1994.

Commitments and Contingencies

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

	September 30, 1994 (Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	$ 3.5
Lender option(1)	1.1
Average net yield on mandatory delivery	8.23%
Commitments to issue MBS:	
Mandatory delivery(1)	$ 0.6
Lender option(1)	4.5
Master commitments:	
Mandatory delivery(2)	95.8
Lender option	43.6

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

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

The Corporation also guarantees timely payment of principal and interest on outstanding MBS as summarized below:

	September 30, 1994 (Dollars in billions)
Total MBS outstanding	$523.5
Amount for which the Corporation has primary foreclosure loss risk(1):	
Conventional	460.0
Government-insured or guaranteed	5.4

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

COMPUTATION OF EARNINGS PER SHARE

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1994	**1993**	**1994**	**1993**
	(In millions, except per share data)			
Fully Diluted Earnings Per Share:				
Average common shares outstanding	273.5	273.0	273.4	273.6
Effect of common stock equivalents	1.2	1.1	1.2	1.0
Average fully diluted shares outstanding	274.7	274.1	274.6	274.6
Income before extraordinary item	$ 543	$ 528	$1,596	$1,510
Net income	543	478	1,579	1,380
Earnings per share before extraordinary item	$ 1.98	$ 1.93	$ 5.81	$ 5.50
Net earnings per share	1.98	1.74	5.75	5.02

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