Supplement dated November 13, 1998 to
Information Statement dated March 31, 1998

FannieMae

This Supplement describes the financial condition of the Federal National Mortgage Association ("Fannie Mae" or the "Corporation") as of September 30, 1998 and contains unaudited financial statements with respect to the Corporation for the quarter and nine months ended September 30, 1998. This Supplement should be read in conjunction with the Corporation's Information Statement dated March 31, 1998 (the "Information Statement") and the Supplements thereto dated May 15, 1998 and August 13, 1998 (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, 1997. The Supplements describe the financial condition of the Corporation as of March 31, 1998 and June 30, 1998, respectively, and contain unaudited financial statements with respect to the Corporation for the quarters and year-to-date periods then ended. 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 connection with its securities offerings, the Corporation may incorporate this Supplement by reference in one or more other documents describing the securities offered thereby, the selling arrangements therefore 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.

The Corporation's securities are not required to be registered under the Securities Act of 1933. At the close of business on October 31, 1998, approximately 1,025 million shares of the Corporation's common stock (without par value) were outstanding.

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

TABLE OF CONTENTS

SELECTED FINANCIAL DATA

The following selected financial data for the three- and nine-month periods ended September 30, 1998 and 1997 are unaudited and include, in the opinion of management, all adjustments (consisting of normal recurring accruals) necessary for a fair presentation. Certain amounts in 1997 have been reclassified to conform with the current presentation. Operating results for the periods ended September 30, 1998 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 September 30,		Nine Months Ended September 30,	
Income Statement Data:	**1998**	**1997**	**1998**	**1997**
Interest income	$ 7,724	$ 6,651	$ 22,100	$ 19,494
Interest expense	6,657	5,657	18,966	16,580
Net interest income	1,067	994	3,134	2,914
Guaranty fees	324	319	968	949
Fee and other income, net	69	33	204	95
Credit-related expenses	(65)	(91)	(211)	(298)
Administrative expenses	(179)	(159)	(523)	(468)
Income before federal income taxes and extraordinary item	1,216	1,096	3,572	3,192
Provision for federal income taxes	(354)	(319)	(1,027)	(929)
Income before extraordinary item	862	777	2,545	2,263
Extraordinary loss, net of tax effect	(5)	(2)	(16)	(1)
Net income	$ 857	$ 775	$ 2,529	$ 2,262
Preferred stock dividends	(16)	(16)	(48)	(48)
Net income available to common stockholders	$ 841	$ 759	$ 2,481	$ 2,214
Basic earnings per common share(1):				
Earnings before extraordinary item	$ .83	$ .73	$ 2.42	$ 2.11
Extraordinary item	(.01)	—	(.01)	(.01)
Net earnings	$ .82	$ .73	$ 2.41	$ 2.10
Diluted earnings per common share(1):				
Earnings before extraordinary item	$ .82	$ .72	$ 2.40	$ 2.09
Extraordinary item	(.01)	—	(.01)	—
Net earnings	$ .81	$ .72	$ 2.39	$ 2.09

	September 30,	
Balance Sheet Data:	**1998**	**1997**
Mortgage portfolio, net	$376,078	$306,756
Investments	68,653	63,353
Total assets	455,099	379,225
Borrowings:		
Due within one year	189,228	173,344
Due after one year	241,354	184,659
Total liabilities	440,247	365,867
Stockholders' equity	14,852	13,358
Capital(2)	15,637	14,136

	Three Months Ended September 30,		Nine Months Ended September 30,	
Other Data:	**1998**	**1997**	**1998**	**1997**
Average net interest margin	1.05%	1.17%	1.08%	1.17%
Return on average common equity	25.2	24.8	25.3	24.5
Dividend payout ratio	29.3	28.9	29.9	30.0
Average effective guaranty fee rate	.210	.228	.214	.227
Credit loss ratio(3)	.026	.036	.030	.043
Ratio of earnings to combined fixed charges and preferred stock dividends(4)	1.18:1	1.19:1	1.19:1	1.19:1
Mortgage purchases	$ 47,323	$ 20,567	$119,702	$ 47,988
MBS issued	85,994	40,702	228,133	102,029
MBS outstanding at period end(5)	798,460	690,919		
Weighted-average diluted common shares outstanding, in millions	1,034	1,051	1,039	1,059

(1) Earnings per common share amounts for 1997 have been restated to comply with Statement of Financial Accounting Standards No.128, *Earnings per Share.*

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

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

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

(5) Includes $173 billion and $125 billion of MBS held in portfolio at September 30, 1998 and 1997, respectively.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED SEPTEMBER 30, 1998

Results of Operations

Fannie Mae's net income for the third quarter 1998 was a record $857 million, or $0.81 per common share. This represents an 11 percent or $82 million increase over the third quarter 1997. For the first nine months of 1998, net income was $2.529 billion, or $2.39 per common share, compared with $2.262 billion for the first nine months of 1997. The growth in net income for the three- and nine-month periods ended September 30, 1998 was mainly attributable to increases in net interest income, fee and other income, and lower credit-related expenses. Revenue growth stemmed in a large part from a record volume of mortgage purchases and MBS issues.

Net interest income in the third quarter of 1998 increased 7 percent compared with the third quarter of 1997 as a result of 20 percent growth in the average net investment portfolio, which was partly offset by a 12 basis point decrease in the average net interest margin. Net interest income in the first nine months of 1998 increased 8 percent compared with the first nine months of 1997. This increase was the result of a 16 percent growth in the average investment portfolio, which was partly offset by a 9 basis point decrease in the average net interest margin. The decline in average net interest margin stemmed, in part, from an increase in the refinancing of high-coupon mortgages, growth in lower spread liquid investments, an increase in tax-advantaged investments and the repurchase of common shares. Management expects that continued portfolio growth will have a positive impact on net interest income in the fourth quarter of 1998, which will be partly offset by the continued refinancing of high coupon mortgages and the scheduled maturity of low cost debt.

The following table presents an analysis of net interest income and average balances for the three- and nine-month periods ended September 30, 1998 and 1997.

Net Interest Income and Average Balances
(Dollars in millions)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
Interest income:				
Mortgage portfolio	$ 6,599	$ 5,722	$ 18,823	$ 16,827
Investments and cash equivalents	1,125	929	3,277	2,667
Total interest income	7,724	6,651	22,100	19,494
Interest expense(1):				
Short-term debt	1,291	935	3,387	2,682
Long-term debt	5,366	4,722	15,579	13,898
Total interest expense	6,657	5,657	18,966	16,580
Net interest income	1,067	994	3,134	2,914
Tax equivalent adjustment(2)	79	72	226	210
Net interest income tax equivalent basis	$ 1,146	$ 1,066	$ 3,360	$ 3,124
Average balances:				
Interest-earning assets(3):				
Mortgage portfolio, net	$360,263	$300,950	$338,738	$294,600
Investments and cash equivalents	78,022	63,701	75,624	61,921
Total interest-earning assets	$438,285	$364,651	$414,362	$356,521
Interest-bearing liabilities(1):				
Short-term debt	$ 95,042	$ 69,593	$ 83,426	$ 67,509
Long-term debt	325,966	279,148	313,377	273,043
Total interest-bearing liabilities	421,008	348,741	396,803	340,552
Interest-free funds	17,277	15,910	17,559	15,969
Total interest-bearing liabilities and interest-free funds	$438,285	$364,651	$414,362	$356,521
Average interest rates(2):				
Interest-earning assets:				
Mortgage portfolio, net	7.35%	7.67%	7.45%	7.68%
Investments and cash equivalents	5.81	5.89	5.82	5.80
Total interest-earning assets	7.07	7.36	7.14	7.35
Interest-bearing liabilities(1):				
Short-term debt	5.38	5.34	5.36	5.27
Long-term debt	6.59	6.77	6.63	6.79
Total interest-bearing liabilities	6.31	6.48	6.36	6.49
Investment spread	.76	.88	.78	.86
Interest-free return(4)	.29	.29	.30	.31
Net interest margin(5)	1.05%	1.17%	1.08%	1.17%

(1) Classification of interest expense and interest-bearing liabilities as short-term or long-term is based on effective maturity or repricing date, taking into consideration the effect of interest rate swaps.
(2) Reflects pro-forma adjustments to permit comparison of yields on tax-advantaged and taxable assets.
(3) Includes average balance of nonperforming loans of $2.4 billion and $2.1 billion for the three-month periods ended September 30, 1998 and 1997, respectively and $2.5 billion and $2.2 billion for the nine-month periods ended September 30, 1998 and 1997, 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- and nine-month periods ended September 30, 1998 and 1997.

Rate/Volume Analysis

(Dollars in millions)

	Third Quarter 1998 vs. Third Quarter 1997			First Nine Months 1998 vs. First Nine Months 1997		
		Attributable to Changes in (1)			Attributable to Changes in (1)	
	Increase (Decrease)	Volume	Rate	Increase (Decrease)	Volume	Rate
Interest income:						
Mortgage portfolio	$ 877	$1,093	$(216)	$1,996	$2,463	$(467)
Investments and cash equivalents	196	207	(11)	610	594	16
Total interest income	1,073	1,300	(227)	2,606	3,057	(451)
Interest expense:						
Short-term debt	356	346	10	705	645	60
Long-term debt	644	774	(130)	1,681	2,012	(331)
Total interest expense	1,000	1,120	(120)	2,386	2,657	(271)
Net interest income	$ 73	$ 180	$(107)	$ 220	$ 400	$(180)

(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 was $324 million for the third quarter of 1998, compared with $319 million for the third quarter of 1997. This increase of $5 million, or 2 percent, resulted from a 10 percent increase in average net Mortgage-Backed Securities ("MBS") outstanding, which was partially offset by a 1.8 basis point decrease in the average effective guaranty fee rate when compared with the third quarter of 1997. Guaranty fee income increased by $19 million to $968 million for the first nine months of 1998, compared with $949 million for the corresponding period of 1997. The increase was the result of an 8 percent increase in average net MBS outstanding, partially offset by a 1.3 basis point decrease in the average effective guaranty fee rate. For both the quarter and nine months ended September 30, 1998 the average effective guaranty fee rate decreased, as compared to the corresponding period in 1997, due to repayments of loans underlying MBS with high fees, an increase in MBS issues incorporating loss sharing arrangements with lower fee rates, and a shift in the mix of guaranteed mortgage product from adjustable to fixed-rate product.

Fee and other income was $69 million for the third quarter of 1998 compared with $33 million for the third quarter of 1997, representing an increase of $36 million or 109 percent. For the first nine months of 1998, fee and other income was $204 million, compared to $95 million for the first nine months of 1997. The increase in both periods was the result of increases in multifamily fees, structured transaction fees, technology fees, and reduced net operating losses from certain tax advantaged investments.

Administrative expenses for the third quarter of 1998 were $179 million, compared with $159 million during the same period in 1997. For the first nine months of 1998, administrative expenses were $523 million, compared with $468 million for the same period in 1997. The increase was primarily due to higher compensation costs, including costs associated with year 2000 conversion efforts. The ratio of annualized administrative expenses to the average mortgage portfolio plus average MBS outstanding was .073 percent and .074 percent for the three- and nine-month periods ended September 30, 1998, respectively, compared with .074 percent and .073 percent for the comparable periods in 1997. The ratio of administrative expenses to revenues (net interest income, guaranty fees, and fee and other income) was 12.2 percent for the third quarter and first nine months of 1998, respectively, compared with 11.8 percent for the comparable periods in 1997.

The effective federal income tax rate was 29 percent for both the three and nine months ended September 30, 1998, and the three and nine months ended September 30, 1997.

In the third quarter of 1998, the Corporation had an extraordinary loss of $7 million ($5 million after tax) from the repurchase or call of debt compared with $3 million ($2 million after tax) in the third quarter of 1997. An extraordinary loss of $24 million ($16 million after tax) was reported in the first nine months of 1998 from the repurchase or call of debt, compared with $2 million ($1 million after tax) from the repurchase or call of debt in the first nine months of 1997.

Credit Data

The following table shows the Corporation's serious delinquencies for conventional loans in portfolio and underlying MBS at September 30, 1998 and 1997, conventional properties acquired and total net charge-offs/(recoveries) for the three- and nine-month periods ended September 30, 1998 and 1997.

	Delinquency Rate (1)		Number of Properties Acquired				Net Charge-offs/(Recoveries) (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,	
	1998	1997	1998	1997	1998	1997	1998	1997	1998	1997
Single-family	.57%	.59%	5,021	5,686	16,044	16,834	$(17)	$ 4	$(35)	$ 68
Multifamily	.36	.43	4	4	9	22	1	2	5	8
Total							$(16)	$ 6	$(30)	$ 76

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

Total credit-related losses, which include loan charge-offs, net of recoveries, and foreclosed property expenses, were $64 million for the three months ended September 30, 1998, compared with $77 million for the same period in 1997. Total credit-related losses for the nine months ended September 30, 1998 and 1997 were $211 million and $273 million, respectively. The decrease in credit-related losses for both periods was the result of a decrease in charge-offs slightly offset by an increase in foreclosure expenses. The decrease in charge-offs was due to net recoveries on foreclosed properties in the third quarter and first nine months of 1998 versus net charge-offs in the third quarter and first nine months of 1997. In addition to the Corporation's loss mitigation efforts, a healthy housing market, and a much stronger California economy were key factors in the enhancement of credit performance. In addition, deeper mortgage insurance coverage on higher loan-to-value ratio loans and an increase in the percentage of REO acquisitions with mortgage insurance also have contributed to reducing credit-related losses.

The inventory of single-family properties was 8,936 as of September 30, 1998, compared with 9,599 as of September 30, 1997. The inventory of multifamily properties was 13 as of September 30, 1998, compared with 20 as of September 30, 1997.

Total credit-related expenses, which include foreclosed property expenses and the provision for losses, decreased $26 million or 29 percent to $65 million in the third quarter of 1998, compared with $91 million in the third quarter of 1997. Total credit-related expenses for the nine months ended

September 30, 1998 decreased $87 million or 29 percent to $211 million as compared with $298 million for the corresponding period in 1997. These decreases were due to a negative $15 million and negative $30 million loss provision recorded in the third quarter and first nine months of 1998, respectively, compared with a $20 million and $100 million loss provision recorded in the third quarter and first nine months of 1997, respectively.

The allowance for losses was $803 million at September 30, 1998, and December 31, 1997, compared with $805 million at September 30, 1997. 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

During the quarter ended September 30, 1998, $47 billion of mortgages were purchased with an average yield of 6.66 percent, compared with $21 billion of mortgages purchased at an average yield of 7.35 percent during the corresponding quarter of 1997. During the first nine months of 1998, $120 billion of mortgages were purchased at an average yield of 6.72 percent, compared with $48 billion of mortgages purchased at an average yield of 7.52 percent during the first nine months of 1997. The increase in mortgage purchases was due primarily to the increased availability of mortgages offered for sale in the secondary market.

Mortgage loan repayments during the third quarter of 1998 totaled $20 billion, compared with $10 billion in the third quarter of 1997. During the first nine months of 1998, mortgage loan repayments were $58 billion compared with $26 billion in the first nine months of 1997.

As of September 30, 1998, the net mortgage portfolio totaled $376 billion (before deducting the allowance for losses) with a yield of 7.30 percent, compared with $316 billion at 7.60 percent as of December 31, 1997 and $307 billion at 7.65 percent as of September 30, 1997. The decrease in yield was due primarily to increased prepayments of higher coupon mortgages and a decrease in conventional mortgage purchase yields as interest rates declined. The portfolio growth during the third quarter and first nine months of 1998 was generated by the purchase of a combination of whole loans, MBS and REMICs. For the remainder of 1998, the Corporation expects that a high level of fixed-rate mortgage originations will lead to attractive portfolio investment opportunities and growth in the net mortgage portfolio.

At September 30, 1998, the Corporation had mandatory delivery commitments and lender option commitments outstanding to purchase $13.4 billion and $1.6 billion of mortgage loans, respectively, compared with $3.6 billion and $1.6 billion, respectively, of such commitments outstanding at December 31, 1997.

Financing and Other Activities

During the third quarter of 1998, the Corporation issued $208 billion of debt at an average cost of 5.57 percent and redeemed $183 billion of debt at an average cost of 5.65 percent. Debt issued in the third quarter of 1997 totaled $228 billion at an average cost of 5.65 percent, and debt redeemed totaled $215 billion at an average cost of 5.68 percent. During the first nine months of 1998, the Corporation issued $644 billion of debt at an average cost of 5.61 percent and redeemed $583 billion of debt at an average cost of 5.70 percent. In the first nine months of 1997, the Corporation issued $639 billion of debt at an average cost of 5.60 percent, and redeemed $612 billion of debt at an average cost of 5.57 percent. The average cost of debt outstanding at September 30, 1998 decreased to 6.26 percent, compared with 6.46 percent at both December 31, 1997 and September 30, 1997.

The following table presents the amount of callable debt and the notional amount of callable swaps issued and outstanding for the three- and nine-month periods ended September 30, 1998 and September 30, 1997.

(Dollars in billions)	Three Months Ended September 30, 1998	Three Months Ended September 30, 1997	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
Issued during the period	$ 18	$ 12	$60	$25
Percentage of total long-term debt issued(1)	48%	46%	56%	48%
Outstanding at end of period	$145	$134		
Percentage of total long-term debt outstanding(1)	44%	47%		

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

The following table summarizes certain of the Corporation's derivative financial instrument activities for the three-month period ended September 30, 1998, the balances as of September 30, 1998 and 1997 and the expected maturities of the derivative instruments outstanding as of September 30, 1998.

Derivative Financial Instruments Table

	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, June 30, 1998	$84,971	6.76%	5.70%	$32,907	$20,593	$5,600	$144,071
Additions	4,680	5.41	5.49	3,310	2,895	3,500	14,385
Maturities	6,217	5.59	5.47	5,702	2,175	—	14,094
Balance, September 30, 1998	$83,434	6.77%	5.68%	$30,515	$21,313	$9,100	$144,362
Balance, September 30, 1997	$95,839	6.78%	5.78%	$27,454	$22,832	$ —	$146,125
Future Maturities(4)							
1998	$ 2,350	5.27%	5.67%	$ 1,375	$ 4,067	$ —	$ 7,792
1999	5,450	6.64	5.31	16,725	15,247	—	37,422
2000	6,697	5.69	5.59	3,945	1,200	4,500	16,342
2001	8,300	6.50	5.67	2,943	—	2,000	13,243
2002	4,950	6.28	5.69	350	79	—	5,379
Thereafter	55,687	7.06	5.73	5,177	720	2,600	64,184
	$83,434	6.77%	5.68%	$30,515	$21,313	$9,100	$144,362

(1) Included in the notional amounts are callable swaps of $18 billion, $22 billion and $25 billion with weighted-average pay rates of 5.98 percent, 6.00 percent and 6.61 percent and weighted-average receive rates of 5.81 percent, 5.79 percent and 5.88 percent at September 30, 1998, June 30, 1998 and September 30, 1997 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. As the interest rates of the swaps may be floating rate, these rates may change as prevailing interest rates change.

(4) Assumes that variable interest rates remain constant at September 30, 1998 levels.

The contract amounts of other off-balance-sheet financial instruments, which included futures contracts as well as derivative instruments that simulate the short sale of Treasury securities to provide a hedge against interest rate fluctuations, credit enhancements and other guarantees, were $11.2 billion at September 30, 1998, compared with $11.5 billion at December 31, 1997.

The exposure to credit loss for interest rate swaps and other off-balance-sheet financial instruments can be estimated by calculating the cost, on a present value basis, to replace at current market rates all of those off-balance-sheet financial instruments outstanding for which the Corporation was in a net gain position. The Corporation's net exposure at September 30, 1998 was $26 million, unchanged from December 31, 1997. The exposure to credit losses can be expected to fluctuate significantly due to changes in interest rates.

Capital Resources

The Corporation's shareholders' equity at September 30, 1998 was $14.9 billion, compared with $13.8 billion at December 31, 1997, and $13.4 billion at September 30, 1997. Pursuant, in part, to the capital restructuring program described in the Information Statement under ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Liquidity and Capital Resources,'' the Corporation repurchased 2.1 million shares of common stock at a weighted average cost of $59.50 per share during the third quarter of 1998 and issued .9 million common shares for employee and other stock compensation plans. At September 30, 1998 year-to-date weighted common stock repurchases totaled 16.8 million shares at an average cost of $60.83 per common share and common stock issuances totaled 4.5 million common shares for employee and other stock compensation plans. As of September 30, 1998, there were 1,025 million shares of common stock outstanding. The Corporation issued 3.0 million shares of 5.25 percent noncumulative preferred stock, Series D, with a stated value of $50.00 in the third quarter of 1998. In the event of liquidation of the Corporation, preferred stockholders are entitled to receive, out of the remaining assets of the Corporation 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 October 20, 1998, the Board of Directors approved a dividend for the quarter ended September 30, 1998 of $0.24 per common share, and 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 September 30, 1998 to but excluding December 31, 1998.

As discussed in the Information Statement under ''Management's Discussion and Analysis of Financial Condition and Results of Operations—Balance Sheet Analysis—Regulatory Capital Requirements,'' the Corporation is subject to capital standards. The Corporation met the applicable capital standards as of September 30, 1998, and management expects to continue to comply with the applicable standards.

Mortgage-Backed Securities

The Corporation issued $86 billion of MBS during the third quarter of 1998, compared with $41 billion in the third quarter of 1997. MBS issued in the first nine months of 1998 totaled $228 billion, compared with $102 billion in the first nine months of 1997. The increase in MBS issued during the first nine months of 1998 was primarily due to an increase in mortgage origination and refinance activity in a lower interest rate environment. REMIC issuances were $25 billion in the third quarter of 1998 and $67 billion in the first nine months of 1998, compared with $18 billion and $53 billion, respectively, in the comparable periods for 1997.

The following table summarizes MBS activity for the three- and nine-month periods ended September 30, 1998 and 1997.

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	Total (3)
1998	$27,432	$ 58,363	$ 199	$ 85,994	$142,164	$656,296	$798,460
1997	11,075	29,363	264	40,702	84,173	606,746	690,919
Nine Months Ended September 30,							
1998	$62,569	$165,079	$ 485	$228,133			
1997	21,752	78,073	2,204	102,029			

(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 $104 billion and $47 billion at September 30, 1998 and 1997, 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 $173 billion and $125 billion at September 30, 1998 and 1997, respectively, of Fannie Mae MBS held in portfolio.

The increases in the percentage of total MBS issued in the lender risk category in the three- and nine-month periods ended September 30, 1998, as compared to the same periods in 1997, were primarily a result of increases in deals in which the default risk is shared with a third party.

Year 2000

The Corporation has been actively addressing the Year 2000 issues that may result from computer programs that currently use two digits instead of four digits to identify the year in a date field. If these issues are not resolved, the Corporation's information technology (IT) and non-IT systems (such as facilities management systems) or those of its business partners may make incorrect calculations or fail. Because this issue creates significant operational risks, the Corporation has undertaken a major effort to identify and modify its internal systems so that they are Year 2000 compliant. In addition, the Corporation is coordinating with its business partners to assess whether their systems will be operational in the Year 2000. However, due to the pervasive and complex nature of the risks associated with Year 2000, there can be no assurance that the Corporation will identify all the risks or undertake all actions necessary to prevent a material adverse impact on the Corporation's business or results of operations.

Risks Associated with the Year 2000

The business of the Corporation is highly dependent on the smooth interaction of numerous internal and external (non-Fannie Mae) computer systems and, as such, the Year 2000 issue poses significant operational risks to the Corporation. The Corporation is focusing on four types of operational risks: i) disruptions and/or inaccuracies in decision support systems and business processing, ii) disruptions from third-party Year 2000 non-compliance, iii) disruptions from Year 2000 non-compliance of funds and securities wiring and clearing systems, including the Federal Reserve Bank of New York and iv) disruptions in the telecommunications and utilities industries and economic environment outside of the Corporation's control. These risks may result in interruptions or delays in the Corporation's daily processing relating to MBS issuance, mortgage purchases, financial reporting, calculation of securities payments and other matters. Such results could lead to loss of revenue, loss of investor confidence and possible litigation against the Corporation. The Corporation cannot determine the likelihood or severity of such events.

In addition, the level of economic market activities may be temporarily reduced as market participants assess the effectiveness of the global and domestic markets' Year 2000 readiness in the period before and subsequent to the Year 2000 date change. Such an event also could result in a reduction of the Corporation's business activities. The Corporation cannot predict the likelihood of such a reduction or estimate the impact such a reduction would have on its business.

Project Organization

Oversight of the Corporation's Year 2000 effort is structured in three tiers. First, a core Year 2000 project team representing the technology and business areas of the Corporation shares primary accountability for the overall Year 2000 effort. Second, a steering committee chaired by the President of the Corporation meets monthly to review progress and resolve corporate-wide issues. Third, the Corporation's Board of Directors interacts directly with the Year 2000 project team on a regular basis to monitor project status.

The Corporation has developed a comprehensive approach to the Year 2000 issue that includes preventative efforts and contingency planning to address the risks discussed above. The Corporation has divided its Year 2000 project into three areas of concentration — internal compliance, external compliance and business continuity planning. Internal compliance is designed to address the systems and applications (internally developed and third party vendor packages) used by Fannie Mae employees. It also extends to Fannie Mae-developed applications that are used by third parties. External compliance is designed to address Fannie Mae applications with external interfaces and other electronic linkages between the Corporation and its business partners. Business continuity planning includes developing contingency plans for its business operations.

Internal Compliance

Internal compliance involves four phases: i) the inventory, assessment and planning phase, ii) the repair phase, iii) the validation phase, and iv) the enterprise testing phase. Also included in internal compliance is MORNET®/MORNETPlus® software compliance and facilities management readiness.

The inventory, assessment and planning phase first identifies existing business applications and systems used internally (developed internally or purchased from third party vendors) and technology infrastructure components that are sensitive to the date change. The second step in this phase assesses Year 2000 readiness of each identified application, system, or infrastructure component. Finally, a timeline for identified necessary repairs is planned. The Corporation has completed the inventory, assessment and planning phase.

The repair phase modifies the code in an existing system or application that is not Year 2000 compliant or, where necessary, replaces the existing system, application or infrastructure component with one that is designed to be Year 2000 compliant. The repair phase first addresses mission critical systems necessary for the Corporation to conduct its day-to-day operations and then proceeds to non-mission critical systems. The Corporation has completed the necessary repairs on all identified mission critical and non-mission critical systems.

The validation phase tests systems and applications individually to ensure that they are Year 2000 compliant. The Corporation's validation test environment is designed to mirror its production environment and to test each system by simulating key business events in the Year 2000. The

Corporation plans to test all systems identified as mission critical by December 1998. Testing on identified non-mission critical systems is scheduled to be completed by the second quarter of 1999.

After the validation phase is completed for all systems, the Corporation will use enterprise testing to further assess whether the Corporation will be able to operate under normal business circumstances in the Year 2000. The Corporation expects to coordinate enterprise testing to simultaneously test both internal interfaces among the Corporation's systems and external interfaces with certain of the Corporation's major business partners under simulated Year 2000 business events. The Corporation expects to begin enterprise testing in the second quarter of 1999 and to complete enterprise testing by the third quarter of 1999, followed by a suspension of changes to the Corporation's production environment until January 2000.

The Corporation's internal compliance effort also involves efforts to make the software provided to its customers Year 2000 ready. Most of Fannie Mae's lenders use MORNET® and MORNETPlus® software applications to communicate with Fannie Mae. The Corporation plans to be ready to release its Year 2000-ready versions of these applications to subscribers by year-end 1998.

The Corporation's facilities, building security, and building control systems also are likely to be affected by the Year 2000 date change. Providers of the Corporation's facilities management services have been asked to submit Year 2000 certification. The Corporation has received or expects to receive certifications from its facilities management service providers and, on that basis, believes that the Corporation's facilities, building security, and building control systems will be Year 2000 compliant by the second quarter of 1999.

External Compliance

External compliance focuses on business partners and, in particular, on those with whom the Corporation exchanges electronic information. These business partners include lenders that sell loans to or service loans for the Corporation, securities dealers, clearing agencies, securities depositories, data vendors and the Federal Reserve Banks. The Corporation's approach to the Year 2000 issue includes measures intended to protect against the risk that its operations could be materially affected by its business partners' failure to ensure Year 2000 readiness. These preventative measures include on-site assessments of major lenders, evaluation of service providers, testing with the Federal Reserve Banks, and participation in the Mortgage Bankers Association's ("MBA") industry test.

The Corporation's Year 2000 project team has developed a methodology to evaluate the Year 2000 readiness of its lenders. This includes on-site meetings with each of the Corporation's top tier lenders to assess their respective Year 2000 readiness. The Corporation expects to complete this assessment by December 1998. The Corporation expects to complete the assessment of the readiness of its smaller lenders by the second quarter of 1999. The Corporation also is one of the premier sponsors of the Year 2000 Inter-System Readiness Test sponsored by the MBA which was developed to assist lenders and other mortgage industry participants in evaluating their Year 2000 readiness. The Corporation will be mandating that its servicers validate certain critical business functions using the MBA test in early 1999.

The Corporation's day-to-day operations are highly dependent on the smooth interaction between the Corporation and its service providers. The Corporation's service providers are involved in certain mission-critical activities including the securities clearing and depository functions. They also provide services related to the Corporation's capital markets transactions. Accordingly, the Corporation's Year 2000 efforts include assessing the readiness of these service providers. The Corporation is currently testing with its major external service providers, with the degree of testing based on the perceived level of business risk.

The Corporation's operations also are highly dependent on the Federal Reserve Banks for handling book-entry securities and the wiring of funds and securities. The Corporation has been undergoing extensive testing with the Federal Reserve Banks since early in the third quarter of 1998 and plans to complete testing with the Federal Reserve Banks by the middle of the fourth quarter of 1998. The Corporation also is participating in the Bond Market Association test to measure the Corporation's readiness in the capital markets functions. Additionally, the Corporation established the Washington, DC Year 2000 Usergroup that is a forum for industry participants to share best practices regarding Year 2000 awareness and readiness.

The steps outlined above are intended to evaluate the Corporation's external business partners' Year 2000 readiness. However, the Corporation cannot predict Year 2000 compliance of these external entities. In the event that these entities are not Year 2000 compliant, the Corporation's ability to purchase mortgage loans and to issue, transfer and make periodic payments on its debt, mortgage and other securities may be adversely effected.

Business Continuity Planning

The third area of concentration is business continuity planning. The Corporation expects to complete its business continuity plan by December 31, 1998 and will continue to refine it throughout 1999. The business continuity plan will identify the most likely and worst case scenarios, prioritize the risks associated with each scenario and address how the Corporation intends to handle such a scenario.

The Corporation's business continuity plan will include the addition of alternate suppliers, vendors and trading partners, as necessary, to permit business operations to continue and to minimize possible disruptions if key business partners have significant Year 2000 problems. Additional measures may include backup systems, manual processes or changes in business practices. The Corporation expects to be prepared to move functions from non-compliant business partners to companies that are Year 2000 compliant, if necessary. The Corporation intends to test key aspects of its business continuity plan during 1999.

Costs

The Corporation's Year 2000 project is proceeding as scheduled and budgeted. The estimated total cost to the Corporation is expected to be between $60 and $65 million for the project which began in early 1997 and runs through the Year 2000. Approximately $33 million has been spent on the project from its inception through September 30, 1998. The estimated costs and dates for completion of Year 2000 compliance efforts in this Supplement are forward-looking statements based in large part on numerous assumptions about future events, including assumptions about the effectiveness of the Corporation's efforts and the ability of counterparties to address effectively the Year 2000 issue. The Corporation believes its assumptions are reasonable, but results could vary significantly from the Corporation's expectations.

FORWARD-LOOKING INFORMATION

In addition to the factors discussed in the "Forward-Looking Information" section of the Information Statement, the Year 2000 issue discussed in this Supplement may cause actual results to differ from management's stated expectations. See "Management's Discussion and Analysis of Financial Conditions and Results of Operations for the Three-Month and Nine-Month Periods Ended September 30, 1998 — Year 2000." Operational problems could arise, such as with services provided by third parties, and legal claims possibly could be made against the Corporation. The Corporation does not presently anticipate any material adverse impact to its business or financial condition as a result of Year 2000 issues. However, there can be no guarantee that the Corporation will be able to identify all risks associated with Year 2000 or undertake all remedial actions necessary to prevent such an impact under all possible circumstances.

RECENT LEGISLATIVE AND REGULATORY DEVELOPMENTS

The Corporation understands that the Office of Federal Housing Enterprise Oversight ("OFHEO") has released the second part of the proposed regulations to establish the risk-based capital test ("Part II") to the Office of Management and Budget ("OMB") for inter-agency review and comment. Management understands that OFHEO expects to publish Part II of the proposed regulations in 1999 for public comment after OMB review. See "Government Regulation and Charter Act" in the Information Statement for additional information on the risk-based capital test. The Federal Housing Enterprises Financial Safety and Soundness Act of 1992 provides that the final regulations will be enforceable one year after issuance. Management is confident that the Corporation will be able to meet any reasonable stress test.

Included in the VA-HUD FY 1999 appropriations bill (the "VA-HUD Bill") recently passed by Congress and signed into law by the President were increases to the maximum principal balance for loans eligible for the FHA insurance program. The FHA had been limited to insuring mortgage loans with a range of maximum principal balances from $86,317 to $170,362, or 38% to 75% of the loan limits applicable to Fannie Mae mortgage loan purchases. The range of maximum principal balances has been increased to 48% to 87% of Fannie Mae loan limits. As discussed in the Information Statement, these increases for the FHA may result in increased competition for the Corporation's guaranty business. See "Business — Mortgage Loan Portfolio — Mortgage Loans Purchased — Principal Balance Limits" and "Business — Competition" in the Information Statement for additional information.

The VA-HUD Bill also included a provision that removed the limitations on the size of multifamily mortgage loans that the Corporation has authority to purchase. Notwithstanding this change, the Corporation currently intends to continue to comply with the prior limitations in most cases. See "Business — Mortgage Loan Portfolio — Mortgage Loans Purchased — Principal Balance Limits" in the Information Statement for additional information regarding the maximum principal balances applicable to the Corporation's multifamily mortgage loan purchases.

INDEX TO INTERIM FINANCIAL STATEMENTS

INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Stockholders of Fannie Mae:

We have reviewed the accompanying condensed balance sheet of Fannie Mae as of September 30, 1998 and the related condensed statements of income, changes in stockholders' equity, and cash flows for the three- and nine-month periods ended September 30, 1998 and 1997. 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 upon 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, 1997 (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 14, 1998, 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, 1997, 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 9, 1998

FANNIE MAE

INTERIM FINANCIAL STATEMENTS

CONDENSED STATEMENTS OF INCOME

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
	(Dollars in millions, except per share amounts)			
Interest income	$7,724	$6,651	$22,100	$19,494
Interest expense	6,657	5,657	18,966	16,580
Net interest income	1,067	994	3,134	2,914
Guaranty fees	324	319	968	949
Fee and other income, net	69	33	204	95
Credit-related expenses	(65)	(91)	(211)	(298)
Administrative expenses	(179)	(159)	(523)	(468)
Income before federal income taxes and extraordinary item	1,216	1,096	3,572	3,192
Provision for federal income taxes	(354)	(319)	(1,027)	(929)
Income before extraordinary item	862	777	2,545	2,263
Extraordinary loss—early extinguishment of debt (net of tax effect)	(5)	(2)	(16)	(1)
Net income	$ 857	$ 775	$ 2,529	$ 2,262
Preferred dividends	(16)	(16)	(48)	(48)
Net income available to common stockholders	$ 841	$ 759	$ 2,481	$ 2,214
Basic earnings per common share:				
Earnings before extraordinary item	$ .83	$ .73	$ 2.42	$ 2.11
Extraordinary item	(.01)	—	(.01)	(.01)
Net earnings	$ .82	$ .73	$ 2.41	$ 2.10
Diluted earnings per common share:				
Earnings before extraordinary item	$ .82	$ .72	$ 2.40	$ 2.09
Extraordinary item	(.01)	—	(.01)	—
Net earnings	$ .81	$ .72	$ 2.39	$ 2.09

CONDENSED BALANCE SHEETS

(Unaudited)

	September 30, 1998	December 31, 1997
	(Dollars in millions)	
Assets		
Mortgage portfolio, net	$376,078	$316,316
Investments	68,653	64,596
Other assets	10,368	10,761
Total assets	$455,099	$391,673
Liabilities		
Debentures, notes, and bonds, net:		
Due within one year	$189,228	$175,400
Due after one year	241,354	194,374
Other liabilities	9,665	8,106
Total liabilities	440,247	377,880
Stockholders' equity	14,852	13,793
Total liabilities and stockholders' equity	$455,099	$391,673

See Notes to Interim Financial Statements

FANNIE MAE

CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Three Months Ended September 30, 1998	Three Months Ended September 30, 1997	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
	(Dollars in millions)			
Balance, beginning of period	$14,185	$13,264	$13,793	$12,773
Comprehensive income:				
Net income	857	775	2,529	2,262
Other comprehensive income, net of tax—Unrealized gains on securities, net	14	3	17	—
Total comprehensive income	871	778	2,546	2,262
Dividends	(262)	(235)	(791)	(711)
Shares repurchased	(126)	(484)	(1,022)	(1,137)
Preferred stock issued	148	—	148	—
Treasury stock issued for stock options and benefit plans	36	35	178	171
Balance, end of period	$14,852	$13,358	$14,852	$13,358

FANNIE MAE

CONDENSED STATEMENTS OF CASH FLOWS

(Unaudited)

	Three Months Ended September 30, 1998	Three Months Ended September 30, 1997	Nine Months Ended September 30, 1998	Nine Months Ended September 30, 1997
	(Dollars in millions)			
Net cash provided by operating activities	$ 1,838	$ 2,240	$ 5,479	$ 5,356
Cash flows from investing activities:				
Purchases of mortgages	(47,720)	(20,717)	(120,475)	(48,182)
Proceeds from sales of mortgages	910	396	1,306	526
Mortgage principal repayments	20,298	10,689	60,155	27,992
Net decrease (increase) in investments	990	(4,071)	(4,057)	(6,747)
Net cash used in investing activities	(25,522)	(13,703)	(63,071)	(26,411)
Cash flows from financing activities:				
Cash proceeds from issuance of debt	205,461	220,167	635,062	624,676
Cash payments to redeem debt	(182,164)	(208,755)	(577,928)	(601,580)
Other	(226)	(704)	(1,558)	(1,725)
Net cash provided by financing activities	23,071	10,708	55,576	21,371
Net (decrease) increase in cash and cash equivalents	(613)	(755)	(2,016)	316
Cash and cash equivalents at beginning of period	802	1,921	2,205	850
Cash and cash equivalents at end of period	$ 189	$ 1,166	$ 189	$ 1,166

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. Operating results for the three-month and nine-month periods ended September 30, 1998 are not necessarily indicative of the results that may be expected for the year ending December 31, 1998. 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, 1998.

Line of Business Reporting

The following tables set forth the Corporation's financial information by line of business for the three and nine months ended September 30, 1998 and 1997. Significant changes from period to period were due to the same factors discussed under "Results of Operations."

Three months ended September 30,	1998 Portfolio Investment	1998 Credit Guaranty	1998 Total	1997 Portfolio Investment	1997 Credit Guaranty	1997 Total
	(Dollars in millions)					
Net interest income	$ 885	$ 182	$1,067	$ 874	$ 120	$ 994
Guaranty fees	(208)	532	324	(193)	512	319
Fee and other income, net	19	50	69	7	26	33
Credit-related expenses	—	(65)	(65)	—	(91)	(91)
Administrative expenses	(39)	(140)	(179)	(38)	(121)	(159)
Federal income taxes	(179)	(175)	(354)	(180)	(139)	(319)
Extraordinary item—early extinguishment of debt	(5)	—	(5)	(2)	—	(2)
Net income	$ 473	$ 384	$ 857	$ 468	$ 307	$ 775

Nine months ended September 30,	1998 Portfolio Investment	1998 Credit Guaranty	1998 Total	1997 Portfolio Investment	1997 Credit Guaranty	1997 Total
	(Dollars in millions)					
Net interest income	$2,640	$ 494	$3,134	$2,581	$ 333	$2,914
Guaranty fees	(608)	1,576	968	(573)	1,522	949
Fee and other income, net	51	153	204	19	76	95
Credit-related expenses	—	(211)	(211)	—	(298)	(298)
Administrative expenses	(113)	(410)	(523)	(111)	(357)	(468)
Federal income taxes	(536)	(491)	(1,027)	(533)	(396)	(929)
Extraordinary item—early extinguishment of debt	(16)	—	(16)	(1)	—	(1)
Net income	$1,418	$1,111	$2,529	$1,382	$ 880	$2,262

The Portfolio Investment business represented $446 billion, or 98 percent of total assets, at September 30, 1998 as compared to $365 billion, or 96 percent of total assets, at September 30, 1997.

Commitments and Contingencies

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

	September 30, 1998
	(Dollars in billions)
Commitments to purchase mortgages:	
Mandatory delivery	$13.4
Optional delivery(1)	1.6
Average net yield on mandatory delivery	6.52%
Commitments to issue MBS:	
Mandatory delivery(1)	$ —
Optional delivery(1)	.3
Master commitments:	
Mandatory delivery(2)	36.8
Optional delivery	78.6

(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 and provides credit enhancements or other guarantees as summarized below:

	September 30, 1998
	(Dollars in billions)
MBS(1)	$798
MBS for which the Corporation has primary foreclosure loss risk	656
Credit enhancements	6.1
Other guarantees	2.5

(1) Includes $173 billion of MBS held in portfolio and is net of $546 million in allowance for losses. The Corporation assumes the ultimate risk of loss on all MBS.

Computation of Earnings per Common Share

The following table details the computation of earnings per common share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	1998	1997	1998	1997
	(In millions, except per common share data)			
Numerator:				
Net income before extraordinary loss	$ 862	$ 777	$2,545	$2,263
Extraordinary loss	(5)	(2)	(16)	(1)
Preferred stock dividends	(16)	(16)	(48)	(48)
Basic and diluted earnings per common share-income available to common stockholders	$ 841	$ 759	$2,481	$2,214
Denominator:				
Basic earnings per common share-weighted-average common shares	1,025	1,043	1,030	1,052
Dilutive potential common shares(1)	9	8	9	7
Diluted earnings per common share-adjusted weighted average common shares	1,034	1,051	1,039	1,059
Basic earnings per common share:				
Earnings before extraordinary item	$ .83	$ .73	$ 2.42	$ 2.11
Net earnings	.82	.73	2.41	2.10
Diluted earnings per common share:				
Earnings before extraordinary item	$ .82	$ .72	$ 2.40	$ 2.09
Net earnings	.81	.72	2.39	2.09

(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 September, the President appointed Jack Quinn and, in October, reappointed Eli J. Segal and Jose H. Villarreal to the Corporation's Board of Directors for a term expiring on the date of the May 1999 Annual Meeting.

Mr. Quinn, 49, has been a partner in the law firm of Arnold & Porter, Washington, D.C. since February 1997 and from 1982 to 1992. He served as counsel to the President of the United States from November 1995 to February 1997. Mr. Quinn was Chief of Staff and Counselor to the Vice President of the United States from May 1993 to November 1995 and his counsel and Deputy Chief of Staff from January 1993 to May 1993. He resides in Chevy Chase, Maryland.

FannieMae SM