UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MASSACHUSETTS

KIMBERLY YARGEAU, On behalf of herself and all others so similarly situated, *Plaintiff,* vs. FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL HOUSING FINANCE AGENCY, WELLS FARGO BANK, N.A., *Defendants.*	C.A. NO. CLASS ACTION COMPLAINT JURY TRIAL DEMANDED

INTRODUCTION

1. The Representative Plaintiff Kimberly Yargeau, on behalf of herself and all others so similarly situated, brings this action as described in the paragraphs set forth herein. This class action is brought against Defendants: Federal National Mortgage Association (Fannie Mae); Fannie Mae's conservator and regulator, the Federal Housing Finance Agency (FHFA); and Wells Fargo Bank, N.A. (Wells Fargo), acting as agent of Fannie Mae and FHFA, for wrongful foreclosure of mortgages and sale of properties secured thereby, due to Defendants failure to provide homeowners adequate notice and opportunity for meaningful hearings, as required by the Due Process clause of the Fifth Amendment to the Constitution of the United States. Therefore, accelerations, foreclosures and mortgagee's sales of the Representative Plaintiff and class members mortgages and properties are void.

2. The Representative Plaintiff, on behalf of herself and all others so similarly situated, seek declaratory relief, injunctive relief, actual, monetary, punitive and exemplary damages, restitution, an accounting, attorney's fees and costs, and all other relief as provided by law for Defendants wrongful acts.

JURISDICTION AND VENUE

3. This Honorable Court has subject matter jurisdiction over this action and all Defendants pursuant to 28 U.S.C. § 1331, as this case arises under the Constitution and laws of the United States of America.

4. Further, this Court has jurisdiction over this action pursuant to 12 U.S.C § 1452 (f)(2) because this case is brought against the Federal National Mortgage Association.

5. The events giving rise to the claims stated herein occurred in the District of Massachusetts and this venue is proper pursuant to 28 U.S.C. §§ 1391(b)(2) and 1391.

6. Venue is proper in this Honorable Court in that this Court has authority to issue declaratory and injunctive relief pursuant to 28 U.S.C. §§ 2201 and 2202 and Fed. R. Civ. P. Rule 57.

7. Pursuant to Fed. R. Civ. P. Rule 23(a)(1), this complaint is a putative class action in which the class is so numerous that joinder of all members is impracticable.

8. Pursuant to Fed. R. Civ. P. Rule 23(b)(1), there are questions of law and fact common to the class.

9. Pursuant to Fed. R. Civ. P. Rule 23(a)(3), the claims or defenses of the Representative Plaintiff are typical of the claims or defenses of the class.

10. Pursuant to Fed. R. Civ. P. Rule 23(a)(4), the Representative Plaintiff will fairly and adequately protect the interests of the class.

11. Pursuant to Fed. R. Civ. P. Rule 23(b)(1)(A)&(B), prosecuting separate actions by or against individual class members would create a risk of: (A) inconsistent or varying adjudications with respect to individual class members that would establish incompatible standards of conduct for the party opposing the class; and (B) adjudications with respect to individual class members that, as a practical matter, would be dispositive of the interests of the other members not parties to

the individual adjudications and may substantially impair or impede their ability to protect their interests.

12. Pursuant to Fed. R. Civ. P. Rule 23(b)(2), the party opposing the class has acted or refused to act on grounds that apply generally to the class, so that final injunctive relief or corresponding declaratory relief is appropriate respecting the class as a whole.

13. Pursuant to Fed. R. Civ. P. Rule 23(b)(3), the questions of law or fact common to class members predominate over any questions affecting only individual members, and a class action is superior to other available methods for fairly and efficiently adjudicating the controversy.

PARTIES

14. Representative Plaintiff, Kimberly Yargeau, is a citizen of Massachusetts who is the rightful owner of 12 Central Turnpike, Sutton, MA 01590 which is the "subject property" referenced herein.

15. Defendant, Federal Housing Finance Agency (FHFA), is an independent agency of the United States Federal Government established pursuant to 12 U.S.C. S 4511 *et seq*. FHFA is located at 400 7th St SW, Washington, DC 20024.

16. Defendant, Federal National Mortgage Association (Fannie Mae), is a corporation organized under the laws of the United States by special charter, to serve the important governmental objectives of providing stability in the secondary mortgage market, responding appropriately to the private capital market, providing ongoing assistance to the secondary market for residential mortgages, and promoting access to mortgage credit throughout the nation by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing. (See: 12 U.S.C. 1451). Fannie Mae is located at 3900 Wisconsin Ave NW, Washington, DC 20016.

17. Defendant, Wells Fargo Bank, N.A. (Wells Fargo), is a banking related services company located at 420 Montgomery Street, San Francisco, CA 94104.

18. At all times referenced herein, the Defendants acted in concert with one another, had knowledge of and were aware of the actions of each other as noted herein.

GENERAL FACTUAL ALLEGATIONS

The Conservatorship of FHFA over Fannie Mae

19. With the U.S. Congress' establishment of the Housing and Economic Recovery Act of 2008 (HERA), the federal government established FHFA as a federal agency to supervise and regulate Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal National Mortgage Association (Fannie Mae), and any Federal Home Loan Bank. (See: 12 U.S.C. §§ 4502 (20), 4511(b)(2)).

20. The Director of FHFA is empowered to place Fannie Mae into conservatorship under FHFA and the power of FHFA to operate and control all of Fannie Mae's operations as its conservator.

21. The Director of FHFA placed Fannie Mae under the conservatorship of FHFA on or about September 7, 2008. (See: Exhibit 1).

22. In January 2010, the Congressional Budget Office (CBO) concluded that the actions taken by FHFA to place Fannie Mae under conservatorship effectively made Fannie Mae a government entity, based on the federal government's control and ownership of Fannie Mae.[1] (See: Exhibit 2, Id. at pg. 7).

[1] See Exhibit 2: Congressional Budget Office Background Paper, 2010, Id. at page 1 "In the judgment of the Congressional Budget Office (CBO), those actions make Fannie Mae and Freddie Mac part of the government and imply that their operations should be reflected in the federal budget". Under the CBO's accounting, "the mortgages owned or guaranteed by Fannie Mae and Freddie Mac were treated as loans and guarantees of the federal government."

23. In 2013, the CBO concluded, "the federal government is now the effective owner of [Fannie Mae], any gain or loss arising from a change in the way the distressed mortgages are handled by [Fannie Mae] would ultimately accrue to taxpayers."[2] (See: Exhibit 3, Id. at pg. 1).

24. Since September 2008, FHFA has controlled and continues to control all rights, titles, powers and privileges of the shareholders and board of directors of Fannie Mae.[3] Because FHFA as conservator has succeeded to the rights of all shareholders, only FHFA is allowed to elect the directors of Fannie Mae, not shareholders. (See: Exhibit 4, Id. at pg. 25, 166).

25. FHFA determines the size of Fannie Mae's Board of Directors and the scope of its authority.[4] Since the inception of the conservatorship, FHFA has elected all of the directors and the Chief Executive Officer of Fannie Mae.[5] FHFA delegated certain authority to the Board of Directors, while retaining certain significant authorities for itself.[6] FHFA also controls amendment to or withdrawal of the delegation of authority at any time.[7]

26. Fannie Mae's directors serve on behalf of, and exercise their authority as directed by, FHFA.[8] As a result of the conservatorship, Fannie Mae is being managed to serve a public mission, which may negatively impact Fannie Mae's business and profitability.[9] Under FHFA conservatorship, Fannie Mae is not managed to maximize shareholder returns.[10]

[2] See Exhibit 3: Options for Principal Forgiveness in Mortgages Involving Fannie Mae and Freddie Mac Congressional Budget Office, Mitchell Remy & Damien Moore, Working Paper No. 2013-02.
[3] See Exhibit 4: Federal National Mortgage Association, Annual Report, Form 10-K, for the fiscal year ended December 31, 2014, Id. at pages 25, 162, 166.
[4] Exhibit 4, Id. at pg. 162.
[5] Exhibit 4, Id. at pg. 162.
[6] Exhibit 4, Id. at pg. 162.
[7] Exhibit 4, Id. at pg. 25, 162.
[8] See: Exhibit 4, Id. at pages 25, 52, 162.
[9] See: Exhibit 4, Id. at pages 25, 52.
[10] See: Exhibit 4, Id. at pg. 25, 52.

27. FHFA, as both conservator and regulator, and the United States Treasury, pursuant to a senior preferred stock purchase agreement, prohibit Fannie Mae from paying any dividends to common shareholders.[11]

28. FHFA's own September 7, 2008 explanation of the conservatorship states that there is "no exact time frame that can be given as to when this conservatorship may end." FHFA's conservatorship of Fannie Mae will end, according to said explanation, when the Director of FHFA issues an order terminating the conservatorship, after the Director determines that FHFA's "plan to restore the Company to a safe and solvent condition has been completed successfully."[12] (See; Exhibit 5, Id. at pg. 2).

29. As a result of FHFA's conservatorship of Fannie Mae, since September 6, 2008, and continuing for the foreseeable future, FHFA directly controls and operates Fannie Mae with all the powers of the shareholders, directors, and officers of Fannie Mae, owns title to all the assets of Fannie Mae, and has broad powers over all business of Fannie Mae.[13]

30. Pursuant to the provisions of HERA, FHFA's conservatorship of Fannie Mae can only be terminated if FHFA's director appoints FHFA as receiver of Fannie Mae. (See: 12 U.S.C § 4617(a)(4)(D)). However, FHFA's control over Fannie Mae will not be terminated upon its being appointed as receiver. There is no other law, regulation, policy or directive that provides either a date or specifies conditions by which FHFA's control over Fannie Mae will terminate.

31. On or about September 7, 2008, as restated on or about September 26, 2008, Fannie Mae entered into a senior preferred stock purchase agreement, as amended, with the United States Treasury. Pursuant to said agreement, Fannie Mae transferred 1,000,000 shares of preferred stock,

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[11] See: Exhibit 4, Id. at pg. 52.
[12] See: Exhibit 5, Id. at pg. 2; FHFA, Questions and Answers on Conservatorship, (Sept. 7, 2008), available at http://www.treasury.gov/press-center/pressreleases/Documents/fhfa consrv faq 090708hpl 128.pdf.
[13] See: Exhibit 4 at pg. 25.

senior in right for both dividends and liquidation to all other preferred or common stock, with an initial liquidation preference of $ 1,000.00 per share; a warrant to purchase 79.9% of the common stock at a nominal price; with restrictions on Fannie Mae's ability to issue new shares, declare dividends, or dispose of assets without the approval of the United States Treasury, to the United States Treasury, in exchange for the commitment of the United States Treasury to extend $100-200 billion to ensure the liquidity of Fannie Mae.[14] (See: Exhibit 6).

32. The United States Treasury owns 100% of the senior preferred stock of Fannie Mae and holds warrants to purchase 79.9% of the common stock of Fannie Mae.[15] (See: Exhibit 7). Pursuant to said senior preferred stock purchase agreement, the United States Treasury is entitled to receive quarterly dividends equal to the entire net worth of Fannie Mae, which results in every dollar of future profits being paid to the United States Treasury.[16] Similarly, Fannie Mae is not permitted to retain earnings, rebuild a capital position, pay dividends or other distributions to stockholders other than the United States Treasury.[17] Dividends are payable only at the direction of Conservator FHFA with consent of the Treasury.

33. Pursuant to the senior preferred stock purchase agreement, Fannie Mae is not permitted to redeem the senior preferred stock prior to the termination of the United States Treasury's funding commitment, which commitment will not terminate unless Fannie Mae is liquidated, Fannie Mae's liabilities are satisfied, or the Treasury has provided the maximum amount of funding available under its commitment to Fannie Mae.[18]

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[14] See: Exhibit 6; Amended and Restated Senior Preferred Stock Purchase Agreement September 26, 2008.
[15] See: Exhibit 4 Id. at pages 26, 27.
[16] See: Exhibit 4 Id. pages 27, 52
[17] See: Exhibit 4 Id. at pg. 2.
[18] See Exhibit 4 Id. at pages 25, 115.

34. Notwithstanding termination of the conservatorship by means other than appointment of FHFA as receiver of Fannie Mae, Fannie Mae will remain subject to the control of the United States Treasury pursuant to senior preferred stock purchase, senior preferred stock, and warrant to purchase common stock agreements.[19]

35. The CBO considers the payments from Fannie Mae to the United States Treasury as "intragovernmental payments, which do not affect net federal outlays."[20]

36. As Fannie Mae was chartered by Congress to further governmental objectives related to the secondary mortgage market and national housing policies, and as the federal government maintains a substantial ownership interest in Fannie Mae, and as Fannie Mae is substantially funded by the federal government, its Board of Directors of Fannie Mae are entirely appointed by FHFA, and because Fannie Mae is under the control of FHFA and/or the United States Treasury, Fannie Mae is an agency or instrumentality of the United States for the purpose of individual rights guaranteed against the federal government by the United States Constitution. ("The Court holds that the Plaintiffs can prove that the GSE's and FHFA-as-conservator are government actors, and thus, can prove that the Defendants denied Plaintiffs due process by conducting non-judicial foreclosures." Sisti v FHFA et al, US Dist. R.I. No 17-005 (Aug 2, 2018)).

The Agency Relationship between FHFA and Fannie Mae and Third Party Servicers.

37. In its ordinary course of business, Fannie Mae purchases mortgages from originators such as banks. Fannie Mae holds these mortgages in its retained portfolios or packages them into mortgage-backed securities that it sells to investors. (See: Exhibit 8, Id. at pg. 6; FHFA Office of Inspector General Evaluation Report, FHFA' s Oversight of the Servicing Alignment Initiative, February 12, 2014).

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[19] See: Exhibit 2 at pg. 3.

[20] See Exhibit 2, Id. at pg. 3.

38. For the mortgages that Fannie Mae purchases, Fannie Mae enters into contracts with mortgage servicers, which includes a "Servicing Guide" and other agreements. Under the terms of these agreements, the servicer collects mortgage payments, sets aside taxes and insurance premiums in escrow, forwards interest and principal payments to the contractually designated party, and responds to payment defaults.[21]

39. The "Servicing Guide" establishes certain requirements which servicers of Fannie Mae mortgages follow when they perform servicing functions and obligations, including specific instructions on mitigating losses after borrowers' default and conducting foreclosures on behalf of Fannie Mae.[22]

40. After FHFA placed Fannie Mae into conservatorship, FHFA has engaged in continuous supervision of the GSE's oversight of its servicers. (See Exhibit 9, Id. at pg. 20; FHFA Office of Inspector General, FHFA's Supervision of Fannie Mae's Controls over Mortgage Servicing Contractors, March 7, 2012).[23]

The Foreclosure Policies of FHFA and Fannie Mae are Unconstitutional

41. FHFA created the Servicer Alignment Initiative in April 2011 ('SAI"), by which FHFA directs the actions of servicers of Fannie Mae's mortgages. When servicing delinquent mortgage loans, through the SAI, FHFA directed Fannie Mae to update its servicing guidelines, adding new standards and timelines by which servicers were to manage delinquent mortgages.[24]

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[21] See: Exhibit 8, Id. at pg. 8.
[22] See: Exhibit 8, Id. at pages 8,9.
[23] FHFA's Office of Inspector General describes "continuous supervision" as "a wide range of ongoing activities designed to monitor and analyze [Fannie Mae's] overall business profile, including any trends or associated emerging risks."
[24] See: Exhibit 8, Id. at pages 9-11.

42. In the SAI, FHFA created a policy that requires servicers of Fannie Mae owned mortgages to follow specific state-level timelines for the processing of foreclosures from the date of referral to the attorney/trustee through the date of the foreclosure sale.[25]

43. In the SAI, FHFA has directed Fannie Mae's servicers to use non-judicial foreclosure procedures when foreclosing on residential properties in Rhode Island, including the Properties of the Representative Plaintiffs and others so similarly situated.

44. FHFA's foreclosure policy in the SAI violates the Due Process Clause of the Fifth Amendment because it requires servicers of Fannie Mae loans to deprive homeowners, like the Representative Plaintiffs and others so similarly situated, of their primary residences through the use of non-judicial foreclosure proceedings, which do not provide for a hearing prior to the deprivation of a homeowners' property interest.

45. As such, Wells Fargo, Fannie Mae, and FHFA jointly violated the Fifth Amendment procedural due process rights of the Representative Plaintiffs and others so similarly situated, by conducting non-judicial foreclosures and sales pursuant to G. L. c. 183, § 21 without first providing adequate notice, a meaningful hearing prior to the deprivation of property, and an opportunity to recover adequate damages.

ALLEGATIONS OF THE REPRESENTATIVE PLAINTIFF

46. The Representative Plaintiff, Kimberly Yargeau, repeats and re-alleges every allegation above as if set forth herein in full.

47. The Representative Plaintiff brings this action on behalf of herself and all others so similarly situated.

48. On November 16, 2004, the property located at 12 Central Turnpike, Sutton, MA 01590 was conveyed to Representative Plaintiff Kimberly Yargeau. The Deed granting said property was

[25] See: Exhibit 8, Id. at pg. 10.

recorded in the Worcester District Registry of Deeds in Book 35094, at Page 234 on November 17, 2004. 12 Central Turnpike, Sutton, MA 01590 is the subject property as referenced herein.

49. On May 25, 2007, said Representative Plaintiff executed a promissory note and mortgage deed in the sum of Two Hundred Fourteen Thousand and---00/100 Dollars ($214,00.00) in favor of Drew mortgage Associates, Inc. as lender and Mortgage Electronic Registration Systems, Inc. (MERS) as mortgagee. (Yargeau Mortgage/Note). The Yargeau Mortgage was recorded in the Worcester District Registry of Deeds in Book 41240, at page 381 on May 31, 2007. Subsequently, the Yargeau Note was conveyed to Fannie Mae.

50. On October 14, 2009, MERS assigned the Yargeau Mortgage to Wells Fargo Bank, N.A. Said assignment was recorded in the Worcester District Registry of Deeds in Book 44977 at Page 98 on October 19, 2009. Subsequently Wells Fargo became the servicer of the Yargeau Mortgage, on behalf of Note Holder, Fannie Mae.

51. On November 21, 2012, MERS assigned the Yargeau Mortgage again to Wells Fargo Bank, N.A. Said assignment was recorded in the Worcester District Registry of Deeds in Book 50019 at Page 24 on November 27, 2012.

52. On May 17, 2018, Wells Fargo filed an Order of Notice in Massachusetts Land Court seeking determination of Military Service Member status of Plaintiff. Said Order was recorded in the Worcester District Registry of Deeds in Book 58973 at Page 357 on June 20, 2018.

53. On May 29, 2018, Wells Fargo executed an affidavit purportedly in compliance with G.L. c. 244 § 35B and G.L. c. 244 § 35C. Said Affidavit was recorded In the Worcester District Registry of Deeds in Book 58905 at Page 335 on June 6, 2018.

54. On or about August 25, 2018, Wells Fargo, acting as third party loan servicer on behalf of Fannie Mae, caused to be sent to Plaintiff a Notice of Intent to Foreclose and Mortgagee's Foreclosure Sale, stating a sale date of September 27, 2018.

55. On September 27, 2018, Wells Fargo, acting as third party loan servicer on behalf of mortgagee Fannie Mae, caused a mortgagee's foreclosure sale to be conducted wherein the Yargeau Mortgage was foreclosed and the subject property was sold at mortgagee's foreclosure sale to Wells Fargo as the highest bidder for $221,280.49. Wells Fargo subsequently assigned their bid to Fannie Mae. A foreclosure deed conveying the property to Fannie Mae was recorded in the Worcester District Registry of Deeds in Book 59714 at Page 167 on November 20, 2018.

56. Representative Plaintiff Kimberly Yargeau alleges Defendants Wells Fargo, Fannie Mae, and FHFA jointly violated her Fifth Amendment procedural due process rights by conducting a non-judicial foreclosure sale, without first providing adequate notice, a meaningful hearing prior to the deprivation of property, and an opportunity to recover adequate damages.

57. The Defendants have deprived said Representative Plaintiff, and others so similarly situated, of property without Due Process prior to exercising the power of sale.

58. Therefore, the foreclosure of the Yargeau Mortgage and the mortgages of others so similarly situated, and mortgagee's foreclosure sales of the subject property and the properties of others so similarly situated, are wrongful, void, and without force and effect.

CLASS ALLEGATIONS

59. The Representative Plaintiff repeats and re-alleges every allegation above as if set forth herein in full.

60. The Representative Plaintiff brings this Action on behalf of herself and all others so similarly situated.

61. The Representative Plaintiff sues on behalf of herself and all homeowners or former homeowners wherein since September 7, 2008, the Defendants, and all other servicers of Fannie Mae mortgages, conducted non-judicial foreclosures and sales pursuant to pursuant to G. L. c. 183, § 21 without first providing the Representative Plaintiff and others adequate notice, a meaningful hearing prior to the deprivation of property, and an opportunity to recover adequate damages, in violation of the rights afforded them pursuant to the Due Process Clause of the Fifth Amendment of the Constitution of the United States of America.

62. The gravity of harm to the Representative Plaintiff and members of the class resulting from the Defendants wrongdoing outweighs any conceivable reasons, justifications and/or motives of said Defendants for engaging in such unfair acts and practices.

63. Defendants conduct was unfair, oppressive, and contrary to public policy and the generally recognized standards applicable to the consumer lending business.

64. The Representative Plaintiff and members of the class suffered quantifiable damages such as loss of equity in their homes, money spent on funding bankruptcy, legal defense of foreclosure and eviction, and moving and relocation expenses.

65. The Representative Plaintiff and members of the class have suffered general damages such as loss of property interests, negative impact to credit ratings, loss of their homes, lost opportunities to rectify their situations through loss mitigation and mediation of their mortgage delinquencies, and extreme mental and emotional distress.

66. The Representative Plaintiff and members of the class seek actual, exemplary, punitive, and monetary damages.

67. The Representative Plaintiff claims on behalf of herself and all others so similarly situated that the Defendants deprivation of the Representative Plaintiff's and others so similarly situated

properties, without Due Process, in violation of the rights afforded them under the Fifth Amendment of the United States Constitution, are the direct and proximate causes of the harms as alleged herein.

68. Excluded from the class are governmental entities, the Defendants, their affiliates and subsidiaries, the Defendants current employees and current or former officers, directors, agents, representatives, their family members, the members of this Court and its staff.

69. The Representative Plaintiff does not know the exact size or identities of the members of the class, since such information is in the exclusive control of Defendants. The Representative Plaintiff believes that the class encompasses hundreds of individuals whose identities can be readily ascertained from Defendants books and records. Therefore, the class is so numerous that joinder of all members is impracticable. (i.e. Numerosity).

70. The Representative Plaintiff and all members of the class have been subject to and affected by the same conduct.

71. The questions of law and fact are common to the class and predominate over any questions affecting only individual members of the class. (i.e. Commonality).

72. The claims of the Representative Plaintiff are typical of the claims of the class and do not conflict with the interests of any other members of the class in that the Representative Plaintiff and the other members of the class were subject to the same conduct. (i.e. Typicality).

73. The Representative Plaintiff will fairly and adequately represent the interests of the class as a whole. The Representative Plaintiff is committed to the vigorous prosecution of the class claims and has retained attorneys who are qualified to pursue this litigation and have experience in class actions – in particular, wrongful foreclosure actions. (i.e. Adequacy).

74. A Class Action is superior to other methods for the fast and efficient adjudication of this controversy. A class action regarding the issues in this case does not create any problems of manageability.

75. The Defendants have acted or refused to act on grounds generally applicable to the class as a whole, thereby making appropriate final injunctive relief or corresponding declaratory relief with respect to the class as a whole.

76. The questions of law or fact common to the members of the class predominate over any questions affecting only individual members, and that a class action is superior to other available methods for the fair and efficient adjudication of the controversy.

77. It is not in the best interest of members of the class to individually control the prosecution or defense of separate actions.

78. The specific extent and nature of any litigation concerning the controversy already commenced by or against members of the class is minimal.

79. It is desirable to concentrate the litigation of the claims in this particular forum and there are little to no difficulties likely to be encountered in the management of a classification.

COUNT I
DEPRIVATION OF PROPERTY WITHOUT DUE PROCESS

80. The Representative Plaintiff repeats and re-alleges every allegation above as if set forth herein in full.

81. The Representative Plaintiff brings this Action on behalf of herself and all others so similarly situated.

82. Pursuant to the foreclosure policy in the SAI, Wells Fargo, Fannie Mae, and FHFA are acting jointly to deprive the Representative Plaintiff and others of their ownership rights in

properties by conducting foreclosure sales pursuant to pursuant to G. L. c. 183, § 21 which authorizes mortgagees to foreclose the rights of an equitable title holder without judicial process or the opportunity to be heard before foreclosure and sale.

83. When used by federal government actors, such as Fannie Mae and FHFA, the procedures of pursuant to G. L. c. 183, § 21 do not satisfy the Due Process Clause of the Fifth Amendment before depriving an owner of his/her property. Specifically, G. L. c. 183, § 21 does not provide for adequate notice, an opportunity to be heard before the deprivation of property, or opportunity to recover appropriate damages for improper deprivation of property.

84. Pursuant to the Due Process Clause of the Fifth Amendment to the United States Constitution, Fannie Mae and FHFA, as agencies and/or instrumentalities of the federal government, owed a higher degree of notice and hearing to the Representative Plaintiff and others, than is provided by Massachusetts General Laws before depriving the Representative Plaintiff and others of their properties.

85. The Representative Plaintiff and others were denied opportunity for an evidentiary hearing in which they could have had an opportunity to: confront and cross-examine persons who supplied information upon which the foreclosure action is grounded; present arguments and evidence to dispute the allegations of Defendants prior to the termination of interest in their Property; be represented by counsel during a hearing prior to the termination of interest in their Property; and to have a neutral informal hearing officer make a determination based on applicable law and the evidence adduced at a hearing prior to the termination of their interest in Property.

86. Had the Representative Plaintiff and others had opportunity for a hearing, they could have presented evidence to challenge their foreclosures by demonstrating that Fannie Mae, or their servicers, were not the mortgagee on the date of the foreclosure sale at issue, that Fannie Mae,

and/or their servicers, failed to comply with condition precedents to foreclosure including default and acceleration notice requirements contained in the mortgages, failed to provide the required foreclosure notices pursuant to Massachusetts foreclosure statutes, and that Fannie Mae, and/or their servicers, failed to act in good faith.

87. The Representative Plaintiff and others have significant property interests at stake. Foreclosures and sales of the mortgages and properties (respectively) of the Representative Plaintiff and others, permanently deprived the Representative Plaintiff and others of their ownership, possession, and use of said properties, which are used as primary residences; clouded titles to the properties; impaired ability to sell, rent, or otherwise alienate properties; tainted credit ratings; reduced chances of the Representative Plaintiff and others in obtaining future loans or mortgages; denied the Representative Plaintiff and others of opportunity to loss mitigation opportunities and strategies to deal with default and delinquency resulting in resolution of those situations; and jeopardized the Representative Plaintiff and others security in dwelling places.

88. There is significant risk of erroneous deprivation of the Representative Plaintiff and others interests through procedures used by Fannie Mae, and FHFA pursuant to pursuant to G. L. c. 183, § 21.

89. To prevent erroneous deprivation of property, the Due Process Clause of the Fifth Amendment to the United States Constitution requires agencies and/or instrumentalities of the federal government, such as Fannie Mae and FHFA, to provide the Representative Plaintiff and others an opportunity to be heard at a meaningful time on, inter alia, any challenge to the true ownership of the Note; any challenge to Fannie Mae' s and/or FHFA's authority to foreclose on behalf of the owner of the Note; any challenge to Fannie Mae' s and/or FHFA' s determination of default under the Note and Fannie Mae's and/or FHFA's calculation of deficiency; any challenge to Fannie Mae's and/or FHFA's determination that the Representative Plaintiff and others are not

eligible for a loan modification, a repayment, or other homeowner assistance option; the opportunity to refinance or reinstate through other sources of funding; whether Fannie Mae and/or FHFA acted in good faith; and any challenge to Fannie Mae' s and/or FHFA' s compliance with applicable notice procedures.

90. The government's financial interest in obtaining ownership, possession, and use of the properties of the Representative Plaintiff and others is minimal.

91. There are no exigent circumstances that would justify the lack of a pre-deprivation hearing, nor would a meaningful hearing before a neutral party impose significant fiscal or administrative burdens.

92. FHFA's foreclosure policy in the SAI violates the Due Process Clause of the Fifth Amendment in that it requires servicers of Fannie Mae loans to deprive homeowners like the Representative Plaintiff and others so similarly situated, of their primary residences through the use of non-judicial foreclosure proceedings, which do not provide for a hearing prior to the deprivation of the homeowners' property interest.

93. Wells Fargo, Fannie Mae, and FHFA jointly violated the Fifth Amendment procedural due process rights of the Representative Plaintiff and others so similarly situated, by conducting non-judicial foreclosures and sales pursuant to pursuant to G. L. c. 183, § 21 without first providing adequate notice, a meaningful hearing prior to the deprivation of property, and an opportunity to recover adequate damages.

94. As a direct and proximate result of Wells Fargo’s, Fannie Mae's, and FHFA's violation of the Representative Plaintiff and others so similarly situated due process rights, the Representative Plaintiff and others so similarly situated have suffered damages including harm to their credit; costs and expenses of foreclosures and sales added to their accounts; a losses of equity in properties; expenses due to postage, mailing, and long distance telephone calls; an impairment of

their ability to sell, rent, or otherwise alienate their properties; and having their security in dwelling places jeopardized.

95. The Representative Plaintiff claims on behalf of herself and all others so similarly situated that the Defendants deprivation of the Representative Plaintiff and others so similarly situated properties, without Due Process, in violation of the rights afforded them under the Fifth Amendment of the United States Constitution, are the direct and proximate causes of the harms as alleged herein.

96. The Representative Plaintiff and others are entitled to a declaratory judgment determining that the acceleration of all sums due under the notes, the foreclosures, and mortgagee's foreclosure sales of the subject property, and the properties of those so similarly situated, are in violation of the Fifth Amendment procedural due process rights of the Representative Plaintiff and others so similarly situated and are therefore void.

97. The Representative Plaintiff and others are entitled to an injunction preventing the transfer of the right, title, and interest in their properties.

98. The Representative Plaintiff and others are entitled to cancellation costs and fees assessed to them for wrongful foreclosure, together with additional damages.

99. The Representative Plaintiff and others are entitled to be returned to their status and circumstances prior to the wrongful foreclosure and sale, including, but not limited to, the rescission of foreclosures, voiding of foreclosure deeds, and the quieting of titles of the Representative Plaintiff and others so similarly situated.

100. The Representative Plaintiff and others are entitled to actual, monetary, punitive and exemplary damages, restitution, an accounting, attorneys' fees and costs, equitable relief and all other relief as provided by law.

Dated: December 18, 2018

Respectfully Submitted,
The Representative Plaintiff,
By Her Attorney,
Todd S. Dion Esq.,

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VERIFICATION

I, Kimberly Yargeau, Plaintiff in the above-captioned action, hereby depose and state that I have read and subscribed to the foregoing, and the facts set forth therein are based on my own personal knowledge and are true and correct.

Signed under the penalties of perjury on December ____________, 2018.

Respectfully submitted,
Kimberly Yargeau,

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JS 44 (Rev. 08/18)

CIVIL COVER SHEET

The JS 44 civil cover sheet and the information contained herein neither replace nor supplement the filing and service of pleadings or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. *(SEE INSTRUCTIONS ON NEXT PAGE OF THIS FORM.)*

I. (a) PLAINTIFFS

Kimberly Yargeau, on behalf of herself and all others so similarly situated

(b) County of Residence of First Listed Plaintiff: Worcester

(EXCEPT IN U.S. PLAINTIFF CASES)

(c) Attorneys *(Firm Name, Address, and Telephone Number)*

Todd S. Dion Esq. 401-965-4131
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DEFENDANTS

Federal National Mortgage Association, et. al.

County of Residence of First Listed Defendant: Washington, DC

(IN U.S. PLAINTIFF CASES ONLY)

NOTE: IN LAND CONDEMNATION CASES, USE THE LOCATION OF THE TRACT OF LAND INVOLVED.

Attorneys *(If Known)*

II. BASIS OF JURISDICTION *(Place an "X" in One Box Only)*

- ☐ 1 U.S. Government Plaintiff
- ☐ 3 Federal Question *(U.S. Government Not a Party)*
- ☐ 2 U.S. Government Defendant
- ☒ 4 Diversity *(Indicate Citizenship of Parties in Item III)*

III. CITIZENSHIP OF PRINCIPAL PARTIES *(Place an "X" in One Box for Plaintiff and One Box for Defendant)*

(For Diversity Cases Only)

	PTF	DEF		PTF	DEF
Citizen of This State	☒ 1	☐ 1	Incorporated *or* Principal Place of Business In This State	☐ 4	☐ 4
Citizen of Another State	☐ 2	☐ 2	Incorporated *and* Principal Place of Business In Another State	☐ 5	☒ 5
Citizen or Subject of a Foreign Country	☐ 3	☐ 3	Foreign Nation	☐ 6	☐ 6

IV. NATURE OF SUIT *(Place an "X" in One Box Only)*

Click here for: Nature of Suit Code Descriptions.

CONTRACT

- ☐ 110 Insurance
- ☐ 120 Marine
- ☐ 130 Miller Act
- ☐ 140 Negotiable Instrument
- ☐ 150 Recovery of Overpayment & Enforcement of Judgment
- ☐ 151 Medicare Act
- ☐ 152 Recovery of Defaulted Student Loans (Excludes Veterans)
- ☐ 153 Recovery of Overpayment of Veteran's Benefits
- ☐ 160 Stockholders' Suits
- ☐ 190 Other Contract
- ☐ 195 Contract Product Liability
- ☐ 196 Franchise

REAL PROPERTY

- ☐ 210 Land Condemnation
- ☒ 220 Foreclosure
- ☐ 230 Rent Lease & Ejectment
- ☐ 240 Torts to Land
- ☐ 245 Tort Product Liability
- ☐ 290 All Other Real Property

TORTS

PERSONAL INJURY

- ☐ 310 Airplane
- ☐ 315 Airplane Product Liability
- ☐ 320 Assault, Libel & Slander
- ☐ 330 Federal Employers' Liability
- ☐ 340 Marine
- ☐ 345 Marine Product Liability
- ☐ 350 Motor Vehicle
- ☐ 355 Motor Vehicle Product Liability
- ☐ 360 Other Personal Injury
- ☐ 362 Personal Injury - Medical Malpractice

PERSONAL INJURY

- ☐ 365 Personal Injury - Product Liability
- ☐ 367 Health Care/ Pharmaceutical Personal Injury Product Liability
- ☐ 368 Asbestos Personal Injury Product Liability

PERSONAL PROPERTY

- ☐ 370 Other Fraud
- ☐ 371 Truth in Lending
- ☐ 380 Other Personal Property Damage
- ☐ 385 Property Damage Product Liability

CIVIL RIGHTS

- ☐ 440 Other Civil Rights
- ☐ 441 Voting
- ☐ 442 Employment
- ☐ 443 Housing/ Accommodations
- ☐ 445 Amer. w/Disabilities - Employment
- ☐ 446 Amer. w/Disabilities - Other
- ☐ 448 Education

PRISONER PETITIONS

Habeas Corpus:

- ☐ 463 Alien Detainee
- ☐ 510 Motions to Vacate Sentence
- ☐ 530 General
- ☐ 535 Death Penalty

Other:

- ☐ 540 Mandamus & Other
- ☐ 550 Civil Rights
- ☐ 555 Prison Condition
- ☐ 560 Civil Detainee - Conditions of Confinement

FORFEITURE/PENALTY

- ☐ 625 Drug Related Seizure of Property 21 USC 881
- ☐ 690 Other

LABOR

- ☐ 710 Fair Labor Standards Act
- ☐ 720 Labor/Management Relations
- ☐ 740 Railway Labor Act
- ☐ 751 Family and Medical Leave Act
- ☐ 790 Other Labor Litigation
- ☐ 791 Employee Retirement Income Security Act

IMMIGRATION

- ☐ 462 Naturalization Application
- ☐ 465 Other Immigration Actions

BANKRUPTCY

- ☐ 422 Appeal 28 USC 158
- ☐ 423 Withdrawal 28 USC 157

PROPERTY RIGHTS

- ☐ 820 Copyrights
- ☐ 830 Patent
- ☐ 835 Patent - Abbreviated New Drug Application
- ☐ 840 Trademark

SOCIAL SECURITY

- ☐ 861 HIA (1395ff)
- ☐ 862 Black Lung (923)
- ☐ 863 DIWC/DIWW (405(g))
- ☐ 864 SSID Title XVI
- ☐ 865 RSI (405(g))

FEDERAL TAX SUITS

- ☐ 870 Taxes (U.S. Plaintiff or Defendant)
- ☐ 871 IRS—Third Party 26 USC 7609

OTHER STATUTES

- ☐ 375 False Claims Act
- ☐ 376 Qui Tam (31 USC 3729(a))
- ☐ 400 State Reapportionment
- ☐ 410 Antitrust
- ☐ 430 Banks and Banking
- ☐ 450 Commerce
- ☐ 460 Deportation
- ☐ 470 Racketeer Influenced and Corrupt Organizations
- ☐ 480 Consumer Credit
- ☐ 485 Telephone Consumer Protection Act
- ☐ 490 Cable/Sat TV
- ☐ 850 Securities/Commodities/ Exchange
- ☐ 890 Other Statutory Actions
- ☐ 891 Agricultural Acts
- ☐ 893 Environmental Matters
- ☐ 895 Freedom of Information Act
- ☐ 896 Arbitration
- ☐ 899 Administrative Procedure Act/Review or Appeal of Agency Decision
- ☐ 950 Constitutionality of State Statutes

V. ORIGIN *(Place an "X" in One Box Only)*

- ☒ 1 Original Proceeding
- ☐ 2 Removed from State Court
- ☐ 3 Remanded from Appellate Court
- ☐ 4 Reinstated or Reopened
- ☐ 5 Transferred from Another District *(specify)*
- ☐ 6 Multidistrict Litigation - Transfer
- ☐ 8 Multidistrict Litigation - Direct File

VI. CAUSE OF ACTION

Cite the U.S. Civil Statute under which you are filing ***(Do not cite jurisdictional statutes unless diversity)***:
28 U.S.C. § 1331

Brief description of cause:
Foreclosure in Violation of Constitutional Rights

VII. REQUESTED IN COMPLAINT:

☒ CHECK IF THIS IS A **CLASS ACTION** UNDER RULE 23, F.R.Cv.P.

DEMAND $ 10,000,000.00

CHECK YES only if demanded in complaint:
JURY DEMAND: ☒ Yes ☐ No

VIII. RELATED CASE(S) IF ANY

(See instructions):

JUDGE DOCKET NUMBER

DATE: 12/21/2018

SIGNATURE OF ATTORNEY OF RECORD: /s/ Todd S. Dion

FOR OFFICE USE ONLY

RECEIPT # AMOUNT APPLYING IFP JUDGE MAG. JUDGE

Print Save As... Reset

INSTRUCTIONS FOR ATTORNEYS COMPLETING CIVIL COVER SHEET FORM JS 44

Authority For Civil Cover Sheet

The JS 44 civil cover sheet and the information contained herein neither replaces nor supplements the filings and service of pleading or other papers as required by law, except as provided by local rules of court. This form, approved by the Judicial Conference of the United States in September 1974, is required for the use of the Clerk of Court for the purpose of initiating the civil docket sheet. Consequently, a civil cover sheet is submitted to the Clerk of Court for each civil complaint filed. The attorney filing a case should complete the form as follows:

I.(a) **Plaintiffs-Defendants.** Enter names (last, first, middle initial) of plaintiff and defendant. If the plaintiff or defendant is a government agency, use only the full name or standard abbreviations. If the plaintiff or defendant is an official within a government agency, identify first the agency and then the official, giving both name and title.

(b) **County of Residence.** For each civil case filed, except U.S. plaintiff cases, enter the name of the county where the first listed plaintiff resides at the time of filing. In U.S. plaintiff cases, enter the name of the county in which the first listed defendant resides at the time of filing. (NOTE: In land condemnation cases, the county of residence of the "defendant" is the location of the tract of land involved.)

(c) **Attorneys.** Enter the firm name, address, telephone number, and attorney of record. If there are several attorneys, list them on an attachment, noting in this section "(see attachment)".

II. **Jurisdiction.** The basis of jurisdiction is set forth under Rule 8(a), F.R.Cv.P., which requires that jurisdictions be shown in pleadings. Place an "X" in one of the boxes. If there is more than one basis of jurisdiction, precedence is given in the order shown below.
United States plaintiff. (1) Jurisdiction based on 28 U.S.C. 1345 and 1348. Suits by agencies and officers of the United States are included here.
United States defendant. (2) When the plaintiff is suing the United States, its officers or agencies, place an "X" in this box.
Federal question. (3) This refers to suits under 28 U.S.C. 1331, where jurisdiction arises under the Constitution of the United States, an amendment to the Constitution, an act of Congress or a treaty of the United States. In cases where the U.S. is a party, the U.S. plaintiff or defendant code takes precedence, and box 1 or 2 should be marked.
Diversity of citizenship. (4) This refers to suits under 28 U.S.C. 1332, where parties are citizens of different states. When Box 4 is checked, the citizenship of the different parties must be checked**.** (See Section III below**; NOTE: federal question actions take precedence over diversity cases.**)

III. **Residence (citizenship) of Principal Parties.** This section of the JS 44 is to be completed if diversity of citizenship was indicated above. Mark this section for each principal party.

IV. **Nature of Suit.** Place an "X" in the appropriate box. If there are multiple nature of suit codes associated with the case, pick the nature of suit code that is most applicable. Click here for: Nature of Suit Code Descriptions.

V. **Origin.** Place an "X" in one of the seven boxes.
Original Proceedings. (1) Cases which originate in the United States district courts.
Removed from State Court. (2) Proceedings initiated in state courts may be removed to the district courts under Title 28 U.S.C., Section 1441. When the petition for removal is granted, check this box.
Remanded from Appellate Court. (3) Check this box for cases remanded to the district court for further action. Use the date of remand as the filing date.
Reinstated or Reopened. (4) Check this box for cases reinstated or reopened in the district court. Use the reopening date as the filing date.
Transferred from Another District. (5) For cases transferred under Title 28 U.S.C. Section 1404(a). Do not use this for within district transfers or multidistrict litigation transfers.
Multidistrict Litigation – Transfer. (6) Check this box when a multidistrict case is transferred into the district under authority of Title 28 U.S.C. Section 1407.
Multidistrict Litigation – Direct File. (8) Check this box when a multidistrict case is filed in the same district as the Master MDL docket.
PLEASE NOTE THAT THERE IS NOT AN ORIGIN CODE 7. Origin Code 7 was used for historical records and is no longer relevant due to changes in statue.

VI. **Cause of Action.** Report the civil statute directly related to the cause of action and give a brief description of the cause. **Do not cite jurisdictional statutes unless diversity.** Example: U.S. Civil Statute: 47 USC 553 Brief Description: Unauthorized reception of cable service

VII. **Requested in Complaint.** Class Action. Place an "X" in this box if you are filing a class action under Rule 23, F.R.Cv.P.
Demand. In this space enter the actual dollar amount being demanded or indicate other demand, such as a preliminary injunction.
Jury Demand. Check the appropriate box to indicate whether or not a jury is being demanded.

VIII. **Related Cases.** This section of the JS 44 is used to reference related pending cases, if any. If there are related pending cases, insert the docket numbers and the corresponding judge names for such cases.

Date and Attorney Signature. Date and sign the civil cover sheet.

UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

1. **Title of case (name of first party on each side only)** Kimberly Yargeau, et al. v. Federal National Mortgage Assocaition, et al.

2. **Category in which the case belongs based upon the numbered nature of suit code listed on the civil cover sheet. (See local rule 40.1(a)(1)).**

☐ **I.** **410, 441, 470, 535, 830*, 835*, 891, 893, 895, R.23, REGARDLESS OF NATURE OF SUIT.**

☐ **II.** **110, 130, 140, 160, 190, 196, 230, 240, 290,320,362, 370, 371, 380, 430, 440, 442, 443, 445, 446, 448, 710, 720, 740, 790, 820*, 840*, 850, 870, 871.**

☑ **III.** **120, 150, 151, 152, 153, 195, 210, 220, 245, 310, 315, 330, 340, 345, 350, 355, 360, 365, 367, 368, 375, 376, 385, 400, 422, 423, 450, 460, 462, 463, 465, 485, 490, 510, 530, 540, 550, 555, 625, 690, 751, 791, 861-865, 890, 896, 899, 950.**

***Also complete AO 120 or AO 121. for patent, trademark or copyright cases.**

3. **Title and number, if any, of related cases. (See local rule 40.1(g)). If more than one prior related case has been filed in this district please indicate the title and number of the first filed case in this court.**

4. **Has a prior action between the same parties and based on the same claim ever been filed in this court?**

YES ☐ **NO** ☑

5. **Does the complaint in this case question the constitutionality of an act of congress affecting the public interest? (See 28 USC §2403)**

YES ☐ **NO** ☑

If so, is the U.S.A. or an officer, agent or employee of the U.S. a party?

YES ☐ **NO** ☐

6. **Is this case required to be heard and determined by a district court of three judges pursuant to title 28 USC §2284?**

YES ☐ **NO** ☑

7. **Do <u>all</u> of the parties in this action, excluding governmental agencies of the United States and the Commonwealth of Massachusetts ("governmental agencies"), residing in Massachusetts reside in the same division? - (See Local Rule 40.1(d)).**

YES ☐ **NO** ☑

A. **If yes, in which division do <u>all</u> of the non-governmental parties reside?**

Eastern Division ☐ **Central Division** ☑ **Western Division** ☐

B. **If no, in which division do the majority of the plaintiffs or the only parties, excluding governmental agencies, residing in Massachusetts reside?**

Eastern Division ☐ **Central Division** ☑ **Western Division** ☐

8. **If filing a Notice of Removal - are there any motions pending in the state court requiring the attention of this Court? (If yes, submit a separate sheet identifying the motions)**

YES ☐ **NO** ☑

(PLEASE TYPE OR PRINT)

ATTORNEY'S NAME Todd S. Dion, Esq.

ADDRESS 15 Cottage Avenue, Ste 202 Quincy, MA 02169

TELEPHONE NO. 401-965-4131

(CategoryForm9-2018.wpd)

AO 440 (Rev. 06/12) Summons in a Civil Action

UNITED STATES DISTRICT COURT

for the

District of Massachusetts

KIMBERLY YARGEAU
ON BEHALF OF HERSELF AND
ALL OTHERS SO SIMILARY SITUATED

Plaintiff(s)

v.

FEDERAL NATIONAL MORTGAGE ASSOCIATION,
FEDERAL HOUSING FINANCE AGENCY,
WELLS FARGO BANK, N.A.

Defendant(s)

Civil Action No.

SUMMONS IN A CIVIL ACTION

To: *(Defendant's name and address)* Federal National Mortgage Association
3900 Wisconsin Ave NW
Washington, DC 20016

A lawsuit has been filed against you.

Within 21 days after service of this summons on you (not counting the day you received it) — or 60 days if you are the United States or a United States agency, or an officer or employee of the United States described in Fed. R. Civ. P. 12 (a)(2) or (3) — you must serve on the plaintiff an answer to the attached complaint or a motion under Rule 12 of the Federal Rules of Civil Procedure. The answer or motion must be served on the plaintiff or plaintiff's attorney, whose name and address are: Todd S. Dion Esq.
15 Cottage Avenue, Ste 202
Quincy, MA 02169

If you fail to respond, judgment by default will be entered against you for the relief demanded in the complaint. You also must file your answer or motion with the court.

CLERK OF COURT

Date: ________________

Signature of Clerk or Deputy Clerk

AO 440 (Rev. 06/12) Summons in a Civil Action (Page 2)

Civil Action No.

PROOF OF SERVICE

(This section should not be filed with the court unless required by Fed. R. Civ. P. 4 (l))

This summons for *(name of individual and title, if any)* ______________________________
was received by me on *(date)* ______________ .

❒ I personally served the summons on the individual at *(place)* ______________________________
______________________________ on *(date)* ______________ ; or

❒ I left the summons at the individual's residence or usual place of abode with *(name)* ______________
______________________________ , a person of suitable age and discretion who resides there,
on *(date)* ______________ , and mailed a copy to the individual's last known address; or

❒ I served the summons on *(name of individual)* ______________________________ , who is
designated by law to accept service of process on behalf of *(name of organization)* ______________
______________________________ on *(date)* ______________ ; or

❒ I returned the summons unexecuted because ______________________________ ; or

❒ Other *(specify)*:

My fees are $ ________ for travel and $ ________ for services, for a total of $ 0.00 .

I declare under penalty of perjury that this information is true.

Date: ______________

____
Server's signature

____
Printed name and title

____
Server's address

Additional information regarding attempted service, etc:

Print Save As... Reset

AO 440 (Rev. 06/12) Summons in a Civil Action

UNITED STATES DISTRICT COURT

for the

District of Massachusetts

KIMBERLY YARGEAU ON BEHALF OF HERSELF AND ALL OTHERS SO SIMILARY SITUATED *Plaintiff(s)* v. FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL HOUSING FINANCE AGENCY, WELLS FARGO BANK, N.A. *Defendant(s)*	)	Civil Action No.

SUMMONS IN A CIVIL ACTION

To: *(Defendant's name and address)* Federal Housing Finance Agency
400 7th St SW
Washington, DC 20024

A lawsuit has been filed against you.

Within 21 days after service of this summons on you (not counting the day you received it) — or 60 days if you are the United States or a United States agency, or an officer or employee of the United States described in Fed. R. Civ. P. 12 (a)(2) or (3) — you must serve on the plaintiff an answer to the attached complaint or a motion under Rule 12 of the Federal Rules of Civil Procedure. The answer or motion must be served on the plaintiff or plaintiff's attorney, whose name and address are: Todd S. Dion Esq.
15 Cottage Avenue, Ste 202
Quincy, MA 02169

If you fail to respond, judgment by default will be entered against you for the relief demanded in the complaint. You also must file your answer or motion with the court.

CLERK OF COURT

Date: ____________________

____
Signature of Clerk or Deputy Clerk

Civil Action No.

PROOF OF SERVICE

(This section should not be filed with the court unless required by Fed. R. Civ. P. 4 (l))

This summons for *(name of individual and title, if any)* ______________________

was received by me on *(date)* ______________ .

❒ I personally served the summons on the individual at *(place)* ______________________

______________________ on *(date)* ______________ ; or

❒ I left the summons at the individual's residence or usual place of abode with *(name)* ______________

______________________ , a person of suitable age and discretion who resides there,

on *(date)* ______________ , and mailed a copy to the individual's last known address; or

❒ I served the summons on *(name of individual)* ______________________ , who is

designated by law to accept service of process on behalf of *(name of organization)* ______________

______________________ on *(date)* ______________ ; or

❒ I returned the summons unexecuted because ______________________ ; or

❒ Other *(specify)*:

My fees are $ ________ for travel and $ ________ for services, for a total of $ 0.00 .

I declare under penalty of perjury that this information is true.

Date: ______________

____

Server's signature

____

Printed name and title

____

Server's address

Additional information regarding attempted service, etc:

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AO 440 (Rev. 06/12) Summons in a Civil Action

UNITED STATES DISTRICT COURT

for the

District of Massachusetts

KIMBERLY YARGEAU ON BEHALF OF HERSELF AND ALL OTHERS SO SIMILARY SITUATED *Plaintiff(s)*	)	
v.	)	Civil Action No.
FEDERAL NATIONAL MORTGAGE ASSOCIATION, FEDERAL HOUSING FINANCE AGENCY, WELLS FARGO BANK, N.A. *Defendant(s)*	)	

SUMMONS IN A CIVIL ACTION

To: *(Defendant's name and address)* Wells Fargo Bank, N.A.
420 Montgomery Street
San Francisco, CA 94104

A lawsuit has been filed against you.

Within 21 days after service of this summons on you (not counting the day you received it) — or 60 days if you are the United States or a United States agency, or an officer or employee of the United States described in Fed. R. Civ. P. 12 (a)(2) or (3) — you must serve on the plaintiff an answer to the attached complaint or a motion under Rule 12 of the Federal Rules of Civil Procedure. The answer or motion must be served on the plaintiff or plaintiff's attorney, whose name and address are: Todd S. Dion Esq.
15 Cottage Avenue, Ste 202
Quincy, MA 02169

If you fail to respond, judgment by default will be entered against you for the relief demanded in the complaint. You also must file your answer or motion with the court.

CLERK OF COURT

Date: ______________

____
Signature of Clerk or Deputy Clerk

Civil Action No.

PROOF OF SERVICE

(This section should not be filed with the court unless required by Fed. R. Civ. P. 4 (l))

This summons for *(name of individual and title, if any)* ______________________

was received by me on *(date)* ______________ .

❒ I personally served the summons on the individual at *(place)* ______________________

______________________ on *(date)* ______________ ; or

❒ I left the summons at the individual's residence or usual place of abode with *(name)* ______________

______________________ , a person of suitable age and discretion who resides there,

on *(date)* ______________ , and mailed a copy to the individual's last known address; or

❒ I served the summons on *(name of individual)* ______________________ , who is

designated by law to accept service of process on behalf of *(name of organization)* ______________

______________________ on *(date)* ______________ ; or

❒ I returned the summons unexecuted because ______________________ ; or

❒ Other *(specify)*:

My fees are $ ________ for travel and $ ________ for services, for a total of $ 0.00 .

I declare under penalty of perjury that this information is true.

Date: ______________

____
Server's signature

____
Printed name and title

____
Server's address

Additional information regarding attempted service, etc:

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Exhibit 1

Statement

Statement of FHFA Director James B. Lockhart at News Conference Announcing Conservatorship of Fannie Mae and Freddie Mac

FOR IMMEDIATE RELEASE

9/7/2008

Good Morning

Fannie Mae and Freddie Mac share the critical mission of providing stability and liquidity to the housing market. Between them, the Enterprises have $5.4 trillion of guaranteed mortgage-backed securities (MBS) and debt outstanding, which is equal to the publicly held debt of the United States. Their market share of all new mortgages reached over 80 percent earlier this year, but it is now falling. During the turmoil last year, they played a very important role in providing liquidity to the conforming mortgage market. That has required a very careful and delicate balance of mission and safety and soundness. A key component of this balance has been their ability to raise and maintain capital. Given recent market conditions, the balance has been lost. Unfortunately, as house prices, earnings and capital have continued to deteriorate, their ability to fulfill their mission has deteriorated. In particular, the capacity of their capital to absorb further losses while supporting new business activity is in doubt.

Today's action addresses safety and soundness concerns. FHFA's rating system is called GSE Enterprise Risk or G-Seer. It stands for Governance, Solvency, Earnings and Enterprise Risk which includes credit, market and operational risk. There are pervasive weaknesses across the board, which have been getting worse in this market.

Over the last three years OFHEO, and now FHFA, have worked hard to encourage the Enterprises to rectify their accounting, systems, controls and risk management issues. They have made good progress in many areas, but market conditions have overwhelmed that progress.

The result has been that they have been unable to provide needed stability to the market. They also find themselves unable to meet their affordable housing mission. Rather than letting these conditions fester and worsen and put our markets in jeopardy, FHFA, after painstaking review, has decided to take action now.

Key events over the past six months have demonstrated the increasing challenge faced by the companies in striving to balance mission and safety and soundness, and the ultimate disruption of that balance that led to today's announcements. In the first few months of this year, the secondary market showed significant deterioration, with buyers demanding much higher prices for mortgage backed securities.

In February, in recognition of the remediation progress in financial reporting, we removed the portfolio caps on each company, but they did not have the capital to use that flexibility.

In March, we announced with the Enterprises an initiative to increase mortgage market liquidity and market confidence. We reduced the OFHEO-directed capital requirements in return for their commitments to raise significant capital and to maintain overall capital levels well in excess of requirements.

In April, we released our Annual Report to Congress, identifying each company as a significant supervisory concern and noting, in particular, the deteriorating mortgage credit environment and the risks it posed to the companies.

In May OFHEO lifted its 2006 Consent Order with Fannie Mae after the company completed the terms of that order. Subsequently, Fannie Mae successfully raised $7.4 billion of new capital, but Freddie Mac never completed the capital raise promised in March.

Since then credit conditions in the mortgage market continued to deteriorate, with home prices continuing to decline and mortgage delinquency rates reaching alarming levels. FHFA intensified its reviews of each company's capital planning and capital position, their earnings forecasts and the effect of falling house prices and increasing delinquencies on the credit quality of their mortgage book.

In getting to today, the supervision team has spent countless hours reviewing with each company various forecasts, stress tests, and projections, and has evaluated the performance of their internal models in these analyses. We have had many meetings with each company's management teams, and have had frank exchanges regarding loss projections, asset valuations, and capital adequacy. More recently, we have gone the extra step of inviting the Federal Reserve and the OCC to have some of their senior mortgage credit experts join our team in these assessments.

The conclusions we reach today, while our own, have had the added benefit of their insight and perspective.

After this exhaustive review, I have determined that the companies cannot continue to operate safely and soundly and fulfill their critical public mission, without significant action to address our concerns, which are:

- the safety and soundness issues I mentioned, including current capitalization;
- current market conditions;
- the financial performance and condition of each company;
- the inability of the companies to fund themselves according to normal practices and prices; and
- the critical importance each company has in supporting the residential mortgage market in this country,

Therefore, in order to restore the balance between safety and soundness and mission, FHFA has placed Fannie Mae and Freddie Mac into conservatorship. That is a statutory process designed to stabilize a troubled institution with the objective of returning the entities to normal business operations. FHFA will act as the conservator to operate the Enterprises until they are stabilized.

The Boards of both companies consented yesterday to the conservatorship. I appreciate the cooperation we have received from the boards and the management of both Enterprises. These individuals did not create the inherent conflict and flawed business model embedded in the Enterprises' structure. I thank the CEOs for their service in these difficult times.

The goal of these actions is to help restore confidence in Fannie Mae and Freddie Mac, enhance their capacity to fulfill their mission, and mitigate the systemic risk that has contributed directly to the instability in the current market. The lack of confidence has resulted in continuing spread widening of their MBS, which means that virtually none of the large drop in interest rates over the past year has been passed on to the mortgage markets. On top of that, Freddie Mac and Fannie Mae, in order to try to build capital, have continued to raise prices and tighten credit standards.

FHFA has not undertaken this action lightly. We have consulted with the Chairman of the Board of Governors of the Federal Reserve System, Ben Bernanke, who was appointed a consultant to FHFA under the new legislation. We have also consulted with the Secretary of the Treasury, not only as an FHFA Oversight Board member, but also in his duties under the law to provide financing to the GSEs. They both concurred with me that conservatorship needed to be undertaken now.

There are several key components of this conservatorship:

First, Monday morning the businesses will open as normal, only with stronger backing for the holders of MBS, senior debt and subordinated debt.

Second, the Enterprises will be allowed to grow their guarantee MBS books without limits and continue to purchase replacement securities for their portfolios, about $20 billion per month without capital constraints.

Third, as the conservator, FHFA will assume the power of the Board and management.

Fourth, the present CEOs will be leaving, but we have asked them to stay on to help with the transition.

Fifth, I am announcing today I have selected Herb Allison to be the new CEO of Fannie Mae and David Moffett the CEO of Freddie Mac. Herb has been the Vice Chairman of Merrill Lynch and for the last eight years chairman of TIAA-CREF. David was the Vice Chairman and CFO of US Bancorp. I appreciate the willingness of these two men to take on these tough jobs during these challenging times. Their compensation will be significantly lower than the outgoing CEOs. They will be joined by equally strong non-executive chairmen.

Sixth, at this time any other management action will be very limited. In fact, the new CEOs have agreed with me that it is very important to work with the current management teams and employees to encourage them to stay and to continue to make important improvements to the Enterprises.

Seventh, in order to conserve over $2 billion in capital every year, the common stock and preferred stock dividends will be eliminated, but the common and all preferred stocks will continue to remain outstanding. Subordinated debt interest and principal payments will continue to be made.

Eighth, all political activities—including all lobbying—will be halted immediately. We will review the charitable activities.

Lastly and very importantly, there will be the financing and investing relationship with the U.S. Treasury, which Secretary Paulson will be discussing. We believe that these facilities will provide the critically needed support to Freddie Mac and Fannie Mae and importantly the liquidity of the mortgage market.

One of the three facilities he will be mentioning is a secured liquidity facility which will be not only for Fannie Mae and Freddie Mac, but also for the 12 Federal Home Loan Banks that FHFA also regulates. The Federal Home Loan Banks have performed remarkably well over the last year as they have a different business model than Fannie Mae and Freddie Mac and a different capital structure that grows as their lending activity grows. They are joint and severally liable for the Bank System's debt obligations and all but one of the 12 are profitable. Therefore, it is very unlikely that they will use the facility.

During the conservatorship period, FHFA will continue to work expeditiously on the many regulations needed to implement the new law. Some of the key regulations will be minimum capital standards, prudential safety and soundness standards and portfolio limits. It is critical to complete these regulations so that any new investor will understand the investment proposition.

This decision was a tough one for the FHFA team as they have worked so hard to help the Enterprises remain strong suppliers of support to the secondary mortgage markets. Unfortunately, the antiquated capital requirements and the turmoil in housing markets over-whelmed all the good and hard work put in by the FHFA teams and the Enterprises' managers and employees. Conservatorship will give the Enterprises the time to restore the balances between safety and soundness and provide affordable housing and stability and liquidity to the mortgage markets. I want to thank the FHFA employees for their work during this intense regulatory process. They represent the best in public service. I would also like to thank the employees of Fannie Mae and Freddie Mac for all their hard work. Working together we can finish the job of restoring confidence in the Enterprises and with the new legislation build a stronger and safer future for the mortgage markets, homeowners and renters in America.

Thank you and I will now turn it back to Secretary Paulson.

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Congressional Budget Office

Background Paper

CBO's Budgetary Treatment of Fannie Mae and Freddie Mac

January 2010

THE CONGRESS OF THE UNITED STATES

CBO

CBO's Budgetary Treatment of Fannie Mae and Freddie Mac

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Note

Numbers in the text and tables of this report may not add up to totals because of rounding.

Preface

After the U.S. government assumed control in 2008 of Fannie Mae and Freddie Mac—two federally chartered institutions that provide credit guarantees for almost half of the outstanding residential mortgages in the United States—the Congressional Budget Office (CBO) concluded that the institutions had effectively become government entities whose operations should be included in the federal budget. As a result, CBO incorporated estimates of the budgetary costs of the two entities in the baseline budget projections it published in 2009. This background paper describes CBO's budgetary treatment of Fannie Mae and Freddie Mac and the methods CBO used to estimate their costs. (CBO will issue new baseline projections for Fannie Mae and Freddie Mac in *The Budget and Economic Outlook* to be published in late January 2010.)

Damien Moore wrote the paper under the supervision of Kim Kowalewski and Robert Dennis. Kim Cawley, Chad Chirico, Peter Fontaine, Jeffrey Kling, Deborah Lucas, Joe Mattey, Larry Ozanne, and Aurora Swanson provided helpful comments on earlier drafts, as did Marvin Phaup of the Pew Economic Policy Group and James L. Blum. (The assistance of outside reviewers implies no responsibility for the final product, which rests solely with CBO.)

Chris Howlett edited the paper, and Kate Kelly proofread it. Maureen Costantino prepared the paper for publication, with assistance from Jeanine Rees. Lenny Skutnik produced the printed copies, Linda Schimmel coordinated the print distribution, and Simone Thomas prepared the electronic versions for CBO's Web site (www.cbo.gov).

Douglas W. Elmendorf

Douglas W. Elmendorf
Director

January 2010

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CBO's Budgetary Treatment of Fannie Mae and Freddie Mac

Summary and Introduction

In September 2008, the Director of the Federal Housing Finance Agency placed into conservatorship two large government-sponsored enterprises, the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac).[1] At the same time, the Secretary of the Treasury took a major ownership interest in both entities. In taking those steps, federal officials were exercising authority provided in the Housing and Economic Recovery Act of 2008.[2] In the judgment of the Congressional Budget Office (CBO), those actions make Fannie Mae and Freddie Mac part of the government and imply that their operations should be reflected in the federal budget.

Fannie Mae and Freddie Mac were chartered by the Congress to provide liquidity and stability to the secondary market for residential mortgages (the market in which those mortgages are bought and sold). In carrying out their charters, the two entities purchase mortgage loans made by lenders and package them into mortgage-backed securities (MBSs), which can be sold to investors along with a guarantee that principal and interest on the underlying mortgages will be paid in full. The two entities also invest directly in mortgages and MBSs, which they hold in their portfolios. To fund those holdings, they issue debt securities that they sell in the international capital markets.[3]

Despite having a unique legal status and a long history linking them closely to the federal government, Fannie Mae and Freddie Mac have been considered private firms owned by their shareholders. Now, however, the federal government controls both entities and is operating them to fulfill the public purpose of supporting the housing and mortgage markets.[4] Moreover, both entities rely on federal backing to maintain

1. Conservatorship is the legal process by which an entity (in this case, the government) establishes control and oversight of a company to put it in a sound and solvent condition.

2. Public Law 110-289.

3. A debt security (such as a bill, bond, or note) represents a fixed amount of money that has been borrowed and must be repaid, usually at a specific rate of interest.

4. For more information about the various ways in which the federal government helps the housing market, see Congressional Budget Office, *An Overview of Federal Support for Housing,* Issue Brief (November 3, 2009).

their low-cost access to financial markets. Although they are not legally government agencies, and their employees are not civil servants, CBO believes it is appropriate and useful to policymakers to include their financial transactions alongside all other federal activities in the budget.[5]

In the baseline budget projections it published in 2009, CBO accounted for the cost of the entities' operations in the federal budget as if they were being conducted by a federal agency. That is, CBO's baseline treated the mortgages owned or guaranteed by Fannie Mae and Freddie Mac as loans and loan guarantees of the federal government. For the entities' new loan and guarantee commitments, CBO projected budget outlays equal to the estimated subsidy inherent in the commitments at the time they are made. For the entities' outstanding loans and guarantees at the start of fiscal year 2009, CBO recorded a subsidy equal to the shortfall between the current value of the mortgages and the liabilities used to fund them at the time the baseline projections were prepared.

Using the budgetary treatment of the transactions of the Troubled Asset Relief Program as a model, CBO calculated the subsidies for Fannie Mae and Freddie Mac by estimating the net cash flows associated with the two entities' mortgage commitments and converting those estimates into present values using discount rates that reflect the expected rate of return the government could earn on investments or securities of comparable risk. That procedure is conceptually equivalent to the methods that private companies use to compute the fair value of certain assets and liabilities under generally accepted accounting principles.[6] For the two entities' administrative costs, such as employees' salaries, CBO estimated and recorded costs separately on a cash basis, in keeping with the federal budget's treatment of other credit programs.

The operations of Fannie Mae and Freddie Mac added $291 billion to CBO's August 2009 baseline estimate of the federal deficit for fiscal year 2009 and $99 billion to the total deficit projected for the 2010–2019 period.[7] The estimate for 2009 recognized expected losses from transactions originated before the conservatorship, plus an

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5. The Administration's Office of Management and Budget makes the ultimate decision about whether Fannie Mae and Freddie Mac will be included in the federal budget. Although the President's budget documents have not included the activities of Fannie Mae and Freddie Mac in the budget totals, they have provided financial information about the two entities for several years; see, for example, *Budget of the U.S. Government, Fiscal Year 2010: Appendix*, pp. 1339–1340.

6. The fair value of an asset is the price that would be received from selling the asset in an orderly transaction between market participants at the measurement date; see Financial Accounting Standards Board, *Financial Accounting Standards No. 157: Fair Value Measurements* (September 2006), p. 2.

7. When this report was written, the most recent baseline projections were the ones issued in August 2009; see Congressional Budget Office, *The Budget and Economic Outlook: An Update* (August 2009), Table 1-1 and Box 1-1. CBO will publish new baseline projections for Fannie Mae and Freddie Mac in *The Budget and Economic Outlook: Fiscal Years 2010 to 2020,* to be released in late January 2010.

additional subsidy for new mortgage commitments in 2009. Because of their federal backing, Fannie Mae and Freddie Mac provide capital and guarantees to the mortgage market at lower prices than private financial institutions can offer, which ultimately transfers risk from the two entities to taxpayers. The subsidy recorded for the entities' mortgage commitments captures the value of that federal backing.

The Administration has taken a different approach to recording the impact of Fannie Mae and Freddie Mac on the federal budget. In conjunction with the conservatorship, the Treasury signed agreements with the two entities intended to ensure that they could continue to support the mortgage market. In exchange for making direct cash infusions into the entities, the Treasury received shares of their preferred stock and warrants to purchase their common stock. The Administration's Office of Management and Budget (OMB) continues to treat Fannie Mae and Freddie Mac as outside the budget, and it records and projects outlays equal to the amount of those cash infusions. As a result, the Administration has not included in its budget figures subsidy costs that would be directly comparable to CBO's $291 billion estimate of such costs in 2009. Instead, because the Treasury provided a total of $95.6 billion in cash outlays to the two entities in fiscal year 2009, the government's final report of spending for 2009 included that amount, which is similar to CBO's August 2009 estimate of cash infusions for that year ($112 billion).[8] OMB has estimated that cash outlays from the Treasury to the two entities will total another $65 billion over the 2010–2019 period.[9]

In contrast, because CBO has concluded that Fannie Mae and Freddie Mac should be treated in the federal budget as government entities, it considers transactions between them and the Treasury to be effectively intragovernmental payments, which do not affect net federal outlays. Adding those transactions to the subsidy costs that CBO has estimated for the entities would amount to double-counting.

Neither CBO nor OMB incorporates debt securities or mortgage-backed securities issued by Fannie Mae and Freddie Mac in estimates of federal debt held by the public. In budget documents, debt held by the public is defined narrowly as including only debt issued directly by the Treasury. Excluding the two entities' debt is consistent with the exclusion of other federal obligations, such as those of the Tennessee Valley Authority or commitments made under federal loan guarantee programs. Moreover, CBO's treatment of the entities' debt does not constitute a statement about whether or not that debt should be considered federal debt. Such a determination depends on how narrowly or broadly one interprets the concept of federal debt and for what purpose. Nevertheless, recent events clearly indicate a strengthening of the federal government's commitment to the obligations of Fannie Mae and Freddie Mac.

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8. See Department of the Treasury, *Combined Statement of Receipts, Outlays, and Balances of the United States Government* (November 2009).

9. See *Budget of the U.S. Government, Fiscal Year 2010: Analytical Perspectives, Supplemental Materials,* Table 27-1.

Budget projections for the two entities are inherently uncertain. Some key factors—such as how sensitive mortgage default rates are to changes in house prices, or what discount rates apply to certain cash flows—are difficult to estimate precisely. In addition, such projections are likely to vary considerably over time as the prices of various mortgage-related securities fluctuate and as the two entities realize mortgage losses. Updates to CBO's estimates of subsidy costs will reflect any changes in discount rates and expectations about future mortgage losses, as well as possible refinements in the underlying methodology.

Background to Federal Conservatorship for Fannie Mae and Freddie Mac

Fannie Mae and Freddie Mac were federally chartered four decades ago as private companies with a public mission to provide liquidity and stability to the secondary market for residential mortgages. Their activities are largely confined to providing guarantees against credit losses on pools of conforming mortgages (loans that conform to certain underwriting criteria) and maintaining an investment portfolio of mortgages and MBSs funded by selling debt securities to the public.[10] Through those activities, the two entities help maintain an active secondary mortgage market and thereby help improve lenders' access to financing to make new loans. Together, the mortgages guaranteed or owned by Fannie Mae and Freddie Mac total approximately $5 trillion and account for almost half of all outstanding residential mortgages.

Historically, their federal charters have allowed the two entities to borrow at interest rates lower than those paid by comparable finance companies without such a charter and close to those paid by the Treasury. Investors viewed the charters as an implicit federal guarantee of the entities' debt obligations, despite the government's assertions to the contrary.[11] Reinforcing that view, Fannie Mae and Freddie Mac were subject to less onerous capital requirements than other regulated financial institutions.[12] The lower borrowing costs enjoyed by the two entities flowed to participants in the housing market in the form of lower mortgage rates and to the entities' stockholders in the form of higher profits.

10. Credit losses in this case refer to the losses experienced by a holder of a mortgage or MBS when a borrower defaults.

11. For previous discussions of the entities' federal support, see Congressional Budget Office, *Federal Subsidies and the Housing GSEs* (May 2001), and the statement of Douglas Holtz-Eakin, Director, Congressional Budget Office, before the Senate Committee on Banking, Housing, and Urban Affairs, *Regulation of the Housing Government-Sponsored Enterprises* (October 23, 2003).

12. Under the federal conservatorship, capital requirements for Fannie Mae and Freddie Mac have been suspended. The injections of cash from the Treasury in exchange for senior preferred stock ensure that, on the basis of generally accepted accounting principles, the entities have sufficient assets to cover their liabilities.

The activities of Fannie Mae and Freddie Mac carry several risks. In their guarantee business and their investment portfolios, the entities incur losses when property owners default on mortgages.[13] Their mortgage portfolios also expose the entities to interest rate risk and prepayment risk—that is, the possibility of losses when fluctuating interest rates and prepayments of mortgages create a gap between the value of the entities' asset portfolios and the value of the debt used to fund them.

Following the housing bust that began in 2007, Fannie Mae and Freddie Mac experienced unprecedented losses on mortgages and MBSs. Initial losses came from their holdings of "private-label" securities—MBSs issued by private companies without government backing. The entities' shift toward buying risky private-label securities had begun in 2001, but their holdings swelled significantly after 2004, especially those of Freddie Mac.[14] Some of the mortgage loans underlying those securities were made to low-income households and thus helped the entities meet their affordable-housing goals.

In early 2008, Fannie Mae and Freddie Mac held approximately $200 billion in private-label securities backed by risky subprime and Alt-A mortgages.[15] Declines in the value of those securities accounted for most of the entities' losses through mid-2008. The private companies that issued subprime and Alt-A securities made those securities acceptable to Fannie Mae and Freddie Mac by creating structures that required other investors to take the first losses on the underlying mortgages.[16] The value of those securities plummeted, however, with the prospect that losses on the underlying mortgages would exceed the protection provided by such structures.

At the beginning of 2008, the two entities also directly held or guaranteed more than $500 billion worth of mortgages that were comparable in risk to mortgages typically designated as subprime or Alt-A loans. Large losses are expected on those mortgages as well, but because the mortgages are not held in the form of securities, the losses

13. Some of those losses are borne by third parties: for example, when private insurers bear some of the credit losses on individual mortgages or mortgage pools, or when either Fannie Mae or Freddie Mac holds securities issued by the Government National Mortgage Association (Ginnie Mae), a wholly owned government corporation.

14. See Office of Federal Housing Enterprise Oversight, *Report to Congress 2008* (April 15, 2008).

15. Subprime and Alt-A mortgages are extended to borrowers who do not meet the qualifications for a prime mortgage (one extended to the least risky borrowers) because of one or more risk factors, such as a low credit rating, insufficient documentation of income, or the ability to make only a small down payment. Typically, Alt-A mortgages are offered to borrowers who have high credit scores but no proof of income, whereas subprime loans are offered to borrowers who have low credit scores (with or without income verification).

16. For a discussion of those financial instruments and how they contributed to the financial crisis, see Markus K. Brunnermeier, "Deciphering the Liquidity and Credit Crunch, 2007–2008," *Journal of Economic Perspectives,* vol. 23, no. 1 (Winter 2009), pp. 77–100.

recorded so far have been smaller and recognized later than for the securities.[17] In addition, Fannie Mae and Freddie Mac have experienced unprecedented loss rates on their conforming mortgages because of the severity of the economic downturn.

New Treasury Authority and Resulting Federal Actions

In response to turmoil in the housing and mortgage markets, the Housing and Economic Recovery Act of 2008 gave the Treasury the power to buy an unlimited amount of securities from Fannie Mae and Freddie Mac if the Treasury Secretary determined that "such actions are necessary to (i) provide stability to the financial markets; (ii) prevent disruptions in the availability of mortgage finance; and (iii) protect the taxpayer."[18] The unlimited authority was designed to reassure investors that the federal government was committed to maintaining the solvency of the two entities.[19]

With Fannie Mae and Freddie Mac facing substantial losses that threatened their solvency, the Federal Housing Finance Agency placed them into conservatorship in September 2008, giving control of the entities to the federal government. The Treasury used its authority to write "keep-well" agreements with the entities in which the Treasury would provide up to $100 billion in capital to each institution.[20] Those agreements were recently amended to allow unlimited capital infusions over the next three years. The infusions of capital are made on a quarterly basis in an amount equal to the negative equity (the extent to which the value of liabilities exceeds the value of assets) that each entity reports on its balance sheet. In exchange, the entities give the Treasury senior preferred stock that pays annual dividends of 10 percent. As part of the September 2008 agreements, the Treasury was also granted $1 billion in preferred stock from both Fannie Mae and Freddie Mac as well as warrants entitling the government to 79.9 percent of each entity's common shares. As of December 2009, the Treasury had injected a total of $110.6 billion into the two entities (see Table 1).

CBO's Budget Projections for Fannie Mae and Freddie Mac

Consistent with the principles expressed by the 1967 President's Commission on Budget Concepts, CBO has concluded that Fannie Mae and Freddie Mac should now

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17. Under generally accepted accounting principles, companies report holdings of securities, but not loans and guarantees, on a fair-value basis. Companies recognize income or loss over time as they change their estimates of the value of securities with fluctuations in market prices. However, financial institutions are not required to report the value of loans and guarantees on a fair-value basis, which typically results in the recognition of only those losses that are imminent.

18. Public Law 110-289, section 1117.

19. That authority also applies to the Federal Home Loan Banks, but to date they have not received any assistance under it.

20. A keep-well agreement is a contract between a guarantor and a beneficiary in which the guarantor agrees to provide necessary financing to the beneficiary for a predetermined period in exchange for compensation, such as an ownership stake in the beneficiary. Such agreements are intended to make the beneficiary appear more creditworthy.

Table 1.

The Treasury's Purchases of Preferred Stock from Fannie Mae and Freddie Mac Under the Conservatorship

(By calendar year, in billions of dollars)

Reporting Period	Fannie Mae	Freddie Mac	Total
2008			
Third quarter	0	13.8	13.8
Fourth quarter	15.2	30.8	46.0
2009			
First quarter	19.0	6.1	25.1
Second quarter	10.7	0	10.7
Third quarter	15.0	0	15.0
Total	**59.9**	**50.7**	**110.6**

Source: Congressional Budget Office.

Note: Fannie Mae and Federal Mac were placed in federal conservatorship on September 6, 2008. The Treasury's purchases of their senior preferred stock are intended to offset the two entities' reported losses by injecting cash to help them maintain sufficient capital. The actual cash injections occur in the quarter after the reporting period used to calculate them.

be included in the federal budget. The commission's landmark report asserted that "The federal budget should, as a general rule, be comprehensive of the full range of federal activities. Borderline entities and transactions should be included in the budget unless there are exceptionally persuasive reasons for exclusion."[21] The commission identified several key questions to use in determining whether to include programs in the budget: "Who owns the agency? Who supplies its capital? Who selects its managers? Do the Congress and the President have control over the agency's program and budget, or are the agency's policies the responsibility of the Congress or the President only in some broad ultimate sense?" The report recommended that "Government-sponsored enterprises be omitted from the budget when such enterprises are completely privately owned." CBO believes that the federal government's current financial and operational relationship with Fannie Mae and Freddie Mac warrants their inclusion in the budget.

Consequently, in the baseline budget projections that it published in 2009, CBO accounted for the costs of the two entities' operations as if they were being conducted by a federal agency. In that accounting, the mortgages owned or guaranteed by Fannie Mae and Freddie Mac were treated as loans and guarantees of the federal government. CBO estimated budget outlays for the new loan and guarantee commitments projected to be made each year; those outlays were estimates of the lifetime subsidy

21. President's Commission on Budget Concepts, *Report of the President's Commission on Budget Concepts* (October 1967), pp. 25, 30.

Table 2.

Summary of CBO's August 2009 Baseline Budget Projections for Fannie Mae and Freddie Mac

(By fiscal year, in billions of dollars)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Total
Subsidy Costs (Federal outlays)[a]	291 [b]	25	21	16	14	5	5	4	3	3	3	389
Components of the Subsidy Estimate												
Mortgage commitments	b	1,175	1,097	889	890	940	1,083	1,118	1,147	1,172	1,234	n.a.
Subsidy rate (Percent)[c]	4.4 [b]	1.9	1.5	1.2	1.1	0.2	0.2	0.2	0.2	0.2	0.2	n.a.
Memorandum:												
Administrative Costs	5	4	4	4	4	4	4	4	4	4	4	46
Treasury Borrowing to Fund Purchases of Preferred Stock[d]	112	25	17	8	1	0	0	0	0	0	0	163

Source: Congressional Budget Office.

Note: n.a. = not applicable.

a. Includes subsidies for aid to homeowners provided through the Administration's Making Home Affordable plan.

b. Includes all mortgage commitments made before fiscal year 2009 and new commitments made in 2009. The estimated subsidy on the preexisting commitments was $248 billion on $5 trillion of outstanding mortgages. The subsidy on new commitments was $43 billion on $1.6 trillion of new mortgage commitments in 2009.

c. The subsidy rate is equal to federal outlays (excluding outlays for the Making Home Affordable plan) divided by new mortgage commitments.

d. The Treasury's actual purchases of senior preferred stock in fiscal year 2009 totaled $95.6 billion. The Treasury has already committed to $15 billion in purchases for 2010.

inherent in the loan or guarantee commitments for that year (see Table 2). In addition, CBO projected the entities' administrative costs and the incremental Treasury borrowing that will be needed to fund the Treasury's purchases of preferred stock. In those projections, CBO assumed that federal conservatorship of the two entities would continue throughout the 10-year baseline projection period (at that time, through fiscal year 2019).

In its August 2009 baseline, CBO projected that the operations of Fannie Mae and Freddie Mac would have a total budgetary cost of $389 billion between 2009 and 2019. (That cost includes subsidies for assistance to homeowners under the Administration's Making Home Affordable plan.)[22] The bulk of the outlays ($291 billion) were estimated to occur in 2009. That figure reflects the recognition of substantial losses on the entire outstanding stock of mortgages held or guaranteed by Fannie Mae and Freddie Mac at that time. It closely corresponds to the entities' own estimates of the deterioration in their fair-value net worth—from a surplus of $7 billion in June 2008 for the two entities combined to a deficit of $258 billion in June 2009. CBO's much smaller estimate of outlays for 2010 and beyond (a total of $99 billion over 10 years) captures the cost of new mortgage commitments in those years, when a more stable mortgage market is expected to help reduce subsidy costs.

Although it anticipates that the mortgage market will eventually normalize, CBO expects the federal government to continue subsidizing that market through Fannie Mae and Freddie Mac throughout the projection period. In other words, although the entities' fees and other income on new commitments may be sufficient to cover average losses on those commitments, they are not high enough to fully cover the cost of the risks associated with the commitments. Before the conservatorship, CBO and others recognized that such subsidies existed, but those subsidies were never included in federal budget estimates.[23]

CBO's treatment of the cost of the entities' mortgage loan commitments is similar, though not identical to, the budgetary treatment of federal credit programs required by the Federal Credit Reform Act of 1990. Under that law, the budget records a subsidy cost for the loan commitments made by every federal credit program each year, including programs that make loans directly or guarantee loans made by third parties. The subsidy calculation measures the lifetime cost of the loan or guarantee as of the year of disbursement and counts that cost as a federal outlay in that year. The total budgetary cost is computed by projecting all federal cash flows associated with a cohort of loans or guarantees and discounting those cash flows to the year of

22. For information about that plan, see Congressional Budget Office, *The Budget and Economic Outlook: An Update*, Appendix B, Table B-3.

23. See Congressional Budget Office, *Federal Subsidies and the Housing GSEs*; and S. Wayne Passmore, *The GSE Implicit Subsidy and the Value of Government Ambiguity,* Finance and Economics Discussion Series Working Paper No. 2005-05 (Board of Governors of the Federal Reserve, January 2005), available at *www.federalreserve.gov/pubs/feds/2005/index.html*.

disbursement by applying discount rates that correspond to the interest rates on Treasury securities of comparable maturity. The direct federal administrative costs of those programs are generally excluded from the subsidy estimates and accounted for separately on a cash basis.

In the case of Fannie Mae's and Freddie Mac's mortgage commitments, CBO departs from that credit reform accounting by replacing the Treasury discount rates with discount rates that measure the cost of the risk inherent in those entities' credit obligations. In that approach, the budgetary cost is a "fair-value" estimate that measures what a private entity would need to be paid to voluntarily take on the commitments of Fannie Mae and Freddie Mac without any federal backing. Using such discount rates produces a broader measure of the cost of supporting the entities because it attaches a price to the cost of bearing the risk from the entities' losses. A similar approach is required by law to be used in estimating subsidies for the Troubled Assets Relief Program (it was also required by law to be used in estimating the cost of increasing the U.S. quota in the International Monetary Fund).[24]

CBO's estimate of subsidy costs for 2009 included a one-time charge for the shortfall between the value of the entities' assets and liabilities at the start of the conservatorship.[25] That one-time charge, $248 billion, accounted for more than 80 percent of the 2009 subsidy estimate; the rest, $43 billion, was the subsidy cost for new business conducted in 2009. CBO used slightly different methods to estimate the entities' existing and new commitments.

Estimating Subsidy Costs for Existing Business

The subsidy cost for the entities' existing business at the beginning of the conservatorship is the difference between the values of their assets and their obligations (debt and other private claims on the entities' assets, including the value of any shareholder equity).[26] CBO used different methods to estimate that cost for different types of obligations. For the entities' preexisting credit obligations—mortgages they held directly or guaranteed—CBO estimated subsidy costs using an adjusted credit reform treatment, as described below. For the entities' other preexisting obligations—including holdings of private-label securities, financial-derivatives obligations, holdings of their

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24. See section 123 of the Emergency Economic Stabilization Act of 2008 (part of Public Law 110-343) and title IV of the Supplemental Appropriations Act of 2009 (P.L. 111-32). In addition, CBO estimated the costs of a bill dealing with student loans on a fair-value basis; see Congressional Budget Office, *letter to the Honorable Judd Gregg on the subsidy costs of direct and guaranteed student loans* (July 27, 2009).

25. For reasons explained later in the paper, CBO did not attempt to make separate estimates of subsidies for future transactions involving those assets and liabilities.

26. Since the conservatorship, the claims of private shareholders have been reduced to negligible value, which simply leaves the difference between the value of assets and liabilities (net worth) as a claim held by taxpayers.

own and other federally backed MBSs, and the debt used to fund those obligations—CBO relied on the entities' own fair-value disclosures to estimate subsidy costs.[27]

CBO did not rely on fair-value disclosures to estimate the cost of assuming the entities' existing mortgage credit obligations because, in CBO's view, those disclosures systematically understate subsidy costs. The difference arises primarily because the entities assume that the prices they charge for assuming credit and other risk when they purchase mortgages represent fair values, whereas CBO believes that because of the entities' perceived government backing (whether implicit before the conservatorship or more explicit now), they purchase mortgages at above-market prices and thereby subsidize the mortgage market. That difference is most apparent for credit guarantees, where the fees charged by Fannie Mae and Freddie Mac are below those offered by private financial institutions. The resources to provide such subsidies arise from the entities' federal backing, which lowers their borrowing costs relative to those of private financial institutions exposed to similar investment risks.

CBO's estimate of the subsidy on the entities' existing mortgage credit obligations is based on the difference between the value of conforming MBSs, which includes the value of the credit guarantee, and the value of the pool of conforming mortgages underlying those MBSs, which have no credit guarantee.[28] CBO estimated the values of the MBSs and the underlying mortgages in two steps: first projecting their expected cash flows and then discounting the cash flows to present values using discount rates that capture their respective risk exposures.

To project cash flows associated with the MBSs and the underlying loan pools, CBO used standard empirical models of mortgage prepayments and defaults, calibrated to match current and projected market conditions.[29] In those models, given an initial set of characteristics about the mortgages, subsequent changes in the rate of prepayment are strongly influenced by prevailing interest rates, and an increase in the likelihood of mortgage default is largely driven by declining house prices. Combining CBO's projections of interest rates and house prices with estimates from the empirical literature of how sensitive prepayment and default rates are to changes in house prices and

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27. A financial derivative is a financial instrument, such as an option or futures contract, whose value depends in part on the value and characteristics of an underlying asset, such as a stock, bond, or commodity.

28. CBO's methodology treats the exposures to credit losses on whole loans and loan guarantees equivalently.

29. See, for example, Yongheng Deng, John M. Quigley, and Robert van Order, "Mortgage Terminations, Heterogeneity, and the Exercise of Mortgage Options," *Econometrica,* vol. 68, no. 2 (2000); Michelle A. Danis and Anthony N. Pennington-Cross, *The Delinquency of Subprime Mortgages,* Working Paper No. 2005-022A (Federal Reserve Bank of St. Louis, March 2005), available at *http://ssrn.com/abstract=761804*; and Shane M. Sherlund, *The Past, Present, and Future of Subprime Mortgages,* Finance and Economics Discussion Series Working Paper No. 2008-63 (Board of Governors of the Federal Reserve, December 2008), available at *www.federalreserve.gov/pubs/feds/2008/index.html.*

interest rates allowed CBO to forecast mortgage cash flows for representative groups of the two entities' MBSs and mortgage pools. (For more details about that method, see the Appendix.) The projected cash flows of the MBSs mimic those of the underlying mortgage pools, with two exceptions: MBS holders do not suffer the losses experienced by the holders of a mortgage pool when borrowers default, and the cash flow of the mortgage pool includes the guarantee fees charged by the entities, which are not paid to MBS holders.

To discount the cash flows associated with the MBSs and mortgage pools, CBO applied different discount rates to account for the differing risks of those cash flows. Investing in either a loan pool or an MBS is riskier than investing in Treasury securities; hence, investors would require a risk premium—that is, a higher rate of return on the riskier investments than they could earn on Treasury securities. The mortgage pools in turn are riskier than the MBSs because the holders of a mortgage pool risk credit losses. The holders of MBSs are protected through the entities' guarantees from both the expected value of credit losses and the variability of potential losses. Thus, besides being compensated for expected credit losses, holders of a mortgage pool should demand a higher rate of return than that earned on the MBSs. The estimates of the required rates of return on the MBSs and mortgage pools are used to discount the corresponding cash flows. (A more detailed discussion of CBO's estimate of discount rates can be found in the Appendix.)

Estimating Subsidy Costs for New Business

CBO projected the subsidy costs for Fannie Mae's and Freddie Mac's new mortgage purchases and guarantee commitments using a methodology similar to that used for the entities' existing business. The amount of new business projected for each year was based on CBO's forecast of total mortgage originations (which depended on its forecasts of interest rates and housing market conditions) and on the share of total originations expected to be held or guaranteed by the two entities. CBO then converted those cash flow projections into subsidies by discounting the relevant cash flows (including the guarantee fee income that the entities received and the guarantee claim payments that they made). The discount rates were estimated in the same way as for existing business, except that they were based on CBO's projections of interest rates and risk premiums at the time of the disbursements rather than on the 2009 values used for existing business. CBO assumed that in 2010, risk premiums would start to decline toward their historical averages.

For the two entities' guarantee business, CBO estimated that income from guarantee fees would remain a stable proportion of the dollar amount of the entities' outstanding guaranteed mortgages. CBO also projected that the entities would guarantee an increasing share of the mortgage market until the end of 2010 (about 60 percent), after which their share would gradually decline to the historical level (approximately 40 percent). In CBO's August 2009 economic forecast, the housing market begins to recover after 2010, at which time interest rates on nonconforming mortgages are expected to decline and the percentage of mortgages that are nonconforming is expected to increase (though not completely to the precrisis percentage). CBO expects that in coming years, Fannie Mae and Freddie Mac will acquire or guarantee very few, if any, mortgages as risky as the subprime and Alt-A loans and securities in their current portfolios because of tighter underwriting standards.

Federal conservatorship has caused a shift in the recipients of the subsidy provided by the entities' federal backing. On one hand, the conservatorship has resulted in an increase in the subsidy provided to the mortgage market. The entities' guarantee fees as a percentage of outstanding mortgages have changed little from the levels seen before the crisis in the mortgage market, despite the higher risk of losses, and the entities are expected to continue to guarantee a large share of that market.

On the other hand, by giving the federal government a complete claim to the equity of Fannie Mae and Freddie Mac, the conservatorship has eliminated a source of profit to shareholders that had been associated with the entities' portfolio-funding strategy. The values of the entities' portfolio holdings of mortgages and MBSs have different sensitivities to interest rates than the debt and other liabilities used to fund them, which exposes the entities to potential losses. In exchange for bearing that risk, the entities earn additional income (a risk premium). Historically, shareholders received a disproportionate share of that risk premium because taxpayers were not compensated for their exposure to portfolio-related risks that stemmed from the entities' federal backing. That subsidy from taxpayers to shareholders has been significantly reduced because the government now has first claim to almost any amount of earnings on the entities' portfolios, which partially compensates for the risk of future losses.

CBO's estimates of the costs of new commitments do not include some sources of subsidy that are unrelated to the two entities' guarantee business. For instance, on mortgages held in their portfolios, a subsidy cost could arise if the entities overpaid for mortgages relative to the prepayment risk they assumed, or if they overpaid for derivatives used to hedge against interest rate risk and prepayment risk.

Comparison with Cash Budgetary Treatment

The Office of Management and Budget considers Fannie Mae and Freddie Mac to be nongovernmental entities for federal budgeting purposes. Consequently, OMB records the Treasury's cash infusions to the two entities as outlays in the budget. In fiscal year 2009, the budget recorded $95.6 billion in such outlays. OMB projects additional cash infusions totaling $65 billion between 2010 and 2019. If CBO adopted a similar cash treatment, its estimate of outlays for payments to the two entities would total about $51 billion over the 2010–2019 period (the sum of the estimated cash infusions for that period shown at the bottom of Table 2). The difference between those $65 billion and $51 billion cash estimates stems from differing assumptions and modeling choices.

CBO projected the cash infusions using estimates of the shortfall between the forecast value of the entities' assets and liabilities calculated according to generally accepted accounting principles (GAAP). In CBO's projections, most of the infusions are expected to occur over the next few years, which reflects CBO's forecasts for the overall economy, financial markets, and mortgage markets. As the housing and mortgage markets recover, Fannie Mae and Freddie Mac are expected to generate revenues greater than their losses and other costs. However, in CBO's estimation, the two entities' current dividend commitments to the Treasury exceed their future earnings capacity, making losses on the Treasury's current and future holdings of their senior preferred stock likely.

The total amount that CBO projected for the Treasury's cash infusions from 2009 to 2019—$163 billion—falls well short of the $389 billion in subsidy outlays projected in CBO's baseline for that period. As an approximation, one can think of the infusion estimates as capturing only the expected cash shortfalls between the entities' fees and losses. The subsidy estimates, in comparison, incorporate both the expected cash shortfalls and the risk premium that a private investor would demand for bearing the risk that those shortfalls could be much larger than expected.

CBO projected that the entities' portfolio holdings would have a significant positive impact on their GAAP balance sheets (which would reduce the required cash infusions from the Treasury). The mismatch between the rates paid on those portfolio holdings and the debt used to fund them is expected to generate positive net income, which is attributable to the entities' federal backing.

Two key assumptions underlie the portfolio projections: that guarantee fees will hold steady at current rates, and that the combined portfolio holdings of Fannie Mae and Freddie Mac will remain at about $1.5 trillion until the end of fiscal year 2010 and then gradually decline, as the entities' agreements with the Treasury require. New purchases are assumed to be confined to conforming mortgages and to MBSs issued by the two entities or by Ginnie Mae, rather than subprime or Alt-A securities. CBO assumed that subprime and Alt-A mortgages that terminate early would default, be refinanced privately, or be refinanced through the Federal Housing Administration.

Appendix: Projecting Mortgage Cash Flows and Valuing Mortgage Guarantees

The model that the Congressional Budget Office (CBO) uses to estimate the value of Fannie Mae's and Freddie Mac's exposure to losses on their mortgage credit business proceeds in several steps. First, CBO estimates the cash flows associated with the two entities' mortgage pools and mortgage-backed securities (MBSs). Those cash flows depend on changes in interest rates and house prices. Second, to establish the subsidy for each cohort of mortgages, CBO computes the net present value of those cash flows using discount rates that reflect the risk inherent in the flows. The subsidy for the pool of mortgage guarantees is the present value of the net losses to the entities, which is equal to the difference between the present values of the MBSs held by investors and of the mortgage pools held in trust by the entities. To the extent possible, CBO tries to calibrate its estimates of certain variables (such as mortgage loss rates and the value of assets and liabilities related to a guarantee) to estimates reported by the entities themselves.

The estimated subsidy costs in CBO's August 2009 baseline projections were computed using a simplified version of the model presented in this appendix. In the full model, cash flows are simulated with a series of equations that include fluctuating interest rates and house prices—variables that have been shown to be key drivers of mortgage cash flows. Accounting for the effect of those variables can be crucial in estimating the costs of certain policy proposals. In describing CBO's modeling methods, this appendix alerts readers to the aspects of the model that were simplified for the baseline estimates.

Simulating Cash Flows in the Mortgage Portfolio

For Fannie Mae's and Freddie Mac's existing business at the time the baseline is prepared, CBO's model divides the entities' mortgage book into representative pools of mortgages by year of origination and loan type and projects baseline default and prepayment rates for each pool using simulations.[1] For the purposes of CBO's baseline calculations, the projected default rate for each pool takes into account the hump-shaped pattern of default typically experienced over the life of a mortgage cohort, the

1. The mortgage book consists of all mortgages directly held or guaranteed by the entities for which the entities bear the costs when borrowers default. The book does not include mortgages held indirectly through privately issued securities. For those securities, CBO relied on the entities' reported fair-value estimates.

experience with losses to date, a forecast of aggregate changes in house prices, and estimates of how sensitive default rates are to changes in those prices. The projected prepayment rate varies over time with CBO's forecast of interest rates. For new mortgages, CBO uses the same procedure but replaces actual levels of macroeconomic variables and mortgage characteristics with forecasts to determine the initial conditions and evolution of the simulation.

A mortgage pool is described by the type of loan (prime, Alt-A or exotic, or subprime), its vintage, the current loan-to-value ratio, and the amount of third-party mortgage insurance. Those features determine the expected path of cash flows over the remaining life of the loans, and simulations result in a distribution of paths around the expected one. Given a dollar amount of loan principal outstanding at the valuation date, L_0, and a remaining loan term of n periods, the remaining outstanding principal evolves according to the following formula:

$$L_t = (1 + r_{t-1})(1 - d_t - p_t)L_{t-1} - R_t, \qquad t = 1, \ldots, n \tag{1}$$

where t is the time elapsed since the valuation date, r_t is the mortgage interest rate (which may vary over time), d_t is the fraction of loans between $t-1$ and t that enter default, p_t is the fraction of loans that are prepaid between $t-1$ and t, and R_t is the scheduled repayment at the start of period t. Repayments follow a standard amortization schedule based on a representative maturity:

$$R_t = \frac{r_{t-1}(1 - d_t - p_t)L_{t-1}}{1 - (1 + r_{t-1})^{t-n}} \tag{2}$$

In principle, r_t, d_t, and p_t could be randomly determined quantities that fluctuate from period to period. However, to simplify the calculations for the purposes of the baseline, CBO used deterministic interest rates and set deterministic time paths for prepayment (although both were adjusted for CBO's forecast of interest rates, which allows for the possibility that prepayment rates will vary by time and mortgage cohort).

Default Rates

For this analysis, default is defined as an event that causes Fannie Mae or Freddie Mac to suffer a loss on a mortgage it holds directly or to pay a claim on a mortgage it guarantees. In the full version of CBO's model, conditional default rates in year t are specified as

$$d_t = 1 - (1 - d_{bt})^{\exp(\delta_0 + \delta_{SHORT}\Delta r_{St} + \delta_{LONG}\Delta r_{Lt} + \delta_{LTV}\Delta LTV_t)} \tag{3}$$

The baseline default rate (d_{bt}) exhibits a hump-shaped pattern with the peak at about five years, which is derived from historical patterns of mortgage defaults. That baseline rate is adjusted for the characteristics of the mortgage pool and information conveyed by default experience to date (δ_0), as well as for deviations of interest rates (short-term rate Δr_{St} and long-term rate Δr_{Lt}) and of loan-to-value ratios (ΔLTV_t) from their trend paths. Empirically, the sensitivity to changes in loan-to-value ratios is by far the most important of the time-varying factors that determine default rates. Consequently, only that factor has been included in CBO's baseline projections. Changes in interest rates and unemployment have been shown to play some role in default rates, but neither is included in the baseline calculations.[2]

The current loan-to-value ratio, which affects the borrower's prepayment and default rates, is defined as

$$LTV_t = \frac{L_t}{h_t} \tag{4}$$

To simulate the path of house prices (h_t), CBO drew annual random shocks from a simple random-walk model of house prices, with the central drift tied to CBO's forecast of house prices and assumptions about aggregate and idiosyncratic volatility. That is,

$$h_{t+1} = h_t(1 + a_{t+1} + E_{t+1} + e_{t+1}) \tag{5}$$

where h_{t+1} is next year's house price, h_t is the current year's house price, a_{t+1} is the forecast for growth in house prices between t and $t + 1$, E_{t+1} is the aggregate shock to the house price index, and e_{t+1} is the idiosyncratic shock to individual house prices that captures the price volatility for a representative home in the loan pool. The two shocks are independent random draws from normal distributions that have means of zero and fixed standard deviations.

Losses on Defaulted Loans

When a default occurs, the loss to Fannie Mae or Freddie Mac equals the shortfall between the unpaid balance of the mortgage and the value of the house, after taking into account recovery costs and receipts from third-party insurance. Historically, the entities have reported loss rates in the range of 30 percent to 50 percent of the outstanding loan balance. Loss rates are likely to be higher, however, when the housing market is in decline. To capture the impact of a decline in house prices, CBO assumed that the amount the entities' would recover on a defaulted mortgage would be a fixed fraction of the appraised value of the house plus receipts from insurance.[3]

2. Although unemployment does not enter CBO's simulation model directly, its effects are implicit in the baseline adjustment (δ_0), interest rates, and house prices (because interest rates and house prices are generally low when unemployment is high). In principle, other time-varying factors could be included in the specification of default and prepayment rates given sufficient data or other evidence from which to reliably estimate sensitivity parameters.

3. CBO used a representative interest rate from loans over the historical period, and it did not try to model any effect that changing interest rates might have on credit losses.

The entities partially protect themselves from losses by requiring borrowers who do not make a 20 percent down payment to take out mortgage insurance with third-party insurers. For example, a borrower with a 10 percent down payment might be required to hold mortgage insurance for 15 percent of the property amount, reducing the entities' exposure to losses to 75 percent of the amount borrowed.

Each period, the net loss to the entities is thus

$$d_t\{L_{t-1}(1+r_t) - [L_{t-1}(1+r_t)i_t + \alpha_t h_t]\} \tag{6}$$

That is, of the fraction of loans that default each period, the entities pay the outstanding amount to the MBS holder $[L_{t-1}(1 + r_t)]$, recoup an insured amount from the third-party insurer $[L_{t-1}(1 + r_t)i_t$, where i_t is the fraction insured], and recover a stream of payments whose present value is a fraction of the value of the house ($\alpha_t h_t$, where α_t is the fraction recovered).

Prepayment Rates

In the full model, simulated prepayment rates for each segment of the entities' books obey the following equation:

$$p_t = 1 - (1 - p_{bt})^{\exp(\beta_0 + \beta_{SHORT}\Delta r_{St} + \beta_{LONG}\Delta r_{Lt} + \beta_{LTV}\Delta LTV_t)} \tag{7}$$

That is, the rate of prepayment fluctuates around a baseline rate, p_{bt}, with an adjustment for the characteristics of the loan pool and its experience to the valuation date (β_0) and deviations driven by changes in short- and long-term interest rates or the current loan-to-value ratio away from their trend levels. The base conditional prepayment rate, p_{bt}, steadily rises with the age of the loan, reaching a plateau after five years, which is consistent with past studies of mortgage performance.

Although not included for CBO's baseline projections, the model can also incorporate the sensitivity of prepayment rates to interest rates and changes in property values. Previous empirical research has found that prepayment rates depend on interest rates.[4] A borrower has a strong incentive to refinance a loan if the refinance rate is sufficiently lower than the current contract interest rate.[5] That difference is captured by the pair of interest rates in the specification: the long-term rate (r_{Lt}) and the short-term rate (r_{St}), which are described below. Another finding is that prepayment rates decline with an increase in the current loan-to-value ratio (LTV_t). That outcome may

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4. See, for example, Eduardo S. Schwartz and Walter N. Torous, "Prepayment and the Valuation of Mortgage-Backed Securities," *Journal of Finance,* vol. 44, no. 2 (June 1989), pp. 375–392; and Yongheng Deng, John M. Quigley, and Robert van Order, "Mortgage Terminations, Heterogeneity, and the Exercise of Mortgage Options," *Econometrica,* vol. 68, no. 2 (March 2000), pp. 275–307.

5. The decision to refinance can be less straightforward when variable-rate and fixed-rate mortgages are being compared.

reflect reduced opportunities to refinance a mortgage when the loan amount is close to or greater than the value of the home.

For its baseline projections, CBO did not use the full specification of the model; instead, it simply selected prepayment rates that reflected current market conditions. Mortgages originated before the housing downturn are expected to be prepaid at a slightly faster rate than seen in the past, whereas mortgages originated after the start of the downturn are expected to be prepaid at slower rates because borrowers are locking in historically low interest rates now. Note that for the purposes of valuing mortgage guarantees, precisely modeling prepayment is of secondary importance because the value of the guarantee is most sensitive to changes in default rates and assumptions about losses.

Simulated Interest Rates and Discounting

For the baseline projections, interest rates (r_t, r_{St}, or r_{Lt}) in each period of the model are tied to CBO's forecasts of short- and long-term interest rates. In the full version of the model, interest rates can fluctuate randomly up or down. The projected or simulated interest rates are used to discount risk-free nominal cash flows of various maturities, such as the cash flows from Treasury securities. For cash flows affected by risk, such as the risk of default or prepayment, a premium is added (as explained at the end of this appendix). The mortgage contract rate is estimated from current and past relationships between mortgage interest rates and rates on Treasury securities.

Valuing the Subsidy

In principle, the value of the federal subsidy for Fannie Mae's and Freddie Mac's MBS guarantees could be calculated as the net present value of the entities' gains or losses on those guarantees in each period. Obtaining the appropriate discount rate for those net gains or losses is difficult, however. There is no single traded asset whose cash flows mimic those of the entities' guarantees. Instead, the value of the subsidy for each guarantee is calculated from the difference between the values of the MBS and the underlying mortgage pool. Rates can be more readily established for each of those assets.

After Fannie Mae and Freddie Mac have packaged and sold MBSs, their remaining financial exposure—and therefore the subsidy provided by the federal government in covering net losses—exists through the MBS guarantees. As guarantor, the two entities ensure that MBS holders receive timely payment of principal and interest on the underlying mortgages. Thus, the value of the subsidy can be computed as the difference between the present value of the payments to MBS holders and the present value of payments from the underlying pool of mortgages. CBO uses the separate estimates of discount rates for MBS payments and for pool payments and applies them to the respective payment streams.

The stream of payments from the mortgage pool (net of various third-party servicing fees) is

$$R_{POOL,1}, R_{POOL,2}, R_{POOL,3}, \ldots \tag{8}$$

Suppose the MBS payment stream is

$$R_{MBS,1}, R_{MBS,2}, R_{MBS,3}, \ldots \tag{9}$$

When a borrower defaults, the entities remove that mortgage from the pool and pay the MBS holder the outstanding amount. Thus, in each period, the difference between the MBS payments and the payments from the pool (net of various fees and insurance payments) equals the losses incurred by the entities:

$$R_{MBS,t} = R_{POOL,t} + d_t\{L_{t-1}(1+r_t) - [L_{t-1}(1+r_t)i_t + \alpha_t h_t]\} \tag{10}$$

Note that CBO made additional adjustments to those cash flows for guarantee fees, third-party insurance premiums, and other payments.

Estimating Discount Rates

Because the loan-pool payments are risky, it is not appropriate simply to discount them using the risk-free discount rates from the interest rate simulation model. Instead, CBO values the cash flow stream in two pieces: the discounted value of the MBS payment stream minus the discounted value of the payment stream from the mortgage pool. The discount rate used for the MBS payment stream comes from the interest rate simulation, with an additional premium: the add-on required to equate the market price of the MBSs with the simulated net present value (when averaged across interest rate, prepayment, and default scenarios) of the stream of MBS payments. That premium reflects risks, or other MBS pricing anomalies, that could not be captured in the simulation model. Historically, the premium has ranged from a few hundredths of a percentage point at certain times to several percentage points at the height of the recent financial crisis.

The mortgage-pool payment stream has an additional exposure to market risk because of volatility in the size of mortgage losses. MBS investors face minimal credit risks; hence, a lower discount rate applies to the MBS payments. (That discount rate will be lower to the extent that the entities have capital to cushion losses or, failing that, investors have faith in the entities' federal backing.)

CBO used an estimate of the difference (or spread) between interest rates on jumbo and conforming mortgages as a proxy for the extra risk premium that would be required by an investor in the underlying mortgage pool. Fannie Mae and Freddie Mac purchase and securitize conforming mortgages from private lenders, but lenders must rely on private arrangements to fund jumbo mortgages (which exceed the size limit on conforming mortgages). Thus, a major driver of the difference between interest rates on jumbo and conforming mortgages is the funding advantage of the two entities. However, other differences between jumbo and conforming loans that affect the interest rate spread must be accounted for, such as differing borrower characteristics, underwriting standards, and geographic concentrations.[6] In adjusting for those differences, CBO relied on the work of staff economists at the Federal Reserve Board whose findings suggest that approximately half of the mortgage rate spread has been attributable to factors other than the entities' funding advantage.[7]

The spread between conforming and jumbo rates averaged about 30 basis points (0.30 percentage points) from 2000 to 2007 (see Figure A-1). Since the onset of the financial crisis, however, the spread has been much greater, peaking at 180 basis points. That increase reflects the market risk of losses faced by holders of nonconforming mortgages. For the baseline projections published in January, March, and August 2009, CBO used the observed spread in January 2009, adjusted downward to account for differences between jumbo and conforming mortgages that are not related to the funding advantage of Fannie Mae and Freddie Mac. By November 2009, the jumbo-conforming spread had fallen from its peak to about 100 basis points.

For the entities' existing mortgages, CBO applied a risk premium of 70 basis points to all outstanding loans, regardless of their characteristics. For new mortgage commitments, CBO used its forecast of the adjusted spread in the year of the commitment. Those projected spreads are generally lower than the current spread, reflecting CBO's expectation that mortgage markets, interest rates, and spreads will gradually return to historical levels.

The choice of an appropriate risk premium for each mortgage pool is a critical input in CBO's valuation model. The estimate of the risk premium has varied considerably over time and is currently very high relative to past trends. Moreover, the methods used to disentangle the federal subsidy from other factors that drive the jumbo-

6. A further complication is that during the conservatorship, Fannie Mae and Freddie Mac may be directed to charge fees that are lower than they would charge otherwise. That would result in a larger jumbo-conforming spread, but the cost would already be accounted for in the entities' cash flows and should not count toward the risk premium. In the other direction, the jumbo-conforming spread may not be a complete measure of the federal subsidy because the jumbo market is indirectly subsidized through the federal benefits that commercial banks receive, such as deposit insurance. See, for example, Anthony B. Sanders, *Measuring the Benefits of Fannie Mae and Freddie Mac to Consumers: Between De Minimis and Small?* Wharton Financial Institutions Working Paper No. 05-36 (Philadelphia: University of Pennsylvania, July 2005), available at http://fic.wharton.upenn.edu/fic/papers/05/p0536.html.

7. See Wayne Passmore, Shane M. Sherlund, and Gillian Burgess, *The Effect of Housing Government-Sponsored Enterprises on Mortgage Rates,* Finance and Economics Discussion Series Working Paper No. 2005-06 (Board of Governors of the Federal Reserve, January 2005); and Shane M. Sherlund, *The Jumbo-Conforming Spread: A Semiparametric Approach,* Finance and Economics Discussion Series Working Paper No. 2008-1 (Board of Governors of the Federal Reserve, January 2008), both available at www.federalreserve.gov/pubs/feds/index.html.

Figure A-1.

Spread Between Interest Rates on Jumbo and Conforming Mortgages

(Percentage points)

Source: Congressional Budget Office based on data from Bloomberg L.P.

Note: Conforming mortgages are loans eligible for sale to Fannie Mae or Freddie Mac because the original mortgage amount does not exceed an annually adjusted dollar limit (in much of the United States, $417,000 for a single-family home in 2009). Jumbo mortgages are loans that exceed the dollar limit for conforming mortgages.

conforming spread introduce another source of uncertainty. If, instead of 70 basis points, the risk premium was 50 basis points higher (or lower), the subsidy for the entities' existing business would be approximately $70 billion higher (or lower) than the $290 billion in CBO's August 2009 baseline. CBO continues to evaluate its projections of the risk premium and the methods used to compute them.

Exhibit 3

Working Paper Series

Congressional Budget Office

Washington, DC

Options for Principal Forgiveness in Mortgages Involving Fannie Mae and Freddie Mac

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To enhance the transparency of the work of the Congressional Budget Office (CBO) and to encourage external review of that work, CBO's working paper series includes papers that provide technical descriptions of official CBO analyses as well as papers that represent independent research by CBO analysts. Working papers are not subject to CBO's regular review and editing process. Papers in this series are available at http://go.usa.gov/ULE.

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Abstract

The Congressional Budget Office (CBO) examined three options under which Fannie Mae and Freddie Mac would provide principal forgiveness to certain distressed borrowers—specifically, to borrowers who are eligible or could become eligible for the Home Affordable Modification Program (HAMP). Such borrowers represent about 4 percent of all those with mortgages involving Fannie Mae or Freddie Mac, CBO estimates. The options would reduce the amount owed by borrowers to as low as 115 percent (through the HAMP Principal Reduction Alternative), 100 percent, and 90 percent, respectively, of the value of their homes. Any gain or loss arising from the way the distressed mortgages are handled by Fannie Mae and Freddie Mac under the options would ultimately accrue to taxpayers because, in CBO's judgment, the federal government is now the effective owner of those enterprises. CBO finds that all three options would probably result in small savings to the government, slightly reduce mortgage foreclosure and delinquency rates, and slightly boost overall economic growth. Designing a program that affected a larger number of borrowers and had a greater impact on the housing market and the economy would require a significant departure from HAMP's current eligibility rules.

Summary

At the end of 2012, housing prices were 30 percent below their peak in 2006, and about one-fifth of borrowers with residential mortgages were "underwater," owing more than the value of their homes. Default rates are particularly high among such borrowers. One of the primary ways that the federal government has assisted underwater borrowers is through the Home Affordable Modification Program (HAMP). That program, administered by the Department of the Treasury, has facilitated lower payments on some mortgages by providing incentives for mortgage holders and servicers to help borrowers avoid foreclosure.

In 2010, the Treasury Department expanded the program to include the possibility of principal forgiveness, a reduction in the amount the borrower owes. Before then, the program had been limited to other ways of reducing payments. (This report refers to HAMP without principal reduction as "standard HAMP.") For the borrower, principal forgiveness provides not only a lower monthly payment, but also, unlike standard HAMP, an improved equity position as a result of the lower loan balance. Having equity (the difference between the value of the home and what the borrower owes) allows a borrower to more easily refinance or sell the home to avoid default and strengthens his or her incentive to continue to pay off the mortgage. Since the introduction of that alternative, one in four borrowers participating in HAMP has received a principal reduction, the Congressional Budget Office (CBO) estimates. However, that program is small—fewer than 120,000 borrowers had obtained a principal reduction through HAMP as of the end of 2012.

The approach of using principal forgiveness has not been adopted by Fannie Mae and Freddie Mac. Those two government-sponsored enterprises (GSEs) own or guarantee more than half of the outstanding residential mortgages in the United States. CBO estimates that nearly 13 percent of underwater borrowers with mortgages owned or guaranteed by the GSEs have missed three or more mortgage payments (in other words, are "seriously delinquent"), which is more than six times the rate for borrowers who owe less than the value of their homes. But Fannie Mae and Freddie Mac have not been allowed to implement principal forgiveness out of concerns about fairness, implementation costs, and the incentive that approach could provide for people to become delinquent in order to obtain principal forgiveness.

Fannie Mae and Freddie Mac incurred large losses from the surge in mortgage defaults that began in 2007, as did other investors in mortgages, which resulted in the GSEs' being taken into conservatorship in September 2008 by their regulator, the Federal Housing Finance Agency (FHFA). Because the federal government is now the effective owner of the enterprises, any gain or loss arising from a change in the way the distressed mortgages are handled by the GSEs would ultimately accrue to taxpayers.

This report examines three options for the GSEs to use principal forgiveness for borrowers who are eligible or could become eligible for assistance through HAMP. CBO finds that implementing those options would probably do the following:

- Result in small savings to the government,
- Slightly reduce mortgage foreclosure and delinquency rates, and

- Slightly boost overall economic growth.

Designing a program that affected more borrowers and had a greater impact on the housing market and the economy would require a significant departure from HAMP's current eligibility rules.

What Options Did CBO Analyze?

CBO compared the GSEs' current approach (standard HAMP) with three options involving principal forgiveness for HAMP-eligible borrowers. (Such options could be adopted through legislation or by an administrative change.) Under each option, the GSEs would select for each eligible borrower a standard HAMP modification or a modification that includes principal forgiveness, depending on which one lowered the government's expected costs more. The options that CBO analyzed were the following:

- *Option 1.* GSEs choose between standard HAMP and the HAMP Principal Reduction Alternative; the latter reduces the monthly mortgage payment to 31 percent of the borrower's gross monthly income, primarily by decreasing the outstanding loan balance to as low as 115 percent of a home's current assessed value;[1]

- *Option 2.* GSEs choose between standard HAMP and principal forgiveness that would reduce the outstanding loan balance to 100 percent of a home's current assessed value; and

- *Option 3.* GSEs choose between standard HAMP and principal forgiveness that would reduce the outstanding loan balance to 90 percent of a home's current assessed value.

How Many Borrowers Might Qualify for Assistance?

On the basis of detailed data about outstanding mortgages and FHFA's review of the potential effects of implementing principal forgiveness at the GSEs, CBO estimates that 610,000 borrowers with mortgages owned or guaranteed by the GSEs already are or, over the assumed two-year period of the program, would become delinquent and would meet all other eligibility criteria for HAMP under current policy.[2] CBO expects that another 550,000 borrowers will meet all HAMP eligibility criteria except for being in financial distress (defined as being delinquent or at reasonable risk of becoming delinquent); under a change in policy to introduce principal forgiveness, some of those borrowers might become delinquent. In total, those 1.2 million borrowers constitute the population that CBO considers to be eligible or potentially eligible for a principal forgiveness program. They represent approximately 40 percent of all underwater borrowers and 4 percent of all borrowers with mortgages backed by the GSEs as of December 31, 2012.

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[1] The HAMP Principal Reduction Alternative incorporates principal forgiveness to a floor of 115 percent of a home's current value as the first step to achieve the target monthly mortgage payment of 31 percent of gross monthly income. If the target payment is not achieved once that amount of principal has been reduced, the mortgage servicer implements standard HAMP procedures, starting with an interest rate reduction, to complete the modification.

[2] Federal Housing Finance Agency, *Appendix to FHFA Review of Options* (July 2012), www.fhfa.gov/Default.aspx?Page=403.

How Would the Options Affect the Number of Defaults and the Federal Budget?

The key findings of CBO's analysis are the following:

- Under **current policy** (assuming extension of HAMP at least through December 2014), 227,000 borrowers with mortgages owned or guaranteed by the GSEs will receive a standard HAMP modification (37 percent of the eligible population of 610,000 borrowers and none of the 550,000 potentially eligible participants) over a two-year period. Approximately 600,000 of the 1.2 million borrowers, including some receiving a HAMP modification, are expected to default (see Table 1).

- Under **Option 1**, which includes the possibility of reducing the principal balance to as low as 115 percent of a home's assessed value, an additional 29,000 mortgages would be modified, leading to 18,000 fewer defaults and generating a savings to the government of $0.2 billion. About 73 percent of the modifications under Option 1 would involve principal forgiveness.

- Under **Option 2**, which includes the possibility of principal forgiveness to 100 percent of a home's current value, the number of modifications would increase by 26,000, slightly fewer than under Option 1, but more defaults would be avoided (43,000). Savings to the government—at $2.8 billion—would be the largest among the three options. About 85 percent of the modifications under Option 2 would involve principal forgiveness.

- Under **Option 3**, which includes the possibility of principal forgiveness to 90 percent of a home's current value, 57,000 more mortgages would be modified than under current policy, leading to 95,000 fewer defaults (the largest reduction under any of the three options) and savings to the government of $2.2 billion. About 78 percent of the modifications under Option 3 would involve principal forgiveness.

CBO estimated the cost of the policy alternatives on a fair-value basis—that is, reflecting the estimated change in the market value of the portfolio of eligible mortgages.[3] CBO's findings are based on the agency's best estimates of values for key parameters of relevant economic behavior, but there are many uncertainties. CBO analyzed the three options using higher and lower values for key parameters in the analysis. The agency found that combining standard HAMP with principal forgiveness under all three options would reduce defaults across the entire range of those alternative estimates. The budgetary savings are less certain, however. Nevertheless, Options 2 and 3 would reduce the federal budget deficit under nearly all alternative scenarios that CBO analyzed.

[3] CBO has used a fair-value approach in its budget projections for the GSEs and in cost estimates for legislation affecting the GSEs. That approach produces estimates of the value of assets and liabilities that either correspond to or approximate market prices. See the testimony of Deborah Lucas, Assistant Director for Financial Analysis, Congressional Budget Office, before the House Committee on the Budget, *The Budgetary Cost of Fannie Mae and Freddie Mac and Options for the Future Federal Role in the Secondary Mortgage Market* (June 2, 2011), http://www.cbo.gov/publication/41487.

Introduction

The large number of people who now owe more on their mortgages than the current value of their homes and the deep recession of 2008 and 2009 have affected certain households, the federal budget, and the overall economy in various ways:

- Millions of people have been unable to make their mortgage payments, and as a result many have lost their homes to foreclosure.
- Consumer spending and economic growth have been constrained.
- The federal government assumed control of Fannie Mae and Freddie Mac, providing explicit government guarantees to investors against losses on more than half of the outstanding mortgages in the United States and adding substantially to the federal budget deficit.

Because of those and other impacts, policymakers have expressed interest in policies that would modify mortgages, potentially increasing consumers' disposable income, reducing the financial distress of households, and stemming the government's losses on mortgages. Current policies focus on lowering borrowers' monthly payments by reducing interest rates, extending loan repayment periods, and offering forbearance. This paper examines options for another type of loan modification known as principal forgiveness—that is, permanently reducing loan amounts. The analysis focuses on mortgages involving Fannie Mae and Freddie Mac because of the direct effects on the federal budget deficit of such options and the preexisting federal commitment to losses on those mortgages.

Why Are Underwater Borrowers More Likely to Default?

Of the more than 40 million borrowers with a mortgage in the United States, nearly 3.1 million borrowers were delinquent on their mortgage payments (more than 30 days late) and 1.6 million were in some stage of losing their homes to foreclosure at the end of the fourth quarter of 2012.[4] Borrowers who are "underwater" on their mortgages—those whose loan balances are greater than the value of their homes or, equivalently, whose loan-to-value (LTV) ratios are greater than 100 percent—are more likely to be delinquent. For example, more than 20 percent of borrowers with LTV ratios greater than 125 percent have missed three or more mortgage payments (in other words, are "seriously delinquent") compared with the national average of 7 percent.[5] Delinquency rates are higher among underwater borrowers for three main reasons:

- Local economic weakness associated with lower housing values,
- Fewer options in the event of unexpected hardship, and
- Greater incentives to default.

[4] Mortgage Bankers Association, *National Delinquency Survey* (Fourth quarter, 2012). Those figures represent 7.51 percent and 3.74 percent of the total population of loans serviced, respectively.

[5] CoreLogic, *CoreLogic Reports Number of Residential Properties in Negative Equity Decreases Again in Second Quarter of 2012* (September 12, 2012), www.corelogic.com/about-us/news/asset_upload_file516_16435.pdf.

The number of underwater borrowers grew dramatically from 2007 to 2009 (and has remained fairly constant since then), translating those higher delinquency rates into much higher total numbers of distressed underwater borrowers.

Reasons for Delinquency. In the fourth quarter of 2012, about one-third of underwater borrowers were from five states: Arizona, Florida, Georgia, Michigan, and Nevada. Those states all had unemployment rates greater than or equal to the national average of 7.8 percent in that quarter. Nevada had both the highest fraction of borrowers underwater (52.4 percent) and the highest unemployment rate (10.2 percent).[6] The weakness of those local labor markets illustrates that underwater borrowers tend to live in areas where they are more likely to experience reductions in income or job loss, which cause higher delinquency rates on mortgages.

In the event of unanticipated hardship, borrowers without sufficient income to make their mortgage payments or assets to pay off the mortgage have fewer options when they are underwater. Qualifying for refinancing of their mortgages, which would lower monthly payments and reduce hardship, is more difficult for underwater borrowers. Likewise, selling their homes and paying off their mortgages is more difficult because additional funds are needed beyond those available from the sale of the home.

In addition, some underwater borrowers decide that being relieved of the financial loss from the decline in their home's value is worth more to them than the costs of default, even though they have sufficient income to make their mortgage payments or assets to pay off the mortgage. Such decisions are sometimes called "strategic defaults." For example, consider a borrower with a $200,000 mortgage and a home worth $150,000. If the borrower believes that home values will not recover for many years and she has the opportunity to rent an equivalent property for less than her mortgage payment, she may compare the net benefits of maintaining her creditworthiness as a borrower in the future by continuing to pay her mortgage with the net benefits of defaulting on that mortgage or otherwise not paying off her lender in full. (In some states, borrowers remain liable for a portion of unpaid mortgage debt even if they default.) Borrowers who are not underwater can more easily lower their monthly payments by refinancing their mortgages and have no such incentive to default.

Number of Underwater Borrowers. The more than 10 million residential properties underwater at the end of the fourth quarter of 2012 represent 21.5 percent of homes with a mortgage (see Table 2).[7] The number of underwater borrowers in 2012 is similar to the number at the beginning of the economic recovery (specifically, at the end of the third quarter of 2009), when 11.1 million borrowers (24 percent)

[6] CoreLogic, *CoreLogic Reports 200,000 More Residential Properties Return to Positive Equity in Fourth Quarter of 2012* (March 19, 2012), www.corelogic.com/research/negative-equity/corelogic-q4-2012-negative-equity-report-press-release.pdf.

[7] Ibid.

were underwater.[8] In contrast, the fraction of homes underwater was more than 2 times higher in 2009 than in the 10-year period between 1997 and 2007.[9]

Approximately 1.6 million underwater borrowers were seriously delinquent in the fourth quarter of 2012, CBO estimates. Although those borrowers represent only 15 percent of all underwater borrowers, they constitute nearly 50 percent of all seriously delinquent borrowers.

The GSEs own or guarantee nearly 60 percent of all loans but have a smaller proportion of both loans to underwater borrowers (29 percent) and seriously delinquent loans (28 percent) (see Figure 1). The share of underwater GSE-backed loans that are either eligible for or potentially eligible for a principal forgiveness modification is only 4 percent, CBO estimates, as it excludes both those borrowers with GSE-backed loans who are not underwater (89 percent of all GSE-backed loans) and those underwater borrowers who do not meet one or more of the modification eligibility criteria used in this analysis (7 percent of all GSE-backed loans).

How Do Distressed Borrowers Affect Economic Growth?

CBO attributes about one-third of the slow recovery from the recession that began three years ago to weak overall demand for goods and services in the economy—in particular, fewer purchases by state and local governments (accounting for the largest portion) and fewer purchases by the federal government, less residential investment, and lower consumer spending (each accounting for roughly equal portions).[10] CBO estimates that distressed and underwater mortgage borrowers have contributed to weak consumer spending through at least three channels. First, the value of households' wealth has improved only modestly (compared with gains after past recessions) in the wake of the unusually large drop during the recession; that modest improvement primarily reflects continued weakness in the value of real estate assets. Second, the efforts of some households to pay down debt and resist taking on new debt may have surpassed the typical reaction of household spending to changes in wealth and income.[11] Third, concentrated foreclosures on homes of distressed borrowers depress the prices of nearby properties, which appears to amplify the effects of wealth loss in reducing consumption.[12]

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[8] Ibid.

[9] George R. Carter III, "Housing Units With Negative Equity, 1997 to 2009," *Cityscape*, vol. 14, no. 1 (2012), pp. 149-165, www.huduser.org/portal/periodicals/cityscpe/vol14num1/index.html.

[10] Congressional Budget Office, *What Accounts for the Slow Growth of the Economy After the Recession?* (November 2012), www.cbo.gov/publication/43707.

[11] For example, see Atif R. Mian, Kamalesh Rao, and Amir Sufi, *Household Balance Sheets, Consumption, and the Economic Slump* (working paper, June 2012), http://dx.doi.org/10.2139/ssrn.1961211; and Karen Dynan, "Is a Household Debt Overhang Holding Back Consumption?" *Brookings Papers on Economic Activity* (Spring 2012), pp. 299-344, www.brookings.edu/about/projects/bpea/past-editions.

[12] See Jenny Schuetz, Vicki Been, and Ingrid Gould Ellen, "Neighborhood Effects of Concentrated Mortgage Foreclosures," *Journal of Housing Economics*, vol. 17, no. 4 (December 2008), pp. 307-319, http://dx.doi.org/10.1016/j.jhe.2008.09.004; John P. Harding, Eric Rosenblatt, and Vincent W. Yao, "The Contagion Effect of Foreclosed Properties," *Journal of Urban Economics*, vol. 66, no. 3 (November 2009), pp. 164-178, http://dx.doi.org/10.1016/j.jue.2009.07.003; and Atif R. Mian, Amir Sufi, and Francesco Trebbi, *Foreclosures, House Prices, and the Real Economy* (working paper, May 2012), http://dx.doi.org/10.2139/ssrn.1722195.

How Would Principal Forgiveness Affect the GSEs and the Budget?

Fannie Mae and Freddie Mac, two government-sponsored enterprises (referred to throughout this paper as "the GSEs"), set standards for the types of loan modifications mortgage servicers can offer borrowers who miss a scheduled mortgage payment. Before 2007, when the housing crisis began, most delinquencies were resolved without a modification, either through the sale or refinancing of a home. Between 2007 and early 2009, during the early stages of the housing crisis, the GSEs increased their use of modifications to help avert foreclosures, but most of those modifications did not reduce borrowers' monthly mortgage payment. More recently, the GSEs and others have developed a number of new modification options, including the Home Affordable Modification Program (HAMP), one of the main modification programs used by servicers of loans backed by the GSEs, which provides larger and longer-term payment relief to eligible borrowers. Because, in CBO's judgment, the federal government effectively owns and controls the GSEs, any gains or losses associated with expanding the available options for distressed borrowers to include principal forgiveness would affect the federal budget.

The Cost-Effectiveness of Principal Forgiveness. The goal of all loan modifications is to reduce the expected default costs of a loan by an amount greater than the value lost by offering a borrower a lower monthly payment. From the borrower's perspective, principal forgiveness provides both a lower monthly payment and, unlike standard HAMP, an improved equity position as a result of the lower loan balance. Having equity (the difference between the value of the home and what the borrower owes) strengthens borrowers' ability to avoid default and their incentive to continue to pay the mortgage. Principal forgiveness is cost-effective for an individual loan only if the expected savings from averting a possible foreclosure are large enough to offset the lost value of the principal forgiven. However, principal forgiveness may cost more than other alternatives across an entire portfolio of loans if it is made available to and taken up by too many borrowers for whom standard HAMP would offer a lower-cost modification alternative or who would not have defaulted without the possibility of such forgiveness.

Effects on the Federal Budget. After the U.S. government assumed control of the GSEs in 2008, CBO concluded that the institutions had effectively become government entities whose operations should be included in the federal budget. [13] Under the terms of that conservatorship, the government has financial responsibilities to the GSEs but also benefits from improvements in their net worth. Thus, the financial performance of the GSEs has an impact on the federal budget, and that performance depends importantly on the GSEs' management of mortgages in default or at significant risk of default.

CBO produces two primary types of assessments of the budgetary cost of the GSEs. First, it projects the cost of new loans expected to be guaranteed over a 10-year period as part of its report on the economic and budget outlook used in the Congressional budget process. Second, it produces cost estimates of the potential impact of changes to current law on either the existing portfolio of loans owned or guaranteed by the GSEs or new loans expected to be guaranteed over the 10-year budget window.

How and when CBO would estimate the budgetary impact of a change in the GSEs' approach to loan modifications under HAMP would depend on how such a change was adopted. If changes were

[13] For a description of CBO's budgetary treatment of the GSEs, see Congressional Budget Office, *CBO's Budgetary Treatment of Fannie Mae and Freddie Mac* (January 2010), www.cbo.gov/publication/41887.

implemented as the result of an administrative action by the Federal Housing Finance Agency (the conservator of the GSEs, which oversees all aspects of their operations), CBO would reflect that action in its next set of 10-year baseline projections. In contrast, if the changes were mandated by legislation, CBO would report, in a cost estimate for the legislation, any change in the estimated cost of GSE-insured loans from the change in policy and subsequently incorporate that estimate in its baseline projections.

The Office of Management and Budget (OMB) treats the GSEs as outside the budget, and it records and projects their budgetary cost on the basis of the cash transfers and dividend payments generated under the terms of the Senior Preferred Stock Purchase Agreements entered into with the Department of the Treasury in 2008.[14] As a result, the Administration has not included in its budget figures costs that would be directly comparable to CBO's estimates of budgetary costs. In addition, the changes to HAMP analyzed by CBO, whether mandated by legislation or administrative action, would probably cause the projected cash flows received by the GSEs on existing loans to change and would, therefore, affect OMB's estimates of the budgetary impact of the GSEs.

Current Policy and Options

CBO's analysis contrasts the costs and impact on borrowers of the current policy of HAMP with three options augmenting HAMP with a principal forgiveness modification. Each of those options would reach a target level of payment reduction or loan balance through different mechanisms and would involve a variety of other design choices (about which CBO made certain assumptions in order to estimate the effects of the options).

Each policy option analyzed by CBO could be implemented under current law on the basis of FHFA's authority as conservator of the GSEs. As such, the GSEs and FHFA could make an administrative change to implement one of the policy options. Alternatively, the Congress could write legislation to direct the GSEs to adopt a certain option.

Approaches the GSEs and Others Have Used to Manage Mortgage Delinquency and Foreclosure

Federal policymakers and industry participants have developed various approaches to reduce the costs and disruptions of foreclosure proceedings, which can end with borrower eviction and sale of the property at auction. Some of those approaches focus on keeping borrowers in their homes, and others focus on transitioning borrowers out of their homes. Both types of approaches provide incentives from the government to servicers (say, a bank that originated the mortgage and then sold it to the GSEs but remained as the point of contact with the borrower for making payments) to take actions designed to reduce costs to the government, because servicers are largely insulated from the costs of foreclosures by the GSEs. One particular approach that focuses on keeping borrowers in their homes is principal forgiveness, which can reduce payment delinquency but also raises other concerns.

[14] For the current Senior Preferred Stock Purchase Agreements for Fannie Mae and Freddie Mac, see www.fhfa.gov/Default.aspx?Page=364.

Approaches Keeping Borrowers in Their Homes. If modifications to a mortgage result in payments from the borrower, they can reduce the present value of the government's cost in comparison to such costs under foreclosure. The most important program supporting such modifications for distressed borrowers is HAMP, administered by the Treasury. HAMP specifies a method to lower a borrower's monthly payment (by reducing the interest rate, extending the loan's duration, or offering principal forbearance) and provides incentive payments to mortgage holders and servicers to implement the modifications. As of November 2012, more than 560,000 permanent HAMP modifications have been started on first mortgages for GSE-backed loans, representing nearly 2 percent of the 28 million loans serviced on behalf of the enterprises.[15]

An alternative solution for borrowers who owe more than the current value of their homes (that is, those with "negative equity") looking for payment relief is to refinance their existing mortgages into loans with lower monthly payments. Approximately 15 percent of the 15 million loans refinanced by the GSEs since April 2009 were originated under the Home Affordable Refinance Program (HARP), which helps borrowers who are unable to receive a traditional refinancing because of house price declines.[16] HARP allows borrowers with negative equity to refinance and provides cost savings and streamlining with respect to private mortgage insurance, underwriting requirements, and property valuations.[17]

A key distinction between a loan modification and a refinancing is that the GSEs generally require borrowers to be current on their existing loans to be eligible for a refinancing, whereas HAMP rules require that borrowers must often be delinquent or show signs of distress to receive a loan modification. As a result, the different options have different target populations of borrowers and consequences for the timing and size of the GSEs' costs to the government.[18]

Approaches Transitioning Borrowers from Their Homes. In collaboration with the government, the GSEs have designed a number of programs that provide borrowers with ways to leave their homes through means other than foreclosure. In one approach, a short sale, the borrower arranges for an arms-length sale of the home at a price lower than the outstanding balance of the mortgage. In another approach, known as a "deed-in-lieu," the borrower cedes ownership of the home to the owner of the mortgage in exchange for being released from the mortgage obligation; sometimes the borrower then

[15] Federal Housing Finance Agency, *Foreclosure Prevention Report* (November 2012).

[16] Federal Housing Finance Agency, *Refinance Report* (December 2012).

[17] With a traditional GSE refinance, borrowers are usually required to obtain private mortgage insurance (PMI) for loans with a LTV ratio greater than 80 percent. That coverage is based on the current LTV ratio, and it increases (in terms of both the amount of coverage and the cost to the borrower) as the LTV ratio increases. Under HARP, PMI requirements are waived if the original loan did not require insurance (even if the current LTV ratio is greater than 80 percent). In addition, borrowers are not required to obtain additional insurance coverage if the value of their home has declined and the current LTV would require more coverage than was required on the original loan.

[18] For a description of potential budgetary costs for refinancing programs, see Congressional Budget Office, *An Evaluation of Large-Scale Mortgage Refinancing Programs*, CBO Working Paper 2011-4 (September 2011), www.cbo.gov/publication/42752.

rents the home instead of leaving. Since 2008, the GSEs have completed close to 440,000 actions of those two types; more than half have occurred since the start of 2011.[19]

Approaches Using Principal Forgiveness. Modifications for delinquent borrowers with non-GSE mortgages have increasingly used principal forgiveness. Thirty-eight percent of modified loans owned by private investors and held on banks' balance sheets were provided some amount of principal forgiveness in the third quarter of 2012.[20] Those percentages are up from the fourth quarter of 2010, when private investors and banks used principal reductions on 2 percent and 18 percent of loans, respectively.[21] Some portion of that increased use of principal forgiveness is related to HAMP PRA. Incentive payments made by the Treasury, based on the delinquency status of the borrower and the LTV ratio before modification, reimbursed investors from 18 cents to 63 cents per dollar of principal forgiven. Since HAMP PRA's inception, servicers have started nearly 120,000 permanent principal forgiveness modifications, forgiving a median amount of nearly $68,000 per loan.[22] To date, FHFA has not used principal forgiveness to lower GSE-backed mortgages, concluding that principal forgiveness does not achieve the agency's goals of minimizing losses to the government and supporting the mortgage market as effectively as other options available to borrowers with GSE-backed loans.

Concerns About Principal Forgiveness. The primary factors behind FHFA's opposition to principal forgiveness for GSE-backed loans are possible costs from delinquencies that would not occur without principal forgiveness, questions over fairness, and potentially high operational and technical costs.[23]

Moral Hazard. Moral hazard is a tendency for people to be more willing to take risks for which the potential costs or burdens will be borne in whole or in part by others. If borrowers become delinquent in order to gain access to a principal forgiveness modification—a form of moral hazard—then the cost of principal reduction increases. For example, borrowers may know that they are very unlikely to default on their mortgages because they have access to funds that the lender does not know about. Under those circumstances, offering principal forgiveness to those borrowers, which generates a cost to the GSEs from the principal reduction but little to no offsetting benefit from reducing the likelihood of default, results only in an increase in expected costs to the GSEs.

Several approaches to program design would address concerns about the costs stemming from moral hazard. The most effective approach would be to offer principal forgiveness only to borrowers who were

[19] Federal Housing Finance Agency, *Foreclosure Prevention Report* (November 2012).

[20] Office of the Comptroller of the Currency, *OCC Mortgage Metrics Report: Third Quarter 2012* (December 2012), www.occ.gov/publications/publications-by-type/other-publications-reports/mortgage-metrics-2012/mortgage-metrics-q3-2012.pdf.

[21] Office of the Comptroller of the Currency, *OCC Mortgage Metrics Report: Fourth Quarter 2010* (March 2011), www.occ.treas.gov/publications/publications-by-type/other-publications-reports/mortgage-metrics-2010/mortgage-metrics-q4-2010.pdf.

[22] Department of the Treasury, *Making Home Affordable Program Performance Report* (December 2012).

[23] Federal Housing Finance Agency, *Review of Options Available for Underwater Borrowers and Principal Forgiveness* (July 2012), www.fhfa.gov/Default.aspx?Page=403.

delinquent at the time the program was announced, excluding borrowers who become delinquent in order to receive principal forgiveness.

Although FHFA's economic analysis shows a slight benefit to the government from introducing principal forgiveness for GSE-backed loans, the benefit in that analysis disappears if 0.2 percent to 1.3 percent of underwater borrowers with GSE-backed loans who have not missed a mortgage payment opt to do so in order to receive principal forgiveness.[24] That concern, combined with uncertainty surrounding the extent to which borrowers' behavior will improve under principal forgiveness relative to under existing GSE loss-mitigation programs, is a key element in FHFA's decision not to support principal forgiveness for the GSEs to date.

Fairness. FHFA also expressed concern that allowing principal forgiveness on existing GSE loans may raise mortgage rates or reduce credit availability for future borrowers, as mortgage investors seek compensation for the potential that principal forgiveness may be used in subsequent housing crises.[25]

In addition to FHFA's concern, principal forgiveness, like other government programs offering concessions to underwater borrowers in financial distress, provides a benefit from the government to people who own a home worth less than the amount owed on the mortgage. On the one hand, principal forgiveness provides a form of insurance to people who experience dramatic declines in wealth because of changes in housing prices unrelated to the condition of their property. Such transfers are similar in some respects to emergency unemployment benefits, which have provided additional weeks of income replacement to eligible workers who have been laid off. On the other hand, principal forgiveness potentially transfers resources from general revenues raised from renters and owners to people who may have purchased a more expensive home than they could afford or who may have chosen to strategically default.

Operational Considerations. Because the GSEs have not implemented principal forgiveness, doing so would involve costs for updating existing systems, developing new processes and controls, and creating new procedures for both employees and servicers. On the basis of estimates provided by Fannie Mae and Freddie Mac, the implementation costs of those changes would range from $70 million to $90 million and take up to one year to complete.[26]

FHFA also cited potential indirect costs associated with principal forgiveness; those costs would arise from the need to divert the attention of management and key employees from other, potentially valuable projects. Those projects, FHFA has argued, could result in greater savings for the government than the savings expected from principal forgiveness.

Options for Incorporating Principal Forgiveness in GSE Modifications

CBO analyzed options under which the GSEs would select for each eligible borrower a standard HAMP modification or a modification that includes principal forgiveness, depending on which one lowered the

[24] Ibid.

[25] Ibid.

[26] Ibid.

government's expected costs more. Offering principal forgiveness in addition to standard HAMP would probably be more effective in reducing costs to the government than replacing standard HAMP with principal forgiveness, CBO estimates. By augmenting standard HAMP with some form of principal forgiveness, the GSEs could select either option for a particular borrower on the basis of an evaluation that could be designed to minimize costs to the government. However, that approach would burden the GSEs and servicers with choosing between HAMP and a principal forgiveness alternative for each borrower instead of putting the borrower through a single streamlined program.

The options CBO considered were:

- *Option 1.* GSEs choose between standard HAMP and the HAMP Principal Reduction Alternative;
- *Option 2.* GSEs choose between standard HAMP and principal forgiveness to reduce the outstanding loan balance to 100 percent of a home's current assessed value; and
- *Option 3.* GSEs choose between standard HAMP and principal forgiveness to reduce the outstanding loan balance to 90 percent of a home's current assessed value.

In Option 1, HAMP PRA (not being used currently by the GSEs) would be offered to borrowers for whom the GSEs deemed it would be beneficial. HAMP PRA incorporates principal forgiveness as one of the first steps to achieve the same target monthly mortgage payment as under standard HAMP. In both programs, the initial step adds missed payments to the outstanding amount owed by the borrower. However, under HAMP PRA the next step in the modification process reduces the principal amount owed to a floor of 115 percent of a home's current value.[27] Unlike the forbearance that is used as one of the steps in standard HAMP, the principal reduction under HAMP PRA is truly forgiven, permanently reducing the amount owed by borrowers as long as they remain current on the modified loan. If the target payment is not achieved once the amount of principal has been reduced, the mortgage servicer implements standard HAMP procedures, starting with an interest rate reduction, to complete the modification.

In Options 2 and 3, borrowers would be granted larger reductions in principal than those granted under HAMP PRA. In Option 2, all negative equity would be forgiven, resulting in a new loan balance equal to the assessed value of the home. In Option 3, principal would be forgiven until the loan balance was equal to 90 percent of the assessed value of the home, generating positive equity for the borrower. Analyzing those three options allows for an assessment of the impact of the amount of forgiveness on borrowers' behavior and budgetary costs. In Options 2 and 3, borrowers would have their interest rate set to 5 percent and their mortgage term set to 30 years in addition to the principal forgiveness granted as part of the modification. (For the advantages and disadvantages of Options 1, 2, and 3 involving principal forgiveness, see Table 3.)

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[27] Servicers may reduce the principal balance of loans below 115 percent and receive incentive payments for reductions to as low as 105 percent. However, the HAMP PRA alternative waterfall described in the program documentation is based on a reduction to 115 percent. See Department of the Treasury, *Making Home Affordable Program Supplemental Directive 10-05* (June 3, 2010).

To implement principal forgiveness, policymakers or FHFA would need to make decisions that would have a significant impact on participation and the projected budgetary cost. In addition to deciding the amount of principal to forgive, policymakers or FHFA would need to make a number of decisions about eligibility—in particular, how to minimize the cost of additional participation by borrowers who are not currently in distress, the extent to which borrowers must be delinquent on their payments to qualify, whether to include nonowner occupants, and what threshold to use for credit scores. Issues related to prepayment or default on the modified loan, and operational costs for the GSEs, would also need to be addressed. To conduct this analysis, CBO made assumptions about all of those issues. (See Table 4 and Appendix A for more details on design considerations. Appendix B describes the shared appreciation modification, a design consideration CBO did not include in its analysis.) Variations from those assumptions would lead to different costs and other effects.

CBO's Analytic Approach

Determining the budgetary costs or savings from implementing a policy option incorporating principal forgiveness requires two key steps. First, the cost for each borrower who receives a modification must be calculated. Second, the size and composition of the portfolio of eligible borrowers must be estimated, including the likelihood that borrowers with a certain set of characteristics would choose to participate in a principal forgiveness modification program.

Calculating Budgetary Costs for Particular Loans

CBO projects the budgetary cost to the government of an existing GSE loan, also known as the subsidy cost, as the present value of the amount expected to be paid out to holders of the guarantee, minus the amount GSEs receive from the sale of a foreclosed property or any insurance on the mortgage (as many borrowers with low down payments were required to purchase private mortgage insurance), minus the amount of fees collected prior to default charged for providing the guarantee. That value expresses the flows of current and future income or payments in terms of a single number, equivalent to a lump sum received or paid today; the present value depends on the discount rate (or rate of interest) that is used to translate future cash flows into current dollars. For example, if the GSEs expect to pay investors holding a guarantee $50,000 (on a present-value basis), receive no mortgage insurance, and collect $40,000 in sales proceeds and fees (on a present-value basis), then the budgetary cost for that mortgage would be $10,000 (see Appendix C for more details on the subsidy cost calculation).

In addition to the costs incurred by the GSEs, a change in modification policy may result in additional losses on mortgage-backed securities (MBSs) held in portfolios by the GSEs, the Treasury, and the Federal Reserve. A loss is incurred by those federal MBS investors when delinquent loans are pulled out of the mortgage pool for modification, triggering a partial repayment of the MBSs that pays an interest coupon above market rates.

To capture differences in the behavior, costs, and risks associated with different borrowers in a tractable way, CBO classified the population of borrowers eligible for a modification according to risk categories that affect borrowers' propensity to default. Each group is characterized by the following variables (as measured at the time of the modification):

- Current loan-to-value ratio;

- Credit score—calculated using models developed by Fair Isaac Corporation (FICO);
- Number of days delinquent; and
- Mortgage debt-to-income (DTI) ratio—the percentage of income that goes toward housing costs, including mortgage principal and interest, hazard insurance premiums, property taxes, and (when applicable) mortgage insurance premiums and homeowners' association dues.

All other characteristics, including the type of property, occupancy status, and property location, are assumed to be consistent across all borrowers.

Eligible Borrowers and Participation

To estimate effects on costs and other outcomes for the GSEs' loans, CBO first identified a population of loans that could be affected by the options. Approximately $608 billion of the GSEs' portfolio of single-family loans, or 3.0 million borrowers based on an average loan size of $200,000, had a current LTV ratio greater than 100 percent as of December 31, 2012. Of that population, CBO estimated 610,000 borrowers already are or, over the assumed two-year period of the program, would become delinquent and would meet all other eligibility criteria for HAMP under current policy and, under a change in policy, an additional 550,000 borrowers will meet all HAMP eligibility criteria except for being in financial distress (defined as being delinquent or at reasonable risk of becoming delinquent).

Although HAMP is set to expire on December 31, 2013, CBO's analysis is based on modifications that would be performed over a two-year period after the GSEs had implemented a principal forgiveness modification program. For the purposes of comparison, "current policy" in this analysis reflects the assumption that the GSEs will continue to offer loan modifications that lower the monthly payments of eligible borrowers in a manner consistent with HAMP for at least one additional year beyond 2013.

HAMP-Eligible Borrowers. Not every underwater borrower would qualify for a modification. To be eligible for standard HAMP, borrowers must be delinquent (or be able to provide evidence of financial distress) and meet established program criteria (including occupancy restrictions). In addition, the modification must reduce the costs to the GSEs relative to the costs of other loss-mitigation options according to a net-present-value test. For its analysis, CBO estimates that 20 percent of underwater borrowers would meet those eligibility criteria, meaning approximately 610,000 loans with an unpaid principal balance of $122 billion would qualify for a principal forgiveness modification using the same eligibility criteria as standard HAMP. (See Appendix C for a detailed description of the characteristics, eligibility, and participation estimates for HAMP-eligible and potentially HAMP-eligible borrowers.)

Based on the current population of eligible, underwater borrowers with GSE-backed loans and those expected to become eligible under current policy, CBO expects that the GSEs would be willing to offer HAMP modifications on those 610,000 loans. However, modification programs rarely reach the entire population of eligible borrowers, as some borrowers are unwilling (because of the complexity of the process or concerns such as the potential negative impact on their credit score) to complete the modification process. As such, CBO's analysis of a scenario in which borrowers are offered only standard HAMP and scenarios in which they are offered one of the three modifications using principal forgiveness assumes that some proportion of those eligible borrowers would receive a modification and some would not.

CBO's estimates of participation incorporate borrowers' reactions based on the size of the payment reduction they would receive. That concession takes two forms: a reduction in a borrower's monthly DTI ratio and a reduction in the loan balance. Larger concessions on either dimension would create higher participation rates, CBO predicts.

Under standard HAMP, in which borrowers receive only a reduction in their monthly DTI ratio, CBO estimates that nearly 40 percent of eligible loans (representing 227,000 borrowers and $45 billion in unpaid principal) will be modified. Under HAMP PRA, in which borrowers receive the same reduction in their DTI ratio as under standard HAMP but also receive a reduction in their loan balance, CBO expects participation would be approximately 13 percent higher than under standard HAMP. For programs that offer principal forgiveness to 100 percent and 90 percent, expected participation rates relative to standard HAMP depend on the balance between reductions in DTI ratios and reductions in LTV ratios created by the modification. For borrowers who receive a modified DTI ratio of less than 31 percent and some principal forgiveness, CBO projects that participation in principal forgiveness programs would exceed participation in HAMP. In cases in which principal is forgiven but the postmodification DTI ratio still exceeds 31 percent, expected participation could be greater than or less than under HAMP. In total, CBO expects that participation in programs that offer principal forgiveness to 100 percent LTV would exceed HAMP participation by 11 percent and that participation in programs that offer principal forgiveness to 90 percent LTV would exceed HAMP participation by 25 percent.

Potentially HAMP-Eligible Borrowers. Some population of underwater borrowers who are not expected to become eligible for HAMP under current policy may, under a change in policy, be induced to become delinquent and therefore qualify for a principal forgiveness modification. Although the size of that population is highly uncertain, CBO estimates that an additional 18 percent of the population of underwater borrowers (representing 550,000 loans and $110 billion in unpaid principal) could become eligible for a principal forgiveness modification under the same eligibility criteria as standard HAMP by becoming delinquent immediately.

In addition, CBO estimates that the population of borrowers seeking a principal forgiveness modification from outside the HAMP-eligible population would have a higher average credit profile (based on DTI and LTV ratios and credit scores) than the HAMP-eligible population, which is consistent with studies on borrowers' behavior associated with the announcement of other modification programs.[28]

Finally, CBO estimates that participation by potentially HAMP-eligible borrowers would depend on the size of the payment reduction they would receive, with an adjustment to reflect that those borrowers have chosen not to participate in standard HAMP in spite of the payment reduction they would have received. As a result, participation in standard HAMP is set to zero and participation in each of the principal forgiveness modifications is set equal to the incremental participation expected on the basis of the size of the reduction offered relative to standard HAMP.

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[28] See Christopher Mayer and others, *Mortgage Modification and Strategic Behavior: Evidence from a Legal Settlement with Countrywide*, Working Paper 17065 (National Bureau of Economic Research, May 2011), www.nber.org/papers/w17065; and Laurie Goodman and others, *Modification Effectiveness: The Private Label Experience and Their Public Policy Implications* (report prepared by Amherst Securities Group for the Pew Charitable Trusts, May 30, 2012).

Comparing Loan Modifications for Particular Borrowers

For each group of borrowers and for each modification approach (no modification, standard HAMP, HAMP PRA, principal forgiveness to 100 percent LTV, and principal forgiveness to 90 percent LTV), CBO estimated borrowers' default rates and subsidy costs. To illustrate the variation in outcomes across the modification approaches, CBO considered a borrower who, without a loan modification, has a $200,000 loan balance, 6 percent interest rate, 160 percent LTV ratio, 60 percent DTI ratio, credit score of 660, and 60 days of delinquent payments (see Table 5 and Figure 2). That illustrative borrower's LTV ratio, DTI ratio, credit score, and number of days of delinquent payments represent the approximate midpoint of the range of values analyzed by CBO rather than those of a representative eligible borrower. As such, because the cost of each modification varies considerably with the characteristics of the borrowers and loans within each group, it is the mix of eligible borrowers who participate that ultimately determines the relative cost of each policy.

In CBO's analysis, the reduction in postmodification DTI and LTV ratios is the key driver for improving borrowers' performance on the modified loan. The relative subsidy costs per borrower of different modifications are determined by the changes in default losses created by the modification and the cost to the GSEs of the payment relief offered to the borrower. The structure of that payment relief is an important factor, as different types of concessions yield different changes in default losses and different costs to the GSEs, even when the borrower is left with the same postmodification monthly payment.

No HAMP Modification

If they do not receive a HAMP modification, borrowers with a $200,000 loan balance and interest rate of 6 percent will continue to owe a monthly payment of $1,199. Because many of those borrowers are either delinquent on their loan or considered at risk of default, expected default rates without a modification are high. For the illustrative borrower with a 160 percent LTV ratio, 60 percent DTI ratio, and credit score of 660, the expected default rate is 80 percent after one year, rising to 97 percent after three years. Across the entire population of loans analyzed by CBO, approximately 35 percent are expected to default in one year and more than 50 percent are expected to default by the end of three years. Those default rates increase for borrowers with higher current LTV and DTI ratios or lower current credit scores.

Standard HAMP

Under HAMP, the payment reduction that borrowers receive is determined by their premodification DTI ratio. For example, borrowers with a premodification DTI ratio of 60 percent would have their monthly payment reduced by $570 (from $1,199 premodification to $629 postmodification on a $200,000 loan). The structure of the modification also varies, as different steps in the HAMP waterfall are required for different premodification DTI ratios to bring borrowers down to a 31 percent postmodification ratio. For borrowers with a starting DTI ratio of 60 percent, the postmodification target DTI ratio is reached by reducing their interest rate to the floor of 2 percent and extending their loan term to 453 months.

Default rates are lower under standard HAMP than under a policy of no modification, particularly in the years immediately following a payment reduction. (Default rates after one year are projected to be more than 60 percentage points lower, CBO estimates.) Over time, however, the difference in default rates narrows, according to CBO's simulation, as the impact of high annual default rates under HAMP causes total defaults to continue to accumulate, and total defaults for borrowers not receiving a modification slow as there are fewer borrowers left to default after the first few years.

Finally, subsidy costs to the GSEs increase by offering HAMP modifications to borrowers who do not show a large enough improvement in expected defaults to offset the costs incurred by offering a lower monthly payment. For example, the subsidy cost for the illustrative borrower described above increases by nearly $11,000 under standard HAMP relative to the cost under no modification. Other borrowers, particularly those with lower premodification DTI ratios and higher LTV ratios, will show a smaller increase or even a subsidy cost decrease under HAMP, CBO estimates.

HAMP Principal Reduction Alternative

In the case of HAMP PRA, borrowers would receive the same postmodification monthly payment as under standard HAMP for each premodification DTI ratio. Unlike HAMP, however, the structure of that payment relief would differ depending on the borrower's premodification LTV ratio. Borrowers with a premodification LTV ratio of less than 115 percent, which is already below the HAMP PRA target, would receive a modification identical to standard HAMP across all premodification DTI buckets. For higher LTV ratios, principal forgiveness would play a larger role in reducing the borrower's monthly payment to 31 percent DTI. For example, borrowers with a premodification DTI ratio of 60 percent and an LTV of 160 percent would receive both principal forgiveness and an interest rate reduction, but not the term extension required under standard HAMP.

HAMP PRA would reduce expected defaults relative to standard HAMP for all borrowers with a premodification LTV ratio greater than 115 percent, CBO estimates, as borrowers respond to both a lower monthly payment and increased equity. Those improvements would be relatively modest one year after the modification but would grow over time as expected defaults for standard HAMP borrowers, who received no reduction in their loan balance, accumulate.

HAMP PRA would lower costs to the government relative to standard HAMP for the illustrative borrower and other borrowers who show a large enough improvement in expected default costs to cover the amount of principal forgiven. In most cases, the advantage of HAMP PRA decreases as the LTV ratio decreases, as those less distressed borrowers perform well on their loans even without the principal forgiveness concession provided under HAMP PRA. As the LTV ratio increases, however, HAMP PRA would have an advantage, CBO estimates, as the combination of principal forgiveness, interest rate reductions, and term extensions reduced default costs more than interest rate and term changes alone.

Principal Forgiveness to 100 Percent of Home Value

For principal forgiveness down to 100 percent LTV, the size of the borrower's monthly payment reduction would be determined by his or her premodification LTV ratio, so that borrowers with a higher current LTV ratio would receive the largest reduction. For example, borrowers with a premodification LTV ratio of 160 percent and a DTI ratio of 60 percent would receive a postmodification monthly payment of $671 (a reduction of $528) for a $200,000 loan, which exceeds the payment they would receive under either HAMP or HAMP PRA. In some cases, principal forgiveness to 100 percent might reduce the postmodification payment and DTI ratio below the HAMP payment based on a target DTI ratio of 31 percent.

Unlike standard HAMP, in which the size of a borrower's payment reduction is independent of his or her LTV ratio, the amount of the payment reduction would increase as the premodification LTV ratio increased under principal forgiveness to 100 percent. As a result, the reduction in expected defaults under principal forgiveness to 100 percent LTV relative to HAMP would increase as the premodification LTV increased. At a premodification DTI ratio of 60 percent and LTV ratio of 120 percent, for example, CBO estimates that expected defaults under principal forgiveness to 100 percent would exceed those under HAMP after one year, as the borrower would receive a larger reduction in his or her monthly payment under HAMP. At a premodification DTI ratio of 60 percent and LTV ratio of 200 percent, however, expected defaults under HAMP after one year would be much higher than those under principal forgiveness to 100 percent LTV, in which case both the borrower's payment and the mortgage balance are cut in half.

Principal forgiveness to 100 percent LTV would be less costly than standard HAMP for a borrower with a 160 percent LTV ratio, 60 percent DTI ratio, and credit score of 660 and for many other groups of borrowers. Even at the highest levels of current LTVs, for which the amount of principal forgiven is greatest, the reduction in default costs for borrowers is often large enough to offer an improvement over HAMP.

Principal Forgiveness to 90 Percent of Home Value

Principal forgiveness to 90 percent LTV would produce similar results relative to standard HAMP to the alternative of reducing principal to 100 percent of a home's current value. The main difference is that a larger reduction in the loan balance would yield a larger reduction in monthly payments and more positive equity, both of which would serve to lower defaults relative to principal forgiveness to 100 percent. For example, borrowers with a premodification LTV ratio of 160 percent would receive more principal reduction ($87,500 versus $75,000 for principal forgiveness to 100 percent) and a smaller monthly payment ($604 versus $671 for principal forgiveness to 100 percent) under principal forgiveness to 90 percent. Both factors would serve to drive defaults lower because of the larger reduction in postmodification LTV.

Like principal forgiveness to 100 percent, principal forgiveness to 90 percent LTV would be less costly than standard HAMP for the illustrative borrower and many other groups of borrowers.

Total Budgetary Costs and Impact on Borrowers

The net costs of the options relative to current policy capture the differences in the costs per borrower and the rates of participation in the populations of eligible and potentially eligible borrowers. CBO evaluates the impact on borrowers by comparing the expected numbers of modifications and defaults. For those effects, CBO reports central estimates (which use the agency's best estimates of values for key parameters of relevant economic behavior) and ranges based on alternative assumptions.

CBO's Central Estimates

CBO examined the costs and impact on borrowers of standard HAMP (current policy) and the three options.

- *Standard HAMP*. Offering HAMP alone will result in 227,000 modifications and expected defaults of 599,000, CBO projects (see Table 6).
- *Option 1: Standard HAMP or HAMP Principal Reduction Alternative.* Combining HAMP PRA with standard HAMP would generate 29,000 additional modifications and avert 18,000 defaults, generating expected savings to the government of $0.16 billion.
- *Option 2: Standard HAMP or Principal Forgiveness to 100 Percent of a Home's Value.* HAMP offered in tandem with principal forgiveness to 100 percent LTV would produce 26,000 more modifications than HAMP alone and reduce defaults by 43,000. That combination would generate savings to the government of $2.77 billion.
- *Option 3: Standard HAMP or Principal Forgiveness to 90 Percent of a Home's Value.* The combination of standard HAMP and principal forgiveness to 90 percent LTV would increase modifications by 57,000 and reduce defaults by nearly 95,000 when compared with standard HAMP. Savings to the government under this option would be $2.21 billion, CBO estimates.

In all three options, the combination of standard HAMP and principal forgiveness would result in a lower cost to the government than offering either modification program alone, CBO estimates. In addition to reducing costs, augmenting HAMP with principal forgiveness and providing the GSEs with control over which option a borrower is offered would act as a mitigant to participation by borrowers who would increase the cost to the GSEs relative to receiving no modification. Because borrowers would be uncertain whether they would receive a principal forgiveness modification or a standard HAMP modification, relatively few additional borrowers would be willing to risk the potential negative effects of becoming delinquent to qualify for that modification. In addition, borrowers who would make themselves eligible for HAMP by becoming delinquent would only receive a principal forgiveness modification if offering that option lowered expected costs to the GSEs relative to HAMP. CBO expects that given the observable characteristics of borrowers and their loans, most borrowers in this population would be offered HAMP modifications without principal forgiveness. Approximately 7,000 of such borrowers, or slightly more than 1 percent of the total population of borrowers, would receive a principal forgiveness modification under Option 1, CBO estimates. Those numbers increase to 12,000 borrowers (or 2 percent) for Option 2 but fall to 5,000 borrowers (or 1 percent) for Option 3.

As an alternative to having the GSEs choose the type of modification offered, the program could be designed to allow eligible borrowers to select the type of modification they would receive (see Table 7). That approach would increase borrower participation and reduce foreclosures but would boost costs to the government relative to CBO's central estimate. A larger proportion of the potentially eligible population would receive principal forgiveness modifications, and those loans would impose a small cost relative to costs under standard HAMP. Under Option 3, for example, 85,000 potentially HAMP-eligible borrowers would opt for a principal forgiveness modification to 90 percent of their home's current value. As a result, costs to the government would increase by $2.9 billion relative to CBO's central estimate when the GSEs choose the type of modification offered, or $0.7 billion compared with costs under current policy.

Effects of Additional Participation Induced by Principal Forgiveness

Every loan group in CBO's analysis generates some expected cost to the GSEs if it is not modified. Introduction of a program of principal forgiveness, which induces additional borrowers to participate, changes that expected cost. In some cases, modifying the loan amount may lower the expected cost to the GSEs. For example, some borrowers have a very high expected default rate and, therefore, very high expected cost of default. Inducing those borrowers to seek a modification will reduce costs to the GSEs if the reduction in expected default costs exceeds the cost of the payment reduction granted to the borrower as a part of the modification.

In other cases, allowing new borrowers to participate in the program may raise the expected cost to the GSEs. For example, some borrowers have a very low expected default rate and, therefore, very low expected cost of default. Inducing those borrowers to seek a modification will do little to reduce their already low expected default cost. It will, however, raise the expected cost of the loan because the GSEs will bear the cost of the payment reduction granted as a part of that modification.

Moral hazard, whereby borrowers might become delinquent in order to obtain principal forgiveness but would not have done so in the absence of the program, is one form of costly participation. For example, borrowers may know that they are very unlikely to default on their mortgage because they have access to funds that the lender does not know about. Under those circumstances, offering principal forgiveness to those borrowers results only in an increase in expected costs to the GSEs because the principal reduction offers little to no offsetting benefit from reducing the likelihood of default.

In CBO's analysis, the HAMP-eligible and potentially HAMP-eligible populations have borrowers of both types: those for whom a modification would raise expected costs to the GSEs, and those for whom it would reduce expected costs. That finding is in contrast to the analysis by FHFA, which treats all additional participants as costly because of moral hazard. The potentially HAMP-eligible population, with its better average credit profile and lower expected default costs without a modification, has a greater proportion of borrowers for whom a principal forgiveness modification would raise expected default costs relative to no modification. However, for the central estimate CBO assumed that those borrowers would be offered a principal forgiveness modification only if that modification lowered expected costs relative to HAMP. (Potentially eligible borrowers who did not pass that test do not receive any modification.) That test reduces the cost of offering principal forgiveness to the potentially HAMP-eligible population. The HAMP eligibility requirements, which are assumed to also apply to principal forgiveness modifications and hence restrict eligibility to borrowers who are, on average, more distressed than the entire population of underwater borrowers, contributes to that result.

Analysis Under Alternative Assumptions

CBO's estimates of borrowers' defaults and costs to the government may be significantly higher or lower than CBO's central estimate because of the lack of historical data or experience dealing with distressed mortgages on a large scale and the inherent uncertainties in estimating the likely response of borrowers to mortgage modifications. CBO's statistical models were developed using data from performing and nonperforming mortgage loans over a long period of time. Although CBO adjusted those models to attempt to capture borrowers' response to HAMP, the models still may not completely reflect how borrowers react in dealing with a modified loan. Furthermore, the only evidence on the response of borrowers to principal forgiveness comes from non-GSE loans, which may not be representative of the response among borrowers on GSE-backed loans.

The following concerns may be particularly important:

- Potentially HAMP-eligible borrowers may be more or less likely to default to become eligible for principal forgiveness than CBO's models predict;

- Defaults by borrowers may be more or less sensitive to changes in monthly payment (as measured by the postmodification DTI ratio) than CBO's models predict;

- Defaults by borrowers may be more or less sensitive to LTV ratios than CBO's models predict; and

- The market risk premium, a measure of the sensitivity of private investors to losses that cannot be avoided through diversification (known as market risk), may be higher or lower than CBO estimates.

To assess the potential impact of those concerns, CBO recalculated the total subsidy cost for each scenario (standard HAMP and the three policy options combining HAMP and principal forgiveness) under a range of conditions that differ from those in CBO's central estimate (see Table 8 for a summary of the range of estimates and Appendix D for a description of the specific sensitivity tests CBO performed and more detailed estimates). To the extent possible, CBO chose values for alternative parameters that encompassed the range of opinion of outside experts on what those parameters might be.

This sensitivity analysis points to three main conclusions:

- Expected defaults and total budgetary costs are quite sensitive to modeling assumptions, particularly with respect to borrowers' sensitivity to LTV ratios and investors' sensitivity to market risk. Adjusting those sensitivities yields subsidy costs that are nearly $10 billion above or below CBO's central estimate, creating a total range of nearly $20 billion for each scenario.

- The improvement in expected defaults created by principal forgiveness compared with standard HAMP is robust across all changes to modeling assumptions.

- Options 2 and 3 result in savings relative to standard HAMP under nearly the entire range of conditions tested here, indicating that the expected improvement in budgetary costs offered by a combination of HAMP and certain forms of principal forgiveness is fairly robust across the range of alternative assumptions analyzed by CBO.

The one sensitivity test that generated a cost to the government for principal forgiveness (relative to current policy) was the assessment of potential moral hazard, or whether borrowers who would not default without the introduction of principal forgiveness would do so in order to participate in such a program. As a part of that test, CBO made two adjustments to its central estimate:

- Potentially HAMP-eligible borrowers were assumed to be less likely to default in the absence of a modification; and

- Potentially HAMP-eligible borrowers were assumed to be more likely to participate in principal forgiveness once it was made available to them.

Based on that approach, decreasing expected defaults for potentially HAMP-eligible borrowers alone reduces but does not eliminate budgetary savings associated with augmenting standard HAMP with principal forgiveness under Options 1, 2, and 3 (see Table 9). If that default rate reduction is combined with an expectation that the GSEs are not as effective at assigning borrowers to the lowest-cost modification (specifically, that effectiveness would be as low as when borrowers select the type of modification they would receive), savings to the government are further reduced. If those two conditions are combined with a doubling of the participation rate by potentially HAMP-eligible borrowers, Option 1 and Option 3 no longer offer budgetary savings relative to current policy. Only Option 2, augmenting standard HAMP with principal forgiveness down to 100 percent, maintains its cost advantage over standard HAMP under all three scenarios.

Finally, the savings generated by principal forgiveness found in CBO's estimates are broadly consistent with FHFA's analysis of expected losses and benefits to the government for a portfolio of underwater borrowers with GSE-backed loans receiving a standard HAMP or HAMP PRA modification, which shows that small savings would result from HAMP PRA.[29] Most of the difference between FHFA's and CBO's estimates can be reconciled to differences in assumptions about populations of borrowers and modeling methodologies (see Appendix D for a detailed comparison of FHFA's and CBO's analyses).

Effects on the Macroeconomy

The options could spur economic activity by boosting the amounts that households spend because of increases in their monthly disposable income, net wealth, and creditworthiness (facilitating borrowing for their purchases of automobiles and other durable goods).[30] In CBO's view, the effects of the options on consumer spending would depend primarily on the resulting increase in households' resources and on the number of foreclosures averted, but those effects would be small. Specifically, even if a much higher fraction of the principal forgiven was spent in the near term than is typical following an increase in wealth and if the indirect effects on the economy were equal to CBO's high estimates of those effects (generating an additional $1.50 of other spending per dollar of direct increase in consumer spending), the total effect from the options with the largest amount of principal forgiven would be an increase in gross domestic product of less than one-tenth of 1 percent in the near term, CBO estimates.

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[29] Federal Housing Finance Agency, *Review of Options Available for Underwater Borrowers and Principal Forgiveness* (July 2012), www.fhfa.gov/Default.aspx?Page=403.

[30] Another potential effect of the options is a reduction in "house lock," a circumstance in which borrowers who owe more than the value of their home are constrained in their ability to move to take advantage of employment outside of their local area. Research has found mixed evidence on the effects of such situations on migration or labor mobility. One study focusing on permanent moves finds negative equity reduces household mobility by 30 percent; see Fernando Ferreira, Joseph Gyourko, and Joseph Tracy, *Housing Busts and Household Mobility: An Update*, Economic Policy Review (Federal Reserve Bank of New York, November 2012). In contrast, another study that included permanent and temporary moves by homeowners found that homeowners who had negative equity were slightly more likely to move than homeowners who had positive equity; see Sam Schulhofer-Wohl, "Negative equity Does Not Reduce Homeowners' Mobility," *Federal Reserve Bank of Minneapolis Quarterly Review*, vol. 35, no. 1 (February 2012), pp. 2-14, www.minneapolisfed.org/research/pub_display.cfm?id=4820.

With respect to the housing market, the overall impact of any of the options would also be small on a national scale, although some local areas might see a larger effect; the number of foreclosures averted by the policy would probably have a minor impact on the path of future home prices overall, given the total size of the housing market. In addition, the options would not create significant additional demand for homes, because all participants would already own at least one property.

This paper focuses on policies targeted toward borrowers who have missed payments and are underwater on their mortgage; policies with broader eligibility could have larger effects. For example, in November 2011, CBO analyzed a policy subsidizing the interest rate on certain mortgages refinanced by borrowers currently making their payments—specifically, providing a subsidy of 0.25 percentage points to the interest rate for the refinancing of loans during 2012 under the terms of the Home Affordable Refinancing Program.[31] CBO estimated that adding that interest rate subsidy to HARP would have raised economic output over two years by $0.20 to $1.10 per dollar of total budgetary cost. Because the number of borrowers eligible under that policy of subsidizing interest rates would be much greater than those eligible under the options in this paper, both the budgetary cost and the effects on the macroeconomy would be substantially larger.

[31] See the testimony of Douglas W. Elmendorf, Director, Congressional Budget Office, before the Senate Committee on the Budget, *Policies for Increasing Economic Growth and Employment in 2012 and 2013* (November 15, 2011), pp. 29-31, www.cbo.gov/publication/42717.

Appendix A:

Issues in Designing Principal Forgiveness Options

In implementing principal forgiveness at Fannie Mae and Freddie Mac—two government-sponsored enterprises (GSEs)—the Federal Housing Finance Agency (FHFA) and other policymakers would need to make a number of decisions on key design elements of the program. Those decisions—which would affect the expected number of borrowers who participate and the budgetary cost of the program—include: the amount of principal forgiveness, approaches to reduce moral hazard, eligibility requirements, the handling of default after modification, the role of private mortgage insurers and second mortgages, expenditures on operational costs, and timing.

Amount of Principal Forgiveness

The key design consideration is how much principal to forgive. To be cost-effective, each dollar of principal forgiven must be recouped through savings from averted defaults. An amount of principal forgiveness that is too small may not generate as large an improvement in default rates as a larger amount of forgiveness. However, increasing the amount of principal forgiveness will most likely attract more borrowers to the program, some of whom may not be at risk of foreclosure. The three principal forgiveness options that the Congressional Budget Office (CBO) considered in this analysis differ primarily in how much forgiveness borrowers are offered.

Approaches to Reduce Moral Hazard

Principal forgiveness programs have been cited as particularly vulnerable to “moral hazard”— a tendency for people to be more willing to take risks for which the potential costs or burdens will be borne in whole or in part by others —because borrowers’ incentive to become delinquent to obtain a lower mortgage balance may be stronger than for other types of modifications.[32]

The Home Affordable Modification Program (HAMP), the main modification program used by the GSEs, and the HAMP Principal Reduction Alternative (HAMP PRA) already include a number of mitigants to moral hazard. Participating in HAMP has an adverse impact on a borrower’s credit score, which helps to discourage borrowers with good credit and no distress from participating. The ultimate impact on credit depends on a number of factors, including the delinquency status of the borrower before modification. For example, nondelinquent borrowers who have also maintained their payments on other financial obligations may suffer the most significant reduction in their credit score by accepting a modification, while severely delinquent borrowers (and those with a history of nonpayment on other loans) will have already seen their credit scores decline below a level acceptable to most lenders. In addition, borrowers

[32] Federal Housing Finance Agency, *Review of Options Available for Underwater Borrowers and Principal Forgiveness* (July 2012), www.fhfa.gov/Default.aspx?Page=403.

who receive a principal reduction may experience a tax burden associated with the amount of principal forgiven, as that forgiveness may count as income in the period in which it is received.[33]

HAMP also imposes checks on borrowers' income and ability to pay, which tend to reduce moral hazard because lowering income partially offsets potential benefits from a mortgage modification (although borrowers may also misrepresent income to become eligible). Finally, for a borrower to receive a HAMP offer, the modification must increase the expected value of the loan to the GSEs relative to the value if the loan remains unmodified, referred to as the net-present-value test. For its analysis, CBO assumes that all of those conditions would continue to apply to the principal forgiveness alternatives. In addition, CBO assumes that eligibility would be restricted to borrowers who are underwater on their mortgage (not counting any second mortgages or home equity lines of credit).

Several approaches have been proposed by policymakers, academics, and industry participants to address those moral hazard concerns in other ways.[34] The most straightforward approach would be to offer principal forgiveness only to borrowers who were delinquent at the time the program was announced. That rule would have the disadvantage of excluding borrowers who became delinquent after the cutoff date but for whom principal forgiveness would be the lowest cost solution for the GSEs.

Alternatively, policymakers could make the option less attractive to borrowers in ways that would not affect their ability or willingness to make payments on a modified loan. One such cost already exists in the form of a negative impact on the borrower's credit score. An additional cost could be to allow the investor in the modified loan greater access to the borrower's other assets or income in the event of a future default (also known as a "recourse" loan). Another approach would be to forgive a portion of the loan in exchange for granting the lender a claim on future equity or home appreciation—known as a "shared appreciation" modification. (See Appendix B for an overview of such modifications.) CBO does not incorporate a cutoff date, changes to the borrower's recourse obligation, or shared appreciation as additional mitigants in this analysis.

Eligibility Requirements

Policymakers and FHFA would need to make several decisions about which borrowers would be eligible for principal forgiveness. In all cases, broader eligibility would expand participation and increase the number of borrowers who might benefit from a modified loan. However, the type of borrowers who are made eligible will have an impact on delinquency rates and costs to the government. Allowing participation by borrowers who are too distressed to sustain the modified payment for an extended period may do little to reduce defaults and may ultimately increase the program's costs. Conversely, allowing relatively less distressed borrowers to participate may increase costs to the government if those borrowers would have continued to pay their mortgage even with a less generous modification program.

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[33] Generally, forgiven debt is considered income for tax purposes. The Mortgage Debt Relief Act of 2007 allows taxpayers to avoid taxation of certain income created from forgiveness of mortgage debt on their principal residence; that provision was extended until January 1, 2014, in the American Taxpayer Relief Act of 2012 (enacted on January 1, 2013).

[34] Laurie Goodman and others, *Modification Effectiveness: The Private Label Experience and Their Public Policy Implications* (report submitted by Amherst Securities Group to the Pew Charitable Trusts Conference on Strategies for Revitalizing the Housing Market, May 30, 2012).

Some of the key eligibility criteria to be addressed include the following:

- In addition to delinquent borrowers, would borrowers who are current on payments but deemed to be at risk of imminent default be eligible?
- Would the number of months of delinquent payments among eligible borrowers be capped?
- Would borrowers who own vacation homes or investment properties be eligible?
- Would eligibility be based on borrowers' current credit score?

In all cases, CBO selected eligibility criteria consistent with the standard HAMP (Tier 1) program for each of the policy options.[35] Specifically, borrowers would be eligible if they are delinquent on mortgage payments or provide evidence of financial distress, with no cap on the number of months of delinquency required to qualify. Only owner-occupants would be eligible, and no credit score restrictions would be imposed.

Handling of Default After Modification

Borrowers could be required to "earn" their forgiven principal through continued timely payment on their modified loan. Similar to the approach used by HAMP PRA, Options 2 and 3 assume that principal would be forgiven in annual increments over a three-year period. If a borrower defaulted before the end of the "early termination window," he or she would be required to repay the unearned portion of the forgiven principal. Although such conditions may reduce the expected cost of the program by making the reinstated principal eligible for repayment through some form of recovery (such as the proceeds from a foreclosure sale or through recourse), they may also reduce borrowers' willingness to continue to make payments on the modified loan as they may still remain deeply underwater during the first few years of the modification.

The Role of Private Mortgage Insurers and Second Mortgages

If principal is forgiven on the primary, or first, mortgage on a home, then the likelihood of default on that mortgage is reduced—thereby lowering expected payments by private mortgage insurers that make payments to lenders in the event of default. (Generally, mortgage insurance policies pay the lender a claim based on a "coverage percentage" applied to the unpaid principal balance. The coverage percentage is based on the original loan-to-value ratio and the term of the loan.) The GSEs can renegotiate the private mortgage insurance contract as a part of the modification. Alternatives include requesting a partial payment from the insurer to defer the cost of the principal write-down (also known as a "preclaim" advance) or resetting the principal balance to the premodification amount to calculate a future private mortgage insurance claim should the modified loan ultimately default.

Similarly, if principal is forgiven on the first mortgage on a home, then the likelihood of default on a second mortgage is also reduced—benefiting the investor in the second mortgage. According to standard

[35] Effective June 1, 2012, HAMP was expanded beyond the original HAMP eligibility criteria (Tier 1) to include a broader set of borrowers (Tier 2). That expansion made HAMP available to investor loans and provided greater flexibility with respect to target postmodification debt-to-income ratios, among other changes. The eligibility criteria considered by CBO for this analysis are for those loans in Tier 1.

practice, however, the first mortgage has highest priority for repayment and a second mortgage would generally absorb losses up to the entire value lent before the first mortgage absorbed a loss such as from principal forgiveness. Therefore, the GSEs, as investors in first mortgages, could request concessions from investors in second mortgages on properties of borrowers who are eligible for a modification to their first mortgage. For example, the GSEs could request principal forgiveness in a second mortgage proportional to that in the first mortgage. Alternatively, the GSEs could make all loans with a second mortgage ineligible for a principal forgiveness modification on the first. While that policy could limit the scope of the program, it would reduce operational issues and concerns about mortgage priority.

For all options, CBO assumed that current private mortgage insurance coverage would stay in effect without change. In the case of principal forgiveness, the claim would be paid on the basis of the postmodification loan amount, which would generally reduce the size of claim payments by insurers in the event of a subsequent default. In cases in which no mortgage insurance exists on the loan prior to modification, CBO assumed that situation would continue after the modification. CBO's analysis does not reflect any additional compensation from private mortgage insurers or second-lien holders who would benefit from the smaller losses that would result from a modification.

Expenditures on Operational Costs

Each of the principal forgiveness approaches CBO examined may create additional operational, technical, or legal issues for the GSEs relative to current policy, raising indirect costs of the modification. Such indirect costs could also complicate the strategy for piloting or testing principal forgiveness on a smaller scale as investments to resolve legal, technical, or operational barriers must be made before launching a modification program. Because of those concerns, the GSEs and others have attempted to thoroughly evaluate the costs, benefits, and potential scope of a principal forgiveness modification program. FHFA estimated that a principal forgiveness modification option could cost the GSEs approximately $70 million to $90 million and take more than a year to implement.[36]

CBO incorporated $80 million, or the midpoint of that estimate, as the cost to the GSEs of implementing principal forgiveness in the options it analyzed.

Timing

Not all eligible borrowers who choose to participate in a modification program will receive that modification immediately. First, it will take the GSEs and mortgage servicers some time to implement principal forgiveness. Second, some borrowers choose to apply for a modification as soon as they experience delinquency or distress, whereas others wait some time. Finally, once they decide to apply, borrowers must complete a modification application and satisfy any requirements necessary to receive a permanent modification, including completion of any trial modification that is part of the program.

Although HAMP is set to expire on December 31, 2013, CBO's analysis is based on modifications that would be performed over a period of two years after the GSEs have implemented a principal forgiveness modification program. In addition, the analysis is based only on permanent modifications, considering

[36] Federal Housing Finance Agency, *Review of Options Available for Underwater Borrowers and Principal Forgiveness* (July 2012).

borrowers who failed to successfully complete a trial modification as nonparticipants. Thus, “current policy” in this analysis reflects the assumption that HAMP would be extended for at least one additional year.

Appendix B

Shared Appreciation Modifications

One potential strategy for mitigating moral hazard associated with principal forgiveness modifications that has received considerable attention is the use of shared appreciation.[37] A shared appreciation modification (SAM) allows the investor in a mortgage to share in future appreciation of the value of the underlying home in exchange for forgiving a portion of the loan balance. At least one major servicer has implemented SAMs, combining principal reduction with a program that gives 25 percent of the home's appreciation in value to the investor.[38] For example, a borrower who owes $120,000 on a home with a current value of $100,000 may have the loan written down to $95,000 in exchange for granting the investor the right to receive 25 percent of any future increase in the value of the home (see Figure B-1).

When the home is sold, the proceeds of the sale go first to paying off the remaining balance on the modified loan. The remaining proceeds are split between the homeowner and the investor, with the exact nature of the split determined by the SAM contract (see Table B-1 for an overview of design considerations in a SAM). Assuming that split is based solely on the appreciation in a home's value from modification to sale ($50,000 in this example), the investor will receive $12,500 and the homeowner will receive the remaining proceeds of $57,500. The homeowner's share of proceeds in this example comes from three different sources of equity:

- $5,000 initial equity created at the time of modification;
- $37,500 from the 75 percent share of the home's appreciation in value; and
- $15,000 from the pay-down of the modified mortgage from $95,000 to $80,000.

The shared appreciation arrangement is designed to address concerns about moral hazard by raising the cost of the modification to borrowers and to reduce the net cost to investors by granting them some future claim on home appreciation to offset the loss they experienced from the principal reduction. With respect to moral hazard, the prospect of sharing future home appreciation with a third party may be sufficient to dissuade some nondistressed homeowners from seeking a principal forgiveness option using shared appreciation. The strength of that deterrent depends on a number of factors, including the borrower's

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[37] For references to the use of shared appreciation in modifications, see Andrew Caplin and others, *Facilitating Shared Appreciation Mortgages to Prevent Housing Crashes and Affordability Crises*, Discussion Paper 2008-12 (Brookings Institution, The Hamilton Project, September 2008), www.brookings.edu/research/papers/2008/09/mortgages-caplin; John Griffith and Jordan Eizenga, *Sharing the Pain and Gain in the Housing Market* (Center for American Progress, March 2012), www.americanprogress.org/issues/housing/report/2012/03/29/11251/sharing-the-pain-and-gain-in-the-housing-market; and Sanjiv R. Das, "The Principal Principle," *Journal of Financial and Quantitative Analysis* (forthcoming), http://dx.doi.org/10.1017/S0022109012000506.

[38] Jon Prior, "Ocwen Reduces Principal on Old Saxon Mortgages," *HousingWire* (September 7, 2012), www.housingwire.com/news/ocwen-slashes-principal-old-saxon-mortgages.

expectations for future home appreciation. If borrowers expect rapid appreciation, the prospect of sharing that growth with an investor may far outweigh the prospect of receiving a reduction in their loan balance today. However, if borrowers expect home prices to grow slowly (or to continue to decline), the future cost of sharing that appreciation may be somewhat low, reducing the effectiveness of SAMs in mitigating moral hazard.

From the investor's perspective, the value of a shared appreciation modification depends on the expectation of borrowers' behavior and the future path of home prices. For investors to collect on their share of appreciation granted under the SAM, two things must happen. First, the home must appreciate in value enough to generate a claim. Second, some event must take place that triggers the termination of the SAM contract, such as the sale of the home. The combination of those two factors will affect not only the amount that the investor collects at some point in the future but also the value the investor places on the contract at the time of the modification.[39] For example, if the homeowner sells the home shortly after the SAM is put in place, the amount of appreciation (and the investor's share) is likely to be limited. However, the investor will receive that share quickly, which increases the present value of the expected future cash flows to the investor. But if the homeowner remains in the home for several years, the probability of future home price increases may be higher.[40] The present value of those increases may be lower, however, given that they will not be collected for many years (see Table B-2 for a stylized example of SAM investor cash flows).

Investors must also address a number of issues in implementing a shared appreciation modification program, including the following:

- Legal contracts to clearly define the rights and responsibilities of the investor and the homeowner;
- Educational materials to enhance consumers' understanding of their contractual obligations; and
- Technological and operational changes to acquire, track, report, and terminate SAM interests.

[39] The presence of a SAM would reduce net losses for the investor from offering a principal forgiveness modification. The extent of that reduction would depend on the value placed on the SAM claim at the time of initiation.

[40] In most models that project home prices, those prices depend on the expected future value as well as the volatility of those values. Both factors will play a role in how an investor values a SAM at the time the contract is initiated.

Appendix C

Modeling Approach and Assumptions

All results in this paper were derived using the Congressional Budget Office's (CBO's) macroeconomic forecast and models of mortgage defaults and prepayments. Estimates of costs were developed from those models using standard financial techniques. This appendix briefly describes those models and techniques as well as adjustments made to reflect the unique nature of the specific policy options analyzed in this paper.

Modeling Mortgage Performance

CBO estimated statistical models of prepayment, default, and loss-given-default using data provided by the Federal Housing Finance Agency (FHFA) and the Federal Housing Administration (FHA). The prepayment and default models were developed using a sample of approximately 2.2 million single-family mortgages guaranteed by the government-sponsored enterprises (GSEs), Fannie Mae and Freddie Mac, over the 1989–2011 period. The models use the set of static and dynamic explanatory variables contained in Table C-1 to predict the conditional probability that a mortgage will prepay or default during a particular quarter.[41]

As measured by the model, default is defined as a borrower missing three consecutive mortgage payments and thus becoming 90-days delinquent on the loan. Because not all borrowers who miss three payments ultimately result in a guarantee claim against the GSEs, default rates generated by CBO's model are reduced before a loss is calculated. CBO used the following transition rates from delinquent status to default:

- Borrowers who were current at the time of the modification decision have a 50 percent transition rate from a subsequent 90-day delinquency to default;
- Borrowers who were 30 to 59 days delinquent at the time of the modification decision have a 60 percent transition rate from a subsequent 90-day delinquency to default;
- Borrowers who were 60 to 89 days delinquent at the time of the modification decision have a 70 percent transition rate from a subsequent 90-day delinquency to default;
- Borrowers who were 90 to 119 days delinquent at the time of the modification decision have a 80 percent transition rate from a subsequent 90-day delinquency to default;
- Borrowers who were 120 to 179 days delinquent at the time of the modification decision have a 90 percent transition rate from a subsequent 90-day delinquency to default; and

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[41] Static variables are based on a single observation captured either at the time of a loan's origination or modification. Dynamic variable values change over the life of the mortgage and are updated each period to reflect the latest values.

- Borrowers who were 180 or more days delinquent at the time of the modification decision have a 100 percent transition rate from a subsequent 90-day delinquency to default.

Those transition rates are higher than standard transition rates for borrowers moving from delinquency to default.[42] However, a higher transition rate is consistent with the assumption that borrowers with previous delinquency (which, in this case, was resolved through a modification) are more likely to default than those who have not missed a prior mortgage payment.

CBO made an additional adjustment to the default model to reflect the potential that borrowers with a modified loan may be more sensitive to debt-to-income (DTI) ratios than the population as a whole. That adjustment, which was used to calibrate the parameters of the default model, involved doubling the coefficient of the DTI parameter in the default equation. That change was designed to yield 1-year default rates for the Home Affordable Modification Program (HAMP) policy option in line with redefault rates published by the Department of the Treasury and the Office of the Comptroller of the Currency for loans modified under the program. In tandem, CBO also adjusted the constant of the equation such that the projected default rates in the case of no modification were equal to those generated by the model without the adjustment to the DTI coefficient.

The loss-given-default model was developed using a sample of FHA mortgages terminated by a claim between 1990 and 2011, consisting of more than 800,000 claims. The model predicts the severity of the loss the GSEs will experience once a default occurs, using the set of static and dynamic parameters provided in Table C-2.

FHA data were used for the model because robust data on FHA claims was more readily available to CBO than claims information on the GSEs themselves. FHA severity is often higher than GSE severity as a result of the presence of private mortgage insurance on some GSE loans. In those cases, the GSEs' losses are reduced by claim payments from the mortgage insurers. FHA loans do not have private mortgage insurance policies, leaving FHA to bear the full amount of the loss in the event of a default. Although the impact of mortgage insurance depends on a number of factors—including the age of the loan, the original loan-to-value (LTV) ratio, and the coverage level of the policy—CBO made the simplifying assumption that GSE severity rates would be 30 percent lower than the rates generated by the loss-given-default model based on FHA claims. That assumption reflects a relatively high percentage of loans having an amount of mortgage insurance coverage consistent with a high LTV ratio at origination.

In addition, CBO calibrated the current loan-to-value parameter of the loss-given-default model to produce a loss equal to approximately 20 percent of the current value of the home. That 20 percent loss reflects a weighted average outcome across all potential dispositions (including foreclosure, short sale, or other future loss-mitigation action) and includes expected settlement charges, disposition costs, and the value of mortgage insurance coverage, if any.

[42] For example, see Federal Reserve Bank of New York, *Quarterly Report on Household Debt and Credit* (August 2012) for transition rates from delinquencies of 30 to 60 days to delinquencies of 90 days or more.

Cash Flows and the Calculation of Subsidy Cost

CBO used the outputs of the prepayment, default, and loss-given-default models to generate quarterly cash flows for each group of borrowers. Those cash flows provided the foundation for calculating the expected subsidy cost to the government for a loan under current policy and under each option.

The subsidy cost to the GSEs of a loan held by investors is equal to the cost of the guarantee provided by the GSEs minus the present value of fees collected by the enterprises and the cost of any concessions provided on those loans. For the analysis, CBO assumed that the GSEs would collect a 0.25 percent annual guarantee fee on all loans and would not collect any upfront fees as a part of the modification process. Because fees collected (other than upfront fees) expose investors to the same risk as unguaranteed cash flows, those quarterly fee cash flows are discounted at the same rate as the cash flows associated with the loan without a guarantee.

In addition to the subsidy cost incurred by the GSEs in restructuring loans held by investors, CBO estimated the cost associated with incremental modifications created by a change in modification policy on the mortgage-backed securities (MBSs) held directly by the GSEs, the Treasury, and the Federal Reserve. For that cost, CBO estimated that the modified loans were in securities with a current market value that is 2 percentage points above par or principal value and that one-half of all incremental modifications were made to loans contained in MBSs held in the portfolios of federal investors. For example, Option 3 generated 57,000 incremental modifications, or $11 billion of MBS balances, in CBO’s central estimate. On the basis of a loss of 2 percentage points and a federal share of 50 percent, those incremental modifications created a budgetary cost of $0.10 billion. Losses on MBSs held in the portfolios of federal investors are smaller under Option 1 ($0.06 billion) and Option 2 ($0.05 billion), respectively. Those amounts, along with the $80 million in operational costs to implement principal forgiveness, were added to the subsidy cost to calculate the net increase or decrease in the budget deficit under each option.

CBO calculated the fair-value subsidy cost to the GSEs of a guarantee on a loan held by investors as the difference between the present value of the loan with a guarantee reimbursing the investor for credit losses and the present value of that same loan without a guarantee.[43] The investor in the loan with a full credit guarantee receives scheduled payments of principal and interest, prepaid principal, and defaulted principal in each period. The investor in the loan without the guarantee receives payments of scheduled principal and interest, prepaid principal, and any recoveries received from defaulted principal in each period.

Finally, the subsidy cost also captures the effect of concessions made to the borrower as a part of the modification. For interest rate reductions offered under HAMP and under the HAMP Principal Reduction Alternative (PRA), CBO based the cost on the difference between the modified note rate during the first five years and 5 percent, a proxy for an unsubsidized interest rate for a modified borrower. At the end of five years, when the borrower’s note rate is reset to the current market rate, the cost of the interest rate reduction was set to zero. For principal forgiveness to 100 percent and 90 percent LTV ratios, when

[43] That approach is consistent with financial methods included in standard texts such as Richard A. Brealey, Stewart C. Myers, and Franklin Allen, *Principles of Corporate Finance*, 5th ed. (McGraw-Hill, 1996), pp. 669-670.

borrowers are given a 5 percent note rate as a part of the modification, the interest rate concession was set to zero. For all principal forgiveness modifications, the cost of forgiven principal was included in the subsidy cost calculation. Loans that were not modified were assumed to remain in the pools backing the MBSs issued by the GSEs. Thus, for unmodified loans, the subsidy cost includes credit losses net of the guarantee fees received by the GSEs, but the 6 percent rate paid by the borrower minus the guarantee and other fees is assumed to accrue to MBS investors.

The discount rate used to calculate the present value of all quarterly cash flows is an estimate of the rate of return that mortgage investors require to invest in mortgages with or without a credit guarantee. For the guaranteed loan, the only uncertainty the investor has is the level of prepayments that may occur as the loan matures. Thus, guaranteed loan cash flows are discounted at a risk-free rate plus a premium to compensate investors for the risk of prepayments. In this analysis, the risk-free rate was set at 2 percent per year and the additional risk premium for bearing prepayment risk was set at 0.50 percent per year. For the loan without a guarantee, the investor is exposed to prepayment risk and market risk associated with the number of defaults and recoveries that may occur because of worse-than-expected macroeconomic conditions. Given that additional market risk, cash flows from the unguaranteed loan are discounted at a combination of the risk-free rate (2 percent per year), the prepayment risk premium (0.50 percent per year), and an additional market risk premium. For this analysis, the market risk premium was set on the basis of the expected number of lifetime cumulative defaults projected for the individual group of borrowers (with a cap at 50 percent lifetime cumulative defaults) and ranged from 0.40 percent per year (in line with CBO's estimate for the entire portfolio of GSE guarantees) to more than 2.40 percent per year (see Figure C-1).

Adjustments for Policy Options

For each policy option, a distinct set of loan cash flows was generated for each group of loans. Those cash flows depend on the terms of the modification, which changes either the amortization schedule or borrowers' behavior—specifically, their propensity to prepay or default.

CBO's model was adapted for each group by adjusting the values of the key parameters pertaining to each modification program. The model includes variables related to the borrower's interest rate (expressed as a spread above current market rates), the original and current LTV ratios of the mortgage, and the borrower's DTI ratio. Policy options can affect some or all of those variables. For example, a HAMP modification lowers the interest rate spread, lowers the DTI ratio, leaves the postmodification LTV ratio unchanged, and may slightly reduce or increase future LTV ratios depending on what happens to the term of the mortgage. (See Table C-3 for an overview of key loan-level features changed for each policy option before the calculation of subsidy cost.)

CBO made a number of other assumptions that affected the cash flows:

- All loans were assumed to have an unpaid principal balance at the time of the modification of $200,000.
- Borrowers' interest rates were assumed to be 6 percent prior to modification. Postmodification rates were set to 5 percent for principal forgiveness loans. For HAMP and HAMP PRA loans, mortgage rates were set according to the HAMP waterfall process and were reset to the current

market rate after five years. The impact of that interest rate reduction is included in CBO's subsidy cost calculation.

- For HAMP and HAMP PRA loans for which forbearance was required to reach the target postmodification monthly payment, that forbearance was valued at 25 percent of the total amount, reflecting both a probability that some forborne principal would not be collected because of borrower default and that any amount collected would occur in the future and need to be discounted to a present value.

- For HAMP PRA, incentive payments made by the Treasury to reimburse the GSEs for principal forgiven are not included given that they have no net impact on the deficit.

- In all principal forgiveness options, CBO assumed that the forgiveness would be earned over a three-year period of on-time payment. If the borrower defaults prior to the completion of that three-year period, the amount of principal forgiven would be added back into the current loan amount to determine the borrower's total mortgage indebtedness.

- All modified loans were assumed to perform like newly originated loans (with the interest rate, monthly payment, and LTV ratio created by the modification) for the purposes of calculating prepayment and default probabilities postmodification. Although that assumption ignores the impact of mortgage age on those probabilities, it does recognize that borrower performance would probably change from the original loan as a result of the concessions granted by the modification.[44] To keep cash flow calculations consistent with modified loans, unmodified loans were also assumed to have no payment history. (Alternative scenarios, assuming some payment history for the loans before the modification decision, did change the total subsidy costs for each policy option but did not materially change the relative cost differences across those scenarios.)

Borrowers' Eligibility, Participation, and Loan Characteristics

For its analysis, CBO estimates that under current policy approximately 20 percent of underwater borrowers would meet the standard HAMP eligibility criteria, amounting to approximately 610,000 loans with an unpaid principal balance of $122 billion. The 20 percent estimate and $200,000 average loan size are based on CBO's analysis of FHFA's review of the potential effects of implementing principal forgiveness at the GSEs. [45] In that review, 497,000 loans with a balance of $99.3 billion had an LTV ratio exceeding 115 percent and met other HAMP eligibility criteria as of June 30, 2011. That amount represents approximately 20 percent of the total population of $488.7 billion of loans with LTV ratios above 115 percent at that same date.

CBO uses the population of GSE-backed loans with negative equity ($608 billion, and approximately 3.0 million borrowers as of December 31, 2012) as a starting point for its estimate of the population of

[44] Mortgage age, or the number of periods since loan origination, is a factor in many mortgage prepayment and default models. Generally, prepayment and default rates increase in the initial years after origination before leveling out or decreasing as the loan ages.

[45] Federal Housing Finance Agency, *Appendix to FHFA Review of Options*, www.fhfa.gov/Default.aspx?Page=403.

potentially HAMP-eligible borrowers. From that portfolio, borrowers expected to be eligible for HAMP ($122 billion) or to refinance and those that fail other HAMP eligibility criteria (including owner-occupancy, a current DTI ratio greater than 31 percent, and a positive net-present-value, or NPV, test result) must be removed. As a final step, CBO used loan-level data provided by FHFA to approximate the size and distribution by key borrower and loan characteristics of remaining loans. That analysis resulted in an estimate that an additional 18 percent of the population of underwater borrowers ($110 billion, and 550,000 loans) could become eligible for a principal forgiveness modification with the same eligibility criteria as standard HAMP by becoming delinquent.

CBO estimated rates of participation by borrowers on the basis of the size of the concession they would receive, with either a larger reduction in DTI ratio or loan balance expected to produce a higher participation rate. FHFA's review of the potential effect of implementing principal forgiveness at the GSEs is in line with CBO's estimate that nearly 40 percent of eligible loans, or 227,000 borrowers and $45 billion in unpaid principal, will be modified. According to that information, approximately 25 percent to 30 percent of delinquent borrowers with high LTV and DTI ratios will receive a permanent modification within one year. However, FHFA and the GSEs expect that rate to rise as high as 50 percent as a result of servicer process improvements. The borrowers who do not receive a permanent modification include those who do not apply for a modification, those who do not receive a positive NPV test, and those who do not successfully complete their trial modification. In this analysis, CBO did not attempt to quantify the impact of those different factors on reducing overall participation.

Although that amount of participation over two years represents an increase over the estimated 192,000 HAMP modifications the GSEs would perform on the basis of completed permanent modifications through the first eight months of 2012 (at approximately 8,000 per month), it is consistent with FHFA's expectation that participation rates are expected to increase as servicers improve their borrower outreach and processing capabilities as HAMP matures.[46]

For potentially HAMP-eligible borrowers, CBO employed additional steps beyond those already used with the HAMP-eligible population for each modification. First, participation in standard HAMP was set to zero to recognize that borrowers in that population have opted not to pursue a modification that does not offer principal forgiveness in spite of the level of participation expected on the basis of the concessions offered by HAMP. Second, participation in each principal forgiveness modification was set equal to the difference between expected participation in the principal forgiveness modification and expected participation in standard HAMP based on the concessions offered by each program (with a floor of zero percent). That adjustment is designed to set participation in principal forgiveness as an increment to HAMP participation resulting from the introduction of concessions that reduce loan balances rather than monthly payments alone.

For example, borrowers with a premodification LTV ratio of 180 percent and DTI ratio of 60 percent would be expected to have a participation rate of 47 percent in HAMP and 72 percent in principal

[46] Federal Housing Finance Agency, *Foreclosure Prevention Report* (August 2012), www.fhfa.gov/Default.aspx?Page=172.

forgiveness to 100 percent LTV, implying 25 percent of borrowers with those characteristics who are in the potentially HAMP-eligible population would participate in principal forgiveness to 100 percent LTV.

The distribution of borrowers' characteristics is as important as the total number of participants. The distribution for the HAMP-eligible population would match the distribution of borrowers with GSE-backed loans who have received a positive result from the HAMP NPV model under HAMP to date, CBO projects. [47] Although the NPV test used for standard HAMP would need to be modified to accommodate a principal forgiveness modification program, CBO's analysis suggests that those revised tests would not result in a significantly different profile of loans receiving a positive result.

In total, HAMP-eligible borrowers were classified into 432 distinct groups, representing the combination of six current LTV ratios (100 percent, 120 percent, 140 percent, 160 percent, 180 percent, and 200 percent), four credit scores (600, 660, 700, and 740), six delinquency categories (current, 30 days, 60 days, 90 days, 120 days, and 180 days), and three DTI ratios (40 percent, 60 percent, and 80 percent) (see Table C-4).

The composition of the borrowers expected to seek a principal forgiveness modification from outside the expected HAMP-eligible population under current policy is based on two factors. First, some portion of the borrowers are expected to share characteristics (including current LTV ratio, credit score, and DTI ratio) with the population of borrowers already eligible for HAMP, with the sole distinction being that they were not expected to become delinquent prior to the introduction of the principal forgiveness modification program. That overlap would come largely from the less-distressed segments of the HAMP-eligible population, as the more-distressed borrowers would most likely already have taken advantage of standard HAMP. Second, a different portion of the population would come from borrowers with higher credit scores and lower DTIs than the HAMP-eligible segment.

The population of potentially HAMP-eligible borrowers was further classified into 80 distinct groups, representing the combination of four current LTV ratios (100 percent, 120 percent, 150 percent, and 180 percent), five credit scores (600, 660, 700, 750, and 780), and four DTI ratios (34 percent, 38 percent, 45 percent, and 60 percent). Although those borrowers must become delinquent to qualify for a modification, all borrowers were considered to be nondelinquent for evaluation in CBO's statistical model (see Table C-5).

[47] HAMP records were compiled by the Department of the Treasury, *Making Home Affordable Data Files*, www.treasury.gov/initiatives/financial-stability/results/Pages/mha_publicfile.aspx. CBO's tabulations exclude non-GSE loans, adjustable-rate loans, loans with a current LTV ratio of less than 100 percent or greater than 300 percent, and loans with a mortgage debt-to-income ratio greater than 100 percent.

Appendix D

Policy Options Under Alternative Assumptions

The Congressional Budget Office (CBO) examined the sensitivity of subsidy costs to alternative assumptions about various factors, including the following:

- Delinquency and participation rates,
- Changes in monthly payments,
- Changes in loan-to-value (LTV) ratios, and
- Alternative market risk premiums.

Sensitivity to Delinquency and Participation Rates

Borrowers who are potentially eligible for the Home Affordable Modification Program (HAMP), or borrowers who meet all HAMP eligibility criteria except for the fact that they not delinquent or deemed at risk of default today, may be less likely to become delinquent in the absence of a program of principal forgiveness than CBO's models predict. CBO tested three different scenarios, in each case reducing conditional per-period default rates for potentially HAMP-eligible borrowers who do not receive a modification to 50 percent of CBO's central estimate. In the first scenario, only the reduction in default rates was done. In the second and third scenarios, the default rate reduction was combined with increased participation by those borrowers in principal forgiveness modifications under Options 1, 2, and 3. The second scenario set participation rates to a level consistent with borrowers, rather than Fannie Mae and Freddie Mac (the government-sponsored enterprises, or GSEs), having control of the selection of which modification offer they receive; that treatment served as a proxy for a situation in which the GSEs are less effective at assigning borrowers to the lowest-cost modification. In the third scenario, borrowers are again assumed to select the modification, and participation was set at twice the level implied by the standard equation.

In all cases, costs to the government under current policy and Options 1 to 3 declined as the costs associated with potentially HAMP-eligible borrowers who do not receive a modification dropped (see Table D-1). However, the cost under standard HAMP decreased more as all potentially HAMP-eligible borrowers remain unmodified and receive the lower conditional default rates, CBO estimates. When those default rate decreases are combined with additional participation in principal forgiveness in the second scenario, the budgetary savings associated with Option 1 disappear and with Option 3 decrease significantly. Under the third scenario, the savings found in CBO's central estimate no longer exist for either Options 1 or 3 and decrease to $1.3 billion under Option 2.

Sensitivity to Changes in Monthly Payments

Alternatively, borrowers may be more or less sensitive to changes in their monthly payment. One method for assessing those concerns is to adjust the borrower's expected propensity to default after a change in the postmodification debt-to-income (DTI) ratio in the behavioral model, both decreasing it by 50 percent and increasing it by 100 percent and then recalculating the total subsidy cost.

When borrower sensitivity is cut in half, the subsidy cost of all modifications increases. That increase is a function of borrowers being less prone to avoid default as a result of the reduction in their DTI ratio created by a modification, though the cost of that modification remains the same. When borrower sensitivity to the postmodification DTI ratio is increased, all modifications generate lower subsidy costs, as fewer borrowers are projected to default because of the lower mortgage payment created by the modification. In both cases, the relative cost of Options 1 to 3 remains at or below that of standard HAMP alone. That advantage narrows slightly with lower sensitivity and increases slightly with higher sensitivity.

Sensitivity to Changes in Loan-To-Value Ratios

A similar exercise was performed to examine the change in subsidy costs when borrower sensitivity to LTV ratios is both halved and doubled. With borrowers less sensitive to LTV under all policy options, all modifications show a reduction in total subsidy costs for this population of high LTV loans. That improvement is a result of the expectation that a high LTV ratio will be less of a factor in a borrower's decision to default once his or her sensitivity to that variable is decreased in CBO's model. When sensitivity to LTV was doubled, total subsidy costs for current policy and all policy options increased. In both cases, the relative cost difference between standard HAMP and principal forgiveness narrowed, but not enough to make HAMP alone a less costly alternative to an option that augments HAMP with principal forgiveness.

Sensitivity to Alternative Market Risk Premiums

CBO calculated the cost of the policy alternatives on a fair-value basis, which can be interpreted as an estimate of the price that a competitive private investor would charge as a market risk premium to take on the taxpayers' obligations under each policy. [48] Setting higher market risk premiums for loans with higher expected default rates is consistent with research and industry practice.[49] That practice benefits policy options that produce lower default rates, like principal forgiveness to 90 percent LTV, relative to those, like HAMP, that result in higher postmodification default rates, because the effect of market risk premiums on subsidy costs is greater when those premiums are large and the value of future payments is heavily discounted. That benefit is relatively small for borrowers with low LTV ratios, for whom the relative difference between principal forgiveness and HAMP default rates are small. That benefit increases, however, when borrowers' LTV ratios increase and the relative difference in lifetime default rates between policy options widens.

If the degree to which the market risk premium increases as expected defaults increase is reduced, total subsidy costs drop for all policy options as the compensation private investors would demand is lower. In addition, the advantage of principal forgiveness to standard HAMP declines for Options 2 and 3 (while remaining nearly the same for Option 1), as higher default rates have a smaller impact on the risk premium. If investors' sensitivity to higher expected default rates is increased, that pattern reverses as

[48] Congressional Budget Office, *Fair-Value Accounting for Federal Credit Programs* (March 2012), www.cbo.gov/publication/43027.

[49] See John Hull, Mirela Prediscu, and Alan White, "Bond Prices, Default Probabilities, and Risk Premiums," *Journal of Credit Risk*, vol. 1, no. 2 (Spring 2005), pp. 53–60, www-2.rotman.utoronto.ca/~hull/DownloadablePublications/CreditSpreads.pdf.

total subsidy costs for all scenarios increase and the relative advantage of the lower-default principal forgiveness options widens against standard HAMP.

Appendix E

Comparing CBO's and FHFA's Methodologies and Results

On July 31, 2012, the Federal Housing Finance Agency (FHFA) released an analysis of expected losses and benefits to the government for a portfolio of underwater borrowers with government-sponsored enterprise (GSE)-backed loans receiving a modification through standard HAMP (the Home Affordable Modification Program) and the HAMP Principal Reduction Alternative (PRA).[50] Although estimates from both FHFA and the Congressional Budget Office (CBO) show that loan modifications through HAMP PRA would be less costly than HAMP, CBO's estimates are quite different in magnitude because of differences in the agencies' modeling choices and policy assumptions. To illustrate the effect of those differences, CBO reconciled its analysis with FHFA's in a sequence of steps. (For a summary of the effect of each of those changes on the estimated cost of each policy option, see Table E-1.)

- **Modification Policy:** Moving to a policy whereby the GSEs replace, rather than augment, standard HAMP with a principal forgiveness modification increases the number of modifications completed (because participation rates are generally higher for principal forgiveness relative to HAMP) and increases the total cost to the GSEs (because the GSEs are no longer able to offer HAMP to borrowers when it lowers the expected cost). However, because the cost difference between standard HAMP and a principal forgiveness alternative averages less than $20,000 per loan, that policy change has only a small effect on the relative value of each policy option in CBO's analysis.

- **Population Adjustment:** Adjusting CBO's population of borrowers receiving a modification to be more consistent with FHFA's—by removing potentially HAMP-eligible borrowers, removing loans with a loan-to-value (LTV) ratio of less than 115 percent, and increasing participation to 100 percent under all modification policy options—increases the subsidy cost as a percentage of the loan's balance for both no-modification and all-modification scenarios.[51] Removing potentially-HAMP eligible borrowers and those with LTVs of less than 115 percent had the greatest impact in raising relative subsidy costs as those less-risky borrowers tend to have a lower per-loan subsidy cost than borrowers with higher LTVs or some evidence of financial distress.

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[50] Federal Housing Finance Agency, *Review of Options Available for Underwater Borrowers and Principal Forgiveness* (July 2012), www.fhfa.gov/Default.aspx?Page=403.

[51] FHFA, with access to nonpublic loan-level data from the GSEs, based its analysis on a population of current and delinquent loans as of June 2011 with marked-to-market LTV ratios above 115 percent, resulting in 497,000 HAMP-eligible loans with an unpaid balance of $99.3 billion in Analysis 11. CBO, on the other hand, used publically available data from the GSEs as of the fourth quarter of 2012 and included borrowers with marked-to-market LTV ratios above 100 percent, yielding a population of 740,000 HAMP-eligible loans with an unpaid balance of $148 billion and 670,000 potentially HAMP-eligible loans with an unpaid balance of $134 billion. CBO's inclusion of borrowers with LTV ratios between 100 percent and 115 percent and borrowers who are not currently HAMP-eligible because of their delinquency status creates both a different sized portfolio for analysis and, undoubtedly, a different mix of borrowers based on important characteristics such as current LTV ratio, credit score, and debt-to-income ratio.

With those adjustments, standard HAMP still produces higher relative subsidy costs than no modification and each principal forgiveness option.

- **Default Loss Estimates:** On the basis of a review of the HAMP net-present-value (NPV) model that FHFA used in its analysis, CBO concludes that a number of elements of that model yield different results than the statistical models used in CBO's own analysis. In particular, FHFA's default equation appears to produce slightly lower default rates for borrowers who do not receive a modification and even lower results for borrowers who do receive a modification. In addition, the HAMP NPV severity model appears to produce higher losses given default than CBO's model.

- **Discount Rates:** The use of a single discount rate in the HAMP NPV model equal to the Freddie Mac Primary Mortgage Market Survey weekly rate for 30-year fixed-rate conforming loans, rather than a rate used by CBO that adds a risk premium to the Treasury rate that changes with the number of expected defaults, has two effects. First, it provides an advantage to standard HAMP compared with no modification. Both scenarios produce high default rates relative to principal forgiveness and, therefore, receive essentially the same high risk premium under CBO's approach. However, default rates under the no-modification scenario are much higher, and those defaults occur sooner than under standard HAMP. As a result, more cash flows are received in the earlier years, making the impact of a higher discount rate much smaller than under standard HAMP, in CBO's analysis. Removing that risk premium in the HAMP NPV model makes both scenarios look less expensive but provides a greater improvement to standard HAMP than no modification. Second, the use of a single discount rate provides a relative advantage to standard HAMP and HAMP PRA, which yield higher expected defaults and receive a higher risk premium under CBO's approach, than principal forgiveness under Options 2 and 3. Once again, removing that risk premium in the HAMP NPV model benefits both standard HAMP and all policy options but provides a larger benefit to HAMP and HAMP PRA.

- **Other Considerations:** Removing fee income from the subsidy cost calculation slightly increases the cost for each modification option but does not have a significant impact on the difference in cost across options.

Taken together, those adjustments bring CBO's estimates much closer to those reported by FHFA for the no-modification, HAMP, and HAMP PRA policies. Principal forgiveness to 100 percent of a home's value continues to show savings relative to HAMP after those adjustments. In contrast, principal forgiveness to 90 percent of a home's value produces a cost nearly equal to that of standard HAMP after those adjustments, removing the savings obtained in CBO's central estimate.

Table 1.
CBO's Central Estimates of the Impact of the GSEs' Current Policy and Three Options Involving Principal Forgiveness

	Current Policy: Standard HAMP	Option 1: Standard HAMP or HAMP Principal Reduction Alternative	Option 2: Standard HAMP or Principal Forgiveness to 100 Percent of a Home's Value	Option 3: Standard HAMP or Principal Forgiveness to 90 Percent of a Home's Value
Standard HAMP Modifications[a]	227,000	69,000	39,000	63,000
Principal Forgiveness Modifications[a]	n.a.	187,000	214,000	221,000
Total Number of Modifications[a]	227,000	256,000	253,000	284,000
Number of Defaults[a]	599,000	581,000	556,000	504,000
Net Increase or Decrease (-) in the Budget Deficit Relative to Current Policy (Billions of 2013 dollars)	n.a.	-0.2	-2.8	-2.2

Source: Congressional Budget Office.

Notes: The HAMP Principal Reduction Alternative involves lowering the monthly mortgage payment to 31 percent of gross monthly income primarily by reducing the outstanding loan balance to as low as 115 percent of a home's current assessed value.

The central estimates are based on CBO's values for key parameters of relevant economic behavior (such as the sensitivity of defaults to additional incentives offered under principal forgiveness, changes in monthly payments, or changes in loan-to-value ratios) and the sensitivity of private investors to losses that cannot be avoided through diversification (known as market risk).

GSE = government-sponsored enterprise (specifically, Fannie Mae and Freddie Mac); HAMP = Home Affordable Modification Program; n.a. = not applicable.

a. Out of 1.2 million eligible or potentially eligible borrowers

Table 2.
Number of Residential Mortgages, Fourth Quarter of 2012

	Total	Loans Owned or Guaranteed by Fannie Mae or Freddie Mac	Percentage Owned or Guaranteed by Fannie Mae or Freddie Mac
Seriously Delinquent Loans[a]			
Loan-to-value ratio of 100 percent or greater	1,560,000	390,000	25
Loan-to-value ratio of less than 100 percent	1,720,000	540,000	31
Not Seriously Delinquent Loans			
Loan-to-value ratio of 100 percent or greater	8,840,000	2,650,000	30
Loan-to-value ratio of less than 100 percent	36,250,000	24,880,000	69
Total	48,370,000	28,460,000	59
Memorandum:			
Total with Loan-to-Value Ratio of 100 Percent or Greater	10,400,000	3,040,000	29
Fannie Mae or Freddie Mac Loans Eligible for Principal Forgiveness [b]	n.a.	610,000	n.a.
Fannie Mae or Freddie Mac Loans Potentially Eligible for Principal Forgiveness[c]	n.a.	550,000	n.a.

Sources: Congressional Budget Office; CoreLogic; Mortgage Bankers Association.

Note: n.a. = not applicable.

a. Seriously delinquent borrowers are 90 days or more past due on their mortgage payments or are in the process of foreclosure.

b. Fannie Mae or Freddie Mac loans eligible for principal forgiveness are loans held by borrowers who meet all Home Affordable Modification Program (HAMP) eligibility criteria, including debt-to-income ratios greater than 31 percent and evidence of financial distress.

c. Fannie Mae or Freddie Mac loans potentially eligible for principal forgiveness are loans held by borrowers who meet all HAMP eligibility criteria but do not show evidence of financial distress.

Table 3.
Overview of Home Affordable Modification Program and Principal Forgiveness Modifications

	Standard HAMP	HAMP Principal Reduction Alternative	Principal Forgiveness to 100 Percent of a Home's Value	Principal Forgiveness to 90 Percent of a Home's Value
Target	Reduce borrower's monthly mortgage payment to 31 percent of monthly gross income	Reduce borrower's monthly mortgage payment to 31 percent of monthly gross income	Reduce borrower's unpaid mortgage principal balance to 100 percent of current home value	Reduce borrower's unpaid mortgage principal balance to 90 percent of current home value
Payment Reduction Mechanism	• Step 1: Capitalize accrued interest and other fees owed by the borrower • Step 2: Reduce loan interest rate to a floor of 2% • Step 3: Extend loan term to a maximum of 40 years (if necessary) • Step 4: Forbear principal into a non-interest bearing, non-amortizing balloon loan (if necessary)	• Step 1: Capitalize accrued interest and other fees owed by the borrower • Step 2: Reduce principal to a floor of 115 percent of current home value • Step 3: Reduce loan interest rate to a floor of 2% (if necessary) • Step 4: Extend loan term to a maximum of 40 years (if necessary) • Step 5: Forbear principal into a non-interest bearing, non-amortizing balloon loan (if necessary)	• Step 1: Capitalize accrued interest and other fees owed by the borrower • Step 2: Reduce principal to 100 percent of current home value	• Step 1: Capitalize accrued interest and other fees owed by the borrower • Step 2: Reduce principal to 90 percent of current home value
Borrower Advantages Relative to Standard HAMP		• Principal reduction to 115 percent	• Principal reduction to 100 percent • Unlike HAMP and HAMP PRA, which reset the borrower's interest rate to a market rate after five years, the full monthly mortgage payment reduction remains beyond five years	• Principal reduction to 90 percent • Unlike HAMP and HAMP PRA, which reset the borrower's interest rate to a market rate after five years, the full monthly mortgage payment reduction remains beyond five years
Borrower Disadvantages Relative to Standard HAMP		• Tax burden associated with forgiven principal		
Advantages to the Government Relative to Standard HAMP		• Improved performance on mortgage as a result of improved equity		
Disadvantages to the Government Relative to Standard HAMP		• Lost principal from forgiveness		

Source: Congressional Budget Office.

Note: HAMP = Home Affordable Modification Program.

Table 4.
Design Considerations Used in CBO's Analysis of Principal Forgiveness Modifications

Design Consideration	Assumption in CBO's Analysis
Amount of Principal Forgiveness	Postmodification loan-to-value ratios would be as low as 115 percent for Home Affordable Modification Program Principal Reduction Alternative and 100 percent or 90 percent for stand-alone principal forgiveness modifications
Approaches to Reduce Moral Hazard	Program features designed to target borrowers experiencing greater financial distress
Eligibility	Delinquent borrowers and current borrowers who provide evidence of financial distress and have a current debt-to-income ratio greater than 31 percent are eligible; no cap on the number of months of delinquency; only owner-occupants are eligible; no explicit restrictions with respect to credit score
Prepayment or Default After Modification	Forgiven principal must be earned over a three-year period
The Role of Private Mortgage Insurers and Second-Lien Holders	A level of private mortgage insurer risk-sharing consistent with the modified loan; no explicit additional compensation is provided by second-lien holders
Operational Costs	Operational costs are set at $80 million
Timing	Modifications are completed over a two-year period

Source: Congressional Budget Office.

Table 5.
Impact of Different Modification Programs for an Illustrative Borrower

	No Modification	Standard HAMP	HAMP Principal Reduction Alternative	Principal Forgiveness to 100 Percent of a Home's Value	Principal Forgiveness to 90 Percent of a Home's Value
Home Value	$125,000	$125,000	$125,000	$125,000	$125,000
Monthly Income	$2,000	$2,000	$2,000	$2,000	$2,000
Loan Balance	$200,000	$200,000	$143,750	$125,000	$112,500
Loan Interest Rate	6.00%	2.00%	3.25%	5.00%	5.00%
Loan Term (Months)	360	453	360	360	360
Monthly Payment	$1,199	$629	$629	$671	$604
Loan-to-Value Ratio	160%	160%	115%	100%	90%
Debt-to-Income Ratio	60%	31%	31%	34%	30%
Expected One-Year Default Rate	80%	17%	9%	5%	1%
Expected Three-Year Default Rate	97%	55%	33%	16%	5%
Expected Lifetime Default Rate	98%	89%	51%	31%	12%
Principal Forbearance	n.a.	n.a.	n.a.	n.a.	n.a.
Principal Forgiveness	n.a.	n.a.	$56,250	$75,000	$87,500
Expected Subsidy Cost	$97,502	$108,274	$107,881	$98,510	$97,299

Source: Congressional Budget Office.

Notes: The illustrative borrower is assumed to have a credit score of 660 and to be delinquent on his or her loan payments for 60 days.

The HAMP Principal Reduction Alternative involves lowering the monthly mortgage payment to 31 percent of gross monthly income primarily by reducing the outstanding loan balance to as low as 115 percent of a home’s current assessed value.

HAMP = Home Affordable Modification Program; n.a. = not applicable.

Table 6.
CBO's Central Estimates of the Impact of the GSEs' Current Policy and Three Options Involving Principal Forgiveness

(Billions of 2013 dollars)	Current Policy: Standard HAMP	Option 1: Standard HAMP or HAMP Principal Reduction Alternative	Option 2: Standard HAMP or Principal Forgiveness to 100 Percent of a Home's Value	Option 3: Standard HAMP or Principal Forgiveness to 90 Percent of a Home's Value
Total Number of Eligible and Potentially Eligible Borrowers	1,160,000	1,160,000	1,160,000	1,160,000
Modified Borrowers	227,000	256,000	253,000	284,000
Standard HAMP Modifications	227,000	69,000	39,000	63,000
Principal Forgiveness Modifications	n.a.	187,000	214,000	221,000
HAMP-Eligible Borrowers	227,000	249,000	241,000	279,000
Potentially HAMP-Eligible Borrowers	n.a.	7,000	12,000	5,000
Number of Defaults	599,000	581,000	556,000	504,000
Net Increase or Decrease (-) in Subsidy Cost from Current Policy	n.a.	-0.30	-2.90	-2.40
Portfolio Costs for Federal Investors[a]	n.a.	0.06	0.05	0.11
Operational Costs for the GSEs[b]	n.a.	0.08	0.08	0.08
Net Increase or Decrease (-) in the Budget Deficit Relative to Current Policy	n.a.	-0.16	-2.77	-2.21

Source: Congressional Budget Office.

Notes: The HAMP Principal Reduction Alternative involves lowering the monthly mortgage payment to 31 percent of gross monthly income primarily by reducing the outstanding loan balance to as low as 115 percent of a home's current assessed value.

The central estimates are based on CBO's values for key parameters of relevant economic behavior (such as the sensitivity of defaults to additional incentives offered under principal forgiveness, changes in monthly payments, or changes in loan-to-value ratios) and the sensitivity of private investors to losses that cannot be avoided through diversification (known as market risk).

Estimates are for GSE-selected modifications.

HAMP-eligible borrowers meet all HAMP eligibility criteria, including debt-to-income ratios greater than 31 percent and evidence of financial distress.

Potentially HAMP-eligible borrowers meet all HAMP eligibility criteria but do not show evidence of financial distress.

HAMP = Home Affordable Modification Program; GSE = government-sponsored enterprise (specifically, Fannie Mae and Freddie Mac); n.a. = not applicable.

a. Based on the cost of incremental modifications using a 2 percent premium on modified loans and a 50 percent share for federal investors in mortgage-backed securities containing modified loans.

b. Based on an $80 million cost to the GSEs for implementing principal forgiveness.

Table 7.
Effects of GSE- and Borrower-Selected Modifications on CBO's Estimates of the Number of Borrowers and the Federal Budget Deficit (Billions of 2013 dollars)

	Current Policy: Standard HAMP	Option 1: Standard HAMP or HAMP Principal Reduction Alternative	Option 2: Standard HAMP or Principal Forgiveness to 100 Percent of a Home's Value	Option 3: Standard HAMP or Principal Forgiveness to 90 Percent of a Home's Value
		Central Estimate with GSE-Selected Modifications		
Number of Modified Borrowers	227,000	256,000	253,000	284,000
HAMP-Eligible Borrowers[a]	227,000	249,000	241,000	279,000
Potentially HAMP-Eligible Borrowers[b]	n.a.	7,000	12,000	5,000
Net Increase or Decrease (-) in the Budget Deficit Relative to Current Policy	n.a.	-0.2	-2.8	-2.2
		Central Estimate with Borrower-Selected Modifications		
Modified Borrowers	227,000	273,000	337,000	425,000
HAMP-Eligible Borrowers[a]	227,000	263,000	300,000	340,000
Potentially HAMP-Eligible Borrowers[b]	n.a.	10,000	37,000	85,000
Net Increase or Decrease (-) in the Budget Deficit Relative to Current Policy	n.a.	0.1	-0.4	0.7

Source: Congressional Budget Office.

Notes: The HAMP Principal Reduction Alternative involves lowering the monthly mortgage payment to 31 percent of gross monthly income primarily by reducing the outstanding loan balance to as low as 115 percent of a home's current assessed value.

The central estimates are based on CBO's values for key parameters of relevant economic behavior (such as the sensitivity of defaults to additional incentives offered under principal forgiveness, changes in monthly payments, or changes in loan-to-value ratios) and the sensitivity of private investors to losses that cannot be avoided through diversification (known as market risk).

HAMP-eligible borrowers meet all HAMP eligibility criteria, including debt-to-income ratios greater than 31 percent and evidence of financial distress.

Potentially HAMP-eligible borrowers meet all HAMP eligibility criteria but do not show evidence of financial distress.

HAMP = Home Affordable Modification Program; GSE = government-sponsored enterprise (specifically, Fannie Mae and Freddie Mac); n.a. = not applicable.

a. Out of 610,000 HAMP-eligible borrowers

b. Out of 550,000 potentially HAMP-eligible borrowers

Table 8.
CBO's Estimates of the Impact of Three Options for the GSEs Involving Principal Forgiveness Under Alternative Assumptions

(Billions of 2013 dollars)	Option 1: Standard HAMP or HAMP Principal Reduction Alternative	Option 2: Standard HAMP or Principal Forgiveness to 100 Percent of a Home's Value	Option 3: Standard HAMP or Principal Forgiveness to 90 Percent of a Home's Value
Difference in Number of Defaults Relative to Current Policy			
Central Estimate	-18,000	-43,000	-95,000
Range	-28,000 to -3,000	-63,000 to -30,000	-146,000 to -73,000
Net Increase or Decrease (-) in the Budget Deficit Relative to Current Policy			
Central Estimate	-0.2	-2.8	-2.2
Range	-0.3 to 0.1	-4.2 to -1.3	-4.0 to 1.9[a]

Source: Congressional Budget Office.

Notes: The HAMP Principal Reduction Alternative involves lowering the monthly mortgage payment to 31 percent of gross monthly income primarily by reducing the outstanding loan balance to as low as 115 percent of a home's current assessed value.

The central estimates are based on CBO's values for key parameters of relevant economic behavior (such as the sensitivity of defaults to additional incentives offered under principal forgiveness, changes in monthly payments, or changes in loan-to-value ratios) and the sensitivity of private investors to losses that cannot be avoided through diversification (known as market risk). The ranges are based on estimated high and low values for those key parameters.

HAMP = Home Affordable Modification Program; GSE = government-sponsored enterprise (specifically, Fannie Mae and Freddie Mac); n.a. = not applicable.

a. Option 3 would decrease the budget deficit in eight out of nine alternative scenarios that CBO analyzed.

Table 9.
Effects of Fewer Defaults on the Federal Budget Deficit

(Billions of 2013 dollars)	Option 1: Standard HAMP or HAMP Principal Reduction Alternative	Option 2: Standard HAMP or Principal Forgiveness to 100 Percent of a Home's Value	Option 3: Standard HAMP or Principal Forgiveness to 90 Percent of a Home's Value
CBO's Central Estimate	-0.2	-2.8	-2.2
50 Percent Default Rate and the GSEs Select Modification	-0.2	-2.7	-2.2
50 Percent Default Rate and Potentially HAMP-Eligible Borrowers Select Modification	0	-2.0	-0.2
50 Percent Default Rate and Potentially HAMP-Eligible Borrowers Select Modification at Two Times Expected Participation Rate	0.1	-1.3	1.9

Source: Congressional Budget Office.

Notes: The HAMP Principal Reduction Alternative involves lowering the monthly mortgage payment to 31 percent of gross monthly income primarily by reducing the outstanding loan balance to as low as 115 percent of a home's current assessed value.

The central estimates are based on CBO's values for key parameters of relevant economic behavior (such as the sensitivity of defaults to additional incentives offered under principal forgiveness, changes in monthly payments, or changes in loan-to-value ratios) and the sensitivity of private investors to losses that cannot be avoided through diversification (known as market risk).

HAMP-eligible borrowers meet all HAMP eligibility criteria, including debt-to-income ratios greater than 31 percent and evidence of financial distress.

Potentially HAMP-eligible borrowers meet all HAMP eligibility criteria but do not show evidence of financial distress.

HAMP = Home Affordable Modification Program; GSE = government-sponsored enterprise (specifically, Fannie Mae and Freddie Mac); n.a. = not applicable.

Table B-1.
Design Considerations in a Shared Appreciation Modification (SAM)

Design Consideration	SAM Options
Amount of Principal Forgiveness	• Like a standard principal forgiveness modification, a SAM could reduce negative equity (creating a postmodification loan-to-value ratio, or LTV, greater than 100 percent), eliminate negative equity (creating a postmodification LTV ratio of 100 percent), or create positive equity (a postmodification LTV ratio of less than 100 percent).
Type of Equity Shared	• Three types of equity can be shared: 1) Equity created by a write-down of the loan to a current LTV ratio of less than 100 percent; 2) Equity created by home appreciation; and 3) Equity created by a pay-down of the mortgage. [52] • Home appreciation created by homeowner improvements may complicate the equity-sharing agreement and should be codified in detail in the SAM contract.
Share Arrangement	• Granting a large share of equity to homeowners may increase their incentive to perform on the modified loan. However, it may reduce investors' willingness to participate in the modification. • Granting a large share of equity to homeowners may also limit the effectiveness of shared appreciation as a mitigant to moral hazard.
Exercise or Termination of Agreement	• A number of different dates could be used to determine the value of the home for the purposes of calculating the amount of equity to be shared, including the sale of the home or the payoff of the loan. • The impact of refinancing or defaulting on the modified mortgage may complicate the equity-sharing agreement and should be codified in detail in the SAM contract.

Source: Congressional Budget Office.

[52] The terms "shared appreciation" and "shared equity" are often used interchangeably. The main distinction is that with a shared equity modification, the homeowner and third-party investor will share both home appreciation and equity created through the amortization of the mortgage. With shared appreciation, the two parties typically share only the value created through appreciation.

Table B-2.
Shared Appreciation Modification (SAM) Investor Cash Flows

Current Home Value	$100,000
Investor Share	25%
Discount Rate	10%

			Years Until Termination of Shared Appreciation Modification							
			Two Years		Five Years		Ten Years		Twenty Years	
Total Home Price Change	Home Value	Appreciation	Value at Termination	Present Value	Value at Termination	Present Value	Value at Termination	Present Value	Value at Termination	Present Value
-10%	$90,000	($10,000)	$0	$0	$0	$0	$0	$0	$0	$0
0%	$100,000	$0	$0	$0	$0	$0	$0	$0	$0	$0
10%	$110,000	$10,000	$2,500	$2,066	$2,500	$1,552	$2,500	$964	$2,500	$372
20%	$120,000	$20,000	$5,000	$4,132	$5,000	$3,105	$5,000	$1,928	$5,000	$743
30%	$130,000	$30,000	$7,500	$6,198	$7,500	$4,657	$7,500	$2,892	$7,500	$1,115
40%	$140,000	$40,000	$10,000	$8,264	$10,000	$6,209	$10,000	$3,855	$10,000	$1,486
50%	$150,000	$50,000	$12,500	$10,331	$12,500	$7,762	$12,500	$4,819	$12,500	$1,858
60%	$160,000	$60,000	$15,000	$12,397	$15,000	$9,314	$15,000	$5,783	$15,000	$2,230
70%	$170,000	$70,000	$17,500	$14,463	$17,500	$10,866	$17,500	$6,747	$17,500	$2,601
80%	$180,000	$80,000	$20,000	$16,529	$20,000	$12,418	$20,000	$7,711	$20,000	$2,973
90%	$190,000	$90,000	$22,500	$18,595	$22,500	$13,971	$22,500	$8,675	$22,500	$3,344
100%	$200,000	$100,000	$25,000	$20,661	$25,000	$15,523	$25,000	$9,639	$25,000	$3,716

Source: Congressional Budget Office.

Note: This example assumes that the home has a current value of $100,000, that investors receive a 25 percent share of the appreciation in the home's value, and that those proceeds are discounted at a 10 percent rate. The present value of expected cash flows is not necessarily equal to the value of the SAM contract to the investor at the time of the modification.

Table C-1.
Explanatory Variables in Prepayment and Default Equations

Variable Name	Description	Type	Notes on Usage
Loan-to-Value (LTV) Ratio	A ratio of the unpaid principal balance of the loan relative to the value of the home.	Static	• For both unmodified borrowers and borrowers receiving standard HAMP (the Home Affordable Modification Program), LTV is based on the full loan amount and the value of the home at the time of the decision to modify. • For HAMP PRA (Principal Reduction Alternative) and principal forgiveness, LTV is based on the loan amount minus the forgiven principal amount and the value of the home at the time of the decision to modify.
Credit Score	A score derived from the models developed by Fair Isaac Corporation used to measure a borrower's credit risk.	Static	• For all borrowers, the credit score is assumed to be the one provided by a servicer as a part of the HAMP net-present-value submission.
Debt-to-Income (DTI) Ratio	A ratio of a borrower's monthly mortgage payment to his or her gross monthly income.	Static	• For unmodified borrowers, DTI is based on the existing mortgage payment and does not include taxes and insurance. • For HAMP, HAMP PRA, and principal forgiveness, DTI is based on the mortgage payment after modification and does not include taxes and insurance.
Loan Purpose Flag	Designates whether the loan is for the purchase of a home or the refinance of an existing loan.	Static	• For all borrowers, the loan is assumed to be a refinance.
Mortgage Age	The age of the loan during the current period.	Dynamic	• For all borrowers, the loan is assumed to be zero months seasoned at the time of the decision to modify.
Probability of Negative Equity	A measure of the probability that the unpaid principal balance of the loan in the current period will be greater than the current value of the home.	Dynamic	• For all borrowers, future house prices are based on CBO's forecast of the Federal Housing Finance Agency's house price index (all transactions, not seasonally adjusted) and a measure of house price volatility.
Treasury Yield Curve Slope	A ratio of the 10-year Treasury rate to the 1-year Treasury rate during the current period.	Dynamic	• For all borrowers, Treasury rates are based on CBO's macroeconomic forecast from February 2013.
Mortgage Premium	A measure of the difference between the borrower's note rate and the current market rate relative to the borrower's note rate.	Dynamic	• For all borrowers, the current market rate is based on the conventional 30-year fixed-rate mortgage from CBO's macroeconomic forecast for February 2013. • For unmodified borrowers, the borrower's current note rate is assumed to be 6 percent. • For HAMP and HAMP PRA, the borrower's current note rate is set by the waterfall process for the first five years and set to the current market rate for the remaining term. • For principal forgiveness, the borrower's current note rate is assumed to be 5 percent after the modification.

Variable Name	Description	Type	Notes on Usage
Burnout	A measure of whether a borrower has missed recent opportunities to refinance. It is set to zero for the first eight quarters and equal to the average difference between the borrower's note rate and the current market rate over the past eight quarters for the remaining term.	Dynamic	• For all borrowers, the current market rate is based on the conventional 30-year fixed-rate mortgage from CBO's macroeconomic forecast from February 2013.

Source: Congressional Budget Office.

Table C-2.
Explanatory Variables in Loss-Given-Default Equation

Variable Name	Description	Type	Notes on Usage
Original Loan-to-Value (LTV) Ratio	A ratio of the unpaid principal balance of the loan relative to the value of the home at the time of origination.	Static	• For all borrowers, the original LTV is assumed to be the LTV at the time of modification.
Credit Score	A score derived from the models developed by Fair Isaac Corporation used to measure a borrower's credit risk.	Static	• For all borrowers, the credit score is assumed to be the one provided by a servicer as a part of the Home Affordable Modification Program's net-present-value submission.
Origination Year	The year during which the loan was originated.	Static	• For all borrowers, the origination year is assumed to be 2014.
Loan Purpose Flag	Designates whether the loan is for the purchase of a home or the refinance of an existing loan.	Static	• For all borrowers, the loan is assumed to be a refinance.
Mortgage Age	The age of the loan during the current period.	Dynamic	• For all borrowers, the loan is assumed to be zero months seasoned at the time of the decision to modify.
Current Loan-to-Value Ratio	A ratio of the unpaid principal balance of the loan in the current period to the current value of the home.	Dynamic	• For all borrowers, future house prices are based on CBO's forecast of the Federal Housing Finance Agency's house price index (all transactions, not seasonally adjusted) and a measure of house price volatility.
Treasury Yield Curve Slope	A ratio of the 10-year Treasury rate to the 1-year Treasury rate during the current period.	Dynamic	• For all borrowers, Treasury rates are based on CBO's macroeconomic forecast from February 2013.

Source: Congressional Budget Office.

Table C-3.
Changes to Variables in the Behavioral Model for Each Policy Option

Variable Name	No Modification	Home Affordable Modification Program (HAMP)	HAMP Principal Reduction Alternative	Principal Forgiveness to 90 or 100 Percent
Loan-to-Value (LTV) Ratio (Default and Prepayment Models)	Equal to premodification loan amount divided by current value of the home.	Equal to premodification loan amount divided by current value of the home.	Decreased to produce payment resulting in 31 percent DTI ratio or 115 percent LTV ratio, whichever is lower.	Set to 90 percent or 100 percent.
Debt-to-Income (DTI) Ratio (Default and Prepayment Models)	Equal to premodification value.	Set to 31 percent.	Set to 31 percent.	Based on monthly payment on loan amount producing a 90 percent or 100 percent LTV ratio.
Probability of Negative Equity (Default and Prepayment Models)	Based on marked-to-market LTV ratio calculated on premodification loan amount, premodification term of 360 months, and projected house price.	Based on marked-to-market LTV ratio calculated on premodification loan amount, modified term, and projected house price.	Based on marked-to-market LTV ratio calculated on modified loan amount, modified term, and projected house price.	Based on marked-to-market LTV ratio calculated on modified loan amount, premodification term of 360 months, and projected house price.
Mortgage Premium and Burnout (Default and Prepayment Models)	Based on difference between premodification note rate of 6 percent and projected market rate.	Based on difference between modified note rate and projected market rate. Modified note rate for first five years will be set to the higher of 2 percent or rate needed to produce payment resulting in 31 percent DTI ratio. In year five, note rate will be set to prevailing market rate and remain fixed for the remainder of the term.	Based on difference between modified note rate and projected market rate. Modified note rate for first five years will be set to the higher of 2 percent or rate needed to produce payment resulting in 31 percent DTI ratio. In year five, note rate will be set to prevailing market rate and remain fixed for the remainder of the term.	Based on difference between modified note rate of 5 percent and projected market rate.
Current LTV Ratio (Loss-Given-Default Model)	Based on premodification loan amount, premodification term of 360 months, and projected house price.	Based on premodification loan amount, modified term, and projected house price.	Based on modified loan amount, modified term, and projected house price.	Based on modified loan amount, premodification term of 360 months, and projected house price.

Source: Congressional Budget Office.

Table C-4.
Sample Statistics for Population Eligible for the Home Affordable Modification Program

Current Loan-to-Value Ratio Bucket	Percentage of Premodification Unpaid Principal Balance
100	36
120	24
140	16
160	10
180	6
200	8

Days Delinquent Bucket	Percentage of Premodification Unpaid Principal Balance
0	18
30	10
60	8
90	7
120	12
180	45

Credit Score Bucket	Percentage of Premodification Unpaid Principal Balance
600	52
660	21
700	10
740	17

Debt-to-Income Ratio Bucket	Percentage of Premodification Unpaid Principal Balance
40	63
60	30
80	7

Source: Congressional Budget Office.

Table C-5.
Sample Statistics for the Population Potentially Eligible for the Home Affordable Modification Program

Current Loan-to-Value Ratio Bucket	Percentage of Premodification Unpaid Principal Balance
100	52
120	44
150	2
180	2

Debt-to-Income Ratio Bucket	Percentage of Premodification Unpaid Principal Balance
34	35
38	24
45	28
60	13

Credit Score Bucket	Percentage of Premodification Unpaid Principal Balance
600	Less than 1
660	Less than 1
700	15
750	56
820	29

Source: Congressional Budget Office.

Table D-1.
Subsidy Cost and Modifications for Policy Options Under Alternative Assumptions

	Current Policy: Standard HAMP	Option 1: HAMP or HAMP Principal Reduction Alternative	Option 2: HAMP or Principal Forgiveness to 100 Percent of a Home's Value	Option 3: HAMP or Principal Forgiveness to 90 Percent of a Home's Value
	CBO's Central Estimate			
Net Increase or Decrease (-) in Subsidy Cost from Current Policy	n.a	-$0.3	-$2.9	-$2.4
Net Increase or Decrease (-) in the Budget Deficit from Current Policy	n.a	-$0.2	-$2.8	-$2.2
Number of Borrowers Modified	226,700	256,300	252,700	284,000
HAMP Modifications	226,700	69,300	39,100	63,200
Principal Forgiveness Modifications	0	187,000	213,600	220,800
Cumulative Lifetime Default Rate	52	50	48	43
Expected Defaults	599,200	581,000	555,900	504,200
Number of Mods for Potentially HAMP-Eligible Borrowers	0	6,500	11,900	4,500
Average Modified DTI	31%	31%	35%	33%
Average Payment Reduction	$440	$431	$350	$410
	50 Percent Default Rate and GSEs Select Modification			
Net Increase or Decrease (-) in Subsidy Cost from Current Policy	n.a	-$0.3	-$2.8	-$2.3
Net Increase or Decrease (-) in the Budget Deficit from Current Policy	n.a	-$0.2	-$2.7	-$2.2
Number of Borrowers Modified	226,700	249,900	240,900	279,400
HAMP Modifications	226,700	69,300	39,100	63,200
Principal Forgiveness Modifications	0	180,600	201,800	216,300
Cumulative Lifetime Default Rate	47	45	43	39
Expected Defaults	541,700	524,900	502,300	448,600
Number of Mods for Potentially HAMP-Eligible Borrowers	0	0	100	0
Average Modified DTI	31%	31%	36%	33%
Average Payment Reduction	$440	$436	$352	$412
	50 Percent Default Rate and Borrowers Select Modification			
Net Increase or Decrease (-) in Subsidy Cost from Current Policy	n.a	-$0.1	-$2.2	-$0.6
Net Increase or Decrease (-) in the Budget Deficit from Current Policy	n.a	$0.0	-$2.0	-$0.2
Number of Borrowers Modified	226,700	259,600	277,800	364,000
HAMP Modifications	226,700	69,300	39,100	63,200
Principal Forgiveness Modifications	0	190,300	238,700	300,900
Cumulative Lifetime Default Rate	47	45	43	38
Expected Defaults	541,700	523,700	497,300	436,900
Number of Mods for Potentially HAMP-Eligible Borrowers	0	9,700	37,000	84,600
Average Modified DTI	31%	31%	35%	32%
Average Payment Reduction	$440	$431	$352	$403
	50 Percent Default Rate and Borrowers Select Modification at Two Times Expected Participation Rate			
Net Increase or Decrease (-) in Subsidy Cost from Current Policy	n.a	$0.0	-$1.6	$1.4
Net Increase or Decrease (-) in the Budget Deficit from Current Policy	n.a	$0.1	-$1.3	$1.9
Number of Borrowers Modified	226,700	269,300	314,800	448,600
HAMP Modifications	226,700	69,300	39,100	63,200
Principal Forgiveness Modifications	0	200,000	275,700	385,500
Cumulative Lifetime Default Rate	47	45	42	37
Expected Defaults	541,700	522,500	492,200	425,100
Number of Mods for Potentially HAMP-Eligible Borrowers	0	19,400	74,000	169,200
Average Modified DTI	31%	31%	34%	31%
Average Payment Reduction	$440	$427	$351	$397

	Current Policy: Standard HAMP	Option 1: HAMP or HAMP Principal Reduction Alternative	Option 2: HAMP or Principal Forgiveness to 100 Percent of a Home's Value	Option 3: HAMP or Principal Forgiveness to 90 Percent of a Home's Value
	Low Sensitivity to DTI Ratio			
Net Increase or Decrease (-) in Subsidy Cost from Current Policy	n.a	-$0.2	-$2.6	-$2.0
Net Increase or Decrease (-) in the Budget Deficit from Current Policy	n.a	$0.0	-$2.5	-$1.9
Number of Borrowers Modified	226,700	252,200	242,500	271,100
HAMP Modifications	226,700	75,300	60,400	76,300
Principal Forgiveness Modifications	0	176,800	182,100	194,800
Cumulative Lifetime Default Rate	52	51	49	45
Expected Defaults	599,500	587,200	567,500	522,200
Number of Mods for Potentially HAMP-Eligible Borrowers	0	3,500	20,600	5,400
Average Modified DTI	31%	31%	36%	34%
Average Payment Reduction	$440	$431	$318	$391
	High Sensitivity to DTI Ratio			
Net Increase or Decrease (-) in Subsidy Cost from Current Policy	n.a	-$0.4	-$3.5	-$2.9
Net Increase or Decrease (-) in the Budget Deficit from Current Policy	n.a	-$0.3	-$3.3	-$2.6
Number of Borrowers Modified	226,700	260,800	279,400	330,400
HAMP Modifications	226,700	61,400	27,600	24,900
Principal Forgiveness Modifications	0	199,400	251,800	305,400
Cumulative Lifetime Default Rate	52	50	47	40
Expected Defaults	607,400	579,700	544,700	461,300
Number of Mods for Potentially HAMP-Eligible Borrowers	0	9,300	15,800	17,600
Average Modified DTI	31%	31%	34%	32%
Average Payment Reduction	$440	$431	$382	$437
	Low Sensitivity to LTV Ratio			
Net Increase or Decrease (-) in Subsidy Cost from Current Policy	n.a	-$0.2	-$2.5	-$2.4
Net Increase or Decrease (-) in the Budget Deficit from Current Policy	n.a	-$0.1	-$2.4	-$2.2
Number of Borrowers Modified	226,700	245,200	248,000	282,900
HAMP Modifications	226,700	80,700	35,900	56,900
Principal Forgiveness Modifications	0	164,500	212,100	226,000
Cumulative Lifetime Default Rate	37	36	33	29
Expected Defaults	430,200	413,200	387,400	341,900
Number of Mods for Potentially HAMP-Eligible Borrowers	0	2,000	200	1,300
Average Modified DTI	31%	31%	35%	34%
Average Payment Reduction	$440	$440	$357	$402
	High Sensitivity to LTV Ratio			
Net Increase or Decrease (-) in Subsidy Cost from Current Policy	n.a	-$0.2	-$2.1	-$1.5
Net Increase or Decrease (-) in the Budget Deficit from Current Policy	n.a	$0.0	-$2.0	-$1.3
Number of Borrowers Modified	226,700	250,400	250,400	297,900
HAMP Modifications	226,700	83,400	73,700	126,800
Principal Forgiveness Modifications	0	167,000	176,700	171,100
Cumulative Lifetime Default Rate	78	78	76	72
Expected Defaults	908,900	906,400	879,200	836,400
Number of Mods for Potentially HAMP-Eligible Borrowers	0	2,600	31,200	47,800
Average Modified DTI	31%	31%	35%	32%
Average Payment Reduction	$440	$433	$336	$400

	Current Policy: Standard HAMP	Option 1: HAMP or HAMP Principal Reduction Alternative	Option 2: HAMP or Principal Forgiveness to 100 Percent of a Home's Value	Option 3: HAMP or Principal Forgiveness to 90 Percent of a Home's Value
	Flat Market Risk Premium			
Net Increase or Decrease (-) in Subsidy Cost from Current Policy	n.a	-$0.4	-$2.4	-$1.7
Net Increase or Decrease (-) in the Budget Deficit from Current Policy	n.a	-$0.3	-$2.3	-$1.6
Number of Borrowers Modified	226,700	260,300	256,600	279,800
HAMP Modifications	226,700	35,700	15,100	65,500
Principal Forgiveness Modifications	0	224,600	241,500	214,300
Cumulative Lifetime Default Rate	52	50	47	43
Expected Defaults	599,200	574,700	541,300	498,900
Number of Mods for Potentially HAMP-Eligible Borrowers	0	2,900	800	0
Average Modified DTI	31%	31%	35%	33%
Average Payment Reduction	$440	$436	$367	$419
	Steep Market Risk Premium			
Net Increase or Decrease (-) in Subsidy Cost from Current Policy	n.a	-$0.3	-$4.3	-$4.3
Net Increase or Decrease (-) in the Budget Deficit from Current Policy	n.a	-$0.2	-$4.2	-$4.0
Number of Borrowers Modified	226,700	247,400	260,800	346,500
HAMP Modifications	226,700	98,900	80,500	49,500
Principal Forgiveness Modifications	0	148,500	180,400	297,000
Cumulative Lifetime Default Rate	52	51	49	41
Expected Defaults	599,200	587,900	568,700	473,300
Number of Mods for Potentially HAMP-Eligible Borrowers	0	7,900	30,400	49,400
Average Modified DTI	31%	31%	35%	31%
Average Payment Reduction	$440	$430	$349	$426

Source: Congressional Budget Office.

Notes: The HAMP Principal Reduction Alternative involves lowering the monthly mortgage payment to 31 percent of gross monthly income primarily by reducing the outstanding loan balance to as low as 115 percent of a home's current assessed value.

The central estimates are based on CBO's values for key parameters of relevant economic behavior (such as the sensitivity of defaults to additional incentives offered under principal forgiveness, changes in monthly payments, or changes in loan-to-value ratios) and the sensitivity of private investors to losses that cannot be avoided through diversification (known as market risk).

DTI parameter was either reduced by 50 percent (for decreased sensitivity) or increased by 100 percent (for increased sensitivity). In both cases, the constant of the equation was adjusted such that total subsidy costs in the case of no modification were equal to those generated by the model without the adjustment to the DTI coefficient.

LTV parameter was either reduced by 50 percent (for decreased sensitivity) or increased by 100 percent (for increased sensitivity). No change was made to the constant in either scenario, in an effort to have the sensitivity to LTV reflected in standard HAMP and all policy options.

The slope of the relationship between the risk premium and the cumulative lifetime default rate was either reduced by approximately 50 percent (for a flatter premium) or increased by approximately 100 percent (for a steeper premium).

HAMP = Home Affordable Modification Program; LTV = loan to value; DTI = debt to income; GSE = government-sponsored enterprise (specifically, Fannie Mae and Freddie Mac); n.a. = not applicable.

Table E-1.
Reconciling CBO's and FHFA's Estimates of Modification Costs

(Cost as a share of unpaid principal balance)	No Modification	Current Policy: Standard HAMP	Option 1: HAMP Principal Reduction Alternative	Option 2: Principal Forgiveness to 100 Percent of a Home's Value	Option 3. Principal Forgiveness to 90 Percent of a Home's Value
CBO's Central Estimate	25%	27%	27%	26%	26%
***with* modification policy adjustment[a]**	25%	27%	27%	26%	27%
***and* with population adjustments**					
minus potentially HAMP-eligible loans	33%	36%	36%	34%	35%
with 100 percent participation	33%	39%	39%	35%	35%
without less than 115 LTV ratio loans	41%	46%	45%	43%	43%
***and* with model adjustments**					
with lower defaults[b]	41%	45%	44%	41%	42%
with higher severity[c]	48%	50%	48%	43%	43%
with discount rate changes[d]	45%	38%	36%	34%	37%
***and* without guarantee fee income**	45%	39%	37%	35%	39%
FHFA's Estimate[e]	45%	39%	38%	n.a.	n.a.

Source: Congressional Budget Office.

Notes: The HAMP Principal Reduction Alternative involves lowering the monthly mortgage payment to 31 percent of gross monthly income primarily by reducing the outstanding loan balance to as low as 115 percent of a home's current assessed value.

The central estimates are based on CBO's values for key parameters of relevant economic behavior (such as the sensitivity of defaults to additional incentives offered under principal forgiveness, changes in monthly payments, or changes in loan-to-value ratios) and the sensitivity of private investors to losses that cannot be avoided through diversification (known as market risk).

FHFA = Federal Housing Finance Agency; HAMP = Home Affordable Modification Program; LTV = loan to value; n.a. = not applicable.

a. Based on replacing, rather than augmenting, standard HAMP with a principal forgiveness modification.

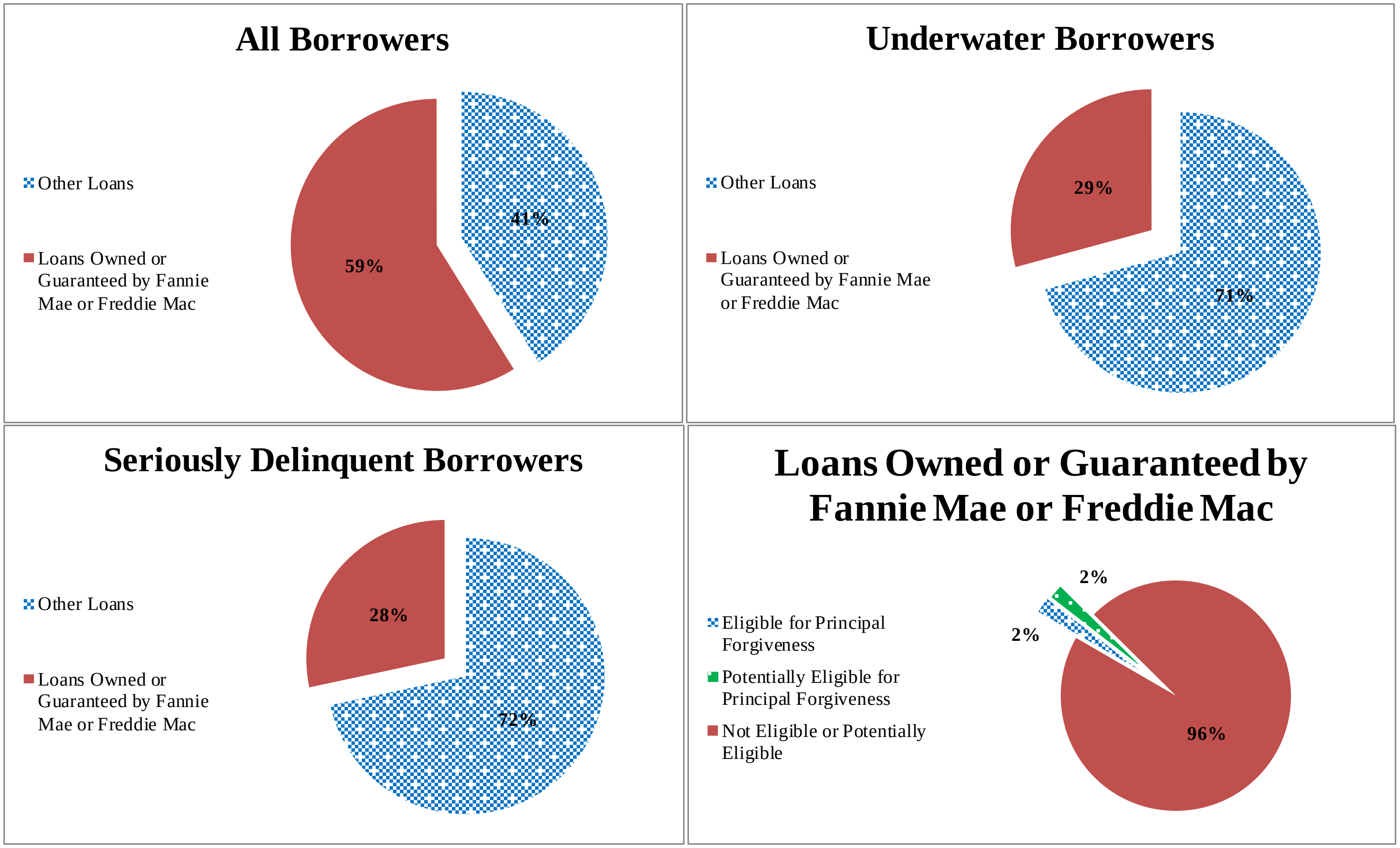
b. Reduces expected defaults on unmodified loans by approximately 10 percent and modified loans by approximately 25 percent.

c. Increases severity by approximately 15 percent.

d. Sets discount rate to Freddie Mac survey rate for June 28, 2012, and sets risk premium to zero for all loans.

e. From FHFA's Analysis 11, based on a $99.3 billion HAMP-eligible population and 100 percent participation in each modification.

Figure 1.
Share of Residential Mortgages, by Category of Borrower, Fourth Quarter of 2012



Sources: Congressional Budget Office; CoreLogic; Mortgage Bankers Association.

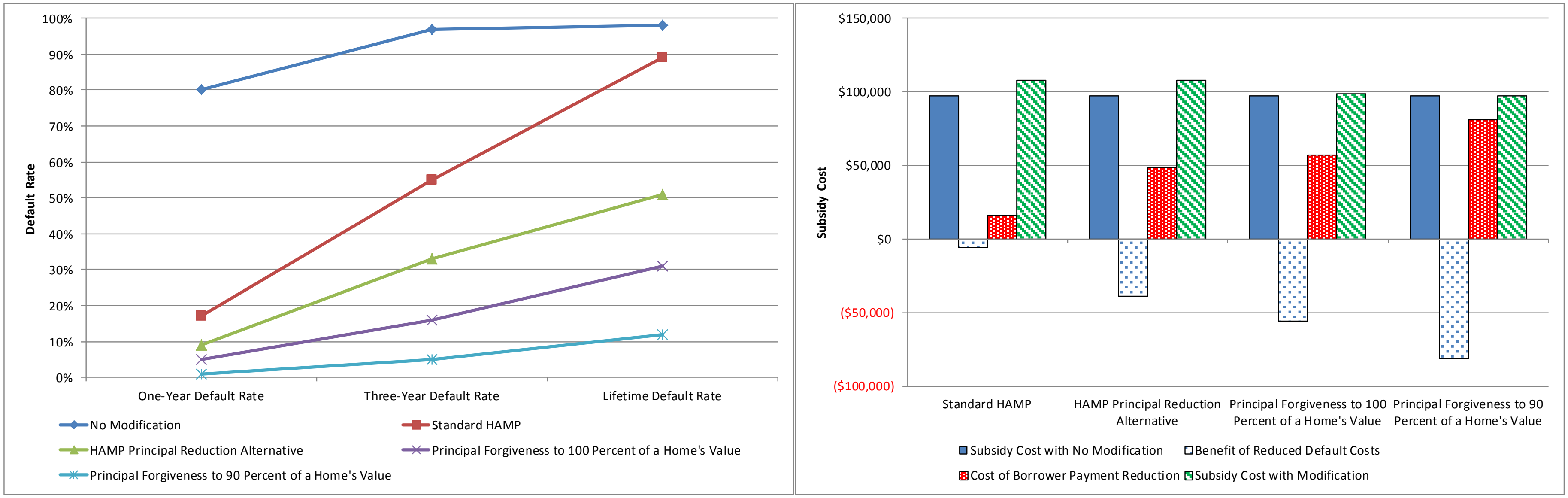
Notes: Underwater borrowers owe more on their mortgages than the value of their homes.

Seriously delinquent borrowers are 90 days or more past due on their mortgage payments or are in the process of foreclosure.

Fannie Mae or Freddie Mac loans eligible for principal forgiveness are loans held by borrowers who meet all Home Affordable Modification Program (HAMP) eligibility criteria, including debt-to-income ratios greater than 31 percent and evidence of financial distress.

Fannie Mae or Freddie Mac loans potentially eligible for principal forgiveness are loans held by borrowers who meet all HAMP eligibility criteria but do not show evidence of financial distress.

Figure 2.
Default Rates and Subsidy Costs for an Illustrative Borrower

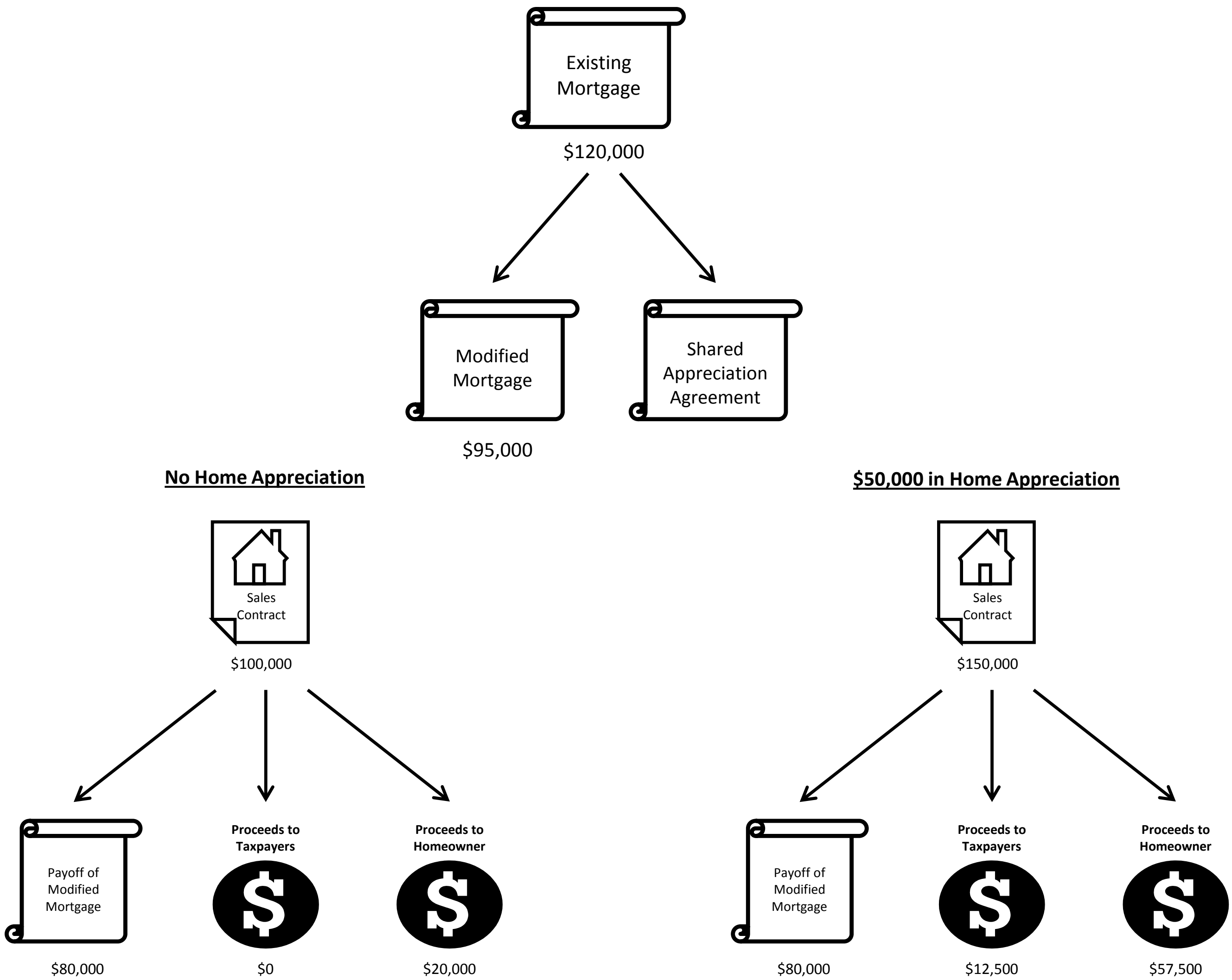


Source: Congressional Budget Office.

Notes: The HAMP Principal Reduction Alternative involves lowering the monthly mortgage payment to 31 percent of gross monthly income primarily by reducing the outstanding loan balance to as low as 115 percent of a home's current assessed value.

HAMP = Home Affordable Modification Program.

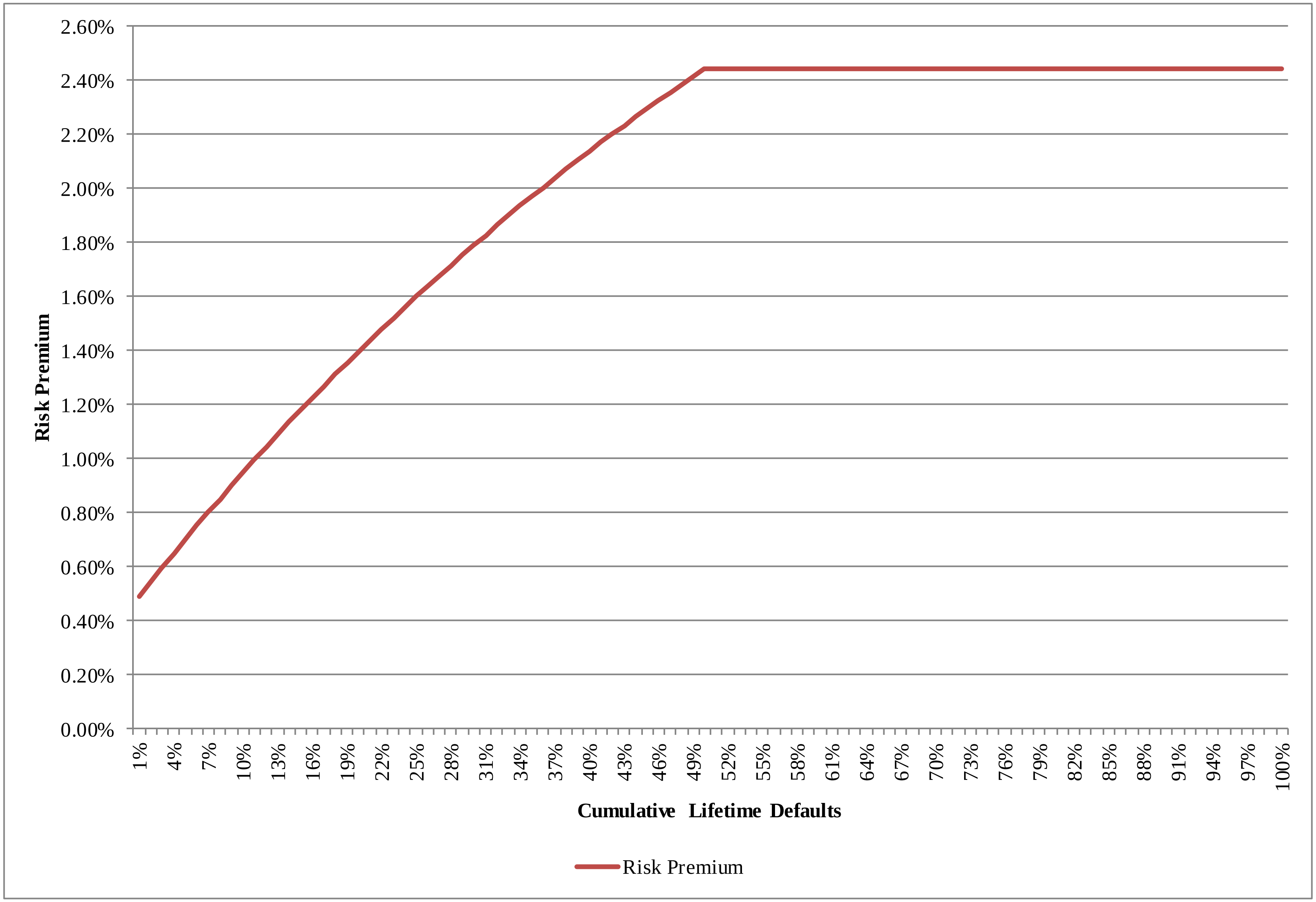
Figure B-1.
Shared Appreciation Modification (SAM) Process at Modification and Sale



Note: The current market value at the time of modification in this example is $100,000. With a value of $150,000 at sale, the appreciation is $50,000, and 25 percent of that amount, or $12,500, goes to the government.

Source: Congressional Budget Office.

Figure C-1.
Risk Premium by Cumulative Expected Lifetime Defaults



Source: Congressional Budget Office.

Exhibit 4

10-K 1 fanniemae201410k.htm

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
Commission File No.: 0-50231

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation	**52-0883107**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
3900 Wisconsin Avenue, NW Washington, DC	**20016**
(Address of principal executive offices)	*(zip code)*

Registrant's telephone number, including area code:
(202) 752-7000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, without par value
(Title of class)
8.25% Non-Cumulative Preferred Stock, Series T, stated value $25 per share
(Title of class)
8.75% Non-Cumulative Mandatory Convertible Preferred Stock, Series 2008-1, stated value $50 per share
(Title of class)
Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series S, stated value $25 per share
(Title of class)
7.625% Non-Cumulative Preferred Stock, Series R, stated value $25 per share
(Title of class)
6.75% Non-Cumulative Preferred Stock, Series Q, stated value $25 per share
(Title of class)
Variable Rate Non-Cumulative Preferred Stock, Series P, stated value $25 per share
(Title of class)
Variable Rate Non-Cumulative Preferred Stock, Series O, stated value $50 per share
(Title of class)
5.375% Non-Cumulative Convertible Series 2004-1 Preferred Stock, stated value $100,000 per share
(Title of class)
5.50% Non-Cumulative Preferred Stock, Series N, stated value $50 per share
(Title of class)
4.75% Non-Cumulative Preferred Stock, Series M, stated value $50 per share
(Title of class)
5.125% Non-Cumulative Preferred Stock, Series L, stated value $50 per share
(Title of class)
5.375% Non-Cumulative Preferred Stock, Series I, stated value $50 per share
(Title of class)
5.81% Non-Cumulative Preferred Stock, Series H, stated value $50 per share
(Title of class)
Variable Rate Non-Cumulative Preferred Stock, Series G, stated value $50 per share
(Title of class)
Variable Rate Non-Cumulative Preferred Stock, Series F, stated value $50 per share
(Title of class)
5.10% Non-Cumulative Preferred Stock, Series E, stated value $50 per share
(Title of class)
5.25% Non-Cumulative Preferred Stock, Series D, stated value $50 per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☑
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ☐ No ☑
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☑ No ☐
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☑ No ☐
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☑

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☑ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐
(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☑

The aggregate market value of the common stock held by non-affiliates of the registrant computed by reference to the last reported sale price of the common stock quoted on the OTC Bulletin Board on June 30, 2014 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $4.5 billion.

As of January 31, 2015, there were 1,158,082,750 shares of common stock of the registrant outstanding.

TABLE OF CONTENTS

TABLE REFERENCE

PART I

We have been under conservatorship, with the Federal Housing Finance Agency ("FHFA") acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. Our directors do not have any fiduciary duties to any person or entity except to the conservator and, accordingly, are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator. We describe the rights and powers of the conservator, key provisions of our agreements with the U.S. Department of the Treasury ("Treasury"), and their impact on shareholders in "Business—Conservatorship and Treasury Agreements."

This report contains forward-looking statements that are based on management's current expectations and are subject to significant uncertainties and changes in circumstances. Please review "Business—Forward-Looking Statements" for more information on the forward-looking statements in this report. Our actual results may differ materially from those reflected in our forward-looking statements due to a variety of factors including, but not limited to, those discussed in "Risk Factors" and elsewhere in this report.

You can find a "Glossary of Terms Used in This Report" in "Management's Discussion and Analysis of Financial Condition and Results of Operations ('MD&A')."

Item 1. Business

INTRODUCTION

Fannie Mae is a government-sponsored enterprise ("GSE") that was chartered by Congress in 1938. We serve an essential role in the functioning of the U.S. housing market and are investing in improvements to the U.S. housing finance system. Our public mission is to support liquidity and stability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold, and to increase the supply of affordable housing. Our charter does not permit us to originate loans or lend money directly to consumers in the primary mortgage market.

Fannie Mae provides reliable, large-scale access to affordable mortgage credit and indirectly enables families to buy, refinance or rent homes. We securitize mortgage loans originated by lenders into Fannie Mae mortgage-backed securities that we guarantee, which we refer to as Fannie Mae MBS. One of our key functions is to evaluate, price and manage the credit risk on the loans and securities that we guarantee. We also purchase mortgage loans and mortgage-related securities, primarily for securitization and sale at a later date. We use the term "acquire" in this report to refer to both our securitizations and our purchases of mortgage-related assets. We obtain funds to support our business activities by issuing a variety of debt securities in the domestic and international capital markets, which attracts global capital to the United States housing market.

Our conservatorship has no specified termination date, and we do not know when or how the conservatorship will terminate, whether we will continue to exist following conservatorship, what changes to our business structure will be made during or following the conservatorship, or what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated. In addition, our agreements with Treasury that provide for financial support include covenants that significantly restrict our business activities and provide for dividends to accrue at a rate equal to our net worth less a capital reserve amount, which continues to decrease annually until it reaches zero, allowing us to retain only a limited and decreasing amount of our net worth. We provide additional information on the conservatorship, the provisions of our agreements with Treasury, and their impact on our business under "Conservatorship and Treasury Agreements" and "Risk Factors." We discuss the uncertainty of our future in "Executive Summary—Outlook" and "Risk Factors." We discuss proposals for housing finance reform that could materially affect our business in "Housing Finance Reform."

Although Treasury owns our senior preferred stock and a warrant to purchase 79.9% of our common stock, and has made a commitment under a senior preferred stock purchase agreement to provide us with funds to maintain a positive net worth under specified conditions, the U.S. government does not guarantee our securities or other obligations.

Our common stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board under the symbol "FNMA." Our debt securities are actively traded in the over-the-counter market.

EXECUTIVE SUMMARY

Please read this Executive Summary together with our MD&A and our consolidated financial statements as of December 31, 2014 and related notes to the consolidated financial statements.

Our Strategy

We are focused on:

- achieving strong financial and credit performance;
- supporting the housing recovery by providing reliable, large-scale access to affordable mortgage credit for qualified borrowers and helping struggling homeowners;
- serving customer needs and improving our business efficiency; and
- helping to build a sustainable housing finance system.

Achieving strong financial and credit performance

We continued to achieve strong financial and credit performance in 2014:

- *Financial Performance.* We reported net income of $14.2 billion and pre-tax income of $21.1 billion in 2014, compared with net income of $84.0 billion and pre-tax income of $38.6 billion in 2013. See "Summary of Our Financial Performance" below for an overview of our 2014 financial performance. We expect to remain profitable on an annual basis for the foreseeable future; however, certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year. For more information regarding our expectations for our future financial performance, see "Outlook—Financial Results" and "Outlook—Revenues" below.
- *Dividend Payments to Treasury.* With our expected March 2015 dividend payment to Treasury, we will have paid a total of $136.4 billion in dividends to Treasury on our senior preferred stock. The aggregate amount of draws we have received from Treasury to date under the senior preferred stock purchase agreement is $116.1 billion. Under the terms of the senior preferred stock purchase agreement, dividend payments do not offset prior Treasury draws. See "Treasury Draws and Dividend Payments" and "Outlook—Dividend Obligations to Treasury" below for more information regarding our dividend payments to Treasury.
- *Book of Business and Credit Performance.* Beginning in 2008, we made changes to strengthen our underwriting and eligibility standards that have improved the credit quality of our single-family guaranty book of business, and contributed to improvement in our credit performance. Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010, and was 1.89% as of December 31, 2014, compared with 2.38% as of December 31, 2013. Single-family seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. See "Single-Family Guaranty Book of Business" below for information on the credit performance of the mortgage loans in our single-family guaranty book of business and on our single-family acquisitions for each of the last five years.

Our business model has changed significantly since we entered into conservatorship in 2008 and continues to evolve. To meet the requirements of our senior preferred stock purchase agreement with Treasury, our retained mortgage portfolio has declined substantially since entering conservatorship and will continue to decline until 2018, which has resulted in, and is expected to continue to result in, declines in our revenues from our retained mortgage portfolio assets. In addition, the amount of guaranty fee income we receive for managing the credit risk of loans in our book of business has increased significantly since entering into conservatorship and we expect will continue to increase. See "Outlook—Revenues" for more information on the shift in, and future expectations regarding, the sources of our revenue. Our business also continues to evolve as a result of our efforts to build a safer and sustainable housing finance system and to pursue the strategic goals identified by our conservator. For example, we have begun to transfer a portion of the existing credit risk on our single-family guaranty book of business in order to reduce the risk to taxpayers of future borrower defaults, and we expect to continue engaging in economically sensible ways to expand our offerings of credit risk transfer transactions in the future. See "Helping to Build a Sustainable Housing Finance System" for a discussion of our credit risk transfer transactions and other efforts to build a safer and sustainable housing finance system.

We remain under conservatorship and subject to the restrictions of the senior preferred stock purchase agreement with Treasury. As a result of the senior preferred stock purchase agreement and directives from our conservator, we are not permitted to retain our net worth (other than a limited amount that will decrease to zero by 2018), rebuild our capital position

or pay dividends or other distributions to stockholders other than Treasury. See "Conservatorship and Treasury Agreements" for more information regarding our conservatorship and our senior preferred stock purchase agreement with Treasury. In addition, the future of our company remains uncertain. Congress continues to consider options for reform of the housing finance system, including the GSEs, and we cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation. See "Housing Finance Reform" for information on recent proposals for housing finance reform.

Supporting the housing recovery by providing reliable, large-scale access to affordable mortgage credit for qualified borrowers and helping struggling homeowners

We continued our efforts to support the housing recovery in 2014. We remained the largest single issuer of mortgage-related securities in the single-family secondary market in 2014 and a continuous source of liquidity in the multifamily market. We also continued to help struggling homeowners. In 2014, we provided approximately 165,000 loan workouts to help homeowners stay in their homes or otherwise avoid foreclosure. We discuss our activities to support the housing and mortgage markets in "Contributions to the Housing and Mortgage Markets" below.

Serving customer needs and improving our business efficiency

We are undertaking various initiatives to better serve our customers' needs and improve our business efficiency, including: revising and clarifying our representation and warranty framework to reduce lenders' repurchase risk; simplifying our business processes; and updating our infrastructure. We discuss these initiatives in "Serving Customer Needs and Improving Our Business Efficiency" below.

Helping to build a sustainable housing finance system

We continued to help lay the foundation for a safer and sustainable housing finance system in 2014. Our efforts included pursuing the strategic goals and objectives identified by our conservator, as well as investing in enhancements to our business and infrastructure. We discuss these efforts in "Helping to Build a Sustainable Housing Finance System" below.

Summary of Our Financial Performance

Comprehensive Income

We recognized comprehensive income of $14.7 billion in 2014, consisting of net income of $14.2 billion and other comprehensive income of $530 million. In comparison, we recognized comprehensive income of $84.8 billion in 2013, consisting of net income of $84.0 billion and other comprehensive income of $819 million. The decrease in comprehensive income was primarily driven by a provision for federal income taxes of $6.9 billion in 2014 compared to a benefit for federal income taxes of $45.4 billion in 2013 primarily due to the release of our valuation allowance against our deferred tax assets in the first quarter of 2013. See "MD&A—Critical Accounting Polices and Estimates—Deferred Tax Assets" for additional information.

Our 2014 pre-tax income was $21.1 billion, compared with $38.6 billion in 2013. The decrease in our pre-tax income was primarily due to a decrease in credit-related income and a shift to fair value losses from fair value gains.

Credit-related income decreased to $3.8 billion in 2014 from $11.8 billion in 2013. This decrease was primarily attributable to home prices increasing at a slower pace in 2014 as compared with 2013. In addition, 2013 credit-related income benefited from foreclosed property income primarily due to the recognition of income related to compensatory fee arrangements.

Fair value losses of $4.8 billion in 2014 were primarily driven by a decline in longer-term swap rates in 2014. Fair value gains of $3.0 billion in 2013 were primarily driven by an increase in longer-term swap rates in 2013.

Our results included pre-tax income of $5.7 billion in each of 2014 and 2013 as a result of resolution agreements we reached relating to private-label mortgage-related securities ("PLS") sold to us, representation and warranty matters, and compensatory fees.

We expect volatility from period to period in our financial results from a number of factors, particularly changes in market conditions that result in fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings. These instruments include derivatives and certain securities. The estimated fair value of our derivatives and securities may fluctuate substantially from period to period because of changes in interest rates, the yield curve, mortgage spreads and implied volatility, as well as activity related to these financial instruments. We use derivatives to manage the interest rate risk exposure of our net portfolio, which consists of our retained mortgage portfolio, cash and other investments portfolio, and our outstanding debt of Fannie Mae. Some of these financial instruments in our net portfolio are not recorded at fair value in our consolidated financial statements, and as a result we may experience accounting gains or losses due to changes in interest rates or other market conditions that may not be indicative of the economic interest rate risk exposure of our net portfolio. See "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management" for more information. In addition, our credit-related income or expense can vary substantially from period to period primarily due to changes in home prices, borrower payment behavior and economic conditions.

See "MD&A—Consolidated Results of Operations" for more information on our results.

Net Worth

Our net worth decreased to $3.7 billion as of December 31, 2014 from $9.6 billion as of December 31, 2013 primarily due to our payments to Treasury of $20.6 billion in senior preferred stock dividends, partially offset by our comprehensive income of $14.7 billion during 2014.

The dividend amount payable to Treasury on the senior preferred stock for each dividend period from January 1, 2013 through and including December 31, 2017 is the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. The capital reserve amount was $2.4 billion for dividend periods in 2014 and further decreased to $1.8 billion for dividend periods in 2015. Our expected dividend payment of $1.9 billion for the first quarter of 2015 is calculated based on our net worth of $3.7 billion as of December 31, 2014 less the applicable capital reserve amount of $1.8 billion.

Single-Family Guaranty Book of Business

Credit Performance

We continued to achieve strong credit performance in 2014. In addition to acquiring loans with strong credit profiles, as we discuss below in "Recently Acquired Single-Family Loans," we continued to execute on our strategies for reducing credit losses, such as helping eligible Fannie Mae borrowers with high loan-to-value ("LTV") ratio loans refinance into more sustainable loans through the Obama Administration's Home Affordable Refinance Program® ("HARP®"), offering borrowers loan modifications that can significantly reduce their monthly payments, pursuing foreclosure alternatives and managing our real estate owned ("REO") inventory to appropriately manage costs and maximize sales proceeds. As we work to reduce credit losses, we also seek to assist struggling homeowners, help stabilize communities and support the housing market.

Table 1 presents information for each of the last three years about the credit performance of mortgage loans in our single-family guaranty book of business and our workouts. The term "workouts" refers to both home retention solutions (loan modifications and other solutions that enable a borrower to stay in his or her home) and foreclosure alternatives (short sales and deeds-in-lieu of foreclosure). The workout information in Table 1 does not reflect repayment plans and forbearances that have been initiated but not completed, nor does it reflect trial modifications that have not become permanent.

Table 1: Credit Statistics, Single-Family Guaranty Book of Business[(1)]

	2014	2013	2012
	(Dollars in millions)		
As of the end of each period:			
Serious delinquency rate[(2)]	1.89 %	2.38 %	3.29 %
Seriously delinquent loan count	329,590	418,837	576,591
Foreclosed property inventory:			
Number of properties[(3)]	87,063	103,229	105,666
Carrying value	$ 9,745	$ 10,334	$ 9,505
Total loss reserves[(4)]	$ 37,762	$ 46,689	$ 61,396
During the period:			
Credit-related income[(5)]	$ 3,625	$ 11,205	$ 919
Credit losses[(6)]	$ 5,978	$ 4,452	$ 14,392
REO net sales prices to unpaid principal balance[(7)]	69 %	67 %	59 %
Short sales net sales price to unpaid principal balance[(8)]	72 %	67 %	61 %
Loan workout activity (number of loans):			
Home retention loan workouts[(9)]	130,132	172,029	186,741
Short sales and deeds-in-lieu of foreclosure	34,480	61,949	88,732
Total loan workouts	164,612	233,978	275,473
Loan workouts as a percentage of delinquent loans in our guaranty book of business	23.20 %	29.20 %	26.38 %

(1) Our single-family guaranty book of business consists of (a) single-family mortgage loans of Fannie Mae, (b) single-family mortgage loans underlying Fannie Mae MBS, and (c) other credit enhancements that we provide on single-family mortgage assets, such as long-term standby commitments. It excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

(2) Calculated based on the number of single-family conventional loans that are 90 days or more past due and loans that have been referred to foreclosure but not yet foreclosed upon, divided by the number of loans in our single-family conventional guaranty book of business.

(3) Includes held-for-use properties (properties that we do not intend to sell or that are not ready for immediate sale in their current condition), which are reported in our consolidated balance sheets as a component of “Other assets,” and acquisitions through deeds-in-lieu of foreclosure.

(4) Consists of (a) the combined loss reserves, (b) allowance for accrued interest receivable, and (c) allowance for preforeclosure property taxes and insurance receivables.

(5) Consists of (a) the benefit for credit losses and (b) foreclosed property (expense) income.

(6) Consists of (a) charge offs, net of recoveries and (b) foreclosed property expense (income), adjusted to exclude the impact of fair value losses resulting from credit impaired loans acquired from MBS trusts.

(7) Calculated as the amount of sale proceeds received on disposition of REO properties during the respective periods, excluding those subject to repurchase requests made to our seller or servicers, divided by the aggregate unpaid principal balance of the related loans at the time of foreclosure. Net sales price represents the contract sales price less selling costs for the property and other charges paid by the seller at closing.

(8) Calculated as the amount of sale proceeds received on properties sold in short sale transactions during the respective period divided by the aggregate unpaid principal balance of the related loans. Net sales price represents the contract sales price less the selling costs for the property and other charges paid by the seller at the closing, including borrower relocation incentive payments and subordinate lien (s) negotiated payoffs.

(9) Consists of (a) modifications (which do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as troubled debt restructurings (“TDRs”), or repayment plans or forbearances that have been initiated but not completed) and (b) repayment plans and forbearances completed. See “Table 40: Statistics on Single-Family Loan Workouts” in “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Problem Loan Management—Loan Workout Metrics” for additional information on our various types of loan workouts.

Beginning in 2008, we took actions to significantly strengthen our underwriting and eligibility standards and change our pricing to promote sustainable homeownership and stability in the housing market. These actions have improved the credit quality of our book of business and contributed to improvement in our credit performance. For information on the credit risk profile of our single-family guaranty book of business, see "MD&A—Risk Management—Credit Risk Management—

Single-Family Mortgage Credit Risk Management," including "Table 36: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business."

We continue to experience disproportionately higher credit losses and serious delinquency rates from single-family loans originated in 2005 through 2008 than from loans originated in other years. Single-family loans originated in 2005 through 2008 constituted 12% of our single-family book of business as of December 31, 2014, but constituted 59% of our seriously delinquent loans as of December 31, 2014 and drove 75% of our 2014 credit losses. For information on the credit performance of our single-family book of business based on loan vintage, see "Table 15: Credit Loss Concentration Analysis" in "MD&A—Consolidated Results of Operations—Credit-Related Income—Credit Loss Performance Metrics" and "Table 39: Single-Family Conventional Seriously Delinquent Loan Concentration Analysis" in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management." For information on certain credit characteristics of our single-family book of business based on the period in which we acquired the loans, see "Table 33: Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period" in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

We provide additional information on our credit-related expense or income in "Consolidated Results of Operations—Credit-Related Income" and on the credit performance of mortgage loans in our single-family book of business in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

We provide more information on our efforts to reduce our credit losses in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" and "MD&A—Risk Management—Institutional Counterparty Credit Risk Management." See also "Risk Factors," where we describe factors that may adversely affect the success of our efforts, including our reliance on third parties to service our loans, conditions in the foreclosure environment, and risks relating to our mortgage insurer counterparties.

Recently Acquired Single-Family Loans

Table 2 below displays information regarding our average charged guaranty fee on and select risk characteristics of the single-family loans we acquired in each of the last five years. Table 2 also displays the volume of our single-family Fannie Mae MBS issuances for these periods, which is indicative of the volume of single-family loans we acquired in these periods.

Table 2: Single-Family Acquisitions Statistics

	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Single-family average charged guaranty fee on new acquisitions (in basis points)[(1)(2)]	62.9	57.4	39.9	28.8	25.7
Single-family Fannie Mae MBS issuances	$375,676	$733,111	$827,749	$564,606	$603,247
Select risk characteristics of single-family conventional acquisitions:[(3)]					
Weighted average FICO® credit score at origination	744	753	761	762	762
FICO credit score at origination less than 660	7 %	5 %	3 %	2 %	2 %
Weighted average original LTV ratio[(4)]	77 %	76 %	75 %	69 %	68 %
Original LTV ratio over 80%[(4)(5)]	32 %	29 %	25 %	18 %	16 %
Original LTV ratio over 95%[(4)(6)]	4 %	10 %	11 %	4 %	3 %
Loan purpose:					
Purchase	52 %	30 %	21 %	24 %	22 %
Refinance	48 %	70 %	79 %	76 %	78 %

(1) For the periods 2012 forward, includes the impact of a 10 basis point guaranty fee increase implemented in April 2012 pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, the incremental revenue from which must be remitted to Treasury. The resulting revenue is included in guaranty fee income and the expense is recognized in "TCCA fees."

(2) Calculated based on the average contractual fee rate for our single-family guaranty arrangements entered into during the period plus the recognition of any upfront cash payments ratably over an estimated average life, expressed in basis points.

(3) Calculated based on unpaid principal balance of single-family loans for each category at time of acquisition.

(4) The original LTV ratio generally is based on the original unpaid principal balance of the loan divided by the appraised property value reported to us at the time of acquisition of the loan. Excludes loans for which this information is not readily available.

(5) We purchase loans with original LTV ratios above 80% as part of our mission to serve the primary mortgage market and provide liquidity to the housing finance system. Except as permitted under HARP, our charter generally requires primary mortgage insurance or other credit enhancement for loans that we acquire that have an LTV ratio over 80%.

(6) Approximately 79% of the greater than 95% LTV ratio loans we acquired in 2014 were acquired pursuant to HARP. See "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" for information on HARP loans.

As shown in Table 2, our single-family average charged guaranty fee on new acquisitions has increased significantly since 2012, driven by guaranty fee increases implemented in 2012 and increases in loan level price adjustments charged on our acquisitions, as our acquisitions in 2013 and 2014 included a higher proportion of loans with higher LTV ratios and a higher proportion of loans with lower FICO credit scores than our 2010, 2011 and 2012 acquisitions. Loan level price adjustments refer to one-time cash fees that we charge at the time we initially acquire a loan based on the credit characteristics of the loan. The guaranty fee increases implemented in 2012 included a 10 basis point increase implemented pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011 (the "TCCA"), the incremental revenue from which must be remitted to Treasury. See "Our Charter and Regulation of Our Activities—Potential Changes to Our Single-Family Guaranty Fee Pricing" for information on potential future changes to our guaranty fee pricing.

The increase in our average charged guaranty fee on newly-acquired single-family loans in 2014 as compared with 2013 was driven primarily by an increase in loan level price adjustments charged on our acquisitions in 2014, as these acquisitions included a higher proportion of loans with higher LTV ratios and a higher proportion of loans with lower FICO credit scores than our 2013 acquisitions. The increase in our acquisitions of loans with higher LTV ratios in 2014 as compared with 2013 was primarily due to a decline in the percentage of our acquisitions consisting of refinance loans and a corresponding increase in the percentage of our acquisitions consisting of home purchase loans, which typically have higher LTV ratios than non-HARP refinance loans. Despite this shift in the credit risk profile of our acquisitions, the single-family loans we acquired in 2014 continued to have a strong credit profile, with a weighted average original LTV ratio of 77% and a weighted average FICO credit score of 744. For more information on the credit risk profile of our single-family conventional loan acquisitions in 2014, 2013 and 2012, see "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management," including "Table 36: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business."

Our single-family acquisition volume and single-family Fannie Mae MBS issuances decreased significantly in 2014 compared with 2013; however, liquidations of loans from our single-family guaranty book of business also declined due to lower refinance activity. Accordingly, the size of our single-family guaranty book of business remained relatively flat.

Whether the loans we acquire in the future will exhibit an overall credit profile and performance similar to our more recent acquisitions will depend on a number of factors, including our future pricing and eligibility standards and those of mortgage insurers, the Federal Housing Administration ("FHA") and the Department of Veterans Affairs ("VA"), the percentage of loan originations representing refinancings, changes in interest rates, our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers, government policy, market and competitive conditions, and the volume and characteristics of HARP loans we acquire in the future. In addition, if our lender customers retain more of the higher-quality loans they originate, it could negatively affect the credit risk profile of our new single-family acquisitions.

Providing Targeted Access to Credit Opportunities for Creditworthy Borrowers

Pursuant to FHFA's 2015 conservatorship scorecard and our statutory mission, we are continuing to work to increase access to mortgage credit for creditworthy borrowers, consistent with the full extent of our applicable credit requirements and risk management practices. As part of this effort, we are encouraging lenders to originate loans across the full range of credit eligibility for those borrowers meeting our credit requirements. Some actions we are taking in this regard include: providing additional clarity regarding seller and servicer representations and warranties and remedies for poor performance; making new quality control tools available to lenders; conducting increased outreach to lenders and other industry stakeholders to increase awareness of our available products and programs; and conducting consumer research to provide industry partners with information to support their efforts to reach underserved market segments.

In addition, in December 2014, we changed our eligibility requirements to increase our maximum LTV ratio for loans to first-time home buyers from 95% to 97%. We previously acquired loans with LTV ratios up to 97% from all lenders, but in late 2013, we changed our eligibility requirements to reduce our maximum LTV ratio to 95% for non-HARP acquisitions from lenders other than housing finance agencies, effective for acquisitions beginning in July 2014. Although higher LTV ratio loans typically present a higher credit risk than lower LTV ratio loans, we believe our acquisition of single-family loans with

95.01% to 97% LTV ratios will not materially affect our overall credit risk due to our requirements for these loans and our expectation that they will constitute a small portion of our overall acquisition volumes. Our requirements for these loans include compensating factors and risk mitigants, which reduce risk layering. For purchase transactions, at least one borrower on the loan must be a first-time home buyer and occupy the property as his or her principal residence. In some cases, we also require the borrower to receive housing counseling before obtaining the loan. Eligibility for refinance transactions is limited to existing Fannie Mae loans to provide support for borrowers who may not otherwise be eligible for our Refi Plus™ initiative. For both purchase and refinance loans, the loans must have fixed-rate terms and must be underwritten through Desktop Underwriter®, our proprietary automated underwriting system. Desktop Underwriter provides a comprehensive credit risk assessment on loan applications submitted through the system, assessing risk layers and compensating factors, and denying loan applications that do not meet our eligibility requirements. We require mortgage insurance or other appropriate credit enhancement for all non-HARP loans with LTV ratios greater than 80%.

To the extent we are able to encourage lenders to increase access to mortgage credit, we may acquire a greater number of single-family loans with higher risk characteristics than we have acquired in the most recent periods; however, we believe our single-family acquisitions will continue to have a strong overall credit risk profile given our current underwriting and eligibility standards and product design. We actively monitor the credit risk profile and credit performance of our single-family loan acquisitions.

Contributions to the Housing and Mortgage Markets

Liquidity and Support Activities

As the largest provider of residential mortgage credit in the United States, we indirectly enable families to buy, refinance or rent homes. During 2014, we continued to provide critical liquidity and support to the U.S. mortgage market in a number of important ways:

- We serve as a stable source of liquidity for purchases of homes and financing of multifamily rental housing, as well as for refinancing existing mortgages. We provided approximately $434 billion in liquidity to the mortgage market in 2014 through our purchases and guarantees of loans and securities. This liquidity enabled borrowers to complete approximately 937,000 mortgage refinancings and approximately 887,000 home purchases, and provided financing for approximately 446,000 units of multifamily housing.
- Our role in the market enables qualified borrowers to have reliable access to affordable mortgage credit, including a variety of conforming mortgage products such as the prepayable 30-year fixed-rate mortgage that protects homeowners from fluctuations in interest rates.
- We provided approximately 165,000 loan workouts in 2014 to help homeowners stay in their homes or otherwise avoid foreclosure. Our loan workout efforts have helped to stabilize neighborhoods, home prices and the housing market.
- We helped borrowers refinance loans, including through our Refi Plus initiative, which offers additional refinancing flexibility to eligible borrowers who are current on their loans and whose loans are owned or guaranteed by us and meet certain additional criteria. We acquired approximately 302,000 Refi Plus loans in 2014. Refinancings delivered to us through Refi Plus in the fourth quarter of 2014 reduced borrowers' monthly mortgage payments by an average of $172.
- We support affordability in the multifamily rental market. Over 85% of the multifamily units we financed in 2014 were affordable to families earning at or below the median income in their area.
- In addition to purchasing and guaranteeing loans, we provide funds to the mortgage market through short-term financing and other activities. These activities are described in "Business Segments—Capital Markets."

2014 Market Share

We estimate that our single-family market share was 32% in 2014, compared with 39% in 2013. These amounts represent our single-family mortgage acquisitions for each year, excluding delinquent loans we purchased from our MBS trusts, as a percentage of the single-family first-lien mortgages we currently estimate were originated in the United States that year. Because our estimate of mortgage originations in prior periods is subject to change as additional data become available, these market share estimates may change in the future, perhaps materially.

We remained the largest single issuer of mortgage-related securities in the secondary market during the fourth quarter of 2014, with an estimated market share of new single-family mortgage-related securities issuances of 40%, compared with 38%

in the third quarter of 2014 and 46% in the fourth quarter of 2013. For all of 2014, we estimate our market share of new single-family mortgage-related securities issuances was 40%, compared with 47% for 2013.

We remained a continuous source of liquidity in the multifamily market in 2014. We owned or guaranteed approximately 19% of the outstanding debt on multifamily properties as of September 30, 2014 (the latest date for which information is available).

Serving Customer Needs and Improving Our Business Efficiency

We are undertaking various initiatives to better serve our customers' needs and improve our business efficiency. We are committed to providing our lender partners with the products, services and tools they need to serve the market efficiently and profitably. To further this commitment, we are focused on revising and clarifying our representation and warranty framework to reduce lenders' repurchase risk, and making our customers' interactions with us simpler and more efficient.

We have taken several actions in recent years to improve our representation and warranty framework and help lenders reduce their repurchase risk relating to loans they deliver to us, including:

- Revising our representation and warranty framework in 2013 to limit our ability to require lenders to repurchase loans for breaches of certain selling representations and warranties, effective for loans delivered on or after January 1, 2013 that have had 36 timely payments (or 12 timely payments for Refi Plus loans) and meet other eligibility requirements. We further revised our representation and warranty framework in 2014 to relax the timely payment requirement effective for conventional loans delivered on or after July 1, 2014 to permit two instances of 30-day delinquency, and to allow loans to qualify for relief after satisfactory conclusion of a quality control review.
- Providing lenders with greater clarity on the circumstances that would result in a loan repurchase request. For example, in November 2014, we issued a lender announcement updating and clarifying aspects of our new representation and warranty framework, particularly relating to the "life of loan" representations and warranties that are not eligible for repurchase relief.
- Expediting our review of newly acquired performing loans to identify loan defects earlier, and making more frequent use of the alternatives to repurchase specified in our Selling Guide.
- Offering lenders new, innovative tools to help them ensure the quality of the loans they deliver to us. These tools include EarlyCheck™, which enables early validation of loan delivery eligibility, allowing lenders to make corrections and avoid the delivery of ineligible loans, and Collateral Underwriter™, which gives lenders access to the same appraisal review tool we use so that they can address potential appraisal issues prior to delivery of the loan to us.
- Providing lenders with training and feedback to help them resolve origination issues and reduce loan origination defects.

We believe these actions have significantly reduced uncertainty surrounding lenders' repurchase risk relating to loans they deliver to us, and our intention is that these actions will encourage lenders to safely expand their lending to a wider range of qualified borrowers. We continue to consider new ways to reduce or clarify lenders' repurchase risk. See "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" for further discussion of changes to our representation and warranty framework and actions we have taken to reduce and clarify lenders' repurchase risk.

We are also working on a multi-year effort to improve our business efficiency and agility through simplification of our business processes and enhancements to our infrastructure. Many of these improvements are also designed to enhance our customers' experience when doing business with us, including making our customers' interactions with us simpler and more efficient. These efforts include replacing some of our systems with simpler, more automated infrastructure that will enable us to more efficiently process transactions and manage our book of business, as well as to better adapt to industry and regulatory changes in the future. We are also working on implementing infrastructure improvements to support the integration of our business with the common securitization platform and our ability to issue a single common security, which we describe below under "Helping to Build a Sustainable Housing Finance System."

Helping to Build a Sustainable Housing Finance System

We have invested significant resources towards helping to build a safer and sustainable housing finance system, primarily through pursuing the strategic goals identified by our conservator. FHFA's current strategic goals are to:

- **Maintain**, in a safe and sound manner, credit availability and foreclosure prevention activities for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets.
- **Reduce** taxpayer risk through increasing the role of private capital in the mortgage market.
- **Build** a new single-family securitization infrastructure for use by Fannie Mae and Freddie Mac and adaptable for use by other participants in the secondary market in the future.

Beginning in 2012, FHFA has released annual corporate performance objectives for Fannie Mae and Freddie Mac, referred to as the conservatorship scorecard, which detail specific priorities for implementing FHFA's strategic goals. FHFA released its 2014 conservatorship scorecard in May 2014, and its 2015 conservatorship scorecard in January 2015. Both FHFA's 2014 and 2015 conservatorship scorecards include objectives designed to further the goal of reforming the housing finance system. We describe below some of the initiatives we are undertaking pursuant to the mandates of the scorecards in order to build the policies and infrastructure for a sustainable housing finance system.

Representation and Warranty Framework. FHFA's 2014 and 2015 conservatorship scorecards include an objective relating to improving the representation and warranty framework for mortgage originations. We discuss actions we have taken to improve this framework and reduce lenders' repurchase risk relating to loans they deliver to us under "Serving Customer Needs and Improving Our Business Efficiency" above.

Credit Risk Transfer Transactions. FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to credit risk transfer transactions. The goal of these transactions is, to the extent economically sensible, to transfer a limited portion of the existing credit risk on a portion of our single-family guaranty book of business in order to reduce the risk to taxpayers of future borrower defaults. We completed a total of five Connecticut Avenue Securities™ ("CAS") credit risk transfer transactions in 2013 and 2014, which transferred some of the credit risk on single-family mortgages with an unpaid principal balance of $249.0 billion. While these transactions have been relatively small compared to our overall mortgage credit risk exposure, we believe they have attracted broad interest in the private market. We currently intend to complete additional CAS transactions in 2015. In addition to our CAS transactions, we executed additional types of risk sharing transactions in 2014. We expect to continue engaging in economically sensible ways to expand our offerings of credit risk transfer transactions in the future. See "Business Segments—Single-Family Business—Single-Family Credit Risk Transfer Transactions" and "MD&A—Risk Management—Credit Risk Management" for more information on these transactions.

Mortgage Insurance. FHFA's 2014 conservatorship scorecard includes an objective relating to finalizing mortgage insurance master policies and enhanced mortgage insurer eligibility requirements. FHFA's 2015 conservatorship scorecard includes an objective relating to implementing final mortgage insurer eligibility requirements. These reforms are intended to strengthen our mortgage insurer counterparties and reduce the risk to taxpayers of future defaults by mortgage insurers on their obligations to the GSEs. See "MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management" for a description of these new policies and requirements.

Common Securitization Platform. FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to the development of a common securitization platform that is intended to replace certain elements of Fannie Mae's and Freddie Mac's proprietary systems for securitizing mortgages and performing associated back office and administrative functions. In October 2013, Fannie Mae and Freddie Mac established Common Securitization Solutions, LLC ("CSS"), a jointly owned limited liability company formed to design, develop, build and ultimately operate the platform. We continue to work with FHFA, Freddie Mac and CSS on building and testing the common securitization platform, as well as on implementing required changes to our systems and operations to integrate with the common securitization platform. We expect it will be a number of years before CSS will have sufficient operational capabilities to serve its intended purpose as a common securitization platform for us and Freddie Mac. See "Housing Finance Reform—Conservator Developments" for more information on the progress of the common securitization platform initiative.

Single Common Security. FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to the development of a single common mortgage-backed security for Fannie Mae and Freddie Mac. FHFA believes a single common security would increase liquidity in the housing finance market. The development of the single common security is expected to be a multi-year initiative. See "Housing Finance Reform—Conservator Developments" for information on FHFA's single security proposal and "Risk Factors" for a discussion of the risks to our business associated with a single common security for Fannie Mae and Freddie Mac.

Mortgage Data Standardization Initiatives. FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to support of mortgage data standardization initiatives. These initiatives are designed to improve the accuracy and quality of loan data through the mortgage lifecycle with the development and implementation of the uniform data standards for single-family mortgages.

For more information on FHFA's 2014 conservatorship scorecard objectives and our performance against these objectives, see "Executive Compensation—Compensation Discussion and Analysis—Determination of 2014 Compensation—Assessment of Corporate Performance on 2014 Conservatorship Scorecard." For more information on FHFA's 2015 conservatorship scorecard objectives, see our Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC") on January 20, 2015.

We are also working on additional related initiatives to help prepare our business and infrastructure for potential future changes in the structure of the U.S. housing finance system and to help ensure our safety and soundness. These projects will likely take a number of years to implement. See "Serving Customer Needs and Improving Our Business Efficiency" above for a description of some of these initiatives.

We are devoting significant resources to and incurring significant expenses in implementing FHFA's objectives and these additional related initiatives. As described in "Risk Factors," the magnitude of the many new initiatives we are undertaking may increase our operational risk.

Treasury Draws and Dividend Payments

From 2009 through the first quarter of 2012, we received a total of $116.1 billion from Treasury under the senior preferred stock purchase agreement. This funding provided us with the capital and liquidity needed to fulfill our mission of providing liquidity and support to the nation's housing finance markets and to avoid a trigger of mandatory receivership under the Federal Housing Finance Regulatory Reform Act of 2008 (the "2008 Reform Act"). In addition, a portion of the $116.1 billion we received from Treasury was drawn to pay dividends to Treasury because, prior to 2013, our dividend payments on the senior preferred stock accrued at an annual rate of 10%, and we were directed by our conservator to pay these dividends to Treasury each quarter even when we did not have sufficient income to pay the dividend. We have not received funds from Treasury under the agreement since the first quarter of 2012. As of the date of this filing, the maximum amount of remaining funding under the agreement is $117.6 billion.

From 2008 through 2014, we paid a total of $134.5 billion in dividends to Treasury on the senior preferred stock. Under the terms of the senior preferred stock purchase agreement, dividend payments do not offset prior Treasury draws, and we are not permitted to pay down draws we have made under the agreement except in limited circumstances. Accordingly, the current aggregate liquidation preference of the senior preferred stock is $117.1 billion, due to the initial $1.0 billion liquidation preference of the senior preferred stock (for which we did not receive cash proceeds) and the $116.1 billion we have drawn from Treasury.

The Director of FHFA directs us on a quarterly basis to make dividend payments on the senior preferred stock. In March 2015, we expect to pay Treasury additional senior preferred stock dividends of $1.9 billion for the first quarter of 2015.

Outlook

Uncertainty Regarding our Future Status. We expect continued significant uncertainty regarding the future of our company and the housing finance system, including how long the company will continue to be in its current form, the extent of our role in the market, what form we will have, what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated and whether we will continue to exist following conservatorship.

We cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation. See "Housing Finance Reform" for a discussion of proposals for reform of the housing finance system, including the GSEs, that could materially affect our business, including proposals to wind down Fannie Mae and Freddie Mac. See "Risk Factors" for a discussion of the risks to our business relating to the uncertain future of our company.

Financial Results. Our financial results continued to be strong in 2014, with pre-tax income of $21.1 billion and net income of $14.2 billion. We expect to remain profitable on an annual basis for the foreseeable future; however, we expect our earnings in future years will be substantially lower than our earnings for 2014, primarily due to our expectation of substantially lower income from resolution agreements, continued declines in net interest income from our retained mortgage portfolio assets and lower credit-related income. In addition, certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year. Our future financial results also will be affected by a number of other factors, including: our guaranty fee rates; the volume of single-family mortgage originations in the future; the size, composition and quality of our retained mortgage portfolio and guaranty book of business;

and economic and housing market conditions. Our expectations for our future financial results do not take into account the impact on our business of potential future legislative or regulatory changes, which could have a material impact on our financial results, particularly the enactment of housing finance reform legislation as noted in "Uncertainty Regarding our Future Status" above.

As noted under "Dividend Obligations to Treasury" below, under the terms of the senior preferred stock, our capital reserve will decline by $600 million each year until it reaches zero in 2018. Although we expect to remain profitable on an annual basis for the foreseeable future, due to our declining capital reserve, our expectation of substantially lower earnings in future years than our earnings for 2014, and the potential for significant volatility in our financial results, we could experience a net worth deficit in a future quarter, particularly as our capital reserve approaches zero. If that were to occur, we would be required to draw additional funds from Treasury under the senior preferred stock purchase agreement in order to avoid being placed into receivership. See "Risk Factors" for a discussion of the risks associated with our declining capital reserves.

Revenues. We currently have two primary sources of revenues: (1) the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties; and (2) the difference between interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets. Our "retained mortgage portfolio" refers to the mortgage-related assets we own (which excludes the portion of assets held by consolidated MBS trusts that back mortgage-related securities owned by third parties). In recent years, an increasing portion of our net interest income has been derived from guaranty fees rather than from our retained mortgage portfolio assets, due to the shrinking of our retained mortgage portfolio and the impact of guaranty fee increases. We estimate that the portion of our net interest income derived from guaranty fees on loans underlying our Fannie Mae MBS increased from more than one-third in 2013 to approximately half in 2014. We expect that guaranty fees will continue to account for an increasing portion of our net interest income.

The decrease in the balance of mortgage assets held in our retained mortgage portfolio contributed to a decline in our net interest income and revenues in 2014 as compared with 2013. We expect continued decreases in the size of our retained mortgage portfolio, which will continue to negatively impact our net interest income and revenues; however, we also expect increases in our guaranty fee revenues will partially offset the negative impact of the decline in our retained mortgage portfolio. We expect our guaranty fee revenues to increase over the long term, as loans with lower guaranty fees liquidate from our book of business and are replaced with new loans with higher guaranty fees. The extent to which the positive impact of increased guaranty fee revenues will offset the negative impact of the decline in the size of our retained mortgage portfolio will depend on many factors, including: changes to guaranty fee pricing we may make in the future, including any directive we receive from FHFA to change our guaranty fee pricing; the size, composition and quality of our guaranty book of business; the life of the loans in our guaranty book of business; the size, composition and quality of our retained mortgage portfolio, including the pace at which we are required by our conservator to reduce the size of our portfolio and the types of assets we are required to sell; economic and housing market conditions, including changes in interest rates; our market share; and legislative and regulatory changes.

Dividend Obligations to Treasury. We expect to retain only a limited amount of any future net worth because we are required by the dividend provisions of the senior preferred stock and quarterly directives from our conservator to pay Treasury each quarter the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. This capital reserve amount is $1.8 billion for each quarter of 2015 and continues to decrease by $600 million annually until it reaches zero in 2018.

As described in "Legal Proceedings" and "Note 19, Commitments and Contingencies," several lawsuits have been filed by preferred and common stockholders of Fannie Mae and Freddie Mac against the United States, Treasury and/or FHFA challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac, including challenges to the net worth sweep dividend provisions of the senior preferred stock. We cannot predict the course or the outcome of these lawsuits, or the actions the U.S. government (including Treasury or FHFA) may take in response to any ruling or finding in any of these lawsuits.

Overall Market Conditions. We expect that single-family mortgage loan serious delinquency and severity rates will continue their downward trend, but at a slower pace than in recent years. We expect that single-family serious delinquency and severity rates will remain high compared with pre-housing crisis levels because it will take some time for the remaining delinquent loans with high mark-to-market LTV ratios originated prior to 2009 to work their way through the foreclosure process. Despite steady demand and stable fundamentals at the national level, the multifamily sector may continue to exhibit below average fundamentals in certain local markets and with certain properties.

We forecast that total originations in the U.S. single-family mortgage market in 2015 will increase from 2014 levels by approximately 7% from an estimated $1.19 trillion in 2014 to $1.28 trillion in 2015, and that the amount of originations in the

U.S. single-family mortgage market that are refinancings will increase from an estimated $516 billion in 2014 to $574 billion in 2015.

Home Prices. Based on our home price index, we estimate that home prices on a national basis increased by 4.7% in 2014. We expect a lower rate of home price appreciation in 2015 than in 2014. Future home price changes may be very different from our expectations as a result of significant inherent uncertainty in the current market environment, including uncertainty about the effect of recent and future changes in mortgage rates; actions the federal government has taken and may take with respect to fiscal policies, mortgage finance programs and policies, and housing finance reform; the Federal Reserve's purchases and sales of mortgage-backed securities; the impact of those actions on and changes generally in unemployment and the general economic and interest rate environment; and the impact on the U.S. economy of global economic and political conditions. We also expect significant regional variation in the timing and rate of home price growth.

Credit Losses. Our credit losses, which include our charge-offs, net of recoveries, reflect our realization of losses on our loans. Our credit losses were $5.9 billion in 2014, up from $4.5 billion in 2013 and down from $14.6 billion in 2012. Our credit losses increased in 2014 compared with 2013 primarily due to a lower level of credit loss recoveries in 2014 compared with 2013. We expect our credit losses in 2015 will be higher than 2014 levels because we expect our approach to implementing the charge-off provisions of FHFA's Advisory Bulletin AB 2012-02 in 2015 will increase our credit losses for 2015 from what they otherwise would be. We expect our credit losses to resume their downward trend beginning in 2016. See "Our Charter and Regulation of Our Activities—FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans" for further information about this Advisory Bulletin.

Loss Reserves. Our total loss reserves consist of (1) our allowance for loan losses, (2) our allowance for accrued interest receivable, (3) our allowance for preforeclosure property taxes and insurance receivables, and (4) our reserve for guaranty losses. Our total loss reserves were $38.2 billion as of December 31, 2014, down from $47.3 billion as of December 31, 2013. As described in "Our Charter and Regulation of Our Activities—FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans," our approach to implementing the charge-off provisions of FHFA's Advisory Bulletin AB 2012-02 on January 1, 2015 will result in a decrease to our allowance for loan losses as of that date of approximately $2 billion to eliminate the allowance for loan losses on the charged-off loans, which will be reflected in our financial results for the first quarter of 2015. Although our loss reserves have declined substantially from their peak and are expected to decline further, we expect our loss reserves will remain elevated relative to the levels experienced prior to the 2008 housing crisis for an extended period because (1) we expect future defaults on loans that we acquired prior to 2009 and the resulting charge-offs will occur over a period of years and (2) a significant portion of our reserves represents concessions granted to borrowers upon modification of their loans and our reserves will continue to reflect these concessions until the loans are fully repaid or default.

Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations. We present a number of estimates and expectations in this executive summary regarding our future performance, including estimates and expectations regarding our future financial results and profitability, the level and sources of our future revenues and net interest income, our future dividend payments to Treasury, the level and credit characteristics of, and the credit risk posed by, our future acquisitions, our future credit losses and our future loss reserves. We also present a number of estimates and expectations in this executive summary regarding future housing market conditions, including expectations regarding future single-family loan delinquency and severity rates, future mortgage originations, future refinancings, future home prices and future conditions in the multifamily market. These estimates and expectations are forward-looking statements based on our current assumptions regarding numerous factors. Our future estimates of our performance and housing market conditions, as well as the actual results, may differ materially from our current estimates and expectations as a result of: the timing and level of, as well as regional variation in, home price changes; changes in interest rates, unemployment rates and other macroeconomic and housing market variables; our future guaranty fee pricing, including any directive from FHFA to change our guaranty fee pricing, and the impact of that pricing on our guaranty fee revenues and competitive environment; our future serious delinquency rates; our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers; future legislative or regulatory requirements or changes that have a significant impact on our business, such as a requirement that we implement a principal forgiveness program or the enactment of housing finance reform legislation; actions we may be required to take by FHFA, as our conservator or as our regulator, such as changes in the type of business we do; future updates to our models relating to our loss reserves, including the assumptions used by these models; future changes to our accounting policies; significant changes in modification and foreclosure activity; changes in borrower behavior, such as an increasing number of underwater borrowers who strategically default on their mortgage loans; the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies; whether our counterparties meet their obligations in full; resolution or settlement agreements we may enter into with our counterparties; changes in the fiscal and monetary policies of the Federal Reserve, including any change in the Federal Reserve's policy towards the reinvestment of principal payments of mortgage-backed securities or any

future sales of such securities; changes in the fair value of our assets and liabilities; changes in generally accepted accounting principles ("GAAP"); credit availability; global political risks; natural disasters, terrorist attacks, pandemics or other major disruptive events; information security breaches; and other factors, including those discussed in "Forward-Looking Statements," "Risk Factors" and elsewhere in this report. Due to the large size of our guaranty book of business, even small changes in these factors could have a significant impact on our financial results for a particular period.

RESIDENTIAL MORTGAGE MARKET

The U.S. Residential Mortgage Market

We conduct business in the U.S. residential mortgage market and the global securities market. According to the Federal Reserve, total U.S. residential mortgage debt outstanding, which includes $9.9 trillion of single-family mortgage debt outstanding, was estimated to be approximately $10.8 trillion as of September 30, 2014 (the latest date for which information is available). We owned or guaranteed mortgage assets representing approximately 29% of total U.S. residential mortgage debt outstanding as of September 30, 2014.

We operate our business solely in the United States and its territories, and accordingly, we generate no revenue from and have no long-lived assets, other than financial instruments, in geographic locations other than the United States and its territories.

Housing and Mortgage Market and Economic Conditions

According to the U.S. Bureau of Economic Analysis advance estimate, the inflation-adjusted U.S. gross domestic product, or GDP, rose by 2.4% in 2014, compared with an increase of 2.2% in 2013. According to the U.S. Bureau of Labor Statistics as of January 2015, the economy created an estimated 3.2 million non-farm jobs in 2014 and 2.4 million non-farm jobs in 2013. The unemployment rate declined to 5.6% in December 2014 from 6.7% in December 2013. In January 2015, non-farm payrolls increased by 257,000 jobs, and the unemployment rate increased to 5.7%.

The most comprehensive measure of the unemployment rate, which includes those working part-time who would rather work full-time (part-time workers for economic reasons) and those not looking for work but who want to work and are available for work (discouraged workers), declined to 11.2% in December 2014 from 13.1% in December 2013.

Housing activity was mixed in 2014 as compared with 2013. Total existing home sales of 4.9 million units in 2014 represent a decrease of 3.1% from 2013, compared with a 9.2% increase in 2013, according to data from the National Association of REALTORS®. Sales of foreclosed homes and preforeclosure, or "short," sales (together, "distressed sales") accounted for 11% of existing home sales in December 2014, compared with 14% in December 2013. According to the U.S. Census Bureau, new single-family home sales increased 1.2% in 2014, after increasing by 16.6% in 2013. Homebuilding activity continued to increase in 2014, as single-family housing starts rose approximately 5% in 2014, compared with an increase of 15% in 2013. Multifamily starts rose approximately 16% in 2014, compared with an increase of 25% in 2013.

At the end of 2014, the number of months' supply, or the inventory/sales ratio, of available existing homes and of new homes were each below their historical average. According to the U.S. Census Bureau, the months' supply of new single-family unsold homes was 5.5 months as of December 31, 2014, compared with 5.1 months as of December 31, 2013. According to the National Association of REALTORS®, the months' supply of existing unsold homes was 4.4 months as of December 31, 2014, compared with a 4.6 months' supply as of December 31, 2013.

The overall mortgage market serious delinquency rate, which has trended down since peaking in the fourth quarter of 2009, remained historically high at 4.7% as of September 30, 2014 (the latest date for which information is available), according to the Mortgage Bankers Association National Delinquency Survey, compared with 5.4% as of December 31, 2013. We provide information about Fannie Mae's serious delinquency rate, which also decreased during 2014, in "Executive Summary—Single-Family Guaranty Book of Business—Credit Performance."

Despite recent improvement in the housing market and declining delinquency rates, approximately one out of twelve borrowers was delinquent or in foreclosure during the third quarter of 2014, according to the Mortgage Bankers Association National Delinquency Survey.

Table 3 displays several key indicators related to the total U.S. residential mortgage market.

Table 3: Housing and Mortgage Market Indicators[1]

				% Change	
	2014	**2013**	**2012**	**2014 vs. 2013**	**2013 vs. 2012**
Home sales (units in thousands)	5,365	5,519	5,028	(2.8) %	9.8 %
New home sales	435	429	368	1.2	16.6
Existing home sales	4,930	5,090	4,660	(3.1)	9.2
Home price change based on Fannie Mae Home Price Index ("HPI")[2]	4.7 %	8.0 %	4.1 %		
Annual average fixed-rate mortgage interest rate[3]	4.2 %	4.0 %	3.7 %		
Single-family mortgage originations (in billions)	$ 1,193	$ 1,866	$ 2,154	(36.1)	(13.4)
Type of single-family mortgage origination:					
Refinance share	43 %	60 %	72 %		
Adjustable-rate mortgage share	9 %	7 %	5 %		
Total U.S. residential mortgage debt outstanding (in billions)[4]	$ 10,824	$ 10,819	$ 10,877	*	(0.5)

* Represents less than 0.05%.

(1) The sources of the housing and mortgage market data in this table are the Federal Reserve Board, the U.S. Census Bureau, the Department of Housing and Urban Development, the National Association of REALTORS® and the Mortgage Bankers Association. Home sales data are based on information available through December 2014. Single-family mortgage originations, as well as refinance shares, are based on February 2015 estimates from Fannie Mae's Economic & Strategic Research group. The adjustable-rate mortgage share is based on the number of conventional mortgage applications data reported by the Mortgage Bankers Association. Certain previously reported data may have been changed to reflect revised historical data from any or all of these organizations.

(2) Calculated internally using property data information on loans purchased by Fannie Mae, Freddie Mac and other third-party home sales data. Fannie Mae's HPI is a weighted repeat transactions index, measuring average price changes in repeat sales on the same properties. Fannie Mae's HPI excludes prices on properties sold in foreclosure. The reported home price change reflects the percentage change in Fannie Mae's HPI from the fourth quarter of the prior year to the fourth quarter of the reported year.

(3) Based on the annual average 30-year fixed-rate mortgage interest rate reported by Freddie Mac.

(4) U.S. residential mortgage debt outstanding information for 2014 is provided as of September 30, 2014, the latest date for which information is available.

Based on our home price index, we estimate that home prices on a national basis increased by 4.7% in 2014, following increases of 8.0% in 2013 and 4.1% in 2012. Despite the recent increases in home prices, we estimate that, through December 31, 2014, home prices on a national basis remained 10.1% below their peak in the third quarter of 2006. Our home price estimates are based on preliminary data and are subject to change as additional data become available.

Many homeowners continue to have "negative equity" in their homes as a result of declines in home prices since 2006, which means their mortgage principal balance exceeds the current market value of their home. This increases the likelihood that borrowers will abandon their mortgage obligations and that the loans will become delinquent and proceed to foreclosure. According to CoreLogic, Inc., the number of residential properties with mortgages in a negative equity position in the third quarter of 2014 was approximately 5.1 million, down from 6.5 million in the third quarter of 2013. The percentage of properties with mortgages in a negative equity position in the third quarter of 2014 was 10.3%, down from 13.3% in the third quarter of 2013.

Thirty-year fixed-rate mortgage rates declined during the year, starting at 4.53% for the week of January 2, 2014 and ending at 3.87% for the week of December 31, 2014, according to the Freddie Mac Primary Mortgage Market Survey®. Thirty-year fixed-rate mortgage rates declined further in January 2015, reaching 3.66% for the week of January 29, 2015.

Mortgage rates were generally higher during 2014 than they were in the first half of 2013, which contributed to a decline in single-family mortgage originations in 2014, driven by a decline in refinancing activity. We estimate that total single-family mortgage originations decreased by approximately 36% to $1.19 trillion in 2014, compared with $1.87 trillion in 2013. We estimate that the amount of single-family mortgage originations that were refinancings decreased by approximately 54% to $516 billion in 2014, compared with $1.12 trillion in 2013. While single-family mortgage originations declined by an estimated 36% in 2014, we estimate that the amount of single-family mortgage debt outstanding was relatively flat in 2014. As of September 30, 2014 (the latest date for which information is available), total single-family mortgage debt outstanding was $9.9 trillion, a decrease of 0.6% from the amount of total single-family mortgage debt outstanding as of September 30, 2013. Total U.S. residential mortgage debt outstanding decreased by 0.1% from the third quarter of 2013 to the third quarter of 2014 (the latest date for which information is available).

National multifamily market fundamentals, which include factors such as vacancy rates and rents, remained relatively stable during 2014, despite an increase in new apartment supply. Although the national estimated vacancy level increased toward the end of the year, it remained near historic lows, benefiting from steady rental demand coupled with ongoing job growth and new household formation. According to preliminary third-party data, the national multifamily vacancy rate for institutional investment-type apartment properties was an estimated 5.0% as of December 31, 2014, up from an estimated 4.75% as of September 30, 2014 and down from an estimated 5.1% as of December 31, 2013.

Effective rents and net absorption both continued to increase during 2014. National asking rents increased by an estimated 3.0% in 2014 and by an estimated 0.5% during the fourth quarter of 2014, compared with an estimated increase of 1.0% in the third quarter of 2014.

Continued demand for multifamily rental units was reflected in the estimated positive net absorption (that is, the net change in the number of occupied rental units during the time period) of approximately 165,000 units in 2014, according to preliminary data from Reis, Inc. There was positive net absorption of approximately 45,000 units during the fourth quarter of 2014, compared with approximately 37,000 units during the third quarter of 2014. Although an estimated 240,000 multifamily units were added to the nation’s inventory in 2014, demand remained healthy.

Vacancy rates and rents are important to loan performance because multifamily loans are generally repaid from the cash flows generated by the underlying property. Several years of improvement in these fundamentals helped to increase property values in most metropolitan areas in 2014, and contributed to the ongoing increase in new multifamily construction development. As a result, it is estimated that there will be approximately 340,000 new multifamily units completed in 2015. The bulk of this new supply is concentrated in a limited number of metropolitan areas. We believe this increase in supply will result in a temporary slowdown in net absorption rates, occupancy levels and effective rents in those areas throughout 2015. Nevertheless, the overall national rental market supply and demand is expected to remain in balance over the longer term, based on expected construction completions, expected obsolescence, positive rental household formation trends and expected increases in the population of 20- to 34-year olds, which is the primary age group that tends to rent multifamily housing.

MORTGAGE SECURITIZATIONS

We support market liquidity by issuing Fannie Mae MBS that are readily traded in the capital markets. We create Fannie Mae MBS by placing mortgage loans in a trust and issuing Fannie Mae MBS that are backed by those mortgage loans. Monthly payments received on the loans are the primary source of payments passed through to Fannie Mae MBS holders. We guarantee to the MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the trust certificates. In return for this guaranty, we receive guaranty fees.

Below we discuss (1) two broad categories of securitization transactions: lender swaps and portfolio securitizations; (2) features of our MBS trusts; (3) circumstances under which we purchase loans from MBS trusts; and (4) single-class and multi-class Fannie Mae MBS.

Lender Swaps and Portfolio Securitizations

We currently securitize a substantial majority of the single-family and multifamily mortgage loans we acquire. Our securitization transactions primarily fall within two broad categories: lender swap transactions and portfolio securitizations.

Our most common type of securitization transaction is our “lender swap transaction.” Mortgage lenders that operate in the primary mortgage market generally deliver pools of mortgage loans to us in exchange for Fannie Mae MBS backed by these mortgage loans. A pool of mortgage loans is a group of mortgage loans with similar characteristics. After receiving the mortgage loans in a lender swap transaction, we place them in a trust for which we serve as trustee. This trust is established for the sole purpose of holding the mortgage loans separate and apart from our corporate assets. We deliver to the lender (or its designee) Fannie Mae MBS that are backed by the pool of mortgage loans in the trust and that represent an undivided beneficial ownership interest in each of the mortgage loans. We guarantee to each MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the related Fannie Mae

MBS. We retain a portion of the interest payment as a fee for providing our guaranty. The mortgage servicer also retains a portion of the interest payment as a fee for servicing the loan. Then, on behalf of the trust, we make monthly distributions to the Fannie Mae MBS certificateholders from the principal and interest payments and other collections on the underlying mortgage loans.

In contrast to our lender swap securitizations, in which lenders deliver pools of mortgage loans to us that we immediately place in a trust for securitization, our "portfolio securitization transactions" involve creating and issuing Fannie Mae MBS using mortgage loans and mortgage-related securities that we hold in our retained mortgage portfolio.

Features of Our MBS Trusts

Our MBS trusts hold either single-family or multifamily mortgage loans or mortgage-related securities. Each trust operates in accordance with a trust agreement or a trust indenture. Each MBS trust is also governed by an issue supplement documenting the formation of that MBS trust, the identification of its related assets and the issuance of the related Fannie Mae MBS. The trust agreement or the trust indenture, together with the issue supplement and any amendments, are considered the "trust documents" that govern an individual MBS trust.

Purchases of Loans from our MBS Trusts

Under the terms of our MBS trust documents, we have the option or, in some instances, the obligation, to purchase mortgage loans that meet specific criteria from an MBS trust. For example, we have the option under the terms of the trust documents to purchase a loan from an MBS trust if the loan is delinquent as to four or more consecutive monthly payments. We generally have the obligation to purchase a mortgage loan from an MBS trust when the mortgage loan becomes delinquent as to 24 monthly payments. Our acquisition cost for these loans is the unpaid principal balance of the loan plus accrued interest.

In deciding whether and when to exercise our option to purchase a loan from a single-family MBS trust, we consider a variety of factors, including: our legal ability to purchase loans under the terms of the trust documents; whether we have agreed to modify the loan, which we cannot do while it remains in the trust; our mission and public policy; our loss mitigation strategies and the exposure to credit losses we face under our guaranty; our cost of funds; the impact on our results of operations; relevant market yields; the accounting impact; the administrative costs associated with purchasing and holding the loans; counterparty exposure to lenders that have agreed to cover losses associated with delinquent loans; and general market conditions. The weight we give to these factors changes depending on market circumstances and other factors.

The cost of purchasing most delinquent loans from Fannie Mae MBS trusts and holding them in our retained mortgage portfolio is currently less than the cost of advancing delinquent payments to security holders. We generally purchase loans from MBS trusts as they become four or more consecutive monthly payments delinquent. During 2014, we purchased delinquent loans with an unpaid principal balance of approximately $17.9 billion from our single-family MBS trusts. We expect to continue purchasing loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity and other factors, including the limit on the amount of mortgage assets that we may own pursuant to the senior preferred stock purchase agreement and FHFA's portfolio plan requirements.

For our multifamily MBS trusts, we typically exercise our option to purchase a loan from the trust if the loan is delinquent as to four or more consecutive monthly payments, whether those payments were made in whole or in part.

Single-Class and Multi-Class Fannie Mae MBS

Fannie Mae MBS trusts may be single-class or multi-class. Single-class MBS are MBS in which the investors receive principal and interest payments on the mortgage loans backing the MBS directly in proportion to their percentage ownership of the MBS issuance. Multi-class MBS are MBS, including Real Estate Mortgage Investment Conduits ("REMICs"), in which the cash flows on the underlying mortgage assets are divided, creating several classes of securities, each of which represents an undivided beneficial ownership interest in the assets of the related MBS trust and entitles the related holder to a specific portion of cash flows. Terms to maturity of some multi-class Fannie Mae MBS, particularly REMIC classes, may match or be shorter than the maturity of the underlying mortgage loans and/or mortgage-related securities. After these classes mature, cash flows received on the underlying mortgage assets are allocated to the remaining classes in accordance with the payment terms of the securities. As a result, each of the classes in a multi-class MBS may have a different coupon rate, average life, repayment sensitivity or final maturity. Structured Fannie Mae MBS are either multi-class MBS or single-class MBS that are typically resecuritizations of other single-class Fannie Mae MBS. In a resecuritization, pools of MBS are collected and securitized.

BUSINESS SEGMENTS

We have three business segments for management reporting purposes: Single-Family Credit Guaranty, Multifamily and Capital Markets. In this report we refer to our business groups that run these segments as our "Single-Family business," our "Multifamily business" and our "Capital Markets group." These groups engage in complementary business activities in pursuing our mission of providing liquidity, stability and affordability to the U.S. housing market. These activities are summarized in the table below and described in more detail following this table. We also summarize in the table below the key sources of revenue for each of our segments and the primary expenses.

Business Segment	Primary Business Activities	Primary Drivers of Revenue	Primary Drivers of Expense
Single-Family	*Mortgage acquisitions:* Works with our lender customers to acquire single-family mortgage loans through lender swap transactions or, working also with our Capital Markets group, through loan purchases *Credit risk management:* Prices and manages the credit risk on loans in our single-family guaranty book of business *Credit loss management:* Works to prevent foreclosures and reduce costs of defaulted single-family loans through home retention solutions and foreclosure alternatives, through management of foreclosures and REO, and through pursuing contractual remedies from lenders, servicers and providers of credit enhancement	*Guaranty fees:* Compensation for assuming and managing the credit risk on our single-family guaranty book of business *Interest income not recognized:* Consists of reimbursement costs for interest income not recognized for loans on nonaccrual status in our retained mortgage portfolio or in consolidated trusts, which are recorded as a reduction to our interest income *Fee and other income:* Compensation received for providing services to lenders	*Credit-related expense:* Consists of provision for single-family loan losses, provision for single-family guaranty losses and foreclosed property expense on loans underlying our single-family guaranty book of business *Administrative expenses:* Consists of salaries and benefits, occupancy costs, professional services, and other expenses associated with our Single-Family business operations *Remittances to Treasury of a portion of our guaranty fees:* Consists of amounts remitted to Treasury pursuant to the TCCA, which we expect will increase in future periods
Multifamily	*Mortgage securitizations:* Works with our lender customers to securitize multifamily mortgage loans delivered to us by lenders into Fannie Mae MBS in lender swap transactions *Credit risk management:* Prices and manages the credit risk on loans in our multifamily guaranty book of business *Credit loss management:* Works to prevent foreclosures and reduce costs of defaulted multifamily loans through foreclosure alternatives, through management of foreclosures and REO, and through pursuing contractual remedies from lenders, servicers and providers of credit enhancement	*Guaranty fees:* Compensation for assuming and managing the credit risk on our multifamily guaranty book of business *Fee and other income:* Other fees associated with multifamily business activities, including prepayments	*Credit-related expense:* Consists of provision for multifamily credit losses and foreclosed property expense on loans underlying our multifamily guaranty book of business *Administrative expenses:* Consists of salaries and benefits, occupancy costs, professional services, and other expenses associated with our Multifamily business operations

Business Segment	Primary Business Activities	Primary Drivers of Revenue	Primary Drivers of Expense
Capital Markets	*Mortgage and other investments:* Purchases mortgage assets and invests in non-mortgage interest-earning assets *Mortgage securitizations:* Purchases loans from a large group of lenders, securitizes them, and may sell the securities to dealers and investors *Structured mortgage securitizations and other customer services:* Issues structured Fannie Mae MBS for customers in exchange for a transaction fee and provides other fee-related services to our lender customers *Interest rate risk management:* Manages the interest rate risk on our portfolio by issuing a variety of debt securities in a wide range of maturities and by using derivatives	*Net interest income:* Generated from the difference between the interest income earned on our interest-earning assets and the interest expense associated with the debt funding those assets *Fee and other income:* Compensation received for engaging in structured transactions and providing other lender services. In addition, the substantial majority of fee and other income for 2013 and 2014 consisted of income resulting from settlement agreements resolving certain lawsuits relating to PLS sold to us.	*Fair value gains and losses:* Primarily consists of fair value gains and losses on derivatives, trading securities and other financial instruments *Investment gains and losses:* Primarily consists of (1) gains and losses on the sale or securitization of mortgage assets and (2) impairments recognized on our investments *Administrative expenses:* Consists of salaries and benefits, occupancy costs, professional services, and other expenses associated with our Capital Markets business operations

Revenues from our Business Segments

Table 4 displays our total net revenues for each of our business segments for each of the last three years. Net revenues include net interest income, guaranty fee income, and fee and other income. Under our segment reporting, the sum of the results for our three business segments does not equal our consolidated statements of operations and comprehensive income, as we separate the activity related to our consolidated trusts from the results generated by our three segments. We also include an eliminations/adjustments category to reconcile our business segment financial results and the activity related to our consolidated trusts to net income in our consolidated statements of operations and comprehensive income. For more information about the financial results and performance and total assets of each of our segments, see "MD&A—Business Segment Results" and "Note 13, Segment Reporting."

Table 4: Business Segment Revenues

	For the Year Ended December 31,		
	2014	2013	2012
Single-Family	$ 12,332	$ 11,303	$ 8,120
Multifamily	1,384	1,325	1,234
Capital Markets	11,182	11,659	12,667
Consolidated Trusts and Eliminations/Adjustments	957	2,047	967
Total	$ 25,855	$ 26,334	$ 22,988

Single-Family Business

Working with our lender customers, our Single-Family business provides funds to the mortgage market by acquiring single-family loans through lender swap transactions or, working also with our Capital Markets group, through loan purchases. Our Single-Family business has primary responsibility for pricing and managing the credit risk on our single-family guaranty book of business, which consists of single-family mortgage loans underlying Fannie Mae MBS and single-family loans held in our retained mortgage portfolio.

A single-family loan is secured by a property with four or fewer residential units. Our Single-Family business and Capital Markets group securitize and purchase primarily conventional (not federally insured or guaranteed) single-family fixed-rate or adjustable-rate, first-lien mortgage loans, or mortgage-related securities backed by these types of loans. We also securitize or purchase loans insured by FHA, loans guaranteed by the VA, loans guaranteed by the Rural Development Housing and

Community Facilities Program of the U.S. Department of Agriculture (the "Department of Agriculture"), manufactured housing loans and other mortgage-related securities.

Revenues for our Single-Family business are derived primarily from guaranty fees received as compensation for assuming the credit risk on the mortgage loans underlying single-family Fannie Mae MBS. We also allocate guaranty fee revenues to the Single-Family business for assuming and managing the credit risk on the single-family mortgage loans held in our retained mortgage portfolio. The aggregate amount of single-family guaranty fees we receive or that are allocated to our Single-Family business in any period depends on the amount of single-family Fannie Mae MBS outstanding and loans held in our retained mortgage portfolio during the period and the applicable guaranty fee rates. The amount of Fannie Mae MBS outstanding at any time is primarily determined by the rate at which we issue new Fannie Mae MBS and by the repayment rate for the loans underlying our outstanding Fannie Mae MBS.

We describe the credit risk management process employed by our Single-Family business, including its key strategies in managing credit risk and key metrics used in measuring and evaluating our single-family credit risk, in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

Single-Family Mortgage Securitizations and Other Acquisitions

Our Single-Family business securitizes single-family mortgage loans and issues single-class Fannie Mae MBS, which are described above in "Mortgage Securitizations—Single-Class and Multi-Class Fannie Mae MBS," for our lender customers. Unlike our Capital Markets group, which securitizes loans from our retained mortgage portfolio, our Single-Family business securitizes loans solely in lender swap transactions. We describe lender swap transactions, and how they differ from portfolio securitizations, in "Mortgage Securitizations—Lender Swaps and Portfolio Securitizations." Our Single-Family business also works with our Capital Markets group to acquire single-family loans through purchases of loans.

Loans from our lender customers are delivered to us through either our "flow" or "bulk" transaction channels. In our flow business, we enter into agreements that generally set agreed-upon guaranty fees and other contract terms for a lender's future delivery of individual loans to us over a specified time period. Our bulk business generally consists of transactions in which a set of loans is delivered to us in bulk, typically with guaranty fees and other contract terms negotiated individually for each transaction.

Single-Family Mortgage Servicing, REO Management, and Lender Repurchase Evaluations

Servicing

Generally, the servicing of the mortgage loans that are held in our retained mortgage portfolio or that back our Fannie Mae MBS is performed by mortgage servicers on our behalf. Some loans are serviced for us by the lenders that initially sold the loans to us. In other cases, our loans are serviced by third-party servicers that did not originate or sell the loans to us. For loans we own or guarantee, the lender or servicer must obtain our approval before selling servicing rights to another servicer.

Our mortgage servicers typically collect and deliver principal and interest payments, administer escrow accounts, monitor and report delinquencies, perform default prevention activities, evaluate transfers of ownership interests, respond to requests for partial releases of security, and handle proceeds from casualty and condemnation losses. Our mortgage servicers are the primary point of contact for borrowers and perform a key role in the effective implementation of our homeownership assistance initiatives, negotiation of workouts of troubled loans, and other loss mitigation activities. If necessary, mortgage servicers inspect and preserve properties and process foreclosures and bankruptcies. Because we generally delegate the servicing of our mortgage loans to mortgage servicers and do not have our own servicing function, our ability to actively manage troubled loans that we own or guarantee is limited. For more information on the risks of our reliance on servicers, refer to "Risk Factors" and "MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management."

We compensate servicers primarily by permitting them to retain a specified portion of each interest payment on a serviced mortgage loan as a servicing fee. Servicers also generally retain assumption fees, late payment charges and other similar charges, to the extent they are collected from borrowers, as additional servicing compensation. We also compensate servicers for negotiating workouts on problem loans.

REO Management

If a loan defaults and we acquire a home through foreclosure or a deed-in-lieu of foreclosure, we market and sell the home through local real estate professionals. Our primary objectives are both to minimize the severity of loss to Fannie Mae by maximizing sales prices and to stabilize neighborhoods by preventing empty homes from depressing home values. In cases

where the property does not sell, we use alternative methods of disposition, including selling homes to municipalities, other public entities or non-profit organizations, and selling properties in bulk or through public auctions.

Lender Repurchase Evaluations

We conduct post-purchase quality control file reviews to ensure that loans sold to, and serviced for, us meet our guidelines. If we discover violations through reviews, we generally issue repurchase demands to the seller or other responsible party and seek to collect on our repurchase claims; however, under our revised representation and warranty framework, we no longer require repurchase for loans that have breaches of certain selling representations and warranties if they have met specified criteria for relief. We discuss changes we have made to our post-purchase loan review process and our representation and warranty framework in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards."

Single-Family Credit Risk Transfer Transactions

Our Single-Family business has developed risk-sharing capabilities to transfer limited portions of our single-family mortgage credit risk to the private market in support of FHFA's 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac. We completed a total of five CAS credit risk transfer transactions in 2013 and 2014, which transferred some of the credit risk on single-family mortgages with an unpaid principal balance of $249.0 billion. In addition to our CAS transactions, we executed additional types of risk sharing transactions in 2014. See "MD&A—Risk Management—Credit Risk Management" for a description of these transactions.

We expect to continue engaging in economically sensible ways to expand our offerings of credit risk transfer transactions in the future. FHFA's 2015 conservatorship scorecard includes an objective that we transact credit risk transfers on reference pools of single-family mortgages with an unpaid principal balance of at least $150 billion in 2015, with this unpaid principal balance requirement to be reviewed periodically and adjusted as necessary to reflect market conditions. In meeting this target, we must utilize at least two types of risk transfer structures.

Multifamily Business

Our Multifamily business provides mortgage market liquidity for properties with five or more residential units, which may be apartment communities, cooperative properties, seniors housing, dedicated student housing or manufactured housing communities. Our Multifamily business works with our lender customers to provide funds to the mortgage market primarily by securitizing multifamily mortgage loans into Fannie Mae MBS. We also purchase multifamily mortgage loans and provide credit enhancement for bonds issued by state and local housing finance authorities to finance multifamily housing.

Our Multifamily business also works with our Capital Markets group to facilitate the purchase and securitization of multifamily mortgage loans and securities. Our multifamily guaranty book of business consists primarily of multifamily mortgage loans underlying Fannie Mae MBS and multifamily loans held in our retained mortgage portfolio. Our Multifamily business has primary responsibility for pricing and managing the credit risk on our multifamily guaranty book of business, including managing the credit risk on multifamily loans and Fannie Mae MBS backed by multifamily loans that are held in our retained mortgage portfolio.

We describe the credit risk management process employed by our Multifamily business, with oversight from our Multifamily Enterprise Risk Management group, including its key strategies in managing credit risk and key metrics used in measuring and evaluating our multifamily credit risk, in "MD&A—Risk Management—Credit Risk Management—Multifamily Mortgage Credit Risk Management."

Revenues for our Multifamily business are derived from a variety of sources, including: (1) guaranty fees received as compensation for assuming credit risk on the mortgage loans underlying multifamily Fannie Mae MBS and on the multifamily mortgage loans held in our retained mortgage portfolio and on other mortgage-related securities; and (2) other fees associated with multifamily business activities. In addition, our Capital Markets group earns revenue generated from the difference between the interest income earned on the multifamily mortgage loans and securities held in our retained mortgage portfolio and the interest expense associated with the debt that funds those loans and securities.

Key Characteristics of the Multifamily Mortgage Market and Multifamily Transactions

The multifamily mortgage market and our transactions in that market have a number of key characteristics that affect our multifamily activities and distinguish them from our activities in the single-family residential mortgage market.

- *Funding sources:* The multifamily market is made up of a wide variety of lending sources, including commercial banks, life insurance companies, investment banks, FHA, state and local housing finance agencies, and the GSEs.

- *Lenders:* During 2014, we executed multifamily transactions with 28 lenders. Of these, 24 lenders delivered loans to us under our Delegated Underwriting and Servicing, or DUS®, product line. In determining whether to partner with a multifamily lender, we consider the lender's financial strength, multifamily underwriting and servicing experience, portfolio performance and willingness and ability to share in the risk of loss associated with the multifamily loans they originate.
- *Loan size:* The average size of a loan in our multifamily guaranty book of business is $6 million. A significant number of our multifamily loans are under $5 million, and some of our multifamily loans are greater than $25 million.
- *Collateral:* Multifamily loans are collateralized by properties that generate cash flows and effectively operate as businesses, such as garden and high-rise apartment complexes, seniors housing communities, cooperatives, dedicated student housing and manufactured housing communities.
- *Borrower and sponsor profile:* Multifamily borrowers are entities that are typically owned, directly or indirectly, by for-profit corporations, limited liability companies, partnerships, real estate investment trusts and individuals who invest in real estate for cash flow and equity returns in exchange for their original investment in the asset. The ultimate owners of a multifamily borrower are referred to as the borrower's "sponsors." In this report, we refer to both the borrowing entities and their sponsors as "borrowers." Because borrowing entities are typically single-asset entities, with the property as their only asset, in evaluating a borrowing entity we also evaluate its sponsors. Multifamily loans are generally non-recourse to the sponsors. When considering a multifamily borrower, creditworthiness is evaluated through a combination of quantitative and qualitative data including liquid assets, net worth, number of units owned, experience in a market and/or property type, multifamily portfolio performance, access to additional liquidity, debt maturities, asset/property management platform, senior management experience, reputation and lender exposure.
- *Borrower and lender investment:* Borrowers are required to contribute equity into multifamily properties on which they borrow, while lenders generally share in any losses realized from the loans that we guarantee.
- *Underwriting process:* Multifamily loans require detailed underwriting of the property's operating cash flow. Our underwriting includes an evaluation of the property's ability to support the loan, property quality, market and submarket factors, ability to exit at maturity and an initial risk categorization for the loan.
- *Term and lifecycle:* In contrast to the standard 30-year single-family residential loan, multifamily loans typically have terms of 5, 7 or 10 years, with balloon payments due at maturity.
- *Prepayment terms:* Most multifamily Fannie Mae loans and MBS have limits on prepayments of loans and impose prepayment premiums, consistent with standard commercial investment terms.

Multifamily Mortgage Securitizations

Our Multifamily business generally creates multifamily Fannie Mae MBS in lender swap transactions in a manner similar to our Single-Family business, as described in "Single-Family Business—Single-Family Mortgage Securitizations and Other Acquisitions." Our multifamily lender customers typically deliver only one mortgage loan, often a fixed-rate loan, to back each multifamily Fannie Mae MBS. The characteristics of each mortgage loan are used to establish guaranty fees on a risk-adjusted basis. Securitizing a single multifamily mortgage loan into a Fannie Mae MBS facilitates its sale into the secondary market.

We also issue structured transactions backed by multifamily Fannie Mae MBS through the Fannie Mae Guaranteed Multifamily Structures ("Fannie Mae GeMS™") program. This provides additional liquidity and stability to the multifamily market, while expanding the investor base for multifamily Fannie Mae MBS.

Delegated Underwriting and Servicing ("DUS")

In an effort to promote product standardization in the multifamily marketplace, in 1988 Fannie Mae initiated the DUS product line for acquiring individual multifamily loans.

DUS is a unique business model in the commercial mortgage industry. The standard industry practice for a multifamily loan requires the purchaser or guarantor to underwrite or re-underwrite each loan prior to deciding whether to purchase or guaranty the loan. Under our model, DUS lenders are pre-approved and delegated the authority to underwrite and service loans on behalf of Fannie Mae. In exchange for this authority, DUS lenders are required to share with us the risk of loss over the life of the loan, as discussed in more detail in "MD&A—Risk Management—Credit Risk Management—Multifamily Mortgage Credit Risk Management—Multifamily Acquisition Policy and Underwriting Standards." Since DUS lenders share

in the credit risk, the servicing fee to the lenders includes compensation for credit risk. Delegation permits lenders to respond to customers more rapidly, as the lender generally has the authority to approve a loan within prescribed parameters, which provides an important competitive advantage.

Our DUS model aligns the interests of the lender and Fannie Mae. Our current 24-member DUS lender network, which is comprised of large financial institutions and independent mortgage lenders, continues to be our principal source of multifamily loan deliveries.

Multifamily Mortgage Servicing

Multifamily mortgage servicing is typically performed by the lenders who sell the mortgages to us. Multifamily mortgage servicers that are members of our DUS network have agreed to accept loss sharing, which we believe increases the alignment of interests between us and our multifamily loan servicers. Because of our loss-sharing arrangements with our multifamily lenders, transfers of multifamily servicing rights are infrequent, and we carefully monitor our servicing relationships and enforce our right to approve servicing transfers. As a seller-servicer, the lender is responsible for evaluating the financial condition of properties and property owners, administering various types of agreements (including agreements regarding replacement reserves, completion or repair, and operations and maintenance), as well as conducting routine property inspections.

The Multifamily Markets in Which We Operate

In the multifamily mortgage market, we aim to address the rental housing needs of a wide range of the population in all markets across the country, with the substantial majority of our focus on supporting rental housing that is affordable to families earning at or below the median income in their area. Our mission requires us to serve the market steadily, rather than moving in and out depending on market conditions. Through the secondary mortgage market, we support rental housing for the workforce population, for senior citizens and students, and for families with the greatest economic need. Our Multifamily business is organized and operated as an integrated commercial real estate finance business, addressing the spectrum of multifamily housing finance needs, including the needs described below.

- To meet the growing need for smaller multifamily property financing, we focus on the acquisition of multifamily loans up to $3 million ($5 million in high cost areas). We acquire these loans primarily from DUS lenders; however, we have also acquired these loans from other financial institutions. Over the years, we have been an active purchaser of these loans from both DUS and non-DUS lenders, and, as of December 31, 2014, they represented 58% of our multifamily guaranty book of business by loan count and 11% based on unpaid principal balance.
- To serve low- and very low-income households, we have a team that focuses exclusively on relationships with lenders financing privately-owned multifamily properties that receive public subsidies in exchange for maintaining long-term affordable rents. We enable borrowers to leverage housing programs and subsidies provided by local, state and federal agencies. These public subsidy programs are largely targeted to providing housing to families earning less than 60% of area median income (as defined by the U.S. Department of Housing and Urban Development "HUD")) and are structured to ensure that the low and very low-income households who benefit from the subsidies pay no more than 30% of their gross monthly income for rent and utilities. As of December 31, 2014, this type of financing represented approximately 15% of our multifamily guaranty book of business, based on unpaid principal balance, including $14.3 billion in bond credit enhancements.

Capital Markets

Our Capital Markets group manages our mortgage-related assets and other interest-earning non-mortgage investments. We fund our purchases primarily through proceeds we receive from the issuance of debt securities in the domestic and international capital markets. Our Capital Markets group has primary responsibility for managing the interest rate risk associated with our investments in mortgage assets.

Our Capital Markets group's business activity is primarily focused on making short-term use of our balance sheet rather than on long-term investments. As a result, our Capital Markets group works with lender customers to provide funds to the mortgage market through short-term financing and investing activities. Activities we are undertaking to provide liquidity to the mortgage market include the following:

- *Whole Loan Conduit.* Whole loan conduit activities involve our purchase of single-family loans principally for the purpose of securitizing them. We purchase loans from a large group of lenders and then securitize them as Fannie Mae MBS, which may then be sold to dealers and investors.
-

Early Funding. Lenders who deliver whole loans or pools of whole loans to us in exchange for MBS typically must wait between 30 and 45 days from the closing and settlement of the loans or pools and the issuance of the MBS.

This delay may limit lenders' ability to originate new loans. Under our early lender funding programs, we purchase whole loans or pools of loans on an accelerated basis, allowing lenders to receive quicker payment for the whole loans and pools, which replenishes their funds and allows them to originate more mortgage loans.

- *REMICs and Other Structured Securitizations.* We issue structured Fannie Mae MBS (including REMICs), typically for our lender customers or securities dealer customers, in exchange for a transaction fee.
- *MBS Trading.* We regularly enter into purchase and sale transactions with other market participants involving mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae, which we refer to as "agency MBS." These transactions can provide for the future delivery of mortgage-backed securities with underlying single-family loans that share certain general characteristics (often referred to as the "TBA market"). These purchase and sale transactions also can provide for the future delivery of specifically identified mortgage-backed securities with underlying loans that have other characteristics considered desirable by some investors (often referred to as the "Specified Pools market"). Through our trading activity in the TBA and Specified Pools markets, we provide significant liquidity to the agency MBS markets.

Securitization Activities

Our Capital Markets group is engaged in issuing both single-class and multi-class Fannie Mae MBS through both portfolio securitizations and structured securitizations involving third-party assets.

- *Portfolio securitizations.* Our Capital Markets group creates single-class and multi-class Fannie Mae MBS from mortgage-related assets held in our retained mortgage portfolio. Our Capital Markets group may sell these Fannie Mae MBS into the secondary market or may retain the Fannie Mae MBS in our retained mortgage portfolio.
- *Structured securitizations.* Our Capital Markets group creates single-class and multi-class structured Fannie Mae MBS, typically for our lender customers or securities dealer customers, in exchange for a transaction fee. In these transactions, the customer "swaps" a mortgage-related asset that it owns (typically a mortgage security) in exchange for a structured Fannie Mae MBS we issue. The process for issuing Fannie Mae MBS in a structured securitization is similar to the process involved in our lender swap securitizations. For more information about that process and how it differs from portfolio securitizations, see "Mortgage Securitizations—Lender Swaps and Portfolio Securitizations."

For a description of single-class Fannie Mae MBS, see "Mortgage Securitizations—Single-Class and Multi-Class Fannie Mae MBS."

Other Customer Services

Our Capital Markets group provides our lender customers with services that include offering to purchase mortgage assets; segregating customer portfolios to obtain optimal pricing for their mortgage loans; and assisting customers with hedging their mortgage business. These activities help to create a broader market for our customers and enhance liquidity in the secondary mortgage market.

Retained Mortgage Portfolio

Revenue from our Capital Markets group is derived primarily from the difference, or spread, between the interest we earn on our mortgage and non-mortgage investments and the interest we incur on the debt we issue to fund these assets. Our Capital Markets revenues are primarily derived from our retained mortgage portfolio. We expect these revenues to continue to decrease over time as the maximum allowable amount of mortgage assets we may own continues to decrease each year under our senior preferred stock purchase agreement with Treasury and pursuant to FHFA's additional request that we cap our mortgage portfolio at 90% of the annual limit under the senior preferred stock purchase agreement. See "Conservatorship and Treasury Agreements—Treasury Agreements—Covenants under Treasury Agreements" for more information on the decreasing limits on the amount of mortgage assets we are permitted to hold.

We describe the interest rate risk management process employed by our Capital Markets group, including its key strategies in managing interest rate risk and key metrics used in measuring and evaluating our interest rate risk, in "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management."

Liquidity Support and Financing Activities

Our Capital Markets group seeks to increase the liquidity of the mortgage market by maintaining a presence as an active aggregator of mortgage loans and supports the liquidity of Fannie Mae MBS in a variety of market conditions.

Our Capital Markets group funds its purchases primarily through the issuance of a variety of debt securities in a wide range of maturities in the domestic and international capital markets. The most active investors in our debt securities include commercial bank portfolios and trust departments, investment fund managers, insurance companies, pension funds, state and local governments, and central banks. The approved dealers for underwriting various types of Fannie Mae debt securities may differ by funding program. See "MD&A—Liquidity and Capital Management—Liquidity Management" for information on the composition of our outstanding debt and a discussion of our liquidity and debt activity.

Our Capital Markets group's liquidity support and financing activities are affected by market conditions. In addition, the Capital Markets group's purchases are subject to contractual limitations, including the provisions of the senior preferred stock purchase agreement with Treasury, and to regulatory constraints, to the extent described below under "Conservatorship and Treasury Agreements" and "Our Charter and Regulation of Our Activities."

CONSERVATORSHIP AND TREASURY AGREEMENTS

Conservatorship

On September 6, 2008, the Director of FHFA appointed FHFA as our conservator, pursuant to authority provided by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act of 2008, or 2008 Reform Act (together, the "GSE Act"). The conservatorship is a statutory process designed to preserve and conserve our assets and property and put the company in a sound and solvent condition.

The conservatorship has no specified termination date and there continues to be significant uncertainty regarding the future of our company, including how long the company will continue to exist in its current form, the extent of our role in the market, what form we will have, what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated and whether we will continue to exist following conservatorship. For more information on the risks to our business relating to the conservatorship and uncertainties regarding the future of our company and business, as well as the adverse effects of the conservatorship on the rights of holders of our common and preferred stock, see "Risk Factors."

Management of the Company during Conservatorship

Upon its appointment, the conservator immediately succeeded to (1) all rights, titles, powers and privileges of Fannie Mae, and of any shareholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and (2) title to the books, records and assets of any other legal custodian of Fannie Mae. The conservator subsequently delegated specified authorities to our Board of Directors and delegated to management the authority to conduct our day-to-day operations. In connection with its delegation of authority, FHFA has instructed the Board to oversee that management consult with and obtain the written approval of the conservator before taking action in any of the areas described in "Directors, Executive Officers and Corporate Governance—Corporate Governance—Conservatorship and Delegation of Authority to Board of Directors." FHFA's instructions also require the company to notify FHFA of planned changes in business processes or operations, so that FHFA may participate in decision-making as FHFA determines appropriate. The conservator retains the authority to amend or withdraw its delegations at any time.

Our directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, where required, of the conservator. Our directors have no fiduciary duties to any person or entity except to the conservator. Accordingly, our directors are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator.

Because we are in conservatorship, our common stockholders currently do not have the ability to elect directors or to vote on other matters. The conservator eliminated common and preferred stock dividends (other than dividends on the senior preferred stock issued to Treasury) during the conservatorship, and we are no longer managed with a strategy to maximize shareholder returns. For additional information about our primary goals, see "Executive Summary—Our Strategy," and for additional information about the goals of the conservatorship, see "Executive Summary—Helping to Build a Sustainable Housing Finance System" and "Housing Finance Reform—Conservator Developments."

Powers of the Conservator under the GSE Act

FHFA has broad powers when acting as our conservator. As conservator, FHFA can direct us to enter into contracts or enter into contracts on our behalf. Further, FHFA may transfer or sell any of our assets or liabilities (subject to limitations and post-transfer notice provisions for transfers of certain types of financial contracts), without any approval, assignment of rights or consent of any party. The GSE Act provides, however, that mortgage loans and mortgage-related assets that have been transferred to a Fannie Mae MBS trust must be held by the conservator for the beneficial owners of the Fannie Mae MBS and cannot be used to satisfy the general creditors of the company. For more information on FHFA's powers as conservator and the rules governing conservatorship and receivership operations for the GSEs, see "Our Charter and Regulation of Our Activities—The GSE Act—Receivership."

Neither the conservatorship nor the terms of our agreements with Treasury change our obligation to make required payments on our debt securities or perform under our mortgage guaranty obligations.

Under the GSE Act, FHFA must place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations (that is, we have a net worth deficit) or if we have not been paying our debts, in either case, for a period of 60 days. In addition, the Director of FHFA may place us in receivership at his discretion at any time for other reasons set forth in the GSE Act, including if we are critically undercapitalized or if we are undercapitalized and have no reasonable prospect of becoming adequately capitalized. Placement into receivership would likely have a material adverse effect on holders of our common stock, preferred stock, debt securities and Fannie Mae MBS. Should we be placed into receivership, different assumptions would be required to determine the carrying value of our assets, which could lead to substantially different financial results. For more information on the risks to our business relating to conservatorship and uncertainties regarding the future of our business, see "Risk Factors."

Treasury Agreements

On September 7, 2008, we, through FHFA, in its capacity as conservator, and Treasury entered into a senior preferred stock purchase agreement, which was amended and restated on September 26, 2008. The amended and restated agreement was subsequently amended on May 6, 2009, December 24, 2009 and August 17, 2012. Unless the context indicates otherwise, references in this report to the senior preferred stock purchase agreement refer to the agreement as amended through August 17, 2012. The terms of the senior preferred stock purchase agreement, senior preferred stock and the warrant discussed below will continue to apply to us even if we are released from the conservatorship. See "Risk Factors" for a description of the risks to our business relating to the Treasury agreements, as well as the adverse effects of the senior preferred stock and the warrant on the rights of holders of our common stock and other series of preferred stock.

Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant

Senior Preferred Stock Purchase Agreement

Under the senior preferred stock purchase agreement, we issued to Treasury (a) one million shares of Variable Liquidation Preference Senior Preferred Stock, Series 2008-2, which we refer to as the "senior preferred stock," and (b) a warrant to purchase, for a nominal price, shares of common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised, which we refer to as the "warrant."

The senior preferred stock and warrant were issued to Treasury as an initial commitment fee in consideration of the commitment from Treasury to provide funds to us under the terms and conditions set forth in the senior preferred stock purchase agreement. The senior preferred stock purchase agreement provides that, on a quarterly basis, we may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected in our consolidated balance sheet, prepared in accordance with GAAP, for the applicable fiscal quarter (referred to as the "deficiency amount"), up to the maximum amount of remaining funding under the agreement. As of the date of this filing, the maximum amount of remaining funding under the agreement is $117.6 billion. If we were to draw additional funds from Treasury under the agreement in a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement. The senior preferred stock purchase agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process.

The terms of the senior preferred stock purchase agreement provided for the payment of an unspecified quarterly commitment fee to Treasury; however, the August 2012 amendment to the agreement provided that this commitment fee will not be set, accrue or be payable, as long as the current dividend payment provisions of the senior preferred stock remain in effect.

The senior preferred stock purchase agreement provides that Treasury's funding commitment will terminate under any of the following circumstances: (1) the completion of our liquidation and fulfillment of Treasury's obligations under its funding commitment at that time, (2) the payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guaranty obligations), or (3) the funding by Treasury of the maximum amount that may be funded under the agreement. In addition, Treasury may terminate its funding commitment and declare the senior preferred stock purchase agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the conservator or otherwise curtails the conservator's powers. Treasury may not terminate its funding commitment under the agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition.

The senior preferred stock purchase agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury's aggregate funding commitment or add conditions to Treasury's funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or guaranteed Fannie Mae MBS.

In the event of our default on payments with respect to our debt securities or guaranteed Fannie Mae MBS, if Treasury fails to perform its obligations under its funding commitment and if we and/or the conservator are not diligently pursuing remedies in respect of that failure, the holders of our debt securities or Fannie Mae MBS may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of (1) the amount necessary to cure the payment defaults on our debt and Fannie Mae MBS and (2) the lesser of (a) the deficiency amount and (b) the maximum amount that may be funded under the agreement less the aggregate amount of funding previously provided under the commitment. Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the senior preferred stock purchase agreement that will increase the liquidation preference of the senior preferred stock.

Senior Preferred Stock

Pursuant to the senior preferred stock purchase agreement, we issued one million shares of senior preferred stock to Treasury on September 8, 2008 with an aggregate initial liquidation preference of $1.0 billion. The stock's liquidation preference is subject to adjustment. For any dividend period for which dividends are payable, to the extent that dividends are not paid in cash they will accrue and be added to the liquidation preference. In addition, any amounts Treasury pays to us pursuant to its funding commitment under the senior preferred stock purchase agreement and any quarterly commitment fees that are either not paid in cash to Treasury or not waived by Treasury will be added to the liquidation preference. Accordingly, the aggregate liquidation preference of the senior preferred stock was $117.1 billion as of December 31, 2014.

Treasury, as holder of the senior preferred stock, is entitled to receive, when, as and if declared, out of legally available funds, cumulative quarterly cash dividends. Pursuant to the August 2012 amendment to the agreement, beginning in 2013, the method for calculating the amount of dividends for each quarter was changed from an annual rate of 10% per year on the then-current liquidation preference of the senior preferred stock to an amount determined based on our net worth as of the end of the immediately preceding fiscal quarter. Our net worth as defined by the agreement is the amount, if any, by which our total assets (excluding Treasury's funding commitment and any unfunded amounts related to the commitment) exceed our total liabilities (excluding any obligation in respect of capital stock), in each case as reflected on our balance sheet prepared in accordance with GAAP. The new dividend payment provision is referred to as a "net worth sweep" dividend provision. For each dividend period from January 1, 2013 through and including December 31, 2017, the dividend amount will be the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. The capital reserve amount was $3.0 billion for dividend periods in 2013, decreased to $2.4 billion for dividend periods in 2014 and further decreased to $1.8 billion for dividend periods in 2015. The capital reserve amount will continue to be reduced by $600 million each year until it reaches zero on January 1, 2018. For each dividend period beginning in 2018, the dividend amount will be the entire amount of our net worth, if any, as of the end of the immediately preceding fiscal quarter. As a result of these dividend payment provisions, when we have quarterly earnings that result in a net worth greater than the applicable capital reserve amount, we will pay dividends to Treasury in the next quarter; but if our net worth does not exceed the applicable capital reserve amount as of the end of a quarter, then we will not be required to accrue or pay any dividends in the next quarter. See "Risk Factors" for a discussion of the risks relating to our dividend obligations to Treasury on the senior preferred stock.

The senior preferred stock ranks ahead of our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. The senior preferred stock provides that we may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the senior preferred stock unless (1) full cumulative dividends on the outstanding senior preferred stock (including any unpaid dividends added to the liquidation preference) have been declared and paid in cash, and (2) all amounts required to be paid with the net proceeds of any issuance of capital stock for cash (as described in the following paragraph) have been paid in cash. Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock.

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment under the senior preferred stock purchase agreement. Moreover, we are not permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock except to the extent of (1) accrued and unpaid dividends previously added to the liquidation preference and not previously paid down; and (2) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition, if we issue any shares of capital stock for cash while the senior preferred stock is outstanding, the net proceeds of the issuance must be used to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury's funding commitment. Following the termination of Treasury's funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part.

Common Stock Warrant

Pursuant to the senior preferred stock purchase agreement, on September 7, 2008, we, through FHFA, in its capacity as conservator, issued a warrant to purchase common stock to Treasury. The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise, for an exercise price of $0.00001 per share. The warrant may be exercised in whole or in part at any time on or before September 7, 2028.

Covenants under Treasury Agreements

The senior preferred stock purchase agreement and warrant contain covenants that significantly restrict our business activities and require the prior written consent of Treasury before we can take certain actions. These covenants prohibit us from taking a number of actions, including:

- paying dividends or other distributions on or repurchasing our equity securities (other than the senior preferred stock or warrant);
- issuing additional equity securities (except in limited instances);
- selling, transferring, leasing or otherwise disposing of any assets, except for dispositions for fair market value in limited circumstances including if (a) the transaction is in the ordinary course of business and consistent with past practice or (b) in one transaction or a series of related transactions if the assets have a fair market value individually or in the aggregate of less than $250 million;
- issuing subordinated debt;
- entering into any new compensation arrangements or increasing amounts or benefits payable under existing compensation arrangements for any of our executive officers (as defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury; and
- seeking or permitting the termination of our conservatorship, other than in connection with a receivership.

We also are subject to limits, which are described below, on the amount of mortgage assets that we may own and the total amount of our indebtedness. As a result of these covenants, we can no longer obtain additional equity financing (other than pursuant to the senior preferred stock purchase agreement) and we are limited in the amount and type of debt financing we may obtain.

- *Mortgage Asset Limit.* We are restricted in the amount of mortgage assets that we may own. Pursuant to the August 2012 amendment to the agreement, the maximum allowable amount of our mortgage assets was reduced to $650.0 billion on December 31, 2012 and, on each December 31 thereafter, we are required to reduce our mortgage assets to 85% of the maximum allowable amount that we were permitted to own as of December 31 of the immediately preceding calendar year, until the amount of our mortgage assets reaches $250 billion in 2018. Our mortgage asset limit under the agreement was $469.6 billion as of December 31, 2014 and will be $399.2 billion as of December 31, 2015. For purposes of the agreement, the definition of mortgage asset is based on the unpaid principal balance of such assets and does not reflect market valuation adjustments, allowance for loan losses, impairments, unamortized premiums and discounts and the impact of our consolidation of variable interest entities. Based on this definition, our mortgage assets were $413.3 billion as of December 31, 2014. We disclose the amount of our mortgage assets on a monthly basis under the caption "Gross Mortgage Portfolio" in our Monthly Summaries, which are available on our Web site and announced in a press release.

FHFA's 2014 conservatorship scorecard required us to submit a portfolio plan to FHFA outlining how we will meet, even under adverse conditions, the reductions in our portfolio required by our senior preferred stock purchase agreement with Treasury. We submitted this plan to FHFA in July 2014. In October 2014, FHFA requested that we revise our portfolio plan to cap the portfolio each year at 90% of the annual limit under our senior preferred stock purchase agreement with Treasury. FHFA's request noted that we may seek FHFA permission to increase this cap up to 95% of the annual limit under our senior preferred stock purchase agreement with Treasury upon written request and with a documented basis for exception, such as changed market conditions. To comply with FHFA's request, we submitted a revised portfolio plan in October 2014 and reduced our mortgage portfolio to $413.3 billion as of December 31, 2014, below the $422.7 billion cap requested by FHFA. See "MD&A—Business Segment Results—The Capital Markets Group's Mortgage Portfolio" for more information about our mortgage portfolio.

- *Debt Limit.* We are subject to a limit on the amount of our indebtedness. Our debt limit in 2014 was $663.0 billion and in 2015 is $563.6 billion. For every year thereafter, our debt cap will equal 120% of the amount of mortgage assets we are allowed to own under the senior preferred stock purchase agreement on December 31 of the immediately preceding calendar year. The definition of indebtedness for purposes of our debt cap is based on the par value of each applicable loan and does not reflect the impact of consolidation of variable interest entities. Under this definition, our indebtedness as of December 31, 2014 was $464.5 billion. We disclose the amount of our indebtedness on a monthly basis under the caption "Total Debt Outstanding" in our Monthly Summaries, which are available on our Web site and announced in a press release.

Annual Risk Management Plan Covenant. We are required to provide an annual risk management plan to Treasury not later than December 15 of each year we remain in conservatorship, beginning in 2012. Each annual risk management plan is required to set out our strategy for reducing our risk profile and to describe the actions we will take to reduce the financial and operational risk associated with each of our business segments. Each plan delivered after the first plan must include an assessment of our performance against the planned actions described in the prior year's plan. We submitted our annual risk management plan to Treasury in December 2014.

Lawsuits Challenging the Senior Preferred Stock Purchase Agreements and Conservatorship

Several lawsuits have been filed by preferred and common stockholders of Fannie Mae and Freddie Mac against the United States, Treasury and/or FHFA challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac. Some of these lawsuits also contain claims against Fannie Mae and Freddie Mac. For a description of these lawsuits, see "Legal Proceedings," "Note 19, Commitments and Contingencies" and "Risk Factors."

HOUSING FINANCE REFORM

Overview

Policymakers and others have focused significant attention in recent years on how to reform the nation's housing finance system, including what role, if any, the GSEs should play. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was signed into law in July 2010, called for enactment of meaningful structural reforms of Fannie Mae and Freddie Mac, and for the Treasury Secretary to submit recommendations to Congress for ending the conservatorships of Fannie Mae and Freddie Mac.

Administration Developments

In 2011, the Administration released a white paper with its recommendations on the future of housing finance reform. The report provides that the Administration will work with FHFA to determine the best way to responsibly reduce Fannie Mae and Freddie Mac's role in the market and ultimately wind down both institutions. The report identifies a number of possible policy steps for winding down Fannie Mae and Freddie Mac, reducing the government's role in housing finance and helping bring private capital back to the mortgage market. In addition, the report outlines three potential options for a new long-term structure for the housing finance system following the wind-down of Fannie Mae and Freddie Mac.

In August 2013, President Obama publicly discussed the Administration's housing policy priorities, including a core principle that included winding down Fannie Mae and Freddie Mac through a responsible transition. In a paper released by the White House, the Administration endorsed several initiatives to facilitate this transition, including the reduction of Fannie Mae's and Freddie Mac's investment portfolios by at least 15% per year through 2018, engaging in credit risk transfer pilot programs and continuing to develop a common securitization platform. In January 2015, the White House reaffirmed the Administration's view that housing finance reform should include ending Fannie Mae and Freddie Mac's business model.

Legislative Developments

Congress has also continued to consider housing finance reform. In the last session of Congress, the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Financial Services each approved bills to reform the housing finance system. Among other matters, these bills would have required the wind down and eventual liquidation of, or the imposition of receivership for, Fannie Mae and Freddie Mac, and would have constrained our business even prior to these events. Several other bills that would have materially changed the housing finance system, including Fannie Mae's role within the system, were introduced in the last Congress.

We expect Congress to consider housing finance reform in the current congressional session, including conducting hearings and considering legislation that would alter the housing finance system or the activities or operations of the GSEs. We cannot predict the prospects for the enactment, timing or final content of legislative proposals regarding the future status of the GSEs. As a result, there continues to be significant uncertainty regarding the future of our company. See "Risk Factors" for discussions of the risks to our business relating to the uncertain future of our company and of how the uncertain future of our company may adversely affect our ability to retain and recruit well-qualified employees, including senior management.

Conservator Developments

FHFA has taken a number of steps as conservator to further the reform of the housing finance system. In 2012, FHFA's then-Acting Director identified FHFA's initial strategic goals for Fannie Mae and Freddie Mac's conservatorships. In May 2014, FHFA released its 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac, which updated FHFA's 2012 strategic plan and identified three reformulated strategic goals for Fannie Mae and Freddie Mac's conservatorships:

- **Maintain**, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets.
- **Reduce** taxpayer risk through increasing the role of private capital in the mortgage market.
- **Build** a new single-family securitization infrastructure for use by Fannie Mae and Freddie Mac and adaptable for use by other participants in the secondary market in the future.

In addition, beginning in 2012, FHFA has released annual corporate performance objectives for Fannie Mae and Freddie Mac, referred to as the conservatorship scorecard, which detail specific priorities for implementing FHFA's strategic goals. FHFA released its 2015 conservatorship scorecard in January 2015. FHFA's 2015 conservatorship scorecard identifies essentially the same three strategic goals identified in FHFA's 2014 strategic plan and scorecard; however, the "maintain" goal was revised slightly as follows: "Maintain, in a safe and sound manner, credit availability and foreclosure prevention activities for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets."

FHFA's 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac and FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to the development of a common securitization platform that can be used to perform certain aspects of the securitization process and the development of a single common mortgage-backed security for Fannie Mae and Freddie Mac.

Common Securitization Platform. In October 2013, Fannie Mae and Freddie Mac established Common Securitization Solutions, LLC, a jointly owned limited liability company formed to design, develop, build and ultimately operate a common securitization platform. The intended purpose of the common securitization platform is to replace certain elements of Fannie Mae's and Freddie Mac's proprietary systems for securitizing mortgages and performing associated back office and administrative functions. In addition, FHFA's 2015 conservatorship scorecard specifies that the design of the common securitization platform should allow for the integration of additional market participants in a future system. In November 2014, Fannie Mae and Freddie Mac took further steps to develop CSS's capabilities with the execution of three agreements. Fannie Mae and Freddie Mac entered into an Amended and Restated Limited Liability Company Agreement with CSS that provides further detail regarding the rights, obligations and understandings between the companies with respect to CSS, including the governance of CSS. In connection with the agreement, the companies appointed a chief executive officer and four members of the CSS Board of Managers, two each from Fannie Mae and Freddie Mac. Fannie Mae, Freddie Mac and CSS also entered into a contribution agreement providing for, among other things, the contribution by Fannie Mae and Freddie Mac of intellectual property and cash resources to CSS, as well as the assignment of various agreements necessary for CSS's development and operation of securitization functions. In addition, Fannie Mae and Freddie Mac each entered into a separate agreement with CSS with respect to the administrative support services the companies will provide to CSS until CSS has the capabilities to provide these services on its own. Although these are important steps towards the further development of the common securitization platform, we expect it will be a number of years before CSS will have sufficient operational capabilities to serve its intended purpose as a common securitization platform for us and

Freddie Mac. We continue to work with FHFA, Freddie Mac and CSS on building and testing the common securitization platform, as well as on implementing required changes to our systems and operations to integrate with the common securitization platform.

Single Common Security. In August 2014, FHFA published a request for public input on a proposed structure for a single security that would be issued and guaranteed by Fannie Mae or Freddie Mac. FHFA's request for public input states that development of the single security will be a multi-year initiative, and that FHFA's goal for the proposed single security structure is for legacy Fannie Mae MBS and legacy Freddie Mac participation certificates to be fungible with the new single security for purposes of fulfilling "to-be-announced" ("TBA") contracts. Many of the proposed features of the single security are similar to those of current Fannie Mae MBS. FHFA's 2015 conservatorship scorecard includes objectives to finalize the structure for the single common security and to develop a plan to implement the single common security in the market. We believe the development of a single common security would likely reduce, and could eliminate, the trading advantage Fannie Mae mortgage-backed securities have over Freddie Mac mortgage-backed securities. If this occurs, we believe it would negatively impact our ability to compete for mortgage assets in the secondary market, and therefore could adversely affect our results of operations. See "Risk Factors" for a discussion of the risks to our business associated with a single common security for Fannie Mae and Freddie Mac.

For more information on FHFA's 2014 conservatorship scorecard objectives and our performance in meeting these objectives, see "Executive Compensation—Compensation Discussion and Analysis—Determination of 2014 Compensation—Assessment of Corporate Performance on 2014 Conservatorship Scorecard." For more information on FHFA's 2015 conservatorship scorecard objectives, see our Current Report on Form 8-K filed with the SEC on January 20, 2015.

OUR CHARTER AND REGULATION OF OUR ACTIVITIES

Charter Act

We are a shareholder-owned corporation, originally established in 1938, organized and existing under the Federal National Mortgage Association Charter Act, as amended, which we refer to as the Charter Act or our charter. The Charter Act sets forth the activities that we are permitted to conduct, authorizes us to issue debt and equity securities, and describes our general corporate powers. The Charter Act states that our purposes are to:

- provide stability in the secondary market for residential mortgages;
- respond appropriately to the private capital market;
- provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and
- promote access to mortgage credit throughout the nation (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

It is from these sections of the Charter Act that we derive our mission of providing liquidity, increasing stability and promoting affordability in the residential mortgage market. In addition to the alignment of our overall strategy with these purposes, all of our business activities must be permissible under the Charter Act. Our charter authorizes us to: purchase, service, sell, lend on the security of, and otherwise deal in certain mortgage loans; issue debt obligations and mortgage-related securities; and "do all things as are necessary or incidental to the proper management of [our] affairs and the proper conduct of [our] business."

Loan Standards

Mortgage loans we purchase or securitize must meet the following standards required by the Charter Act.

- *Principal Balance Limitations.* Our charter permits us to purchase and securitize mortgage loans secured by either a single-family or multifamily property. Single-family conventional mortgage loans are subject to maximum original principal balance limits, known as "conforming loan limits." The conforming loan limits are established each year based on the average prices of one-family residences.

  The national conforming loan limit for mortgages that finance one-family residences is $417,000 in 2015, as it was in 2010 through 2014, with higher limits for mortgages secured by two- to four-family residences and in four statutorily-

designated states and territories (Alaska, Hawaii, Guam and the U.S. Virgin Islands). Higher loan limits also apply in designated high-cost areas (counties or county-equivalent areas). FHFA provides Fannie Mae with the designated high-cost areas annually. Our charter sets loan limits for high-cost areas up to 150% of the national loan limit ($625,500 for a one-family residence; higher for two- to four-family residences and in the four statutorily-designated states and territories).

No statutory limits apply to the maximum original principal balance of multifamily mortgage loans that we purchase or securitize. In addition, the Charter Act imposes no maximum original principal balance limits on loans we purchase or securitize that are insured by FHA or guaranteed by the VA.

- *Loan-to-Value and Credit Enhancement Requirements.* The Charter Act generally requires credit enhancement on any single-family conventional mortgage loan that we purchase or securitize if it has a loan-to-value ratio over 80% at the time of purchase. Although we do not currently purchase or securitize second lien single-family mortgage loans, the Charter Act requires a second lien mortgage loan to have credit enhancement if the combined loan-to-value ratio exceeds 80%. The credit enhancement required by our charter may take the form of one or more of the following: (1) insurance or a guaranty by a qualified insurer of the over-80% portion of the unpaid principal balance of the mortgage; (2) a seller's agreement to repurchase or replace the mortgage in the event of default (for such period and under such circumstances as we may require); or (3) retention by the seller of at least a 10% participation interest in the mortgage. Regardless of loan-to-value ratio, the Charter Act does not require us to obtain credit enhancement to purchase or securitize loans insured by FHA or guaranteed by the VA.

Authority of U.S. Treasury to Purchase GSE Securities

Pursuant to our charter, at the discretion of the Secretary of the Treasury, Treasury may purchase our obligations up to a maximum of $2.25 billion outstanding at any one time.

Other Charter Act Provisions

The Charter Act has the following additional provisions.

- *Issuances of Our Securities.* We are authorized, upon the approval of the Secretary of the Treasury, to issue debt obligations and mortgage-related securities. Neither the U.S. government nor any of its agencies guarantees, directly or indirectly, our debt or mortgage-related securities.
- *Exemptions for Our Securities.* The Charter Act generally provides that our securities are exempt under the federal securities laws administered by the SEC. As a result, we are not required to file registration statements with the SEC under the Securities Act of 1933 with respect to offerings of any of our securities. Our non-equity securities are also exempt securities under the Securities Exchange Act of 1934 (the "Exchange Act"). However, our equity securities are not treated as exempt securities for purposes of Sections 12, 13, 14 or 16 of the Exchange Act. Consequently, we are required to file periodic and current reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.
- *Exemption from Specified Taxes.* Fannie Mae is exempt from taxation by states, territories, counties, municipalities and local taxing authorities, except for taxation by those authorities on our real property. We are not exempt from the payment of federal corporate income taxes.
- *Other Limitations and Requirements.* We may not originate mortgage loans or advance funds to a mortgage seller on an interim basis, using mortgage loans as collateral, pending the sale of the mortgages in the secondary market. In addition, we may only purchase or securitize mortgages on properties located in the United States and its territories.

The GSE Act

As a federally chartered corporation, we are subject to government regulation and oversight. FHFA is an independent agency of the federal government with general supervisory and regulatory authority over Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks ("FHLBs"). FHFA was established in July 2008, assuming the duties of our former safety and soundness regulator, the Office of Federal Housing Enterprise Oversight ("OFHEO"), and our former mission regulator, HUD. HUD remains our regulator with respect to fair lending matters. Our regulators also include the SEC and Treasury.

The GSE Act provides FHFA with safety and soundness authority that is comparable to and in some respects broader than that of the federal banking agencies. Even if we were not in conservatorship, the GSE Act gives FHFA the authority to raise capital levels above statutory minimum levels, regulate the size and content of our portfolio and approve new mortgage products, among other things.

Capital. The GSE Act provides FHFA with broad authority to increase the level of our required minimum capital and to establish capital or reserve requirements for specific products and activities. FHFA also has broad authority to establish risk-based capital requirements, to ensure that we operate in a safe and sound manner and maintain sufficient capital and reserves. During the conservatorship, FHFA has suspended our capital classifications. We continue to submit capital reports to FHFA during the conservatorship, and FHFA continues to monitor our capital levels. We describe our capital requirements below under “Capital Adequacy Requirements.”

Portfolio. The GSE Act requires FHFA to establish standards governing our portfolio holdings, to ensure that they are backed by sufficient capital and consistent with our mission and safe and sound operations. FHFA is also required to monitor our portfolio and, in some circumstances, may require us to dispose of or acquire assets. In 2010, FHFA published a final rule adopting, as the standard for our portfolio holdings, the portfolio limits specified in the senior preferred stock purchase agreement described under “Conservatorship and Treasury Agreements—Treasury Agreements—Covenants under Treasury Agreements,” as it may be amended from time to time. The rule is effective for as long as we remain subject to the terms and obligations of the senior preferred stock purchase agreement.

New Products and Activities. The GSE Act requires us to request FHFA’s approval before initially offering any new product, subject to certain exceptions. The GSE Act also requires us to provide FHFA with written notice before commencing any new activity. In July 2009, FHFA published an interim final rule implementing these provisions of the GSE Act. Subsequently, the then-Acting Director of FHFA concluded that permitting us to engage in new products was inconsistent with the goals of the conservatorship. He therefore instructed us not to submit requests for approval of new products under the interim final rule.

Receivership. Under the GSE Act, FHFA must place us into receivership if it determines that our assets are less than our obligations for 60 days, or we have not been paying our debts as they become due for 60 days. FHFA has notified us that the measurement period for any mandatory receivership determination with respect to our assets and liabilities would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days thereafter. FHFA has advised us that if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency amount under the senior preferred stock purchase agreement, the Director of FHFA will not make a mandatory receivership determination.

In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons set forth in the GSE Act. The statutory grounds for discretionary appointment of a receiver include: a substantial dissipation of assets or earnings due to unsafe or unsound practices; the existence of an unsafe or unsound condition to transact business; an inability to meet our obligations in the ordinary course of business; a weakening of our condition due to unsafe or unsound practices or conditions; critical undercapitalization; undercapitalization and no reasonable prospect of becoming adequately capitalized; the likelihood of losses that will deplete substantially all of our capital; or by consent.

In June 2011, FHFA issued a final rule establishing a framework for conservatorship and receivership operations for the GSEs, which became effective in July 2011. The rule implements and supplements the procedures and processes set forth in the GSE Act, and does not seek to anticipate or predict future conservatorships or receiverships. For example, the final rule clarifies that:

- the powers of the conservator or receiver include continuing our mission and ensuring that our operations foster liquid, efficient, competitive and resilient national housing finance markets;
- the conservator or receiver may disaffirm or repudiate any contract or lease to which we are a party for up to 18 months following the appointment of a conservator or receiver;
- we are prohibited from making capital distributions while in conservatorship unless authorized by the Director of FHFA; and
- claims by current or former shareholders (including securities litigation claims) would receive the lowest priority in a receivership, behind: (1) administrative expenses of the receiver (or an immediately preceding conservator), (2) our other general or senior liabilities, and (3) obligations subordinated to those of general creditors.

The rule also provides that FHFA, as conservator, will not pay securities litigation claims against us during conservatorship, unless the Director of FHFA determines it is in the interest of the conservatorship.

Prudential Management and Operational Standards. As required by the GSE Act, in June 2012, FHFA published a final rule establishing prudential standards relating to the management and operations of Fannie Mae, Freddie Mac and the FHLBs in the following ten areas: (1) internal controls and information systems; (2) independence and adequacy of internal audit systems; (3) management of market risk exposure; (4) management of market risk—measurement systems, risk limits, stress testing, and monitoring and reporting; (5) adequacy and maintenance of liquidity and reserves; (6) management of asset and investment portfolio growth; (7) investments and acquisitions of assets; (8) overall risk management processes;

(9) management of credit and counterparty risk; and (10) maintenance of adequate records. These standards were established as guidelines, which the Director of FHFA may modify, revoke or add to at any time by order or notice. The rule also specifies actions FHFA may take if a regulated entity fails to meet one or more of the standards or fails to comply with the rule, such as requiring the entity to submit a corrective plan or increasing its capital requirements.

Affordable Housing Goals and Duty to Serve. We discuss our affordable housing goals and our duty to serve underserved markets below under "Housing Goals and Duty to Serve Underserved Markets."

Affordable Housing Allocations. The GSE Act requires us and Freddie Mac to set aside in each fiscal year an amount equal to 4.2 basis points for each dollar of the unpaid principal balance of our total new business purchases to fund HUD's Housing Trust Fund and Treasury's Capital Magnet Fund. The GSE Act authorizes the Director of FHFA to temporarily suspend these allocations in specified circumstances. In November 2008, FHFA suspended allocations for these funds and directed Fannie Mae and Freddie Mac to not set aside or allocate funds for the Housing Trust Fund and Capital Magnet Fund until further notice.

In December 2014, FHFA ended its temporary suspension of allocations to the Housing Trust Fund and the Capital Magnet Fund and directed Fannie Mae and Freddie Mac to begin making contributions to these funds pursuant to the GSE Act. FHFA's directive reinstating these contributions requires us to set aside amounts during each fiscal year beginning in fiscal year 2015, and to allocate or otherwise transfer the amounts set aside within 60 days after the end of each fiscal year, unless during such fiscal year we have made a draw from Treasury under the terms of the senior preferred stock purchase agreement or unless such allocation or transfer would cause us to have to make a draw from Treasury under the agreement, in which case we will make no allocation or transfer for that year and the amounts set aside for that year will be reversed. In connection with FHFA's directive, FHFA issued an interim final rule in December 2014 prohibiting Fannie Mae and Freddie Mac from redirecting or passing through the cost of these allocations to originators of mortgages that we purchase or securitize. The interim final rule became effective upon publication in the Federal Register on December 16, 2014.

Based on FHFA's directive, we expect to make our first allocation to the funds on or before February 29, 2016, based on the amount of our new business purchases in 2015. If this requirement had been in effect during fiscal year 2014, we estimate that we would have incurred approximately $172 million of additional expense in our consolidated statement of operations and comprehensive income related to the allocation of these funds.

Executive Compensation. Fannie Mae's Charter provides that the company has the power to pay compensation to our executives that the Board of Directors determines is reasonable and comparable with the compensation of executives performing similar duties in similar businesses, except that a significant portion of potential compensation must be based on our performance. The GSE Act directs FHFA to prohibit us from providing unreasonable or non-comparable compensation to our executive officers. FHFA may at any time review the reasonableness and comparability of an executive officer's compensation and may require us to withhold any payment to the officer during such review. FHFA is also authorized by the GSE Act to prohibit or limit certain golden parachute and indemnification payments to directors, officers and certain other parties. In addition, pursuant to the Stop Trading on Congressional Knowledge Act (the "STOCK Act") and related regulations issued by FHFA, our senior executives are prohibited from receiving bonuses during any period of conservatorship on or after the April 4, 2012 enactment of the law.

In January 2014, FHFA issued a revised final rule relating to the compensation of executive officers (as defined under the rule), which became effective in February 2014. The rule, among other things, provides that the Director of FHFA must prohibit us from providing any compensation to an executive officer that the Director determines is not reasonable or comparable with compensation for employment in other similar businesses involving similar duties and responsibilities. The rule also requires the approval of the Director of FHFA before we may enter into any agreement providing compensation in connection with the termination of an executive officer's employment. FHFA also issued a revised final rule relating to golden parachute payments in January 2014, which became effective in February 2014. The rule generally prohibits us from making golden parachute payments to any current or former director, officer, employee, controlling stockholder or agent of the company during any period in which we are in conservatorship, receivership or other troubled condition unless either a specific exception applies or the Director of FHFA approves the payments. For a description of regulatory and other legal requirements affecting our executive compensation, see "Executive Compensation—Compensation Discussion and Analysis—Chief Executive Officer Compensation and 2014 Executive Compensation Program—Impact of Conservatorship and Other Legal Requirements."

Fair Lending. The GSE Act requires the Secretary of HUD to assure that the GSEs meet their fair lending obligations. Among other things, HUD periodically reviews and comments on the underwriting and appraisal guidelines of each company to ensure consistency with the Fair Housing Act.

Capital Adequacy Requirements

The GSE Act establishes capital adequacy requirements. The statutory capital framework incorporates two different quantitative assessments of capital—a minimum capital requirement and a risk-based capital requirement. The minimum capital requirement is ratio-based, while the risk-based capital requirement is based on simulated stress test performance. The GSE Act requires us to maintain sufficient capital to meet both of these requirements in order to be classified as "adequately capitalized." However, during the conservatorship, FHFA has suspended our capital classifications and announced that our existing statutory and FHFA-directed regulatory capital requirements will not be binding. FHFA has advised us that, because we are under conservatorship, we will not be subject to corrective action requirements that would ordinarily result from our receiving a capital classification of "undercapitalized."

Minimum Capital Requirement. Under the GSE Act, we must maintain an amount of core capital that equals or exceeds our minimum capital requirement. The GSE Act defines core capital as the sum of the stated value of outstanding common stock (common stock less treasury stock), the stated value of outstanding non-cumulative perpetual preferred stock, paid-in capital, and retained earnings, as determined in accordance with GAAP. Our minimum capital requirement is generally equal to the sum of 2.50% of on-balance sheet assets and 0.45% of off-balance sheet obligations. For purposes of minimum capital, FHFA has directed us to continue reporting loans backing Fannie Mae MBS held by third parties based on 0.45% of the unpaid principal balance regardless of whether these loans have been consolidated pursuant to accounting rules. FHFA retains authority under the GSE Act to raise the minimum capital requirement for any of our assets or activities.

Risk-Based Capital Requirement. The GSE Act requires FHFA to establish risk-based capital requirements for Fannie Mae and Freddie Mac, to ensure that we operate in a safe and sound manner. Existing risk-based capital regulation under the GSE Act ties our capital requirements to the risk in our book of business, as measured by a stress test model. The stress test simulates our financial performance over a ten-year period of severe economic conditions characterized by both extreme interest rate movements and high mortgage default rates. FHFA has stated that it does not intend to publish our risk-based capital level during the conservatorship and has discontinued stress test simulations under the existing rule. We continue to submit detailed profiles of our books of business to FHFA to support FHFA's monitoring of our business activity and their research into future risk-based capital rules.

Critical Capital Requirement. The GSE Act also establishes a critical capital requirement, which is the amount of core capital below which we would be classified as "critically undercapitalized." Under the GSE Act, such classification is a discretionary ground for appointing a conservator or receiver. Our critical capital requirement is generally equal to the sum of 1.25% of on-balance sheet assets and 0.25% of off-balance sheet obligations. FHFA has directed us, for purposes of critical capital, to continue reporting loans backing Fannie Mae MBS held by third parties based on 0.25% of the unpaid principal balance, notwithstanding our consolidation of substantially all of the loans backing these securities. FHFA has stated that it does not intend to publish our critical capital level during the conservatorship.

Housing Goals and Duty to Serve Underserved Markets

Since 1993, we have been subject to housing goals. The structure of our housing goals changed in 2010 as a result of the 2008 Reform Act. The 2008 Reform Act also created a new duty for us to serve three underserved markets, which we discuss below.

Housing Goals for 2012 to 2014

In November 2012, FHFA published a final rule establishing the following single-family home purchase and refinance housing goal benchmarks for 2012 to 2014 for Fannie Mae and Freddie Mac. A home purchase mortgage may be counted toward more than one home purchase benchmark.

- *Low-Income Families Home Purchase Benchmark*: At least 23% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to low-income families (defined as income equal to or less than 80% of area median income).
- *Very Low-Income Families Home Purchase Benchmark*: At least 7% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to very low-income families (defined as income equal to or less than 50% of area median income).
- *Low-Income Areas Home Purchase Goal Benchmark*: The benchmark level for our acquisitions of single-family owner-occupied purchase money mortgage loans for families in low-income areas is set annually by notice from FHFA, based on the benchmark level for the low-income areas home purchase subgoal (below), plus an adjustment factor reflecting the additional incremental share of mortgages for moderate-income families (defined as income

equal to or less than 100% of area median income) in designated disaster areas. For 2014, FHFA set the overall low-income areas home purchase benchmark goal at 18%.

- *Low-Income Areas Home Purchase Subgoal Benchmark*: At least 11% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to families in low-income census tracts or to moderate-income families in high-minority census tracts.
- *Low-Income Families Refinancing Benchmark*: At least 20% of our acquisitions of single-family owner-occupied refinance mortgage loans must be affordable to low-income families.

Private-label mortgage-related securities, second liens and single-family government loans do not count towards our housing goals. In addition, only permanent modifications of mortgages under the Administration's Home Affordable Modification Program ("HAMP®") completed during the year count towards our housing goals; trial modifications are not counted. Moreover, these modifications count only towards our single-family low-income families refinance goal, not any of the home purchase goals. Refinancings under HARP also count toward our single-family low-income families refinancing goal.

If we do not meet these benchmarks, we may still meet our goals. Our single-family housing goals performance is measured against benchmarks and against goals-qualifying originations in the primary mortgage market after the release of data reported under the Home Mortgage Disclosure Act ("HMDA"). HMDA data are typically released each year in the fall. We will be in compliance with the housing goals if we meet either the benchmarks or market share measures.

To meet FHFA's housing goals, our multifamily mortgage acquisitions must finance a certain number of units affordable to low-income families and a certain number of units affordable to very low-income families. The specific requirements for each year are set forth in Table 5 below. There is no market-based alternative measurement for the multifamily goals.

Table 5: Multifamily Housing Goals for 2012 to 2014

	Goals for		
	2012	**2013**	**2014**
		(in units)	
Affordable to low-income families	285,000	265,000	250,000
Affordable to very low-income families	80,000	70,000	60,000

In adopting the rule in 2010 establishing the structure of our housing goals, FHFA indicated "FHFA does not intend for [Fannie Mae] to undertake uneconomic or high-risk activities in support of the [housing] goals. However, the fact that [Fannie Mae is] in conservatorship should not be a justification for withdrawing support from these market segments." If our efforts to meet our goals prove to be insufficient, FHFA determines whether the goals were feasible. If FHFA finds that our goals were feasible, we may become subject to a housing plan that could require us to take additional steps that could have an adverse effect on our results of operations and financial condition. The housing plan must describe the actions we would take to meet the goal in the next calendar year and be approved by FHFA. The potential penalties for failure to comply with housing plan requirements include a cease-and-desist order and civil money penalties. As described in "Risk Factors," actions we may take to meet our housing goals may increase our credit losses and credit-related expense.

In January 2015, FHFA determined that we met all of our single-family and multifamily housing goals for 2013, except for the single-family very low-income families home purchase goal. FHFA determined that our performance for this goal failed to meet both the applicable benchmark and the overall market level, and that our achievement of this goal was feasible. FHFA has notified us that it will not require us to submit a formal housing plan with respect to this goal.

Table 6 displays our performance for 2013 against our single-family housing benchmarks and market share measures, as well as our multifamily housing goals, as validated by FHFA.

Table 6: Housing Goals Performance

	2013		
	Result	**Bench-mark**	**Single-Family Market Level**
Single-family housing goals:[1]			
Low-income families home purchases	23.8 %	23 %	24.0 %
Very low-income families home purchases	6.0	7	6.3
Low-income areas home purchases	21.6	21	22.1
Low-income and high-minority areas home purchases	14.0	11	14.2
Low-income families refinancing	24.3	20	24.3

	2013	
	Result	**Goal**
	(in units)	
Multifamily housing goals:		
Affordable to families with income no higher than 80% of area median income	326,597	265,000
Affordable to families with income no higher than 50% of area median income	78,071	70,000

(1) Our single-family results and benchmarks are expressed as a percentage of the total number of eligible mortgages acquired during the period.

We will report our performance with respect to the 2014 housing goals in March 2015. FHFA will issue a final determination on our performance after the release of data reported under HMDA later this year.

Proposed Housing Goals for 2015 to 2017

In August 2014, FHFA published a proposed rule that would establish single-family and multifamily housing goals for Fannie Mae and Freddie Mac for 2015 to 2017. Comments on the proposed rule were due in October 2014. FHFA will issue a final rule after considering the comments received on the proposed rule.

Proposed Single-Family Housing Goals

FHFA's proposed rule requests comment on three alternative approaches for measuring Fannie Mae and Freddie Mac's performance on the single-family housing goals for 2015 to 2017:

- Alternative 1 would use the current two-step process, which measures performance by comparing it to both (1) benchmark levels that are set prospectively and (2) actual market levels that are determined retrospectively based on HMDA data;
- Alternative 2 would measure performance against prospective benchmark levels only; and
- Alternative 3 would measure performance against retrospective market levels only.

FHFA has proposed the following single-family home purchase and refinance housing goal benchmarks for 2015 to 2017 under Alternative 1. A home purchase mortgage may be counted toward more than one home purchase benchmark.

- *Low-Income Families Home Purchase Benchmark*: At least 23% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to low-income families (defined as income equal to or less than 80% of area median income). This is the same benchmark that applied for 2014.
- *Very Low-Income Families Home Purchase Benchmark*: At least 7% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to very low-income families (defined as income equal to or less than 50% of area median income). This is the same benchmark that applied for 2014.
-

Low-Income Areas Home Purchase Goal Benchmark: The benchmark level for our acquisitions of single-family owner-occupied purchase money mortgage loans for families in low-income areas is set annually by notice from FHFA, based on the benchmark level for the low-income areas home purchase subgoal (below), plus an adjustment factor reflecting the additional incremental share of mortgages for moderate-income families (defined as income equal to or less than 100% of area median income) in designated disaster areas.

- *Low-Income Areas Home Purchase Subgoal Benchmark*: At least 14% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to families in low-income census tracts or to moderate-income families in high-minority census tracts. This is an increase from the benchmark of 11% that applied for 2014.
- *Low-Income Families Refinancing Benchmark*: At least 27% of our acquisitions of single-family owner-occupied refinance mortgage loans must be affordable to low-income families. This is an increase from the benchmark of 20% that applied for 2014.

Under Alternative 1, if we do not meet these benchmarks, we may still meet our goals. Our single-family housing goals performance would be measured against both these benchmarks and against goals-qualifying originations in the primary mortgage market after the release of HMDA data, which is typically released each year in the fall. We would be in compliance with the housing goals if we met either the benchmarks or market share measures.

FHFA's proposed rule noted that, if it were to adopt Alternative 2, it would consider adopting single-family benchmark levels that are lower than the proposed levels for Alternative 1 described above. Alternative 3 would not involve setting prospective benchmark levels.

Proposed Multifamily Housing Goals

FHFA's proposed rule also includes benchmark levels for a multifamily special affordable housing goal and subgoal, and establishes a new subgoal for small multifamily properties (defined as those with 5 to 50 units) affordable to low-income families. FHFA's proposed multifamily benchmark levels for Fannie Mae for 2015 to 2017 would be the same levels that applied to Fannie Mae for 2014: 250,000 units per year must be affordable to low-income families and 60,000 units per year must be affordable to very low-income families. FHFA's proposed new subgoal for Fannie Mae for small multifamily properties affordable to low-income families increases each year: 20,000 units in 2015; 25,000 units in 2016; and 30,000 units in 2017. There is no market-based alternative measurement for the multifamily goal or subgoals.

Duty to Serve

The 2008 Reform Act created the duty to serve underserved markets in order for us and Freddie Mac to "provide leadership to the market in developing loan products and flexible underwriting guidelines to facilitate a secondary market for very low-, low-, and moderate-income families" with respect to three underserved markets: manufactured housing, affordable housing preservation and rural areas.

The 2008 Reform Act requires FHFA to separately evaluate the following four assessment factors:

- The loan product assessment factor requires evaluation of our "development of loan products, more flexible underwriting guidelines, and other innovative approaches to providing financing to each" underserved market.
- The outreach assessment factor requires evaluation of "the extent of outreach to qualified loan sellers and other market participants." We are expected to engage market participants and pursue relationships with qualified sellers that serve each underserved market.
- The loan purchase assessment factor requires FHFA to consider the volume of loans acquired in each underserved market relative to the market opportunities available to us. The 2008 Reform Act prohibits the establishment of specific quantitative targets by FHFA. However, in its evaluation FHFA could consider the volume of loans acquired in past years.
- The investment and grants assessment factor requires evaluation of the amount of investment and grants in projects that assist in meeting the needs of underserved markets.

In June 2010, FHFA published a proposed rule to implement our duty to serve. Under the proposed rule, we would be required to submit an underserved markets plan establishing benchmarks and objectives against which FHFA would evaluate and rate our performance. This proposed rule was not finalized. However, FHFA indicated in its proposed rule on housing goals for 2015 to 2017 that a separate proposed rulemaking on the duty to serve underserved markets was forthcoming. In addition, one of FHFA's 2015 conservatorship scorecard objectives for us is to prepare to implement duty to serve requirements upon publication of a final rule.

The Dodd-Frank Act

The Dodd-Frank Act has significantly changed the regulation of the financial services industry, including requiring new standards related to regulatory oversight of systemically important financial companies, derivatives transactions, asset-backed securitization, mortgage underwriting and consumer financial protection. The Dodd-Frank Act has directly affected and will continue to affect our business through new and expanded regulatory oversight and standards applicable to us. We are also indirectly affected by provisions of the Dodd-Frank Act and implementing regulations that impact the activities of our customers and counterparties in the financial services industry. We discuss the potential risks to our business resulting from the Dodd-Frank Act in "Risk Factors." Below we summarize some key provisions of the Dodd-Frank Act, as well as some proposed and final rules that have been promulgated by various government agencies to implement provisions of the legislation.

Enhanced supervision and prudential standards. The Dodd-Frank Act established the Financial Stability Oversight Council (the "FSOC"), chaired by the Secretary of the Treasury, to ensure that all financial companies—not just banks—whose failure could pose a threat to the financial stability of the United States will be subject to strong oversight. Under the Dodd-Frank Act, the FSOC is responsible for designating systemically important nonbank financial companies, while the Federal Reserve is responsible for establishing stricter prudential standards that will apply to FSOC-designated systemically important nonbank financial companies, as well as to large bank holding companies. The Federal Reserve must establish standards related to risk-based capital, leverage limits, liquidity, single-counterparty exposure limits, resolution plans, reporting credit exposures and other risk management measures. In December 2011, the Board of Governors of the Federal Reserve System issued proposed rules addressing a number of these enhanced prudential standards and, in February 2014, the Board of Governors of the Federal Reserve System issued a final rule implementing some of these enhanced prudential standards for large bank holding companies. The Federal Reserve may also impose other standards related to contingent capital, enhanced public disclosure, short-term debt limits and other requirements as appropriate.

Depending on the scope and final form of the Federal Reserve's enhanced standards, and the extent to which they apply to us if we are designated by the FSOC as a systemically important nonbank financial company, or to our customers and other counterparties, their adoption and application could increase our costs, pose operational challenges and adversely affect demand for Fannie Mae debt and MBS. We have not received any notification of possible designation as a systemically important financial institution.

Swap Transactions; Minimum Capital and Margin Requirements. The Dodd-Frank Act includes provisions requiring additional regulation of swap transactions. Because we are a user of interest rate swaps, the Dodd-Frank Act requires us, among other items, to submit new swap transactions for clearing to a derivatives clearing organization. Additionally, in September 2014, the Federal Reserve Board, the Federal Deposit Insurance Corporation ("FDIC"), FHFA, the Farm Credit Administration and the Office of the Comptroller of the Currency issued new proposed rules under the Dodd-Frank Act governing margin and capital requirements applicable to entities that are subject to their oversight. These proposed rules would require that, for all trades that have not been submitted to a derivatives clearing organization, we collect from and provide to our counterparties collateral in excess of the amounts we have historically collected or provided relative to our level of activity.

Ability to Repay. The Dodd-Frank Act amended the Truth in Lending Act to require creditors to determine that borrowers have a "reasonable ability to repay" most mortgage loans prior to making such loans. In 2013, the Consumer Financial Protection Bureau (the "CFPB") issued a final rule under Regulation Z that, among others things, requires creditors to determine a borrower's "ability to repay" a mortgage loan. If a creditor fails to comply, a borrower may be able to offset a portion of the amount owed in a foreclosure proceeding or recoup monetary damages. The rule offers several options for complying with the ability to repay requirement, including making loans that meet certain terms and characteristics (so-called "qualified mortgages"), which may provide creditors and their assignees with special protection from liability. Generally, a loan will be a qualified mortgage under the rule if, among other things, (1) the points and fees paid in connection with the loan do not exceed 3% of the total loan amount, (2) the loan term does not exceed 30 years, (3) the loan is fully amortizing with no negative amortization, interest-only or balloon features and (4) the debt-to-income ratio on the loan does not exceed 43% at origination. The CFPB also defined a special class of conventional mortgage loans that will be qualified mortgages if they (1) meet the points and fees, term and amortization requirements of qualified mortgages generally and (2) are eligible for sale to Fannie Mae or Freddie Mac. This class of qualified mortgages expires on the earlier of January 10, 2021 or when the GSEs cease to be in conservatorship or receivership.

In May 2013, FHFA directed Fannie Mae and Freddie Mac to limit our acquisition of single-family loans to those loans that meet the points and fees, term and amortization requirements for qualified mortgages, or to loans that are exempt from the ability-to-repay rule, such as loans made to investors. This limitation applies to loans with application dates on or after

January 10, 2014, the effective date of the ability-to-repay rule. We continue to evaluate the potential impact of these changes on our business.

Risk Retention. The Dodd-Frank Act requires financial regulators to jointly prescribe regulations requiring securitizers to retain a portion of the credit risk in assets transferred, sold or conveyed through the issuance of asset-backed securities, with certain exceptions. In October 2014, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, the SEC, FHFA and HUD issued a final rule implementing this credit risk retention requirement. The final rule generally requires securitizers to retain at least 5% of the credit risk of the assets they securitize. The rule offers several compliance options, one of which is to have either Fannie Mae or Freddie Mac (so long as they are in conservatorship or receivership) securitize and fully guarantee the assets, in which case no further retention of credit risk is required. In addition, securities backed solely by mortgage loans meeting the definition of a "qualified residential mortgage" are exempt from the risk retention requirements of the rule. The rule defines "qualified residential mortgage" to have the same meaning as the term "qualified mortgage" as defined by the CFPB in connection with its "ability to repay" rule under Regulation Z discussed above. The final risk retention rule will become effective on December 24, 2015 for single-family mortgage loans and on December 24, 2016 for multifamily mortgage loans. We do not expect any significant changes in our current business practices as a result of the risk retention rule.

Stress Testing. The Dodd-Frank Act requires certain financial companies to conduct annual stress tests to determine whether the companies have the capital necessary to absorb losses as a result of adverse economic conditions. In September 2013, FHFA issued a final rule implementing the Dodd-Frank Act's stress test requirements for Fannie Mae, Freddie Mac and the FHLBs. Under the rule, each year we are required to conduct a stress test, based on our data as of September 30 of that year, using three different scenarios of financial conditions provided by FHFA: baseline, adverse and severely adverse. In conducting the stress test, we are required to calculate the impact of the scenario conditions on our capital levels and other specified measures of financial condition and performance over a period of at least nine quarters. The rule requires us to submit the stress test results for the three scenarios to FHFA and the Federal Reserve Board of Governors by February 5 of each year. In addition, we are required to publish the stress test results for the severely adverse scenario between April 15 and April 30 of each year. We submitted our first stress test results under this rule to FHFA and the Federal Reserve Board of Governors on February 5, 2014 and published the stress test results for the severely adverse scenario on our Web Site on April 30, 2014. On February 5, 2015, we submitted our second stress test results under this rule based on scenarios and assumptions provided to us by FHFA in November 2014.

Bank Capital and Liquidity Standards

Although we are not subject to banking regulations, our business may be affected by changes to the capital and liquidity requirements applicable to U.S. banks. The capital and liquidity regimes for the U.S. banking industry are currently undergoing significant changes as a result of actions by international bank regulators. In December 2010, the Basel Committee on Banking Supervision issued a set of revisions to the international capital requirements. These revisions, known as Basel III, generally narrow the definition of capital that can be used to meet risk-based standards and raise the amount of capital that must be held. Basel III also introduces new quantitative liquidity requirements. In July 2013, U.S. banking regulators issued a final regulation implementing Basel III's capital standards. In September 2014, U.S. banking regulators also issued a final regulation setting minimum liquidity standards for large U.S. banks generally in accordance with Basel III standards. See "Risk Factors" for a discussion of this rule and how it could materially adversely affect demand by banks for our debt and MBS securities in the future, as well as how Basel III could otherwise affect our company and the future business practices of our customers and counterparties.

In addition, although we are not subject to bank capital or liquidity requirements, any revised framework for GSE standards may be based on bank requirements, particularly if the GSEs are deemed to be systemically important financial companies subject to Federal Reserve oversight.

Potential Changes to Our Single-Family Guaranty Fee Pricing

In December 2013, FHFA directed us and Freddie Mac to increase our base single-family guaranty fees for all mortgages by 10 basis points. FHFA also directed us and Freddie Mac to make changes to our single-family loan level price adjustments, which are one-time cash fees that we charge at the time we initially acquire a loan based on the credit characteristics of the loan. These changes to our single-family loan level price adjustments consisted of: (1) eliminating the 25 basis point adverse market delivery charge, which has been assessed on all single-family mortgages purchased by us since 2008, for all loans except those secured by properties located in Connecticut, Florida, New Jersey and New York, due to the significantly higher foreclosure carrying costs in these states; and (2) implementing changes to our upfront fees for single-family loans to better align pricing with the credit risk characteristics of the borrower. FHFA's December 2013 directive stated that these price

changes would be effective in early 2014; however, in January 2014, FHFA directed us and Freddie Mac to delay implementation of these guaranty fee changes pending further review by FHFA.

FHFA subsequently announced on June 5, 2014 that it was requesting public input on the guaranty fees that Fannie Mae and Freddie Mac charge lenders. FHFA's request for input included questions related to guaranty fee policy and implementation, including what factors and goals should be considered in setting guaranty fees, target return on capital and amount of capital required. FHFA is currently reviewing and considering the public input that was received. See "Risk Factors" for a discussion of the potential risks to our business relating to an FHFA directive to change our guaranty fee pricing.

FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans

In April 2012, FHFA issued Advisory Bulletin AB 2012-02, "Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention" (the "Advisory Bulletin"). The Advisory Bulletin provides, among other things, that we classify the portion of an outstanding single-family loan balance in excess of the fair value of the underlying property, less costs to sell and adjusted for any credit enhancements, as a "loss" no later than when the loan becomes 180 days delinquent, except in certain specified circumstances (such as those involving properly secured loans with an LTV ratio equal to or less than 60%). The Advisory Bulletin also provides that we charge off the portion of the loan classified as a "loss." We implemented the asset classification provisions of the Advisory Bulletin on January 1, 2014.

Our current analytics and historical data do not support charging off loans at 180 days delinquent. As a result, for the vast majority of our delinquent single-family loans, we expect to continue to charge off the loan at the date of foreclosure or other liquidation event (such as a deed-in-lieu of foreclosure or a short sale). For a small subset of delinquent loans deemed to be uncollectible prior to foreclosure by our historical data, we will classify them as "loss" and charge off the portion of the loan classified as "loss" prior to the date of foreclosure or other liquidation event, which given our current credit analytics and historical data, will be when the loans are excessively delinquent and the outstanding loan balance exceeds the fair value of the underlying property. We continue to enhance our data collection and analysis efforts to further refine our loss estimates as we obtain incremental information on the performance of our loans.

Our approach to adopting the charge-off provisions of the Advisory Bulletin on January 1, 2015 will result in a decrease in total loans held for investment of approximately $2 billion to reduce the recorded investment on the charged-off loans, and a corresponding decrease to our allowance for loan losses of approximately $2 billion to eliminate the allowance for loan losses associated with the charged-off loans. The adoption of the Advisory Bulletin is not expected to have a material impact on our consolidated results of operations for the first quarter of 2015.

OUR CUSTOMERS

Our principal customers are lenders that operate within the primary mortgage market where mortgage loans are originated and funds are loaned to borrowers. Our customers include mortgage banking companies, savings and loan associations, savings banks, commercial banks, credit unions, community banks, specialty servicers, insurance companies, and state and local housing finance agencies. Lenders originating mortgages in the primary mortgage market often sell them in the secondary mortgage market in the form of whole loans or in the form of mortgage-related securities.

We have a diversified funding base of domestic and international investors. Purchasers of Fannie Mae MBS or Fannie Mae debt securities include fund managers, commercial banks, pension funds, insurance companies, Treasury, foreign central banks, corporations, state and local governments, and other municipal authorities.

During 2014, approximately 1,200 lenders delivered single-family mortgage loans to us, either for securitization or for purchase. We acquire a significant portion of our single-family mortgage loans from several large mortgage lenders. During 2014, our top five lender customers, in the aggregate, accounted for approximately 33% of our single-family business volume, down from approximately 42% in 2013. Wells Fargo Bank, N.A., together with its affiliates, was the only customer that accounted for 10% or more of our single-family business volume in 2014, with approximately 12%.

A number of factors impacted our customers in 2014 and affected the volume of business and mix of customers with whom we and our competitors do business. We obtained a smaller portion of our single-family loan acquisitions from large mortgage lenders in the last three years than in prior years as a result of a reduction in the aggregation of third-party mortgage originations among large mortgage originators and other factors. At the same time, we sought and continue to seek to provide liquidity to a broader, more diverse set of mortgage lenders. In addition to the decrease in single-family mortgage seller concentration, we are acquiring an increasing portion of our business volume from non-depository sellers rather than depository financial institutions. Doing more business with a more diverse set of mortgage lenders has lowered to a degree the significant exposure concentration we have built up with a few large institutions. However, the potentially lower financial strength, liquidity and operational capacity of many of these smaller or non-depository mortgage sellers and servicers may negatively affect their ability to satisfy their repurchase or compensatory fee obligations or to service the loans on our behalf. The decrease in the concentration of our business with large depository financial institutions could increase both our institutional counterparty credit risk and our mortgage credit risk and, as a result, could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

See “Risk Factors” for a discussion of risks relating to our institutional counterparties, changes in the mortgage industry and our acquisition of a significant portion of our mortgage loans from several large mortgage lenders.

COMPETITION

We compete to acquire mortgage assets in the secondary market. We also compete for the issuance of mortgage-related securities to investors. Competition in these areas is affected by many factors, including the number of residential mortgage loans offered for sale in the secondary market by loan originators and other market participants, the nature of the residential mortgage loans offered for sale (for example, whether the loans represent refinancings), the current demand for mortgage assets from mortgage investors, the interest rate risk investors are willing to assume and the yields they will require as a result, and the credit risk and prices associated with available mortgage investments.

Competition to acquire mortgage assets is significantly affected by both our and our competitors’ pricing and eligibility standards, as well as investor demand for our and our competitors’ mortgage-related securities. Any future changes in our guaranty fees would likely affect our competitive environment. See “Our Charter and Regulation of Our Activities—Potential Changes to Our Single-Family Guaranty Fee Pricing” for more information on potential future changes in our guaranty fees. Our competitive environment also may be affected by many other factors in the future, such as new legislation or regulations. See “Housing Finance Reform,” “Our Charter and Regulation of Our Activities” and “Risk Factors” for information on legislation and regulations that could affect our business and competitive environment.

Our competitors for the acquisition of single-family mortgage assets are financial institutions and government agencies that manage residential mortgage credit risk or invest in residential mortgage loans, including Freddie Mac, FHA, the VA, Ginnie Mae (which primarily guarantees securities backed by FHA-insured loans and VA-guaranteed loans), the twelve FHLBs, U.S. banks and thrifts, securities dealers, insurance companies, pension funds, investment funds and other mortgage investors. Our primary competitors for the issuance of single-family mortgage-related securities are Freddie Mac and Ginnie Mae, as many private market competitors dramatically reduced or ceased their activities in the single-family secondary mortgage market following the 2008 housing crisis. For the issuance of multifamily mortgage-related securities, we primarily compete with Freddie Mac, life insurers, U.S. banks and thrifts, other institutional investors, Ginnie Mae and private-label issuers of commercial mortgage-backed securities.

Although our market share of single-family mortgage acquisitions remained high in 2014 as we continued to meet the needs of the single-family mortgage market, our market share declined from 2013. We estimate that our single-family market share was 32% in 2014, compared with 39% in 2013. These amounts represent our single-family mortgage acquisitions for each year, excluding delinquent loans we purchased from our MBS trusts, as a percentage of the single-family first-lien mortgages we currently estimate were originated in the United States that year. Because our estimate of mortgage originations in prior periods is subject to change as additional data become available, these market share estimates may change in the future, perhaps materially. We remained the largest single issuer of mortgage-related securities in the secondary market in 2014 in the absence of substantial issuances of mortgage-related securities by private institutions during the year.

We also compete for low-cost debt funding with institutions that hold mortgage portfolios, including Freddie Mac and the FHLBs.

EMPLOYEES

As of January 31, 2015, we employed approximately 7,600 personnel, including full-time and part-time employees, term employees and employees on leave.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We make available free of charge through our Web site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all other SEC reports and amendments to those reports as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. Our Web site address is www.fanniemae.com. Materials that we file with the SEC are also available from the SEC's Web site, www.sec.gov. You may also request copies of any filing from us, at no cost, by calling the Fannie Mae Fixed-Income Securities Helpline at 1-888-BOND-HLP (1-888-266-3457) or 1-202-752-7115 or by writing to Fannie Mae, Attention: Fixed-Income Securities, 3900 Wisconsin Avenue, NW, Area 2H-3N, Washington, DC 20016.

All references in this report to our Web site addresses or the Web site address of the SEC are provided solely for your information. Information appearing on our Web site or on the SEC's Web site is not incorporated into this annual report on Form 10-K.

FORWARD-LOOKING STATEMENTS

This report includes statements that constitute forward-looking statements within the meaning of Section 21E of the Exchange Act. In addition, our senior management may from time to time make forward-looking statements orally to analysts, investors, the news media and others. Forward-looking statements often include words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," "forecast," "project," "would," "should," "could," "likely," "may," "will" or similar words.

Among the forward-looking statements in this report are statements relating to:

- Our expectation that we will remain profitable on an annual basis for the foreseeable future;
- Our expectation that our earnings in future years will be substantially lower than our earnings for 2014, primarily due to our expectation of substantially lower income from resolution agreements, continued declines in net interest income from our retained mortgage portfolio assets and lower credit-related income;
- Our expectation that certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year;
- Our expectation that our future financial results also will be affected by a number of other factors, including: our guaranty fee rates; the volume of single-family mortgage originations in the future; the size, composition and quality of our retained mortgage portfolio and guaranty book of business; and economic and housing market conditions;
- Our expectation of volatility from period to period in our financial results due to changes in market conditions that result in periodic fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings;
- Our expectation that we will pay Treasury a senior preferred stock dividend for the first quarter of 2015 of $1.9 billion by March 31, 2015;
- Our expectation that we will retain only a limited amount of any future net worth because we are required by the dividend provisions of the senior preferred stock and quarterly directives from our conservator to pay Treasury each quarter the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount;
- Our belief that our acquisition of single-family loans with 95.01% to 97% LTV ratios will not materially affect our overall credit risk due to our requirements for these loans and our expectation that they will constitute a small portion of our overall acquisition volumes;
- Our belief that our single-family acquisitions will continue to have a strong overall credit risk profile given our current underwriting and eligibility standards and product design;
- Our expectation that the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties will continue to account for an increasing portion of our net interest income;
- Our expectation that our guaranty fee revenues will increase over the long term, as loans with lower guaranty fees liquidate from our book of business and are replaced with new loans with higher guaranty fees;

- Our expectation that continued decreases in the size of our retained mortgage portfolio will continue to negatively impact our net interest income and revenues;
- Our expectation that increases in our guaranty fee revenues will partially offset the negative impact of the decline in our retained mortgage portfolio, and that the extent to which the positive impact of increased guaranty fee revenues will offset the negative impact of the decline in the size of our retained mortgage portfolio will depend on many factors, including: changes to guaranty fee pricing we may make in the future, including any directive we receive from FHFA to change our guaranty fee pricing; the size, composition and quality of our guaranty book of business; the life of the loans in our guaranty book of business; the size, composition and quality of our retained mortgage portfolio, including the pace at which we are required by our conservator to reduce the size of our portfolio; economic and housing market conditions, including changes in interest rates; our market share; and legislative and regulatory changes;
- Our belief that actions we have taken in recent years to improve our representation and warranty framework and help lenders reduce their repurchase risk relating to loans they deliver to us have significantly reduced uncertainty surrounding lenders' repurchase risk relating to loans they deliver to us, and our intention that these actions will encourage lenders to safely expand their lending to a wider range of qualified borrowers;
- Our intention to complete additional CAS transactions in 2015;
- Our expectation that we will continue engaging in economically sensible ways to expand our offerings of credit risk transfer transactions in the future;
- Our expectation that it will be a number of years before CSS will have sufficient operational capabilities to serve its intended purpose as a common securitization platform for us and Freddie Mac;
- Our expectation that the development of a single common security for Fannie Mae and Freddie Mac will be a multi-year initiative;
- Our belief that the development of a single common security for Fannie Mae and Freddie Mac would likely reduce, and could eliminate, the trading advantage Fannie Mae mortgage-backed securities have over Freddie Mac mortgage-backed securities and, if this were to occur, would negatively impact our ability to compete for mortgage assets in the secondary market, and therefore could adversely affect our results of operations;
- Our expectation that, despite steady demand and stable fundamentals at the national level, the multifamily sector may continue to exhibit below average fundamentals in certain local markets and with certain properties;
- The estimate that there will be approximately 340,000 new multifamily units completed in 2015;
- Our belief that the increase in the supply of multifamily units concentrated in a limited number of metropolitan areas in 2015 will result in a temporary slowdown in net absorption rates, occupancy levels and effective rents in those areas throughout 2015;
- Our expectation that overall national rental market supply and demand will remain in balance over the longer term, based on expected construction completions, expected obsolescence, positive household formation trends and expected increases in the population of 20- to 34-year olds, which is the primary age group that tends to rent multifamily housing;
- Our expectation that single-family mortgage loan serious delinquency and severity rates will continue their downward trend, but at a slower pace than in recent years;
- Our expectation that single-family serious delinquency and severity rates will remain high compared with pre-housing crisis levels because it will take some time for the remaining delinquent loans with high mark-to-market LTV ratios originated prior to 2009 to work their way through the foreclosure process;
- Our forecast that total originations in the U.S. single-family mortgage market in 2015 will increase from 2014 levels by approximately 7% from an estimated $1.19 trillion in 2014 to $1.28 trillion in 2015;
- Our forecast that the amount of originations in the U.S. single family mortgage market that are refinancings will increase from an estimated $516 billion in 2014 to $574 billion in 2015;
- Our expectation of a lower rate of home price appreciation in 2015 than in 2014;
- Our expectation of significant regional variation in the timing and rate of home price growth;

- Our expectation that our credit losses in 2015 will be higher than 2014 levels because we expect our approach to implementing the charge-off provisions of FHFA's Advisory Bulletin AB 2012-02 in 2015 will increase our credit losses for 2015 from what they otherwise would be;
- Our expectation that our credit losses will resume their downward trend beginning in 2016;
- Our expectation that, although our loss reserves have declined substantially from their peak and are expected to decline further, our loss reserves will remain elevated relative to the levels experienced prior to the 2008 housing crisis for an extended period because (1) we expect future defaults on loans that we acquired prior to 2009 and the resulting charge-offs will occur over a period of years and (2) a significant portion of our reserves represents concessions granted to borrowers upon modification of their loans and our reserves will continue to reflect these concessions until the loans are fully repaid or default;
- Our expectation that uncertainty regarding the future of our company will continue;
- Our expectation that Congress will consider housing finance system reform in the current congressional session, including conducting hearings and considering legislation that would alter the housing finance system or the activities or operations of the GSEs;
- Our expectation that, for the vast majority of our delinquent single-family loans, we will continue to charge off the loan at the date of foreclosure or other liquidation event (such as a deed-in-lieu of foreclosure or a short sale) and that, for a small subset of delinquent loans deemed to be uncollectible prior to foreclosure by our historical data, we will classify them as "loss" and charge off the portion of the loan classified as "loss" prior to the date of foreclosure or other liquidation event, which given our current credit analytics and historical data, will be when the loans are excessively delinquent and the outstanding loan balance exceeds the fair value of the underlying property;
- Our expectation that our approach to adopting the charge-off provisions of FHFA's Advisory Bulletin AB 2012-02 on January 1, 2015 will result in a decrease in total loans held for investment of approximately $2 billion to reduce the recorded investment on the charged-off loans, and a corresponding decrease to our allowance for loan losses of approximately $2 billion to eliminate the allowance for loan losses associated with the charged-off loans;
- Our expectation that the adoption of FHFA's Advisory Bulletin AB 2012-02 will not have a material impact on our consolidated results of operations for the first quarter of 2015;
- Our expectation, based on FHFA's directive, that we will make our first allocation to HUD's Housing Trust Fund and Treasury's Capital Magnet Fund on or before February 29, 2016, based on the amount of our new business purchases in 2015;
- Our expectation that the final risk retention rule under the Dodd-Frank Act will not significantly change our current business practices;
- Our expectation that our placement into receivership would likely have a material adverse effect on holders of our common stock, preferred stock, debt securities and Fannie Mae MBS;
- Our belief that, if we are liquidated, it is unlikely that there would be sufficient funds remaining after payment of amounts to our creditors and to Treasury as holder of the senior preferred stock to make any distribution to holders of our common stock and other preferred stock;
- Our expectation that if there were several high-level employee departures at approximately the same time, our ability to conduct our business and our results of operations would likely be materially adversely affected;
- Our expectation that we will continue to devote significant resources to meeting FHFA's goals for our conservatorship;
- Our expectation that the execution of our strategic goals will contribute to an increase in our administrative expenses in 2015;
- Our expectation that the guaranty fees we collect and the expenses we incur under the TCCA will continue to increase in the future;
- Our expectation that we will continue to purchase loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity and other factors including the limit on the amount of mortgage assets that we may own pursuant to the senior preferred stock purchase agreement with Treasury and FHFA's portfolio plan requirements;
- Our belief that our liquidity contingency plans may be difficult or impossible to execute for a company of our size in our circumstances;

- Our belief that the amount of mortgage-related assets that we could successfully sell or borrow against in the event of a liquidity crisis or significant market disruption is substantially lower than the amount of mortgage-related assets we hold;
- Our intention to repay our short-term and long-term debt obligations as they become due primarily through proceeds from the issuance of additional debt securities;
- Our expectation that we may also use proceeds from our mortgage assets to pay our debt obligations;
- Our belief that continued federal government support of our business, as well as our status as a GSE, are essential to maintaining our access to debt funding;
- Our belief that changes or perceived changes in federal government support of our business or our status as a GSE could materially and adversely affect our liquidity, financial condition and results of operations;
- Our expectations regarding our credit ratings and their impact on us as set forth in "MD&A—Liquidity and Capital Management—Liquidity Management—Credit Ratings" and "Risk Factors";
- Our expectation that the slow pace of single-family foreclosures in some states will continue to negatively affect our foreclosure timelines, credit-related income (expense) and single-family serious delinquency rates, and will continue to adversely affect our business, results of operations, financial condition and net worth;
- Our expectation that we will not remediate the material weakness in our disclosure controls and procedures while we are under conservatorship;
- Our expectation that the ultimate performance of all our loans will be affected by borrower behavior, public policy and macroeconomic trends, including unemployment, the economy and home prices;
- Our expectation that the serious delinquency rates for single-family loans acquired in more recent years will be higher after the loans have aged, but will not be as high as the December 31, 2014 serious delinquency rates of loans acquired in 2005 through 2008;
- Our belief that we have limited exposure to credit losses on home equity conversion mortgages;
- Our expectation that loans we acquire under Refi Plus and HARP will perform better than the loans they replace, because they should either reduce the borrowers' monthly payments or provide more stable terms than the borrowers' old loans (for example, by refinancing into a mortgage with a fixed interest rate instead of an adjustable rate);
- Our expectation that the volume of refinancings under HARP will continue to decline, due to a decrease in the population of borrowers with loans that have high LTV ratios who are willing to refinance and would benefit from refinancing;
- Our expectation that our acquisitions of Alt-A mortgage loans (which are limited to refinancings of existing Fannie Mae loans) will continue to be minimal in future periods and the percentage of the book of business attributable to Alt-A will continue to decrease over time;
- Our expectation that the recent performance trends for our interest-only loans and negative-amortizing loans that have recently reset compared to those that are still in the initial period would not continue if interest rates rose significantly;
- Our expectation that the recent trend of a slower pace of declines in our single-family serious delinquency rates will continue;
- Our expectation that the number of our single-family loans in our book of business that are seriously delinquent will remain above pre-2008 levels for years;
- Our belief that the performance of our workouts will be highly dependent on economic factors, such as unemployment rates, household wealth and income, and home prices;
- Our belief that retaining special servicers to service loans using high-touch protocols will reduce our future credit losses on the transferred loan portfolio;
- Our expectation that we will enter into additional credit insurance risk transfer transactions in the future;
- Our expectation, given the stressed financial condition of some of our single-family lenders, that in some cases we will recover less than the amount the lender is obligated to provide us under our risk sharing arrangement with the lender;

- Our expectation that our institutional credit risk exposure to derivatives clearing organizations and certain of their members will increase substantially in the future as cleared derivative contracts comprise a larger percentage of our derivative instruments;
- Our expectation that the total amount we will receive under the terms of the Lehman Brothers Holdings, Inc. ("Lehman Brothers") Plan of Reorganization will constitute only a portion of the allowed amount;
- Our assumption that the guaranty fee income generated from our future business activity will largely replace the guaranty fee income lost due to mortgage prepayments;
- Our expectations regarding our role as HAMP program administrator, including how long we will continue in the role and amounts we will receive from Treasury pursuant to the role;
- Our plans and expectations relating to the distribution of benefits remaining under our terminated pension plans, including our expectations regarding the timing and financial impact of the distributions;
- Our belief that our valuation allowance related to our capital loss carryforwards will likely expire unused;
- Our expectation that we will conclude the audit of our federal income tax returns related to the 2009 and 2010 tax years with the IRS during 2015;
- Our expectation that we will receive full cash payment from only half of our non-governmental financial guarantor counterparties; and
- Our expectation that the reasonably possible loss or range of loss arising from the *Comprehensive Investment Services vs. Mudd* litigation will not have a material impact on our results of operations or financial condition.

Forward-looking statements reflect our management's expectations, forecasts or predictions of future conditions, events or results based on various assumptions and management's estimates of trends and economic factors in the markets in which we are active, as well as our business plans. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. There are a number of factors that could cause actual conditions, events or results to differ materially from those described in the forward-looking statements contained in this report, including, but not limited to, the following: the uncertainty of our future; legislative and regulatory changes affecting us; the timing and level of, as well as regional variation in, home price changes; changes in interest rates, unemployment rates and other macroeconomic and housing market variables; our future guaranty fee pricing, including any directive from FHFA to change our guaranty fee pricing, and the impact of that pricing on our guaranty fee revenues and competitive environment; challenges we face in retaining and hiring qualified employees; our future serious delinquency rates; the deteriorated credit performance of many loans in our guaranty book of business; the conservatorship and its effect on our business; the investment by Treasury and its effect on our business; adverse effects from activities we undertake to support the mortgage market and help borrowers; actions we may be required to take by FHFA, as our conservator or as our regulator; our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers; a decrease in our credit ratings; limitations on our ability to access the debt capital markets; disruptions in the housing and credit markets; significant changes in modification and foreclosure activity; changes in borrower behavior; the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies; defaults by one or more institutional counterparties; resolution or settlement agreements we may enter into with our counterparties; our need to rely on third parties to fully achieve some of our corporate objectives; our reliance on mortgage servicers; changes in GAAP; guidance by the Financial Accounting Standards Board ("FASB"); future changes to our accounting policies; changes in the fair value of our assets and liabilities; operational control weaknesses; our reliance on models; future updates to our models, including the assumptions used by these models; the level and volatility of interest rates and credit spreads; changes in the fiscal and monetary policies of the Federal Reserve; changes in the structure and regulation of the financial services industry; credit availability; global political risks; natural disasters, terrorist attacks, pandemics or other major disruptive events; information security breaches; and those factors described in "Risk Factors," as well as the factors described in "Executive Summary—Outlook—Factors that Could Cause Actual Results to be Materially Different from our Estimates and Expectations."

Readers are cautioned to place forward-looking statements in this report or that we make from time to time into proper context by carefully considering the factors discussed in this report. These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under the federal securities laws.

Item 1A. Risk Factors

Refer to "MD&A—Risk Management" for more detailed descriptions of the primary risks to our business and how we seek to manage those risks.

The risks we face could materially adversely affect our business, results of operations, financial condition, liquidity and net worth, and could cause our actual results to differ materially from our past results or the results contemplated by forward-looking statements contained in this report. However, these are not the only risks we face. In addition to the risks we discuss below, we face risks and uncertainties not currently known to us or that we currently believe are immaterial.

RISKS RELATING TO OUR BUSINESS

The future of our company is uncertain.

There continues to be significant uncertainty regarding the future of our company, including how long the company will continue to exist in its current form, the extent of our role in the market, what form we will have, and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated and whether we will continue to exist following conservatorship. The conservatorship is indefinite in duration and the timing, conditions and likelihood of our emerging from conservatorship are uncertain. Termination of the conservatorship, other than in connection with a receivership, requires Treasury's consent under the senior preferred stock purchase agreement.

In 2011, the Administration released a report to Congress on ending the conservatorships of the GSEs and reforming America's housing finance market. The report provides that the Administration will work with FHFA to determine the best way to responsibly reduce Fannie Mae and Freddie Mac's role in the market and ultimately wind down both institutions. The report also addresses three options for a reformed housing finance system. The report does not state whether or how the existing infrastructure or human capital of Fannie Mae may be used in the establishment of such a reformed system. The report emphasizes the importance of proceeding with a careful transition plan and providing the necessary financial support to Fannie Mae and Freddie Mac during the transition period. In August 2013, the White House released a paper confirming that a core principle of the Administration's housing policy priorities is to wind down Fannie Mae and Freddie Mac through a responsible transition. In January 2015, the White House reaffirmed the Administration's view that housing finance reform should include ending Fannie Mae and Freddie Mac's business model.

In the last Congress, members of Congress considered several bills to reform the housing finance system, including bills that, among other things, would require Fannie Mae and Freddie Mac to be wound down after a period of time and place certain restrictions on Fannie Mae's and Freddie Mac's activities prior to being wound down. We expect that Congress will continue to hold hearings and consider legislation on the future status of Fannie Mae and Freddie Mac, including proposals that would result in Fannie Mae's liquidation or dissolution. Congress or FHFA may also consider legislation or regulation aimed at increasing the competition we face or reducing our market share. We cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation. See "Business—Housing Finance Reform" for more information about the Administration's report and paper, and Congressional proposals regarding housing finance reform.

Our dividend obligations on Treasury's investment result in our retaining a limited and decreasing amount of our net worth each year until 2018. Beginning in 2018, we will no longer retain any of our net worth.

As a result of the dividend provisions of the senior preferred stock and quarterly directives from our conservator, we are obligated to pay Treasury each quarter the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. This capital reserve amount is $1.8 billion for each quarterly dividend period in 2015 and decreases by $600 million annually until it reaches zero in 2018. Accordingly, our dividend obligations will result in our retaining a limited and decreasing amount of our net worth each year until 2018. Beginning in 2018, we will no longer retain any of our net worth, as the entire amount of our net worth at the end of each quarter will be required to be paid to Treasury.

Because we are permitted to retain only a limited and decreasing amount of capital reserves through 2017, we may not have sufficient reserves to avoid a net worth deficit if we experience a comprehensive loss in a future quarter. In addition, beginning in 2018, we are not permitted to retain any capital reserves against losses in subsequent quarters; therefore, if we have a comprehensive loss for a quarter we will also have a net worth deficit for that quarter. We have experienced and expect to continue to experience volatility in our financial results from period to period due to a number of factors, particularly changes in market conditions that result in fluctuations in the estimated fair value of the financial instruments, such as derivatives and certain securities, that we mark to market through our earnings. Our credit-related income or expense also can vary substantially from period to period primarily due to changes in home prices, borrower payment behavior and

economic conditions. In addition, as described in "Executive Summary—Outlook," we expect substantially lower earnings in future years than our earnings for 2014. Accordingly, although we expect to remain profitable on an annual basis for the foreseeable future, the expected volatility in our financial results, which may be significant from quarter to quarter, could result in a net worth deficit in a future quarter, particularly as our capital reserve approaches zero.

For any quarter for which we have a net worth deficit, we will be required to draw funds from Treasury under the senior preferred stock purchase agreement in order to avoid being placed into receivership. As of the date of this filing, the maximum amount of remaining funding under the agreement is $117.6 billion. If we were to draw additional funds from Treasury under the agreement in a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement.

Our regulator is authorized or required to place us into receivership under specified conditions, which would result in the liquidation of our assets. Amounts recovered from the liquidation may not be sufficient to repay the liquidation preference of any series of our preferred stock or to provide any proceeds to common shareholders.

FHFA is required to place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations for a period of 60 days after the filing deadline for our Form 10-K or Form 10-Q with the SEC. Although Treasury committed to providing us funds in accordance with the terms of the senior preferred stock purchase agreement, if we need funding from Treasury to avoid triggering FHFA's obligation, Treasury may not be able to provide sufficient funds to us within the required 60 days if it has exhausted its borrowing authority, if there is a government shutdown, or if the funding we need exceeds the amount available to us under the agreement. In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons set forth in the GSE Act, including if we are critically undercapitalized or if we are undercapitalized and have no reasonable prospect of becoming adequately capitalized.

A receivership would terminate the conservatorship. In addition to the powers FHFA has as our conservator, the appointment of FHFA as our receiver would terminate all rights and claims that our shareholders and creditors may have against our assets or under our charter arising from their status as shareholders or creditors, except for their right to payment, resolution or other satisfaction of their claims as permitted under the GSE Act. Unlike a conservatorship, the purpose of which is to conserve our assets and return us to a sound and solvent condition, the purpose of a receivership is to liquidate our assets and resolve claims against us.

To the extent we are placed into receivership and do not or cannot fulfill our guaranty to the holders of our Fannie Mae MBS, the MBS holders could become unsecured creditors of ours with respect to claims made under our guaranty, to the extent the mortgage collateral underlying the Fannie Mae MBS is insufficient to satisfy the claims of the MBS holders.

In the event of a liquidation of our assets, only after payment of the administrative expenses of the receiver and the immediately preceding conservator, the secured and unsecured claims against the company (including repaying all outstanding debt obligations), and the liquidation preference of the senior preferred stock, would any liquidation proceeds be available to repay the liquidation preference on any other series of preferred stock. Finally, only after the liquidation preference on all series of preferred stock is repaid would any liquidation proceeds be available for distribution to the holders of our common stock. We believe that in the event of a liquidation of our assets it is unlikely that there would be sufficient proceeds to make any distribution to holders of our preferred stock or common stock, other than to Treasury as a holder of our senior preferred stock.

Our business and results of operations may be materially adversely affected if we are unable to retain and recruit well-qualified employees. The limitations on our employee compensation put us at a disadvantage compared to many other companies in attracting and retaining employees.

Our business processes are highly dependent on the talents and efforts of our employees. The conservatorship, the uncertainty of our future, limitations on employee compensation and negative publicity concerning the GSEs have had and are likely to continue to have an adverse effect on our ability to retain and recruit well-qualified employees. Turnover in key management positions and challenges in integrating new management could harm our ability to manage our business effectively and ultimately adversely affect our financial performance.

Actions taken by Congress, FHFA and Treasury to date, or that may be taken by them or other government agencies in the future, have had, and may continue to have, an adverse effect on the retention and recruitment of senior executives, management and other employees. We are subject to significant restrictions on the amount and type of compensation we may pay our executives and other employees under conservatorship. For example, in April 2012, the STOCK Act was enacted, which includes a provision that prohibits senior executives at Fannie Mae and Freddie Mac from receiving bonuses during any period of conservatorship on or after the date of enactment of the law. In addition, we are unable to offer equity-based compensation. As a result, we have not been able to incent and reward excellent performance with compensation structures that provide upside potential to our executives, which places us at a disadvantage compared to many other companies in attracting and retaining executives.

In addition, the amount of compensation we pay our senior executives is significantly less than executives' compensation at many comparable companies. As discussed more fully in "Executive Compensation—Compensation Discussion and Analysis—Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data," our named executives' total target direct compensation under the 2014 executive compensation program in aggregate was substantially below the market median for comparable firms. Our Chief Executive Officer's annual total direct compensation is $600,000, which was more than 90% below the market median in 2014. While many of our executives have accepted below market compensation for the past several years, our inability to increase executive compensation to market levels for the foreseeable future puts us at greater risk of attrition, and also hampers our ability to recruit new executives. Moreover, our inability to offer market-based compensation makes succession planning very difficult, particularly for our Chief Executive Officer role.

Congress has considered other legislation in the past that would alter the compensation for Fannie Mae and Freddie Mac employees. In 2011, the Financial Services Committee of the House of Representatives approved a bill that would put our employees on a federal government pay scale. Although this legislation was not passed by the House or the Senate, if similar legislation were to become law, our employees could experience a sudden and sharp decrease in compensation, which would harm our ability to retain and recruit employees. In addition, the uncertainty of potential Congressional action with respect to housing finance reform, which may result in the wind-down of the company, negatively affects our ability to retain and recruit employees.

We face competition from within the financial services industry and from businesses outside of the financial services industry for qualified employees. Additionally, an improving economy has put additional pressures on turnover, as attractive opportunities have become available to our employees. Our competitors for talent are generally not subject to the same limitations on employee compensation. The constraints on our compensation could adversely affect our ability to attract qualified candidates. While we engage in succession planning for our senior management and other critical positions and have been able to fill a number of important positions internally, our inability to offer market-based compensation may limit our ability to attract and retain qualified employees below the senior executive level that could fill our senior executive level positions if there is an increase in turnover.

If we are unable to retain, promote and attract employees with the necessary skills and talent, we would face increased risks for operational failures. If there were several high-level departures at approximately the same time, our ability to conduct our business and our results of operations would likely be materially adversely affected.

Our business activities are significantly affected by the conservatorship and the senior preferred stock purchase agreement.

We are currently under the control of our conservator, FHFA, and we do not know when or how the conservatorship will terminate. As conservator, FHFA can direct us to enter into contracts or enter into contracts on our behalf, and generally has the power to transfer or sell any of our assets or liabilities. In addition, our directors do not have fiduciary duties to any person or entity except to the conservator. Accordingly, our directors are not obligated to consider the interests of the company, the holders of our equity or debt securities, or the holders of Fannie Mae MBS in making or approving a decision unless specifically directed to do so by the conservator.

We are subject to significant restrictions on our business activities during conservatorship. We may be prevented by our conservator from engaging in business activities or transactions that we believe would benefit our business and financial results. For example, we publish risk-based loan level price adjustment grids that specify the additional cash fees we charge at the time we initially acquire a loan based on the credit characteristics of the loan. These fees allow us to price appropriately for the credit risk we assume in providing our guaranty on the loans. We do not have the ability to implement changes to these pricing grids without the approval of FHFA. If the mix of our single-family loan acquisitions changes, and FHFA does not approve requested changes to our pricing grids in response to these changes, it could adversely affect our financial results and condition.

In addition, we may be required by our conservator to engage in activities that are operationally difficult, costly to implement or unprofitable, or that may adversely affect our financial results or the credit risk profile of our book of business. For example, in 2014, FHFA requested that we reduce our retained mortgage portfolio each year to 90% of the amount permitted under the senior preferred stock purchase agreement, which requires that we reduce our retained mortgage portfolio at a faster rate than previously required. This could result in the sale of assets at prices below the levels recorded in our financial statements or the sale of assets that may be more economical to hold, and will result in a faster decline in the revenues generated by our retained mortgage portfolio. In addition, as described in "Business—Our Charter and Regulation of Our

Activities—Potential Changes to Our Single-Family Guaranty Fee Pricing," FHFA announced in June 2014 that it was requesting public input on the guaranty fees that Fannie Mae and Freddie Mac charge lenders, and FHFA is currently reviewing and considering the public input that was received. Based on its review, FHFA may direct us to make changes to our guaranty fee pricing that could materially affect our financial results. If FHFA directs us to decrease our guaranty fee pricing, depending on the extent of the decrease, it could result in a significant decrease in our guaranty fee revenues in future periods. If FHFA directs us to increase our guaranty fee pricing, depending on the extent of the increase, it could result in some of our lender customers retaining lower credit risk loans for their portfolio instead of delivering the loans to us. This could lead to a decrease in our single-family business volume, negatively affect the credit risk profile of our new single-family acquisitions and adversely affect our financial results and condition.

Because we are under the control of our conservator, our business objectives may not be consistent with the investment objectives of our investors. FHFA has changed our business objectives significantly since we entered conservatorship, and could make additional changes at any time. In May 2014, FHFA released its 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac, which replaced FHFA's strategic goals identified in 2012. Actions we take to meet FHFA's goals and objectives could adversely affect our financial results. For example, FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to the development of a single common security for Fannie Mae and Freddie Mac. We believe the development of a single common security would likely reduce, and could eliminate, the trading advantage Fannie Mae mortgage-backed securities have over Freddie Mac mortgage-backed securities. If this occurs, we believe it would negatively impact our ability to compete for mortgage assets in the secondary market, and therefore could adversely affect our results of operations. Our objectives and business activities may continue to change, possibly significantly, including in pursuit of our public mission and other non-financial objectives. Significant changes in our business objectives could adversely affect our financial results. Moreover, we are devoting significant resources to meeting FHFA's goals for our conservatorship and expect to continue to do so.

The senior preferred stock purchase agreement with Treasury includes a number of covenants that significantly restrict our business activities. We cannot, without the prior written consent of Treasury: pay dividends (except on the senior preferred stock); sell, issue, purchase or redeem Fannie Mae equity securities; sell, transfer, lease or otherwise dispose of assets in specified situations; engage in transactions with affiliates other than on arm's-length terms or in the ordinary course of business; issue subordinated debt; or incur indebtedness that would result in our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are allowed to own under the agreement. In deciding whether to consent to any request for approval it receives from us under the agreement, Treasury has the right to withhold its consent for any reason and is not required by the agreement to consider any particular factors, including whether or not management believes that the transaction would benefit the company. Pursuant to the senior preferred stock purchase agreement, the maximum allowable amount of mortgage assets we were permitted to own as of December 31, 2014 was $469.6 billion, and on each December 31 thereafter, our mortgage assets may not exceed 85% of the maximum allowable amount that we were permitted to own as of December 31 of the immediately preceding calendar year until the amount of our mortgage assets reaches $250 billion. In addition, as described above, FHFA has requested that we further cap our mortgage assets each year at 90% of the annual limit under our senior preferred stock purchase agreement with Treasury.

Actions taken by the conservator and the restrictions set forth in the senior preferred stock purchase agreement could adversely affect our business, results of operations, financial condition, liquidity and net worth.

A number of lawsuits have been filed against the U.S. government relating to the senior preferred stock purchase agreement and the conservatorship. See "Note 19, Commitments and Contingencies" and "Legal Proceedings" for a description of these lawsuits. We cannot predict the course or the outcome of these lawsuits, or the actions the U.S. government (including Treasury or FHFA) may take in response to any ruling or finding in any of these lawsuits. Accordingly, we cannot predict what impact, if any, these lawsuits will have on our business.

The conservatorship and investment by Treasury have had, and will continue to have, a material adverse effect on our common and preferred shareholders.

We do not know when or how the conservatorship will terminate. Moreover, even if the conservatorship is terminated, we remain subject to the terms of the senior preferred stock purchase agreement, senior preferred stock and warrant, which can only be canceled or modified with the consent of Treasury. The conservatorship and investment by Treasury have had, and will continue to have, material adverse effects on our common and preferred shareholders, including the following:

No voting rights during conservatorship. The rights and powers of our shareholders are suspended during the conservatorship. The conservatorship has no specified termination date. During the conservatorship, our common shareholders do not have the ability to elect directors or to vote on other matters unless the conservator delegates this authority to them.

Dividends to common and preferred shareholders, other than to Treasury, have been eliminated. Our conservator announced in September 2008 that we would not pay any dividends on the common stock or on any series of preferred stock, other than the senior preferred stock, while we are in conservatorship. In addition, under the terms of the senior preferred stock purchase agreement, dividends may not be paid to common or preferred shareholders (other than on the senior preferred stock) without the prior written consent of Treasury, regardless of whether we are in conservatorship.

Our future profits will effectively be distributed to Treasury. As described in a risk factor above, the terms of the senior preferred stock purchase agreement and the senior preferred stock ultimately require the payment of our entire net worth to Treasury. As a result, our net income is not available to common shareholders or preferred shareholders other than Treasury as holder of the senior preferred stock.

Liquidation preference of senior preferred stock is high and could increase. The senior preferred stock ranks prior to our common stock and all other series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and distributions upon liquidation. Accordingly, if we are liquidated, the senior preferred stock is entitled to its then-current liquidation preference, plus any accrued but unpaid dividends, before any distribution is made to the holders of our common stock or other preferred stock. The liquidation preference on the senior preferred stock is currently $117.1 billion and would increase if we draw on Treasury's funding commitment in any future quarters or if we do not pay dividends owed on the senior preferred stock. If we are liquidated, we believe it is unlikely that there would be sufficient funds remaining after payment of amounts to our creditors and to Treasury as holder of the senior preferred stock to make any distribution to holders of our common stock and other preferred stock.

Exercise of the Treasury warrant would substantially dilute investment of current shareholders. If Treasury exercises its warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis, the ownership interest in the company of our then existing common shareholders will be substantially diluted, and we would thereafter have a controlling shareholder.

No longer managed for the benefit of shareholders. Because we are in conservatorship, we are no longer managed with a strategy to maximize shareholder returns.

For additional description of the restrictions on us and the risks to our shareholders, see "Business—Conservatorship and Treasury Agreements."

Basel III and U.S. capital and liquidity rules could materially and adversely affect demand by banks for our debt and MBS securities in the future and otherwise could affect the future business practices of our customers and counterparties.

Basel III is a set of revised global regulatory standards developed by the Basel Committee on Banking Supervision establishing minimum bank capital and liquidity requirements. U.S. banking regulators have issued rules regarding new bank capital and liquidity requirements in accordance with Basel III that are expected to go into effect over the next few years. Although we are not subject to banking regulations, these new requirements could materially adversely affect demand by U.S. banks for our debt securities and MBS in the future, which could adversely affect the price of those securities and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

For example, in September 2014, U.S. banking regulators issued a final regulation setting minimum liquidity standards for large U.S. banks generally in accordance with Basel III standards. Under the final rule, U.S. banks subject to the standards are required to hold a minimum level of high-quality liquid assets based on projections of their short-term cash needs. The debt and mortgage-related securities of Fannie Mae and Freddie Mac are permitted to count toward only up to 40% of the banks' high-quality liquid asset requirement, and then only after applying a 15% discount to the market value of those securities. The final rule became effective January 1, 2015 and provides for a transition period. Banks subject to the rule are required to maintain a minimum liquidity coverage ratio of 80% beginning on January 1, 2015, 90% beginning on January 1, 2016 and 100% beginning on January 1, 2017. U.S. banks currently hold large amounts of our outstanding debt and MBS securities, and prior U.S. banking regulations did not limit the amount of these securities that banks were permitted to count toward their liquidity requirements. Accordingly, the implementation of this rule could materially adversely affect demand by banks for Fannie Mae debt securities and MBS in the future.

In addition, in April 2014, U.S. banking regulators issued a final rule for enhanced supplementary leverage ratio requirements applicable to the largest U.S. banks. The rule requires bank holding companies to maintain a minimum enhanced supplementary leverage ratio of more than 5% in order to avoid restrictions on capital distributions and discretionary bonus payments. Covered companies are required to report their supplementary leverage ratio starting January 1, 2015 and to comply with the enhanced supplementary leverage ratio requirement beginning on January 1, 2018. These higher leverage requirements may require large U.S. banks to hold more capital against the securities they hold, including Fannie Mae debt and MBS securities, which could adversely affect demand by these banks for our debt and MBS securities in the future.

Basel III's revisions to international capital requirements could limit some lenders' ability to count the value of their rights to service mortgage loans as assets in meeting their regulatory capital requirements, which may reduce the economic value of mortgage servicing rights. As a result, a number of our customers and counterparties may change their business practices, including reducing the amount of loans they service or exiting servicing altogether.

We may incur additional credit-related expenses, particularly in light of the poor credit performance of loans we acquired prior to 2009.

Some of the mortgage loans we acquired prior to 2009 have performed poorly, which increased our credit losses and credit-related expenses, and our risk of future credit losses and credit-related expenses, as a result of borrowers failing to make required payments of principal and interest on their mortgage loans. In addition, although home prices have improved in each of the last three years on a national basis, a portion of the loans in our single-family guaranty book of business continues to have an estimated mark-to-market LTV ratio greater than 100%, which increases the likelihood that either these borrowers will strategically default on their mortgage loans even if they have the ability to continue to pay the loans or that distressed homeowners will sell their homes in a "short sale" for significantly less than the unpaid amount of the loans. We present detailed information about the risk characteristics of our single-family conventional guaranty book of business in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management," and we present detailed information on our 2014 credit-related expenses, credit losses and results of operations in "MD&A—Consolidated Results of Operations." The credit performance of loans in our guaranty book of business, particularly those acquired prior to 2009, could deteriorate in the future, particularly if we experience national or regional declines in home prices, weakening economic conditions or high unemployment.

A failure in our operational systems or infrastructure, or those of third parties, could materially adversely affect our business, impair our liquidity, cause financial losses and harm our reputation.

Shortcomings or failures in our internal processes, people or systems could disrupt our business or have a material adverse effect on our risk management, liquidity, financial statement reliability, financial condition and results of operations. Such a failure could result in legislative or regulatory intervention or sanctions, liability to customers, financial losses, business disruptions and damage to our reputation. For example, our business is highly dependent on our ability to manage and process, on a daily basis, an extremely large number of transactions, many of which are highly complex, across numerous and diverse markets and in an environment in which we must adapt to changing external conditions. These transactions are subject to various legal, accounting and regulatory standards. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond our control, adversely affecting our ability to process these transactions. In addition, we rely on information provided by third parties in processing many of our transactions; that information may be incorrect or we may fail to properly manage or analyze it.

We rely upon business processes that are highly dependent on people, legacy technology and the use of numerous complex systems and models to manage our business and produce books and records upon which our financial statements are prepared. This reliance increases the risk that we may be exposed to financial, reputational or other losses as a result of inadequately designed internal processes or systems, or failed execution of our systems. While we continue to enhance our technology, operational controls and organizational structure in order to reduce our operational risk, these actions may not be effective to manage these risks and may create additional operational risk as we execute these enhancements. In addition, our increased use of third-party service providers for some of our business functions increases the risk that an operational failure by a third party will adversely affect us.

We also face the risk of operational failure, termination or capacity constraints of any of the clearing agents, exchanges, clearinghouses or other financial intermediaries we use to facilitate our securities and derivatives transactions. In recent years, there has been significant consolidation among clearing agents, exchanges and clearing houses. This consolidation and interconnectivity increases the risk of operational failure, on both an individual basis and an industry-wide basis, as disparate complex systems need to be integrated, often on an accelerated basis. Any such failure, termination or constraint could adversely affect our ability to effect transactions or manage our exposure to risk, and could have a significant adverse impact on our business, liquidity, financial condition, net worth and results of operations.

Additionally, nearly all of our employees in our primary locations, including the Washington, DC and Dallas, Texas metropolitan areas, work in relatively close proximity to one another. Notwithstanding the business continuity plans and facilities that we have in place, given that most of our facilities and employees are located in the Washington, DC and Dallas metropolitan areas, a catastrophic event such as a terrorist attack, natural disaster, extreme weather event or disease pandemic could overwhelm our recovery capabilities. Although we have built an out-of-region data center for disaster recovery in order to increase the geographic diversity of our business continuity plans, most of our employees are located in the Washington, DC and Dallas metropolitan areas. If a regional disruption occurs and our employees are not able to occupy our facilities, work remotely, or communicate with or travel to other locations, we may not be able to successfully implement our contingency plans, which could materially adversely affect our ability to conduct our business and lead to financial losses.

A breach of the security of our systems, or those of third parties with which we do business, including as a result of cyber attacks, could disrupt our business or result in the disclosure or misuse of confidential information, which could damage our reputation, increase our costs and cause losses.

Our operations rely on the secure receipt, processing, storage and transmission of confidential and other information in our computer systems and networks and with our business partners, including confidential or personal information that is subject to privacy laws, regulations or customer-imposed controls. Information security risks for large institutions like us have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state-sponsored actors. From time to time we have been, and likely will continue to be, the target of attempted cyber attacks, computer viruses, malicious code, phishing attacks and other information security breaches. To date, we have not experienced any material losses relating to cyber attacks or other information security breaches, but we could suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our prominent size and scale and our role in the financial services industry, the outsourcing of some of our business operations, and the current global economic and political environment. As a result, we have increased our investments in the development and enhancement of controls, processes and practices designed to detect and prevent information security threats.

Although we take measures to protect the security of our computer systems, software and networks, our computer systems, software and networks may be vulnerable to cyber attack, breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. The occurrence of such an event could jeopardize or result in the unauthorized disclosure, gathering, monitoring, misuse, corruption, loss or destruction of our or our customers', our counterparties' or borrowers' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, damage to our computers or systems, or otherwise cause interruptions or malfunctions in our, our customers', our counterparties' or third parties' operations. This could result in significant losses, loss of customers and business opportunities, reputational damage, violation of applicable privacy laws and other laws, litigation, regulatory fines, penalties or intervention, reimbursement or other compensatory costs, or otherwise adversely affect our business, financial condition or results of operations. In addition, we may be required to expend significant additional resources to modify our protective measures and to investigate and remediate vulnerabilities or other exposures arising from operational and security risks. We currently do not maintain insurance coverage relating to cybersecurity risks.

Third parties with which we do business may also be sources of cybersecurity or other technological risks. We outsource certain functions and these relationships allow for the storage and processing of our information, as well as customer, counterparty and borrower information. While we engage in actions to mitigate our exposure resulting from outsourcing, ongoing threats may result in unauthorized access, loss or destruction of data or other cybersecurity incidents with increased costs and consequences to us such as those described above.

Our implementation of FHFA directives and other initiatives may increase our operational risk and result in one or more significant deficiencies or material weaknesses in our internal control over financial reporting.

The magnitude of the many new initiatives we are undertaking, including as part of our effort to help build a sustainable housing finance system, may increase our operational risk. Some actions we have been directed to take by FHFA also present significant operational challenges for us, and we believe that implementing these directives will increase our operational risk and could result in one or more significant deficiencies or material weaknesses in our internal control over financial reporting in a future period. We are working with FHFA and Freddie Mac on a multi-year effort to build a common securitization platform to eventually replace some of our current securitization infrastructure. This initiative, in coordination with related internal infrastructure upgrades, is expected to result in significant changes to our current systems and operations, and involves a high degree of complexity. We are also currently working on implementing a number of other FHFA directives and initiatives that may increase our operational burdens and our costs.

While implementation of each individual initiative and directive creates operational challenges, implementing multiple initiatives and directives during the same time period significantly increases these challenges. Implementing these initiatives and directives requires a substantial time commitment from management and the employees responsible for implementing the changes, limiting the amount of time they can spend on other corporate priorities. In addition, some of these initiatives and directives require significant changes to our accounting methods and systems. Due to the operational complexity associated with these changes and the limited time periods for implementing them, we believe there is a significant risk that

implementing these changes could result in one or more significant deficiencies or material weaknesses in our internal control over financial reporting in a future period. If this were to occur, we could experience material errors in our reported financial results. In addition, FHFA, Treasury, other agencies of the U.S. government or Congress may require us to take actions in the future that could further increase our operational risk.

We may undertake efforts that adversely affect our business, results of operations, financial condition, liquidity and net worth.

In conservatorship our business is no longer managed with a strategy to maximize shareholder returns while fulfilling our mission. In May 2014, FHFA released its 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac, which identifies three strategic goals that are described in "Business—Executive Summary—Helping to Build a Sustainable Housing Finance System." In pursuit of these or other goals prescribed by our conservator, we may take a variety of actions that could adversely affect our economic returns, possibly significantly, such as modifying loans to defer principal, lower the interest rate or extend the maturity; engaging in principal reduction; expanding our underwriting and eligibility requirements to increase access to mortgage credit; or issuing a single common GSE security. We are already taking some of these actions. These activities may have short- and long-term adverse effects on our business, results of operations, financial condition, liquidity and net worth.

Other agencies of the U.S. government or Congress also may ask us to undertake significant efforts to support the housing and mortgage markets, as well as struggling homeowners. They may also ask us to take actions in support of other goals. For example, in December 2011 Congress enacted the TCCA under which, at the direction of FHFA, we increased the guaranty fee on all single-family residential mortgages delivered to us by 10 basis points effective April 1, 2012. This fee increase helps offset the cost of a two-month extension of the payroll tax cut from January 1, 2012 through February 29, 2012. FHFA and Treasury advised us to remit this fee increase to Treasury with respect to all loans acquired by us on or after April 1, 2012 and before January 1, 2022, and to continue to remit these amounts to Treasury on and after January 1, 2022 with respect to loans we acquired before this date until those loans are paid off or otherwise liquidated.

We are also required by the GSE Act to undertake efforts in support of the housing market that could adversely affect our financial results and condition. For example, we are subject to housing goals under the GSE Act that require that a portion of the mortgage loans we acquire must be for low- and very-low income families, families in low-income census tracts and moderate-income families in minority census tracts or designated disaster areas. FHFA's proposed 2015 to 2017 housing goals include higher benchmarks for some of the goals than those that were applicable for 2014. In addition, the 2008 Reform Act created a new duty to serve underserved markets. We could be required to make changes to our business and our acquisitions in the future in response to this duty. Although FHFA has not yet published a final rule with respect to this requirement, FHFA has indicated that a proposed rulemaking on the duty to serve underserved markets is forthcoming and FHFA's 2015 conservatorship scorecard includes an objective for us to prepare to implement duty to serve requirements upon publication of a final rule. We may take actions to meet our housing goals and duty to serve obligations that could adversely affect our profitability. For example, we may acquire loans that offer lower expected returns on our investment than our other loan acquisitions and that may potentially increase our credit losses and credit-related expenses. If we do not meet our housing goals or duty to serve requirements, and FHFA finds that the goals or requirements were feasible, we may become subject to a housing plan that could require us to take additional steps that could have an adverse effect on our results of operations and financial condition. See "Business—Our Charter and Regulation of Our Activities—The GSE Act—Housing Goals and Duty to Serve Underserved Markets" for more information on our housing goals and duty to serve underserved markets.

Limitations on our ability to access the debt capital markets could have a material adverse effect on our ability to fund our operations and generate net interest income.

Our ability to fund our business depends primarily on our ongoing access to the debt capital markets. The level of net interest income generated by our retained mortgage portfolio assets depends on how much lower our cost of funds is compared with what we earn on our mortgage assets. Market concerns about matters such as the extent of government support for our business, the future of our business (including future profitability, future structure, regulatory actions and GSE status) and the creditworthiness of the U.S. government could cause a severe negative effect on our access to the unsecured debt markets, particularly for long-term debt. We believe that our ability in recent years to issue debt of varying maturities at attractive pricing resulted from federal government support of our business. As a result, we believe that our status as a GSE and continued federal government support is essential to maintaining our access to debt funding. Changes or perceived changes in federal government support of our business or our status as a GSE could materially and adversely affect our liquidity, financial condition and results of operations. There can be no assurance that the government will continue to support us, or that our current level of access to debt funding will continue. In addition, due to our reliance on the U.S. government's support, our access to debt funding also could be materially adversely affected by a change or perceived change in the creditworthiness of the U.S. government.

Future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, as well as our liquidity position. If we are unable to issue both short- and long-term debt securities at attractive rates and in amounts sufficient to operate our business and meet our obligations, it likely would interfere with the operation of our business and have a material adverse effect on our liquidity, results of operations, financial condition and net worth.

Our liquidity contingency plans may be difficult or impossible to execute during a liquidity crisis.

We believe that our liquidity contingency plans may be difficult or impossible to execute during a liquidity crisis. If we cannot access the unsecured debt markets, our ability to repay maturing indebtedness and fund our operations could be eliminated or significantly impaired. In this event, our alternative sources of liquidity—consisting of our cash and other investments portfolio and the unencumbered mortgage assets in our retained mortgage portfolio—may not be sufficient to meet our liquidity needs.

We believe that the amount of mortgage-related assets that we could successfully sell or borrow against in the event of a liquidity crisis or significant market disruption is substantially lower than the amount of mortgage-related assets we hold. Due to the large size of our portfolio of mortgage assets, current market conditions and the significant amount of distressed assets in our retained mortgage portfolio, there would likely be insufficient market demand for large amounts of these assets over a prolonged period of time, which would limit our ability to borrow against or sell these assets.

To the extent that we are able to obtain funding by pledging or selling mortgage-related securities as collateral, we anticipate that a discount would be applied that would reduce the value assigned to those securities. Depending on market conditions at the time, this discount could result in proceeds significantly lower than the current market value of these securities and could thereby reduce the amount of financing we obtain. In addition, our primary source of collateral is Fannie Mae MBS that we own. In the event of a liquidity crisis in which the future of our company is uncertain, counterparties may be unwilling to accept Fannie Mae MBS as collateral. As a result, we may not be able to sell or borrow against these securities in sufficient amounts to meet our liquidity needs.

A decrease in the credit ratings on our senior unsecured debt could have an adverse effect on our ability to issue debt on reasonable terms, and would likely do so if such a decrease were not based on a similar action on the credit ratings of the U.S. government. A decrease in our credit ratings also could trigger additional collateral requirements under our derivatives contracts.

Credit ratings on our senior unsecured debt, as well as the credit ratings of the U.S. government, are primary factors that could affect our borrowing costs and our access to the debt capital markets. Credit ratings on our debt are subject to revision or withdrawal at any time by the rating agencies. Actions by governmental entities impacting the support we receive from Treasury could adversely affect the credit ratings on our senior unsecured debt. As of February 12, 2015, our long-term debt was rated “AA+” by Standard & Poor’s Ratings Services (“S&P”), “Aaa” by Moody’s Investors Services (“Moody’s”) and “AAA” by Fitch Ratings Limited (“Fitch”).

Because we rely on the U.S. government for capital support, in recent years, when a rating agency has taken an action relating to the U.S. government’s credit rating, they have taken a similar action relating to our ratings at approximately the same time. S&P, Moody’s and Fitch have all indicated that they would likely lower their ratings on the debt of Fannie Mae and certain other government-related entities if they were to lower their ratings on the U.S. government. We currently cannot predict whether one or more of these rating agencies will downgrade our debt ratings in the future, nor can we predict the potential impact. Although S&P’s downgrade of our credit rating from “AAA” to “AA+” in August 2011 has not increased our borrowing costs or limited our access to the debt capital markets to date, an additional reduction in our credit ratings could have a material adverse impact on our access to debt funding or on the cost of our debt funding, and would likely do so if it were not based on a similar action on the credit ratings of the U.S. government.

An additional reduction in our credit ratings may also trigger additional collateral requirements under our derivative contracts because a majority of our over-the-counter (“OTC”) derivative contracts contain provisions that require our senior unsecured debt to maintain a minimum credit rating from S&P and Moody’s. If our senior unsecured debt credit ratings were downgraded to established thresholds in our OTC derivative contracts, which range from A+ to BBB+, we could be required to provide additional collateral to or terminate transactions with certain counterparties. The aggregate fair value of all OTC derivatives with credit-risk-related contingent features that were in a net liability position as of December 31, 2014 was $2.6 billion, for which we posted collateral of $2.4 billion in the normal course of business. If our senior unsecured debt had been downgraded to AA or Aa1, or even to AA- or Aa2, we would not have been required to post any additional collateral under these agreements as of December 31, 2014. If all of the credit-risk-related contingency features underlying these agreements

had been triggered, an additional $269 million would have been required either to be posted as collateral or to immediately settle our positions based on the individual agreements and our fair value position as of December 31, 2014. An additional reduction in our credit ratings also could cause derivatives clearing organizations or their members to demand that we post additional collateral for our cleared derivative contracts. Further, an additional reduction in our credit ratings may materially adversely affect our liquidity, our ability to conduct our normal business operations, our financial condition and our results of operations. Our credit ratings and ratings outlook are included in "MD&A—Liquidity and Capital Management—Liquidity Management—Credit Ratings."

One or more of our institutional counterparties may fail to fulfill their contractual obligations to us, resulting in financial losses, business disruption and decreased ability to manage risk.

We face the risk that one or more of our institutional counterparties may fail to fulfill their contractual obligations to us. Our primary exposures to institutional counterparty risk are with mortgage servicers that service the loans we hold in our retained mortgage portfolio or that back our Fannie Mae MBS; mortgage sellers and servicers that are obligated to repurchase loans from us or reimburse us for losses in certain circumstances; third-party providers of credit enhancement on the mortgage assets that we hold in our retained mortgage portfolio or that back our Fannie Mae MBS, including mortgage insurers, lenders with risk sharing arrangements, financial guarantors and reinsurers; issuers of investments held in our cash and other investments portfolio; and derivatives counterparties.

We may have multiple exposures to one counterparty as many of our counterparties provide several types of services to us. For example, our lender customers or their affiliates may also act as derivatives counterparties, mortgage servicers, custodial depository institutions or document custodians. Accordingly, if one of these counterparties were to become insolvent or otherwise default on its obligations to us, it could harm our business and financial results in a variety of ways.

An institutional counterparty may default in its obligations to us for a number of reasons, such as changes in financial condition that affect its credit rating, changes in its servicer rating, a reduction in liquidity, operational failures or insolvency. Although the liquidity and financial condition of some of our institutional counterparties continued to improve in 2014, there is still significant risk to our business of defaults by these counterparties. Counterparty defaults or limitations on their ability to do business with us could result in significant financial losses or hamper our ability to do business, which would adversely affect our business, results of operations, financial condition, liquidity and net worth.

We routinely execute a high volume of transactions with counterparties in the financial services industry. Many of the transactions we engage in with these counterparties expose us to credit risk relating to the possibility of a default by our counterparties. In addition, to the extent these transactions are secured, our credit risk may be exacerbated to the extent that the collateral we hold cannot be realized or can be liquidated only at prices too low to recover the full amount of our exposure. These losses could materially and adversely affect our business, results of operations, financial condition, liquidity and net worth.

We depend on our ability to enter into derivatives transactions in order to manage the duration and prepayment risk of our retained mortgage portfolio. If we lose access to our derivatives counterparties, it could adversely affect our ability to manage these risks, which could have a material adverse effect on our business, results of operations, financial condition and liquidity.

Our financial condition or results of operations may be adversely affected if mortgage servicers fail to perform their obligations to us.

We delegate the servicing of the mortgage loans in our guaranty book of business to mortgage servicers; we do not have our own servicing function. Functions performed by mortgage servicers on our behalf include collecting and delivering principal and interest payments, administering escrow accounts, monitoring and reporting delinquencies, performing default prevention activities and other functions. The inability of a mortgage servicer to perform these functions due to financial, operational, regulatory or other issues could negatively affect our ability to manage our book of business, delay or prevent our collection of amounts due to us or otherwise result in the failure to perform other servicing duties, resulting in financial losses. In addition, our servicers have an active role in our loss mitigation efforts, and a decline in their performance could affect our credit performance, including through missed opportunities for loan modifications.

In recent periods, non-depository servicers that specialize in servicing troubled loans have experienced rapid growth in their servicing portfolios, and now service a large portion of our loans. The rapid expansion of these servicers' servicing portfolios results in increased operational risk, which could negatively impact their ability to effectively manage their servicing portfolios. In addition, regulatory bodies have been reviewing the activities of some of our largest non-depository servicers.

If we replace a mortgage servicer, we likely would incur costs and potential increases in servicing fees and could also face operational risks. If a mortgage servicer counterparty fails, it could result in a temporary disruption in servicing and loss

mitigation activities relating to the loans serviced by that mortgage servicer, particularly if there is a loss of experienced servicing personnel. We may also face challenges in transferring a large servicing portfolio.

Multifamily mortgage servicing is typically performed by the lenders who sell the mortgages to us. We are exposed to the risk that multifamily servicers could come under financial pressure, which could potentially result in a decline in the quality of the servicing they provide us.

We may incur losses as a result of claims under our mortgage insurance policies not being paid in full or at all.

We rely heavily on mortgage insurers to provide insurance against borrower defaults on single-family conventional mortgage loans with LTV ratios over 80% at the time of acquisition. Several of our mortgage insurer counterparties incurred losses in recent years, which increases the risk that these counterparties may fail to fulfill their obligations to pay in full our claims under insurance policies.

PMI Mortgage Insurance Co. ("PMI"), Triad Guaranty Insurance Corporation ("Triad") and Republic Mortgage Insurance Company ("RMIC") are under various forms of supervised control by their state regulators and are in run-off. A mortgage insurer that is in run-off continues to collect renewal premiums and process claims on its existing insurance business, but no longer writes new insurance, which increases the risk that the mortgage insurer will pay claims only in part or fail to pay claims at all under existing insurance policies. Entering run-off may close off a source of profits and liquidity that may have otherwise assisted a mortgage insurer in paying claims under insurance policies, and could also cause the quality and speed of its claims processing to deteriorate. PMI and Triad have been paying only a portion of policyholder claims and deferring the remaining portion. PMI is currently paying 67% of claims under its mortgage insurance policies in cash and is deferring the remaining 33%, and Triad is currently paying 75% of claims in cash and deferring the remaining 25%. It is uncertain whether PMI or Triad will be permitted in the future to pay any remaining deferred policyholder claims and/or increase or decrease the amount of cash they pay on claims. RMIC is no longer deferring payments on policyholder claims and has paid us its previously outstanding deferred payment obligations; however, RMIC has not paid us interest on its deferred payment obligations and remains in run-off and under the supervisory control of its state regulator. PMI, Triad and RMIC provided a combined $12.3 billion, or 11%, of our risk in force mortgage insurance coverage of our single-family guaranty book of business as of December 31, 2014.

From time to time we assess our mortgage insurer counterparties' respective abilities to fulfill their obligations to us, and our loss reserves take into account this assessment. If our assessment indicates their ability to pay claims has deteriorated significantly or if our projected claim amounts have increased, it could result in an increase in our loss reserves and our credit losses.

Changes in the mortgage industry may negatively impact our business.

A number of our largest single-family mortgage seller and servicer counterparties have reduced or eliminated their purchases of mortgage loans from mortgage brokers and correspondent lenders. As a result, we have been acquiring an increasing portion of our business volume directly from, and a larger portion of our servicing is being performed by, smaller or non-depository financial institutions that may not have the same financial strength, liquidity or operational capacity as our larger depository financial institution counterparties.

Our top five lender customers in terms of single-family business acquisition volume, in the aggregate, accounted for approximately 33% of our single-family business acquisition volume in 2014, compared with approximately 42% in 2013. Our five largest single-family mortgage servicers, including their affiliates, serviced approximately 46% of our single-family guaranty book of business as of December 31, 2014, compared with approximately 49% as of December 31, 2013.

The potentially lower financial strength, liquidity and operational capacity of smaller or non-depository mortgage sellers and servicers may negatively affect their ability to satisfy their repurchase or compensatory fee obligations or to service the loans on our behalf. In addition, some of our non-depository mortgage servicer counterparties have grown significantly in recent years, which could negatively impact their ability to effectively manage their servicing portfolios and increase their operational risk. The decrease in the concentration of our business with large depository financial institutions could increase both our institutional counterparty credit risk and our mortgage credit risk, and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

The loss of business volume from a key lender customer could adversely affect our business and result in a decrease in our revenues, especially if we are unable to replace the business volume that customer provided to us.

Our ability to generate revenue from the purchase and securitization of mortgage loans depends on our ability to acquire a steady flow of mortgage loans from the originators of those loans. Although we have been acquiring an increasing portion of our single-family business volume directly from smaller financial institutions, we have continued to acquire a significant

portion of our mortgage loans from several large mortgage lenders, with our top five lender customers in terms of single-family business acquisition volume, in the aggregate, accounting for approximately 33% of our single-family business acquisition volume in 2014. Accordingly, maintaining our current business relationships and business volumes with our top lender customers is important to our business. To the extent a key lender customer significantly reduces the volume or quality of mortgage loans that the lender delivers to us or that we are willing to buy from them, we could lose significant business volume that we might be unable to replace, which could adversely affect our business and result in a decrease in our revenues. In addition, a significant reduction in the volume of mortgage loans that we securitize could reduce the liquidity of Fannie Mae MBS, which in turn could have an adverse effect on their market value.

Our reliance on third parties to service our mortgage loans may impede our efforts to keep people in their homes and adversely affect the re-performance rate of loans we modify.

Mortgage servicers, or their agents and contractors, typically are the primary point of contact for borrowers on our loans. We rely on these mortgage servicers to identify and contact troubled borrowers as early as possible, to assess the situation and offer appropriate options for resolving the problem and to successfully implement a solution. Over the past few years, the demands placed on experienced mortgage loan servicers to service delinquent loans have increased significantly across the industry, straining servicer capacity. To the extent that mortgage servicers are hampered by limited resources or other factors, they may not be successful in conducting their servicing activities in a manner that fully accomplishes our objectives within the timeframe we desire. Further, our servicers have advised us that they have not been able to reach many of the borrowers who may need help with their mortgage loans even when repeated efforts have been made to contact the borrower.

For these reasons, our ability to actively manage the troubled loans that we own or guarantee, and to implement our homeownership assistance and foreclosure prevention efforts quickly and effectively, is limited by our reliance on our mortgage servicers. This reliance could have a material adverse effect on our business, results of operations and financial condition.

We expect the slow pace of single-family foreclosures in some states will continue to adversely affect our business, results of operations, financial condition and net worth.

The processing of foreclosures of single-family loans continues to be slow in a number of states, primarily as a result of the elevated level of foreclosures caused by the housing market downturn that began in 2006, changes in state foreclosure laws, and federal and state servicing requirements imposed by regulatory actions and legal settlements in recent years. The slow pace of foreclosures in some states has negatively affected our foreclosure timelines, credit-related income (expense) and single-family serious delinquency rates, and we expect they will continue to do so. We believe the slow pace of foreclosures in certain states is contributing to a slower recovery of those housing markets.

Challenges to the MERS® company, system and processes could pose operational, reputational and legal risks for us.

MERSCORP Holdings, Inc. (“MERSCORP”) is a privately held company that maintains an electronic registry (the “MERS System”) that tracks servicing rights and ownership of loans in the United States. Mortgage Electronic Registration Systems, Inc. (“MERS”), a wholly owned subsidiary of MERSCORP, can serve as a nominee for the owner of a mortgage loan and, in that role, become the mortgagee of record for the loan in local land records. Fannie Mae sellers and servicers may choose to use MERS as a nominee; however, we have prohibited servicers from initiating foreclosures on Fannie Mae loans in MERS’s name. A large portion of the loans we own or guarantee are registered in MERS’s name and the related servicing rights are tracked in the MERS System. The MERS System is widely used by participants in the mortgage finance industry. Along with a number of other organizations in the mortgage finance industry, we are a shareholder of MERSCORP.

Numerous legal challenges have been made disputing MERS’s ability to initiate foreclosures, act as nominee in local land records, and/or assign mortgages or take other action on behalf of the loan owner. These challenges seek judicial relief ranging from money damages, fines and penalties to injunctive/declaratory relief seeking the prevention of mortgage assignments by MERS and/or the voiding of completed foreclosures in which MERS appeared in the chain of title. These challenges have focused public attention on MERS and on how loans are recorded in local land records. As a result, these challenges could negatively affect MERS’s ability to serve as the mortgagee of record in some jurisdictions, which could cause additional costs and time in the recordation process and could negatively impact our interest in the loans. These challenges also could result in court decisions that substantially delay new or pending foreclosures, or void completed foreclosures in certain jurisdictions, which would require that we re-foreclose on the affected properties, thereby increasing our costs and lengthening the time it takes for us to foreclose on and dispose of the properties.

In addition, where MERS is the mortgagee of record, it must execute assignments of mortgages, affidavits and other legal documents in connection with foreclosure proceedings. In April 2011, federal banking regulators and FHFA announced that they were taking enforcement action against MERS and MERSCORP to address significant weaknesses in, among other

things, oversight, management supervision and corporate governance at MERS and MERSCORP that were uncovered as part of the regulators' review of mortgage servicers' foreclosure processing. Failures by MERS or MERSCORP to apply prudent and effective process controls and to comply with legal and other requirements could pose counterparty, operational, reputational and legal risks for us. If investigations or new regulation or legislation restricts servicers' use of MERS, our counterparties may be required to record all mortgage transfers in land records, incurring additional costs and time in the recordation process. At this time, we cannot predict the ultimate outcome of these legal challenges to, or the enforcement action against, MERS and MERSCORP or the impact on our business, results of operations or financial condition.

Changes in accounting standards and policies can be difficult to predict and can materially impact how we record and report our financial results.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the FASB or the SEC changes the financial accounting and reporting standards or the policies that govern the preparation of our financial statements. In addition, FHFA provides guidance that affects our adoption or implementation of financial accounting or reporting standards. These changes can be difficult to predict and expensive to implement, and can materially impact how we record and report our financial condition and results of operations. We could be required to apply new or revised guidance retrospectively, which may result in the revision of prior period financial statements by material amounts. The implementation of new or revised accounting guidance could have a material adverse effect on our financial results or net worth and result in or contribute to the need for additional draws from Treasury under the senior preferred stock purchase agreement.

Material weaknesses in our internal control over financial reporting could result in errors in our reported results or disclosures that are not complete or accurate.

Management has determined that, as of the date of this filing, we have ineffective disclosure controls and procedures that result in a material weakness in our internal control over financial reporting. In addition, our independent registered public accounting firm, Deloitte & Touche LLP, has expressed an adverse opinion on our internal control over financial reporting because of the material weakness. Our ineffective disclosure controls and procedures and material weakness could result in errors in our reported results or disclosures that are not complete or accurate, which could have a material adverse effect on our business and operations.

Our material weakness relates specifically to the impact of the conservatorship on our disclosure controls and procedures. Because we are under the control of FHFA, some of the information that we may need to meet our disclosure obligations may be solely within the knowledge of FHFA. As our conservator, FHFA has the power to take actions without our knowledge that could be material to our shareholders and other stakeholders, and could significantly affect our financial performance or our continued existence as an ongoing business. Because FHFA currently functions as both our regulator and our conservator, there are inherent structural limitations on our ability to design, implement, test or operate effective disclosure controls and procedures relating to information within FHFA's knowledge. As a result, we have not been able to update our disclosure controls and procedures in a manner that adequately ensures the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws, including disclosures affecting our financial statements. Given the structural nature of this material weakness, we do not expect to remediate this weakness while we are under conservatorship. See "Controls and Procedures" for further discussion of management's conclusions on our disclosure controls and procedures and internal control over financial reporting.

In many cases, our accounting policies and methods, which are fundamental to how we report our financial condition and results of operations, require management to make judgments and estimates about matters that are inherently uncertain. Management also relies on models in making these estimates.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in applying many of these accounting policies and methods so that these policies and methods comply with GAAP and reflect management's judgment of the most appropriate manner to report our financial condition and results of operations. In some cases, management must select the appropriate accounting policy or method from two or more alternatives, any of which might be reasonable under the circumstances but might affect the amounts of assets, liabilities, revenues and expenses that we report. See "Note 1, Summary of Significant Accounting Policies" for a description of our significant accounting policies.

We have identified some of our accounting policies as being critical to the presentation of our financial condition and results of operations. These accounting policies are described in "MD&A—Critical Accounting Policies and Estimates." We believe these policies are critical because they require management to make particularly subjective or complex judgments about

matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions.

Because our financial statements involve estimates for amounts that are very large, even a small change in the estimate can have a significant impact for the reporting period. For example, because our total loss reserves are so large, even a change that has a small impact relative to the size of our loss reserves can have a meaningful impact on our results for the quarter in which we make the change.

Due to the complexity of the critical accounting policies we have identified, our accounting methods relating to these policies involve substantial use of models. Models are inherently imperfect predictors of actual results because they are based on assumptions, including assumptions about future events. Our models may not include assumptions that reflect very positive or very negative market conditions and, accordingly, our actual results could differ significantly from those generated by our models. As a result of the above factors, the estimates that we use to prepare our financial statements, as well as our estimates of our future results of operations, may be inaccurate, perhaps significantly.

Failure of our models to produce reliable results may adversely affect our ability to manage risk and make effective business decisions.

We make significant use of quantitative models to measure and monitor our risk exposures and to manage our business. For example, we use models to measure and monitor our exposures to interest rate, credit and market risks, and to forecast credit losses. The information provided by these models is used in making business decisions relating to strategies, initiatives, transactions, pricing and products.

Models are inherently imperfect predictors of actual results because they are based on historical data and assumptions regarding factors such as future loan demand, borrower behavior, creditworthiness and home price trends. Other potential sources of inaccurate or inappropriate model results include errors in computer code, bad data, misuse of data, or use of a model for a purpose outside the scope of the model's design. Modeling often assumes that historical data or experience can be relied upon as a basis for forecasting future events, an assumption that may be especially tenuous in the face of unprecedented events.

Given the challenges of predicting future behavior, management judgment is used at every stage of the modeling process, from model design decisions regarding core underlying assumptions, to interpreting and applying final model output. To control for these inherent imperfections, our primary models are vetted by an independent model risk management team within our Enterprise Risk Division.

When market conditions change quickly and in unforeseen ways, there is an increased risk that the model assumptions and data inputs for our models are not representative of the most recent market conditions. Under such circumstances, we must rely on management judgment to make adjustments or overrides to our models. A formal model update is typically an extensive process that involves basic research, testing, independent validation and production implementation. In a rapidly changing environment, it may not be possible to update existing models quickly enough to properly account for the most recently available data and events. Management adjustments to modeled results are applied within the confines of the governance structure provided by a combination of our model risk management team and our business, finance and risk committees.

If our models fail to produce reliable results on an ongoing basis, we may not make appropriate risk management decisions, including decisions affecting loan purchases, management of credit losses, guaranty fee pricing, asset and liability management and the management of our net worth. Any of these decisions could adversely affect our businesses, results of operations, liquidity, net worth and financial condition. Furthermore, strategies we employ to manage and govern the risks associated with our use of models may not be effective or fully reliable.

Changes in interest rates or our loss of the ability to manage interest rate risk successfully could adversely affect our financial results and condition, and increase interest rate risk.

We fund our operations primarily through the issuance of debt and invest our funds primarily in mortgage-related assets that permit mortgage borrowers to prepay their mortgages at any time. These business activities expose us to market risk, which is the risk of adverse changes in the fair value of financial instruments resulting from changes in market conditions. Our most significant market risks are interest rate risk and prepayment risk. We describe these risks in more detail in "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management." Changes in interest rates affect both the value of our mortgage assets and prepayment rates on our mortgage loans.

Changes in interest rates could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. Our ability to manage interest rate risk depends on our ability to issue debt instruments with a range

of maturities and other features, including call provisions, at attractive rates and to engage in derivatives transactions. We must exercise judgment in selecting the amount, type and mix of debt and derivatives instruments that will most effectively manage our interest rate risk. The amount, type and mix of financial instruments that are available to us may not offset possible future changes in the spread between our borrowing costs and the interest we earn on our mortgage assets.

We mark to market changes in the estimated fair value of our derivatives through our earnings on a quarterly basis, but we do not similarly mark to market changes in some of the financial instruments that generate our interest rate risk exposures. As a result, changes in interest rates, particularly significant changes, can have a significant adverse effect on our earnings and net worth for the quarter in which the changes occur, depending on the nature of the changes and the derivatives we hold at that time. We have experienced significant fair value losses in some periods due to changes in interest rates, and we expect to continue to experience volatility from period to period in our financial results as a result of fair value losses or gains on our derivatives.

Changes in interest rates also can affect our credit losses. When interest rates increase, our credit losses from loans with adjustable payment terms may increase as borrower payments increase at their reset dates, which increases the borrower's risk of default, particularly for adjustable-rate loans with interest-only features. Rising interest rates may also reduce the opportunity for these borrowers to refinance into a fixed-rate loan. Similarly, many borrowers may have additional debt obligations, such as home equity lines of credit and second liens, that also have adjustable payment terms. If a borrower's payment on his or her other debt obligations increases due to rising interest rates or a change in amortization, it increases the risk that the borrower may default on a loan we own or guarantee.

Changes in spreads could materially impact our results of operations, net worth and the fair value of our net assets.

Spread risk or basis risk is the resulting impact of changes in the spread between our mortgage assets and our debt and derivatives we use to hedge our position. Changes in market conditions, including changes in interest rates, liquidity, prepayment and default expectations, and the level of uncertainty in the market for a particular asset class may cause fluctuations in spreads. Changes in mortgage spreads have contributed to significant volatility in our financial results in certain periods, due to fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings, and this could occur again in a future period. A widening of mortgage spreads could cause significant fair value losses, and could adversely affect our near-term financial results and net worth. We do not actively manage or hedge our spread risk after we purchase mortgage assets, other than through asset monitoring and disposition.

Our business is subject to laws and regulations that restrict our activities and operations, which may prohibit us from undertaking activities that management believes would benefit our business and limit our ability to diversify our business.

As a federally chartered corporation, we are subject to the limitations imposed by the Charter Act, extensive regulation, supervision and examination by FHFA and regulation by other federal agencies, including Treasury, HUD and the SEC. As a company under conservatorship, our primary regulator has management authority over us in its role as our conservator. We are also subject to other laws and regulations that affect our business, including those regarding taxation and privacy.

The Charter Act defines our permissible business activities. For example, we may not originate mortgage loans or purchase single-family loans in excess of the conforming loan limits, and our business is limited to the U.S. housing finance sector. In addition, as described in a previous risk factor, our business activities are subject to significant restrictions as a result of the conservatorship and the senior preferred stock purchase agreement. As a result of these limitations on our ability to diversify our operations, our financial condition and results of operations depend almost entirely on conditions in a single sector of the U.S. economy, specifically, the U.S. housing market. Weak or unstable conditions in the housing market, as we have seen in recent years, can therefore have a significant adverse effect on our results of operations, financial condition and net worth.

Our business and financial results could be materially adversely affected by legal or regulatory proceedings.

We are a party to various claims and other legal proceedings. We also have been, and in the future may be, involved in government investigations. We may be required to establish reserves and to make substantial payments in the event of adverse judgments or settlements of any such claims, investigations or proceedings, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. Any legal proceeding or governmental investigation, even if resolved in our favor, could result in negative publicity or cause us to incur significant legal and other expenses. In addition, certain of our former officers are involved in legal proceedings for which they may be entitled to reimbursement by us for costs and expenses of the proceedings.

Developments in, outcomes of, impacts of, and costs, expenses, settlements and judgments related to these legal proceedings and governmental investigations may differ from our expectations and exceed any amounts for which we have reserved or

require adjustments to such reserves. In addition, responding to these matters could divert significant internal resources away from managing our business.

An active trading market in our equity securities may cease to exist, which would adversely affect the market price and liquidity of our common and preferred stock.

Our common stock and preferred stock are now traded exclusively in the over-the-counter market. We cannot predict the actions of market makers, investors or other market participants, and can offer no assurances that the market for our securities will be stable. If there is no active trading market in our equity securities, the market price and liquidity of the securities will be adversely affected.

Mortgage fraud could result in significant financial losses and harm to our reputation.

We use a process of delegated underwriting in which lenders make specific representations and warranties about the characteristics of the mortgage loans we purchase and securitize. As a result, we do not independently verify most borrower information that is provided to us. This exposes us to the risk that one or more of the parties involved in a transaction (the borrower, seller, broker, appraiser, title agent, lender or servicer) will engage in fraud by misrepresenting facts about a mortgage loan. Similarly, we rely on delegated servicing of loans and use of a variety of external resources to manage our REO. We have experienced financial losses resulting from mortgage fraud, including institutional fraud perpetrated by counterparties. In the future, we may experience additional financial losses or reputational damage as a result of mortgage fraud.

RISKS RELATING TO OUR INDUSTRY

Our business and financial results are affected by general economic conditions, particularly home prices and employment trends, and a deterioration of economic conditions or the financial markets may materially adversely affect our result of operations, net worth and financial condition.

Our business is significantly affected by the status of the U.S. economy, particularly home prices and employment trends. Although the U.S. economy has continued to gradually improve, economic growth and improvement in the housing market have been modest. A prolonged period of slow growth in the U.S. economy or any deterioration in general economic conditions or the financial markets could materially adversely affect our result of operations, net worth and financial condition. For example, if home prices decrease or the unemployment rate increases, it could result in significantly higher levels of credit losses and credit-related expense.

Global economic conditions can also adversely affect our business and financial results. Changes or volatility in market conditions resulting from deterioration in or uncertainty regarding global economic conditions can adversely affect the value of our assets, which could materially adversely affect our results of operations, net worth and financial condition. For example, weak economic conditions in Europe and concerns about the European banking system resulted in a significant decline in interest rates in the fourth quarter of 2014. This decline in interest rates contributed to the fair value losses on our derivatives in the fourth quarter of 2014. Volatility or uncertainty in global political conditions can also significantly affect economic conditions and the financial markets. We describe above the risks to our business posed by changes in interest rates and changes in spreads. In addition, as described above, future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, as well as our liquidity position.

A decline in activity in the U.S. housing market or increasing interest rates could lower our business volumes.

Our business volume is affected by the rate of growth in total U.S. residential mortgage debt outstanding and the size of the U.S. residential mortgage market. A decline in mortgage debt outstanding reduces the unpaid principal balance of mortgage loans available for us to securitize or purchase, which in turn could reduce our guaranty fee income and net interest income. Even if we were able to increase our share of the secondary mortgage market, it may not be sufficient to make up for a decline in the rate of growth in mortgage originations.

Mortgage interest rates also affect our business volume. Rising interest rates generally result in fewer mortgage originations, particularly for refinances. Interest rates increased significantly in the second half of 2013, which reduced our business volume in the second half of 2013 and in 2014. Interest rates subsequently declined in late 2014 and early 2015 to levels similar to mid-2013. If interest rates rise again, particularly if the increase is sudden and steep, it could significantly reduce our business volume. Significant reductions in our business volume could adversely affect our results of operations and financial condition.

In recent years, the Federal Reserve has purchased a significant amount of mortgage-backed securities issued by us, Freddie Mac and Ginnie Mae. The Federal Reserve began to taper these purchases in January 2014 and concluded its asset purchase program in October 2014. In announcing the conclusion of its asset purchase program, the Federal Reserve stated that it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities; therefore, it has continued to purchase a significant amount of agency mortgage-backed securities. Any change in the Federal Reserve's policy towards the reinvestment of principal payments of mortgage-backed securities, or possible future sales of mortgage-backed securities by the Federal Reserve, could result in increases in mortgage interest rates and adversely affect our business volume, which could adversely affect our results of operations and financial condition.

The Dodd-Frank Act and regulatory changes in the financial services industry may negatively impact our business.

The Dodd-Frank Act has significantly changed the regulation of the financial services industry. This legislation is affecting and will continue to affect many aspects of our business and could affect us in substantial and unforeseeable ways. The Dodd-Frank Act and related regulatory changes have required us to change certain business practices, limit the types of products we offer and incur additional costs. Additionally, implementation of this legislation has resulted in and will continue to result in increased supervision and more comprehensive regulation of our customers and counterparties in the financial services industry, which may have a significant impact on the business practices of our customers and counterparties, as well as on our counterparty credit risk. The Dodd-Frank Act's impact on our customers' and counterparties' business practices could indirectly adversely affect our business. For example, if our customers reduce the amount of their mortgage originations, it would adversely affect the number of mortgages available for us to purchase or guarantee.

Examples of aspects of the Dodd-Frank Act and related regulatory changes that have affected us or may affect us in the future include: rules requiring the clearing of certain derivatives transactions and margin and capital rules for uncleared derivative trades, which impose additional costs on us; the CFPB's "ability to repay" rule, which has limited the types of products we offer and could impact the volume of loans sold to us in the future; and the development of single-counterparty credit limit regulations, which could cause our customers to change their business practices. We could also be designated as a systemically important nonbank financial company subject to supervision and regulation by the Federal Reserve. If this were to occur, the Federal Reserve would have the authority to examine us and could impose stricter prudential standards on us, including risk-based capital requirements, leverage limits, liquidity requirements, single-counterparty exposure limits, resolution plan and credit exposure reporting requirements, overall risk management requirements, contingent capital requirements, enhanced public disclosures and short-term debt limits. We have not received any notification of possible designation as a systemically important financial institution.

In addition, the actions of Treasury, the Commodity Futures Trading Commission, the SEC, the FDIC, the Federal Reserve and international central banking authorities directly or indirectly impact financial institutions' cost of funds for lending, capital-raising and investment activities, which could increase our borrowing costs or make borrowing more difficult for us. Changes in monetary policy are beyond our control and difficult to anticipate.

Overall, these legislative and regulatory changes could affect us in substantial and unforeseeable ways and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

Legislative, regulatory or judicial actions could negatively impact our business, results of operations, financial condition or net worth.

Legislative, regulatory or judicial actions at the federal, state or local level could negatively impact our business, results of operations, financial condition or net worth. Legislative, regulatory or judicial actions could affect us in a number of ways, including by imposing significant additional costs on us and diverting management attention or other resources. For example, we could be affected by legislative or regulatory changes that expand the responsibilities and liabilities of servicers and assignees for maintaining vacant properties prior to foreclosure, which could increase our costs. We also could be affected by state laws and court decisions granting priority rights for homeowners associations in foreclosure proceedings, which could adversely affect our ability to recover our losses on affected loans. In addition, as described above, our business could be materially adversely affected by legislative and regulatory actions relating to housing finance reform or the financial services industry or by legal or regulatory proceedings.

The occurrence of a major natural or other disaster in the United States could negatively impact our credit losses and credit-related expenses, and could disrupt our business operations in the affected geographic area or nationally.

We conduct our business in the residential and multifamily mortgage markets and own or guarantee the performance of mortgage loans throughout the United States. The occurrence of a major natural or environmental disaster, terrorist attack, cyber attack, pandemic, or similar event (a "major disruptive event") in a regional geographic area of the United States could negatively impact our credit losses and credit-related expenses in the affected area or, depending on the nature of the event, nationally.

The occurrence of a major disruptive event could negatively impact a geographic area in a number of different ways, depending on the nature of the event. A major disruptive event that either damages or destroys residential or multifamily real estate securing mortgage loans in our book of business or negatively impacts the ability of borrowers to continue to make principal and interest payments on mortgage loans in our book of business could increase our delinquency rates, default rates and average loan loss severity of our book of business in the affected region or regions, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. While we attempt to create a geographically diverse mortgage credit book of business, there can be no assurance that a major disruptive event, depending on its magnitude, scope and nature, will not generate significant credit losses and credit-related expenses.

In addition, as described in a risk factor above, although we have business continuity plans and facilities in place, the occurrence of a catastrophic event could overwhelm our recovery capabilities, which could materially adversely affect our ability to conduct our business and lead to financial losses.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own our principal office, which is located at 3900 Wisconsin Avenue, NW, Washington, DC, as well as additional Washington, DC facilities at 3939 Wisconsin Avenue, NW and 4250 Connecticut Avenue, NW. We also own two office facilities in Herndon, Virginia, as well as two additional facilities located in Reston, Virginia and Urbana, Maryland. These owned facilities contain a total of approximately 1,459,000 square feet of space. We lease the land underlying the 4250 Connecticut Avenue building pursuant to a ground lease that automatically renews on July 1, 2029 for an additional 49 years unless we elect to terminate the lease by providing notice to the landlord of our decision to terminate at least one year prior to the automatic renewal date. In addition, we lease approximately 429,000 square feet of office space, including a conference center, at 4000 Wisconsin Avenue, NW, which is adjacent to our principal office. The lease term for the office and conference center at 4000 Wisconsin Avenue expires in April 2018. We also lease an additional approximately 170,000 square feet of office space at two other locations in Washington, DC and Virginia. We maintain approximately 715,000 square feet of office space in leased premises in Pasadena, California; Irvine, California; Atlanta, Georgia; Chicago, Illinois; Philadelphia, Pennsylvania; and three facilities in Dallas, Texas.

In January 2015, we entered into a lease for a future principal office to be built at 1150 15th Street, NW, Washington, DC. The lease provides that the building will be delivered in two phases in 2017 and 2018.

Item 3. Legal Proceedings

This item describes our material legal proceedings. We describe additional material legal proceedings in "Note 19, Commitments and Contingencies," which is incorporated herein by reference. In addition to the matters specifically described or incorporated by reference in this item, we are involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that do not have a material impact on our business. Litigation claims and proceedings of all types are subject to many factors that generally cannot be predicted accurately.

We record reserves for legal claims when losses associated with those claims become probable and the amounts can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher or lower than the amounts reserved for those claims. For matters where the likelihood or extent of a loss is not probable or cannot be reasonably estimated, we do not recognize in our consolidated financial statements the potential liability that may result from these matters. Except for matters that have been settled, we presently cannot determine the ultimate resolution of the matters described below or incorporated by reference into this item. If certain of these matters are determined against us, it could have a material adverse effect on our results of operations, liquidity and financial condition, including our net worth.

FHFA Private-Label Mortgage-Related Securities Litigation

In the third quarter of 2011, FHFA, as conservator, filed 16 lawsuits on behalf of both Fannie Mae and Freddie Mac against various financial institutions, their officers and affiliated and unaffiliated underwriters that were responsible for marketing and selling private-label mortgage-related securities to us. Fourteen of these lawsuits were resolved during 2013 and 2014, and two remain pending.

One of the remaining lawsuits is against Nomura Holding America Inc. and certain related entities and individuals, and is pending in the U.S. District Court for the Southern District of New York. The other remaining lawsuit is against The Royal

Bank of Scotland Group PLC and certain related entities and individuals, and is pending in the U.S. District Court for the District of Connecticut. Both lawsuits were filed on September 2, 2011. These two remaining lawsuits seek to recover losses we and Freddie Mac incurred on the private-label mortgage-related securities the defendants sold to us and Freddie Mac. The lawsuits allege that the defendants violated federal and state securities laws by making material misstatements and omissions regarding the characteristics of the loans underlying the securities in the offering documents for the securities that were sold to Fannie Mae and Freddie Mac. The complaints seek, among other things, rescission and recovery of consideration paid for the securities at issue in the lawsuits, monetary damages and interest.

Senior Preferred Stock Purchase Agreements Litigation

Between June 2013 and August 2014, several lawsuits were filed by preferred and common stockholders of Fannie Mae and Freddie Mac in the U.S. Court of Federal Claims, the U.S. District Court for the District of Columbia and the U.S. District Court for the Southern District of Iowa against the United States, Treasury and/or FHFA, challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac. Some of these lawsuits also contain claims against Fannie Mae and Freddie Mac. The legal claims being advanced by one or more of these lawsuits include challenges to the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendments to the agreements, as well as to FHFA's decision to require Fannie Mae and Freddie Mac to draw funds from Treasury in order to pay dividends to Treasury during conservatorship. The plaintiffs seek various forms of equitable and injunctive relief, including rescission of the August 2012 amendments, as well as damages. On September 30, 2014, the U.S. District Court for the District of Columbia dismissed all but one of the cases pending before that court. The plaintiffs in each of the dismissed cases have filed a notice of appeal. The plaintiffs in the case that was not dismissed by the court voluntarily dismissed their lawsuit on October 31, 2014. On February 3, 2015, the U.S. District Court for the Southern District of Iowa dismissed the single case pending before it. The matters where Fannie Mae is a named defendant are described below or in "Note 19, Commitments and Contingencies."

Fannie Mae is a nominal defendant in two actions filed against the United States in the U.S. Court of Federal Claims: *Fisher v. United States of America*, filed on December 2, 2013, and *Rafter v. United States of America*, filed on August 14, 2014. Plaintiffs in these cases allege that the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendment to the senior preferred stock purchase agreement constitute a taking of Fannie Mae's property without just compensation in violation of the U.S. Constitution. The *Fisher* plaintiffs are pursuing this claim derivatively on behalf of Fannie Mae, while the *Rafter* plaintiffs are pursing the claim directly against the United States. Plaintiffs in *Rafter* also allege a derivative claim that the government breached an implied contract with Fannie Mae's Board of Directors by implementing the net worth sweep dividend provisions. Plaintiffs in *Fisher* request just compensation to Fannie Mae in an unspecified amount. Plaintiffs in *Rafter* seek just compensation to themselves on their constitutional claim and payment of damages to Fannie Mae on their derivative claim for breach of an implied contract. The United States filed a motion to dismiss the *Fisher* case on January 23, 2014; however, the court has stayed proceedings in this case until discovery in a related case, *Fairholme Funds v. United States*, is complete and the court sets a date for the *Fairholme* plaintiffs to respond to the government's motion to dismiss filed in that case. In the *Rafter* case, the court has ordered the government to file a response to the complaint within sixty days after discovery is complete in the *Fairholme Funds* case.

LIBOR Lawsuit

On October 31, 2013, Fannie Mae filed a lawsuit in the U.S. District Court for the Southern District of New York against Barclays Bank PLC, UBS AG, The Royal Bank of Scotland Group PLC, The Royal Bank of Scotland PLC, Deutsche Bank AG, Credit Suisse Group AG, Credit Suisse International, Bank of America Corp., Bank of America, N.A., Citigroup Inc., Citibank, N.A., J.P. Morgan Chase & Co., J.P. Morgan Chase Bank, N.A., Coöperative Centrale Raiffeisen-Boerenleenbank B.A., the British Bankers Association ("BBA") and BBA LIBOR Ltd. alleging they manipulated LIBOR. On October 6, 2014, Fannie Mae filed an amended complaint alleging, among other things, that the banks submitted false borrowing costs to the BBA in order to suppress LIBOR. The amended complaint seeks compensatory and punitive damages based on claims for breach of contract, breach of the implied duty of good faith and fair dealing, unjust enrichment, fraud and conspiracy to commit fraud. The defendants filed motions to dismiss the lawsuit on November 5, 2014.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board under the ticker symbol "FNMA." The transfer agent and registrar for our common stock is Computershare, P.O. Box 30170, College Station, TX 77845-3170.

Common Stock Data

The following table displays, for the periods indicated, the high and low prices per share of our common stock as reported in the Bloomberg Financial Markets service. These prices represent high and low trade prices. No dividends were declared on shares of our common stock during the periods indicated.

Quarter	High	Low
2013		
First Quarter	$ 1.47	$ 0.26
Second Quarter	5.44	0.68
Third Quarter	1.79	1.03
Fourth Quarter	3.50	1.31
2014		
First Quarter	$ 6.35	$ 2.76
Second Quarter	4.80	3.57
Third Quarter	4.64	2.54
Fourth Quarter	2.61	1.43

Dividends

Our payment of dividends is subject to the following restrictions:

Restrictions Relating to Conservatorship. Our conservator announced on September 7, 2008 that we would not pay any dividends on the common stock or on any series of preferred stock, other than the senior preferred stock. In addition, FHFA's regulations relating to conservatorship and receivership operations prohibit us from paying any dividends while in conservatorship unless authorized by the Director of FHFA. The Director of FHFA directs us to make dividend payments on the senior preferred stock on a quarterly basis.

Restrictions Under Senior Preferred Stock Purchase Agreement. The senior preferred stock purchase agreement prohibits us from declaring or paying any dividends on Fannie Mae equity securities (other than the senior preferred stock) without the prior written consent of Treasury. In addition, in 2012 the terms of the senior preferred stock purchase agreement and the senior preferred stock were amended to ultimately require the payment of our entire net worth to Treasury. As a result, our net income is not available to common stockholders. For more information on the terms of the senior preferred stock purchase agreement and senior preferred stock, see "Business—Conservatorship and Treasury Agreements—Treasury Agreements—Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant."

Additional Restrictions Relating to Preferred Stock. Payment of dividends on our common stock is also subject to the prior payment of dividends on our preferred stock and our senior preferred stock. Payment of dividends on all outstanding preferred stock, other than the senior preferred stock, is also subject to the prior payment of dividends on the senior preferred stock.

Statutory Restrictions. Under the GSE Act, FHFA has authority to prohibit capital distributions, including payment of dividends, if we fail to meet our capital requirements. If FHFA classifies us as significantly undercapitalized, approval of the Director of FHFA is required for any dividend payment. Under the GSE Act, we are not permitted to make a capital distribution if, after making the distribution, we would be undercapitalized, except the Director of FHFA may permit us to repurchase shares if the repurchase is made in connection with the issuance of additional shares or obligations in at least an equivalent amount and will reduce our financial obligations or otherwise improve our financial condition.

Holders

As of January 31, 2015, we had approximately 13,000 registered holders of record of our common stock. In addition, as of January 31, 2015, Treasury held a warrant giving it the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise.

Recent Sales of Unregistered Securities

Under the terms of our senior preferred stock purchase agreement with Treasury, we are prohibited from selling or issuing our equity interests, other than as required by (and pursuant to) the terms of a binding agreement in effect on September 7, 2008, without the prior written consent of Treasury. During the quarter ended December 31, 2014, we did not issue any equity securities.

Information about Certain Securities Issuances by Fannie Mae

Pursuant to SEC regulations, public companies are required to disclose certain information when they incur a material direct financial obligation or become directly or contingently liable for a material obligation under an off-balance sheet arrangement. The disclosure must be made in a current report on Form 8-K under Item 2.03 or, if the obligation is incurred in connection with certain types of securities offerings, in prospectuses for that offering that are filed with the SEC.

Because the securities we issue are exempted securities under the Securities Act of 1933, we do not file registration statements or prospectuses with the SEC with respect to our securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report our incurrence of these types of obligations either in offering circulars or prospectuses (or supplements thereto) that we post on our Web site or in a current report on Form 8-K that we file with the SEC, in accordance with a "no-action" letter we received from the SEC staff in 2004. In cases where the information is disclosed in a prospectus or offering circular posted on our Web site, the document will be posted on our Web site within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.

The Web site address for disclosure about our debt securities is www.fanniemae.com/debtsearch. From this address, investors can access the offering circular and related supplements for debt securities offerings under Fannie Mae's universal debt facility, including pricing supplements for individual issuances of debt securities.

Disclosure about our obligations pursuant to some of the MBS we issue, some of which may be off-balance sheet obligations, can be found at www.fanniemae.com/mbsdisclosure. From this address, investors can access information and documents about our MBS, including prospectuses and related prospectus supplements.

We are providing our Web site address solely for your information. Information appearing on our Web site is not incorporated into this report.

Our Purchases of Equity Securities

We did not repurchase any of our equity securities during the fourth quarter of 2014.

Item 6. Selected Financial Data

The selected consolidated financial data displayed below are summarized from our results of operations for the five-year period ended December 31, 2014, as well as selected consolidated balance sheet data as of the end of each year within this five-year period. This data should be reviewed in conjunction with the audited consolidated financial statements and related notes and with the MD&A included in this annual report on Form 10-K.

	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Statement of operations data:					
Net revenues[1]	$ 25,855	$ 26,334	$ 22,988	$ 20,444	$ 17,493
Net income (loss) attributable to Fannie Mae	14,208	83,963	17,224	(16,855)	(14,014)
New business purchase data:					
New business purchases[2]	$ 409,834	$ 759,535	$ 867,387	$ 580,574	$ 625,282
Performance ratios:					
Net interest yield[3]	0.63 %	0.70 %	0.68 %	0.60 %	0.51 %
Credit loss ratio (in basis points)[4]	19.4 bps	14.7 bps	48.2 bps	61.3 bps	77.4 bps

	As of December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Balance sheet data:					
Investments in securities	$ 62,158	$ 68,939	$ 103,876	$ 151,780	$ 151,248
Mortgage loans, net of allowance[5]	3,019,494	3,026,240	2,949,406	2,898,621	2,923,720
Total assets	3,248,176	3,270,108	3,222,422	3,211,484	3,221,972
Short-term debt	106,572	74,449	108,716	151,725	157,243
Long-term debt	3,115,583	3,160,074	3,080,801	3,038,147	3,039,757
Total liabilities	3,244,456	3,260,517	3,215,198	3,216,055	3,224,489
Senior preferred stock	117,149	117,149	117,149	112,578	88,600
Preferred stock	19,130	19,130	19,130	19,130	20,204
Total Fannie Mae stockholders' equity (deficit)	3,680	9,541	7,183	(4,624)	(2,599)
Net worth surplus (deficit)	3,720	9,591	7,224	(4,571)	(2,517)

	As of December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Book of business data:					
Mortgage credit book of business[(6)]	$ 3,091,102	$3,136,765	$3,116,842	$3,127,634	$3,156,192
Guaranty book of business[(7)]	3,056,219	3,090,538	3,039,457	3,037,549	3,054,488
Credit quality:					
Total troubled debt restructurings on accrual status	$ 145,294	$ 141,227	$ 136,064	$ 108,797	$ 82,702
Total nonaccrual loans[(8)]	64,959	83,606	114,833	143,152	170,877
Total loss reserves	38,173	47,290	62,629	76,938	66,251
Total loss reserves as a percentage of total guaranty book of business	1.25 %	1.53 %	2.06 %	2.53 %	2.17 %
Total loss reserves as a percentage of total nonaccrual loans	58.76	56.56	54.54	53.75	38.77

(1) Consists of net interest income and fee and other income.

(2) New business purchases consist of single-family and multifamily whole mortgage loans purchased during the period and single-family and multifamily mortgage loans underlying lender swaps issued during the period.

(3) Calculated based on net interest income for the reporting period divided by the average balance of total interest-earning assets during the period, expressed as a percentage.

(4) Consists of (a) charge-offs, net of recoveries and (b) foreclosed property expense (income) for the reporting period (adjusted to exclude the impact of fair value losses resulting from credit-impaired loans acquired from MBS trusts) divided by the average guaranty book of business during the period, expressed in basis points. See "MD&A—Consolidated Results of Operations—Credit-Related Income—Credit Loss Performance Metrics" for a discussion of how our credit loss metrics are calculated.

(5) Mortgage loans consist solely of domestic residential real-estate mortgages.

(6) Refers to the sum of the unpaid principal balance of: (a) mortgage loans of Fannie Mae; (b) mortgage loans underlying Fannie Mae MBS; (c) non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio; and (d) other credit enhancements that we provide on mortgage assets.

(7) Reflects mortgage credit book of business less non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

(8) We generally classify single-family loans as nonaccrual when the payment of principal or interest on the loan is 60 days or more past due. Includes off-balance sheet loans in unconsolidated Fannie Mae MBS trusts that would meet our criteria for nonaccrual status if the loans had been on-balance sheet.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read this MD&A in conjunction with our consolidated financial statements as of December 31, 2014 and related notes to the consolidated financial statements, and with "Business—Executive Summary." Please also see "Glossary of Terms Used in This Report."

This report contains forward-looking statements that are based upon management's current expectations and are subject to significant uncertainties and changes in circumstances. Please review "Business—Forward-Looking Statements" for more information on the forward-looking statements in this report and "Risk Factors" for a discussion of factors that could cause our actual results to differ, perhaps materially, from our forward-looking statements.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We describe our most significant accounting policies in "Note 1, Summary of Significant Accounting Policies."

We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as necessary based on changing conditions. Management has discussed any significant changes in judgments and assumptions in applying our critical accounting policies with the Audit Committee of our Board of Directors. See "Risk Factors" for a discussion of the risks associated with the need for management to make judgments and estimates in applying our accounting policies and methods. We have identified three of our accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. These critical accounting policies and estimates are as follows:

- Fair Value Measurement
- Total Loss Reserves
- Deferred Tax Assets

Fair Value Measurement

The use of fair value to measure our assets and liabilities is fundamental to our financial statements and our fair value measurement is a critical accounting estimate because we account for and record a portion of our assets and liabilities at fair value. In determining fair value, we use various valuation techniques. We describe the valuation techniques and inputs used to determine the fair value of our assets and liabilities and disclose their carrying value and fair value in "Note 18, Fair Value."

The fair value accounting rules provide a three-level fair value hierarchy for classifying financial instruments. This hierarchy is based on whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. Each asset or liability is assigned to a level based on the lowest level of any input that is significant to its fair value measurement. The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities.

Level 3: Unobservable inputs.

The majority of the financial instruments that we report at fair value in our consolidated financial statements fall within the Level 2 category and are valued primarily utilizing inputs and assumptions that are observable in the marketplace, that can be derived from observable market data or that can be corroborated by recent trading activity of similar instruments with similar characteristics. For example, we generally request non-binding prices from at least three independent pricing services to estimate the fair value of our trading and available-for-sale securities at an individual security level. We use the average of these prices to determine the fair value.

In the absence of such information or if we are not able to corroborate these prices by other available, relevant market information, we estimate their fair values based on single source quotations from brokers or dealers or by using internal calculations or discounted cash flow techniques that incorporate inputs, such as prepayment rates, discount rates and

delinquency, default and cumulative loss expectations, that are implied by market prices for similar securities and collateral structure types. Because this valuation technique relies on significant unobservable inputs, the fair value estimation is classified as Level 3. The process for determining fair value using unobservable inputs is generally more subjective and involves a high degree of management judgment and assumptions. These assumptions may have a significant effect on our estimates of fair value, and the use of different assumptions as well as changes in market conditions could have a material effect on our results of operations or financial condition.

Fair Value Hierarchy—Level 3 Assets and Liabilities

The assets and liabilities that we have classified as Level 3 consist primarily of financial instruments for which there is limited market activity and therefore little or no price transparency. As a result, the valuation techniques that we use to estimate the fair value of Level 3 instruments involve significant unobservable inputs, which generally are more subjective and involve a high degree of management judgment and assumptions. Our Level 3 assets and liabilities consist of certain mortgage-backed securities and residual interests, certain mortgage loans, acquired property, certain long-term debt arrangements and certain highly structured, complex derivative instruments. We provide a detailed discussion of our Level 3 assets and liabilities, including the valuation techniques and significant unobservable inputs used to measure the fair value of these instruments, in "Note 18, Fair Value."

Valuation Control Processes

We have control processes that are designed to ensure that our fair value measurements are appropriate and reliable, that they are based on observable inputs wherever possible and that our valuation approaches are consistently applied and the assumptions used are reasonable. Our control processes consist of a framework that provides for a segregation of duties and oversight of our fair value methodologies and valuations, as well as validation procedures. We provide a detailed discussion of our valuation control processes in "Note 18, Fair Value."

Total Loss Reserves

Our total loss reserves consist of the following components:

- Allowance for loan losses;
- Allowance for accrued interest receivable;
- Reserve for guaranty losses; and
- Allowance for preforeclosure property tax and insurance receivable.

These components can be further allocated into our single-family and multifamily loss reserves.

We maintain an allowance for loan losses and an allowance for accrued interest receivable for loans classified as held for investment, including both loans we hold in our portfolio and loans held in consolidated Fannie Mae MBS trusts. We maintain a reserve for guaranty losses for loans held in unconsolidated Fannie Mae MBS trusts we guarantee and loans we have guaranteed under long-term standby commitments and other credit enhancements we have provided. We also maintain an allowance for preforeclosure property tax and insurance receivable on delinquent loans that is included in "Other assets" in our consolidated balance sheets. These amounts, which we collectively refer to as our total loss reserves, represent probable losses incurred related to loans in our guaranty book of business, including concessions granted to borrowers upon modifications of their loans, as of the balance sheet date.

The allowance for loan losses, allowance for accrued interest receivable and allowance for preforeclosure property tax and insurance receivable are valuation allowances that reflect an estimate of incurred credit losses related to our recorded investment in loans held for investment. The reserve for guaranty losses is a liability account in our consolidated balance sheets that reflects an estimate of incurred credit losses related to our guaranty to each unconsolidated Fannie Mae MBS trust that we will supplement amounts received by the Fannie Mae MBS trust as required to permit timely payments of principal and interest on the related Fannie Mae MBS. As a result, the guaranty reserve considers not only the principal and interest due on the loan at the current balance sheet date, but also an estimate of any additional interest payments due to the trust from the current balance sheet date until the point of loan acquisition or foreclosure. Our loss reserves consist of a specific loss reserve for individually impaired loans and a collective loss reserve for all other loans.

We have an established process, using analytical tools, benchmarks and management judgment, to determine our loss reserves. Our process for determining our loss reserves is complex and involves significant management judgment. Although our loss reserve process benefits from extensive historical loan performance data, this process is subject to risks and uncertainties, including a reliance on historical loss information that may not be representative of current conditions. We continually monitor prepayment, delinquency, modification, default and loss severity trends and periodically make changes in our historically developed assumptions and estimates as necessary to better reflect present conditions, including current trends in borrower risk and/or general economic trends, changes in risk management practices, and changes in public policy and the regulatory environment. We also consider the recoveries that we expect to receive on mortgage insurance and other loan-specific credit enhancements entered into contemporaneously with and in contemplation of a guaranty or loan purchase transaction, as such recoveries reduce the severity of the loss associated with defaulted loans.

We provide more detailed information on our accounting for the allowance for loan losses in "Note 1, Summary of Significant Accounting Policies."

Single-Family Loss Reserves

We establish a specific single-family loss reserve for individually impaired loans, which includes loans we restructure in TDRs, certain nonperforming loans in MBS trusts and acquired credit-impaired loans that have been further impaired subsequent to acquisition. The single-family loss reserve for individually impaired loans represents the majority of our single-family loss reserves due to the high volume of restructured loans. We typically measure impairment based on the difference between our recorded investment in the loan and the present value of the estimated cash flows we expect to receive, which we calculate using the effective interest rate of the original loan or the effective interest rate at acquisition for an acquired credit-impaired loan. However, when foreclosure is probable on an individually impaired loan, we measure impairment based on the difference between our recorded investment in the loan and the fair value of the underlying property, adjusted for the estimated discounted costs to sell the property and estimated insurance or other proceeds we expect to receive. We then allocate a portion of the reserve to interest accrued on the loans as of the balance sheet date.

We establish a collective single-family loss reserve for all other single-family loans in our single-family guaranty book of business using a model that estimates the probability of default of loans to derive an overall loss reserve estimate given multiple factors such as: origination year, mark-to-market LTV ratio, delinquency status and loan product type. The loss severity estimates we use in determining our loss reserves reflect current available information on actual events and conditions as of each balance sheet date, including current home prices. Our loss severity estimates do not incorporate assumptions about future changes in home prices. We do, however, use recent regional historical sales and appraisal information, including the sales of our own foreclosed properties, to develop our loss severity estimates for all loan categories. We then allocate a portion of the reserve to interest accrued on the loans as of the balance sheet date.

In the third quarter of 2014, we updated the model and the assumptions used to estimate cash flows for individually impaired single-family loans within our allowance for loan losses. In addition to incorporating recent loan performance, this update better captures regional variations in expected future cash flows, particularly with respect to expectations of future home prices. This update resulted in a decrease to our allowance for loan losses and an incremental benefit for credit losses of approximately $600 million.

Multifamily Loss Reserves

We establish a collective multifamily loss reserve for all loans in our multifamily guaranty book of business that are not individually impaired using an internal model that applies loss factors to loans in similar risk categories. Our loss factors are developed based on our historical default and loss severity experience. Management may also apply judgment to adjust the loss factors derived from our models, taking into consideration model imprecision and specific, known events, such as current credit conditions, that may affect the credit quality of our multifamily loan portfolio but are not yet reflected in our model-generated loss factors. We then allocate a portion of the reserve to interest accrued on the loans as of the balance sheet date.

We establish a specific multifamily loss reserve for multifamily loans that we determine are individually impaired. We identify multifamily loans for evaluation for impairment through a credit risk assessment process. As part of this assessment process, we stratify multifamily loans into different internal risk categories based on the credit risk inherent in each individual loan and management judgment. We categorize loan credit risk, taking into consideration available operating statements and expected cash flows from the underlying property, the estimated value of the property, the historical loan payment experience and current relevant market conditions that may impact credit quality. If we conclude that a multifamily loan is impaired, we measure the impairment based on the difference between our recorded investment in the loan and the fair value of the underlying property less the estimated discounted costs to sell the property and any lender loss sharing or other proceeds we expect to receive. When a multifamily loan is deemed individually impaired because we have modified it, we measure the impairment based on the difference between our recorded investment in the loan and the present value of expected cash flows discounted at the loan's original interest rate unless foreclosure is probable, at which time we measure impairment the same way we measure it for other individually impaired multifamily loans. We then allocate a portion of the reserve to interest accrued on the loans as of the balance sheet date.

Deferred Tax Assets

We recognize deferred tax assets and liabilities for future tax consequences arising from differences between the carrying amounts of existing assets and liabilities under GAAP and their respective tax bases, and for net operating loss carryforwards and tax credit carryforwards. We evaluate the recoverability of our deferred tax assets as of the end of each quarter, weighing all positive and negative evidence, and are required to establish or maintain a valuation allowance for these assets if we determine that it is more likely than not that some or all of the deferred tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which the evidence can be objectively verified. If negative evidence exists, positive evidence is necessary to support a conclusion that a valuation allowance is not needed.

As of December 31, 2012, we had a valuation allowance against our deferred tax assets of $58.9 billion. After weighing all of the evidence, we determined that the positive evidence in favor of releasing the valuation allowance, particularly the evidence that was objectively verifiable, outweighed the negative evidence against releasing the allowance as of March 31, 2013. Therefore, we concluded that it was more likely than not that our deferred tax assets, except the deferred tax assets relating to capital loss carryforwards, would be realized. As a result, we released the valuation allowance on our deferred tax assets as of March 31, 2013, except for amounts that were expected to be released against income before federal income taxes for the remainder of the year. We recognized a benefit for federal income taxes of $58.3 billion in our consolidated statement of operations and comprehensive income for the year ended December 31, 2013 related to the release of the valuation allowance against our deferred tax assets, partially offset by our 2013 provision for federal income taxes, resulting in a net tax benefit of $45.4 billion in 2013.

As of December 31, 2014, we continued to conclude that the positive evidence in favor of the recoverability of our deferred tax assets outweighed the negative evidence and that it was more likely than not that our deferred tax assets, except the deferred tax assets relating to capital loss carryforwards, will be realized. The balance of our net deferred tax assets was $42.2 billion as of December 31, 2014, compared with net deferred tax assets of $47.6 billion as of December 31, 2013.

CONSOLIDATED RESULTS OF OPERATIONS

This section provides a discussion of our consolidated results of operations for the periods indicated and should be read together with our consolidated financial statements, including the accompanying notes.

Table 7 displays a summary of our consolidated results of operations for the periods indicated.

Table 7: Summary of Consolidated Results of Operations

	For the Year Ended December 31,			Variance	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
			(Dollars in millions)		
Net interest income	$ 19,968	$22,404	$21,501	$ (2,436)	$ 903
Fee and other income	5,887	3,930	1,487	1,957	2,443
Net revenues	25,855	26,334	22,988	(479)	3,346
Investment gains (losses), net	936	1,127	(226)	(191)	1,353
Fair value (losses) gains, net	(4,833)	2,959	(2,977)	(7,792)	5,936
Administrative expenses	(2,777)	(2,545)	(2,367)	(232)	(178)
Credit-related income					
Benefit for credit losses	3,964	8,949	852	(4,985)	8,097
Foreclosed property (expense) income	(142)	2,839	254	(2,981)	2,585
Total credit-related income	3,822	11,788	1,106	(7,966)	10,682
Other non-interest expenses[1]	(1,853)	(1,096)	(1,304)	(757)	208
Income before federal income taxes	21,150	38,567	17,220	(17,417)	21,347
(Provision) benefit for federal income taxes	(6,941)	45,415	—	(52,356)	45,415
Net income	14,209	83,982	17,220	(69,773)	66,762
Less: Net (income) loss attributable to noncontrolling interest	(1)	(19)	4	18	(23)
Net income attributable to Fannie Mae	$ 14,208	$83,963	$17,224	$ (69,755)	$ 66,739
Total comprehensive income attributable to Fannie Mae					

$ 14,738	$ 84,782	$ 18,843	$ (70,044)	$ 65,939

(1) Consists of TCCA fees, debt extinguishment gains (losses), net, and other expenses, net.

We recognized income of $5.7 billion in both 2014 and 2013, and $1.9 billion in 2012, as a result of resolution agreements we reached relating to PLS sold to us, representation and warranty matters and compensatory fees. These amounts are included in net interest income, fee and other income, benefit for credit losses and foreclosed property (expense) income in our consolidated result of operations. We expect income from resolution agreements will be significantly lower in future years.

Net Interest Income

We currently have two primary sources of net interest income: (1) the difference between interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets; and (2) the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties, which we refer to as mortgage loans of consolidated trusts.

Table 8 displays an analysis of our net interest income, average balances, and related yields earned on assets and incurred on liabilities for the periods indicated. For most components of the average balances, we use a daily weighted average of amortized cost. When daily average balance information is not available, such as for mortgage loans, we use monthly averages. Table 9 displays the change in our net interest income between periods and the extent to which that variance is attributable to: (1) changes in the volume of our interest-earning assets and interest-bearing liabilities or (2) changes in the interest rates of these assets and liabilities.

Table 8: Analysis of Net Interest Income and Yield

	For the Year Ended December 31,								
	2014			2013			2012		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)								
Interest-earning assets:									
Mortgage loans of Fannie Mae	$ 286,042	$ 10,285	3.60 %	$ 326,399	$ 12,790	3.92 %	$ 370,455	$ 14,255	3.85 %
Mortgage loans of consolidated trusts	2,769,418	101,835	3.68	2,710,838	101,448	3.74	2,621,317	110,451	4.21
Total mortgage loans[(1)]	3,055,460	112,120	3.67	3,037,237	114,238	3.76	2,991,772	124,706	4.17
Mortgage-related securities	143,934	6,713	4.66	203,514	9,330	4.58	268,761	12,709	4.73
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(98,778)	(4,572)	4.63	(133,243)	(6,236)	4.68	(173,933)	(8,492)	4.88
Total mortgage-related securities, net	45,156	2,141	4.74	70,271	3,094	4.40	94,828	4,217	4.45
Non-mortgage securities [(2)]	35,184	34	0.10	41,484	42	0.10	50,282	71	0.14
Federal funds sold and securities purchased under agreements to resell or similar arrangements	33,631	32	0.10	61,644	68	0.11	38,708	73	0.19
Advances to lenders	3,454	78	2.26	5,115	107	2.09	6,220	123	1.98
Total interest-earning assets	$3,172,885	$114,405	3.61 %	$3,215,751	$117,549	3.66 %	$3,181,810	$129,190	4.06 %
Interest-bearing liabilities:									
Short-term debt	$ 86,866	$ 92	0.11 %	$ 95,098	$ 128	0.13 %	$ 102,877	$ 147	0.14 %
Long-term debt	398,876	8,508	2.13	498,735	10,263	2.06	561,280	11,925	2.12
Total short-term and long-term funding debt	485,742	8,600	1.77	593,833	10,391	1.75	664,157	12,072	1.82
Debt securities of consolidated trusts	2,824,638	90,409	3.20	2,783,622	90,990	3.27	2,697,592	104,109	3.86
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(98,778)	(4,572)	4.63	(133,243)	(6,236)	4.68	(173,933)	(8,492)	4.88
Total debt securities of consolidated trusts held by third parties	2,725,860	85,837	3.15	2,650,379	84,754	3.20	2,523,659	95,617	3.79
Total interest-bearing liabilities	$3,211,602	$ 94,437	2.94 %	$3,244,212	$ 95,145	2.93 %	$3,187,816	$107,689	3.38 %
Net interest income/net interest yield		$ 19,968	0.63 %		$ 22,404	0.70 %		$ 21,501	0.68 %

	As of December 31,		
	2014	2013	2012
Selected benchmark interest rates			
3-month LIBOR	0.26 %	0.25 %	0.31 %

2-year swap rate	0.90	0.49	0.39
5-year swap rate	1.77	1.79	0.86
30-year Fannie Mae MBS par coupon rate	2.83	3.61	2.23

(1) Average balance includes mortgage loans on nonaccrual status. Interest income on nonaccrual mortgage loans is recognized when cash is received. Interest income not recognized for loans on nonaccrual status was $1.8 billion, $2.8 billion and $4.0 billion for the years ended December 31, 2014, 2013 and 2012, respectively.

(2) Includes cash equivalents.

Table 9: Rate/Volume Analysis of Changes in Net Interest Income

	2014 vs. 2013			2013 vs. 2012		
	Total	Variance Due to:[1]		Total	Variance Due to:[1]	
	Variance	Volume	Rate	Variance	Volume	Rate
	(Dollars in millions)					
Interest income:						
Mortgage loans of Fannie Mae	$ (2,505)	$ (1,503)	$ (1,002)	$ (1,465)	$ (1,722)	$ 257
Mortgage loans of consolidated trusts	387	2,171	(1,784)	(9,003)	3,673	(12,676)
Total mortgage loans	(2,118)	668	(2,786)	(10,468)	1,951	(12,419)
Total mortgage-related securities, net	(953)	(1,180)	227	(1,123)	(1,085)	(38)
Non-mortgage securities[2]	(8)	(6)	(2)	(29)	(11)	(18)
Federal funds sold and securities purchased under agreements to resell or similar arrangements	(36)	(28)	(8)	(5)	33	(38)
Advances to lenders	(29)	(37)	8	(16)	(23)	7
Total interest income	$ (3,144)	$ (583)	$ (2,561)	$(11,641)	$ 865	$(12,506)
Interest expense:						
Short-term debt	(36)	(10)	(26)	(19)	(10)	(9)
Long-term debt	(1,755)	(2,118)	363	(1,662)	(1,297)	(365)
Total short-term and long-term funding debt	(1,791)	(2,128)	337	(1,681)	(1,307)	(374)
Total debt securities of consolidated trusts held by third parties	1,083	2,925	(1,842)	(10,863)	5,150	(16,013)
Total interest expense	$ (708)	$ 797	$ (1,505)	$(12,544)	$ 3,843	$(16,387)
Net interest income	$ (2,436)	$ (1,380)	$ (1,056)	$ 903	$ (2,978)	$ 3,881

(1) Combined rate/volume variances are allocated to both rate and volume based on the relative size of each variance.

(2) Includes cash equivalents.

Net interest income decreased in 2014 compared with 2013, primarily due to a decline in the average balance of our retained mortgage portfolio as we continued to reduce this portfolio pursuant to the requirements of our senior preferred stock purchase agreement with Treasury and FHFA's additional portfolio cap. The average balance of our retained mortgage portfolio was 19% lower in 2014 than in 2013. See "Business Segment Results—The Capital Markets Group's Mortgage Portfolio" for more information about our retained mortgage portfolio. The decrease in net interest income was partially offset by increased guaranty fee revenue, as loans with higher guaranty fees have become a larger part of our guaranty book of business. We recognize almost all of our guaranty fee revenue in net interest income due to the consolidation of the substantial majority of loans underlying our MBS trusts on our balance sheet.

Net interest yield decreased in 2014 compared with 2013 due to the decline in the percentage of net interest income from our retained mortgage portfolio, which has a higher net interest yield than the net interest yield from guaranty fees.

Net interest income increased in 2013 compared with 2012, primarily due to: (1) an increase in net amortization income related to mortgage loans and debt of consolidated trusts driven by an increase in prepayments; (2) higher guaranty fees, primarily due to the impact of an average increase in single-family guaranty fees of 10 basis points implemented during the fourth quarter of 2012 and the 10 basis point increase in single-family guaranty fees related to the TCCA implementation on April 1, 2012; and (3) and a reduction in interest income not recognized on nonaccrual mortgage loans. The increase in net interest income was partially offset by lower interest income on mortgage loans and securities held in our retained mortgage portfolio, primarily due to a decrease in their average balance. The average balance of our retained mortgage portfolio was 17% lower in 2013 than in 2012.

We initially recognize mortgage loans and debt of consolidated trusts in our consolidated balance sheets at fair value. We recognize the difference between: (1) the initial fair value of the consolidated trust's mortgage loans and debt and (2) the unpaid principal balance as cost basis adjustments in our consolidated balance sheets. We amortize cost basis adjustments, including premiums and discounts on mortgage loans and securities, as a yield adjustment over the contractual life of the loan or security as a component of net interest income. Net unamortized premiums on debt of consolidated trusts exceeded net unamortized premiums on the related mortgage loans of consolidated trusts by $29.3 billion as of December 31, 2014, compared with $25.0 billion as of December 31, 2013. This net premium position represents deferred revenue, which is amortized within net interest income. This deferred revenue primarily relates to upfront fees we receive from lenders for loans with greater credit risk and upfront payments we receive from lenders to adjust the monthly contractual guaranty fee rate on Fannie Mae MBS so that the pass-through coupon rate on the MBS is in a tradable increment of a whole or half percent.

We had $13.0 billion in net unamortized discounts and other cost basis adjustments on mortgage loans of Fannie Mae included in our consolidated balance sheets as of December 31, 2014, compared with $14.3 billion as of December 31, 2013. These discounts and other cost basis adjustments were primarily recorded upon the acquisition of credit-impaired loans and the extent to which we may record them as income in future periods will be based on the actual performance of the loans.

For a discussion of the interest income from the assets we have purchased and the interest expense from the debt we have issued, see the discussion of our net interest income in "Business Segment Results—Capital Markets Group Results."

Fee and Other Income

Fee and other income includes transaction fees, technology fees, multifamily fees and other miscellaneous income. Fee and other income increased in 2014 compared with 2013 primarily due to an increase in income recognized as a result of settlement agreements resolving certain lawsuits relating to PLS sold to us from $2.2 billion in 2013 to $4.8 billion in 2014.

Investment Gains (Losses), Net

Investment gains (losses), net include gains and losses recognized from the sale of available-for-sale ("AFS") securities, gains and losses recognized on the securitization of loans and securities from our retained mortgage portfolio, and net other-than-temporary impairments recognized on our investments. Investment gains decreased in 2014 compared with 2013 primarily due to a significantly lower volume of sales of non-agency mortgage-related securities in 2014 as compared with 2013. See "Business Segment Results—The Capital Markets Group's Mortgage Portfolio" and "Consolidated Balance Sheet Analysis—Investments in Securities" for additional information on our mortgage-related securities portfolio.

Fair Value (Losses) Gains, Net

Table 10 displays the components of our fair value gains and losses.

Table 10: Fair Value (Losses) Gains, Net

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Risk management derivatives fair value (losses) gains attributable to:			
Net contractual interest expense accruals on interest rate swaps	$ (1,062)	$ (767)	$ (1,430)
Net change in fair value during the period	(3,562)	3,546	(508)
Total risk management derivatives fair value (losses) gains, net	(4,624)	2,779	(1,938)
Mortgage commitment derivatives fair value (losses) gains, net	(1,140)	501	(1,688)
Total derivatives fair value (losses) gains, net	(5,764)	3,280	(3,626)
Trading securities gains, net	485	260	1,004
Other, net[1]	446	(581)	(355)
Fair value (losses) gains, net	$ (4,833)	$ 2,959	$ (2,977)

	As of December 31,		
	2014	2013	2012
5-year swap rate	1.77%	1.79%	0.86%
10-year swap rate	2.28%	3.09%	1.84%

(1) Consists of debt fair value gains (losses), net; debt foreign exchange gains (losses), net; and mortgage loans fair value gains (losses), net.

We expect volatility from period to period in our financial results from a number of factors, particularly changes in market conditions that result in fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings. These instruments include derivatives and certain securities. The estimated fair value of our derivatives and securities may fluctuate substantially from period to period because of changes in interest rates, the yield curve, mortgage spreads and implied volatility, as well as activity related to these financial instruments. We use derivatives to manage the interest rate risk exposure of our net portfolio, which consists of our retained mortgage portfolio, cash and other investments portfolio, and our outstanding debt of Fannie Mae. Some of these financial instruments in our net portfolio are not recorded at fair value in our consolidated financial statements, and as a result we may experience accounting gains or losses due to changes in interest rates or other market conditions that may not be indicative of the economic interest rate risk exposure of our net portfolio.

Risk Management Derivatives Fair Value (Losses) Gains, Net

Risk management derivative instruments are an integral part of our interest rate risk management strategy. We supplement our issuance of debt securities with derivative instruments to further reduce duration risk, which includes prepayment risk. We purchase option-based risk management derivatives to economically hedge prepayment risk. In cases where options obtained through callable debt issuances are not needed for risk management derivative purposes, we may sell options in the over-the-counter derivatives market in order to offset the options obtained in the callable debt. Our principal purpose in using derivatives is to manage our aggregate interest rate risk profile within prescribed risk parameters. We generally use only derivatives that are relatively liquid and straightforward to value. We consider the cost of derivatives used in our management of interest rate risk to be an inherent part of the cost of funding and hedging our mortgage investments and economically similar to the interest expense that we recognize on the debt we issue to fund our mortgage investments.

We present, by derivative instrument type, the fair value gains and losses on our derivatives in “Note 9, Derivative Instruments.”

The primary factors affecting the fair value of our risk management derivatives include the following:

- *Changes in interest rates*: Our derivatives, in combination with our issuances of debt securities, are intended to offset changes in the fair value of our mortgage assets. Mortgage assets tend to increase in value when interest rates decrease and, conversely, decrease in value when interest rates rise. Pay-fixed swaps decrease in value and receive-fixed swaps increase in value as swap rates decrease (with the opposite being true when swap rates increase). Because the composition of our pay-fixed and receive-fixed derivatives varies across the yield curve, the overall fair value gains and losses of our derivatives are sensitive to flattening and steepening of the yield curve.
- *Implied interest rate volatility*: Our derivatives portfolio includes option-based derivatives, which we purchase to economically hedge the prepayment option embedded in our mortgage investments and sell to offset the options obtained through callable debt issuances when those options are not needed for risk management purposes. A key variable in estimating the fair value of option-based derivatives is implied volatility, which reflects the market’s expectation of the magnitude of future changes in interest rates. Assuming all other factors are held equal, including interest rates, a decrease in implied volatility would reduce the fair value of our purchased options and an increase in implied volatility would increase the fair value of our purchased options, while having the opposite effect on the options that we have sold.
- *Changes in our derivative activity*: As interest rates change, we are likely to rebalance our portfolio to manage our interest rate exposure. As interest rates decrease, expected mortgage prepayments are likely to increase, which reduces the duration of our mortgage investments. In this scenario, we generally will rebalance our existing portfolio to manage this risk by adding receive-fixed swaps, which shortens the duration of our liabilities. Conversely, when interest rates increase and the duration of our mortgage assets increases, we are likely to add pay-fixed swaps, which have the effect of extending the duration of our liabilities. We use derivatives to rebalance our portfolio when the duration of our mortgage assets changes as the result of mortgage purchases or sales. We also use foreign-currency swaps to manage the foreign exchange impact of our foreign currency-denominated debt issuances.
- *Time value of purchased options*: Intrinsic value and time value are the two primary components of an option’s price. The intrinsic value is determined by the amount by which the market rate exceeds or is below the exercise, or strike rate, such that the option is in-the-money. The time value of an option is the amount by which the price of an option exceeds its intrinsic value. Time decay refers to the diminishing value of an option over time as less time remains to exercise the option.

We recognized risk management derivative fair value losses in 2014 primarily as a result of decreases in the fair value of our pay-fixed derivatives due to declines in longer-term swap rates during the year. We recognized risk management derivative fair value gains in 2013 primarily as a result of increases in the fair value of our pay-fixed derivatives as longer-term swap rates increased during the year. We recognized risk management derivative fair value losses in 2012 primarily as a result of decreases in the fair value of our pay-fixed derivatives due to declines in swap rates during the year.

Because risk management derivatives are an important part of our interest rate risk management strategy, it is important to evaluate the impact of our derivatives in the context of our overall interest rate risk profile and in conjunction with the other mark-to-market gains and losses presented in Table 10. For additional information on our use of derivatives to manage interest rate risk, see "Risk Management—Market Risk Management, Including Interest Rate Risk Management—Interest Rate Risk Management."

Mortgage Commitment Derivatives Fair Value (Losses) Gains, Net

Certain commitments to purchase or sell mortgage-related securities and to purchase single-family mortgage loans are generally accounted for as derivatives. For open mortgage commitment derivatives, we include changes in their fair value in our consolidated statements of operations and comprehensive income. When derivative purchase commitments settle, we include the fair value of the commitment on the settlement date in the cost basis of the loan or security we purchase. When derivative commitments to sell securities settle, we include the fair value of the commitment on the settlement date in the cost basis of the security we sell. Purchases of securities issued by our consolidated MBS trusts are treated as extinguishments of debt; we recognize the fair value of the commitment on the settlement date as a component of debt extinguishment gains and losses. Sales of securities issued by our consolidated MBS trusts are treated as issuances of consolidated debt; we recognize the fair value of the commitment on the settlement date as a component of debt in the cost basis of the debt issued.

We recognized fair value losses on our mortgage commitments in 2014 primarily due to losses on commitments to sell mortgage-related securities driven by an increase in prices as interest rates decreased during the commitment period. We recognized fair value gains on our mortgage commitments in 2013 primarily due to gains on commitments to sell mortgage-related securities driven by a decrease in prices as interest rates increased during the commitment period. We recognized fair value losses on our mortgage commitments in 2012 primarily due to losses on commitments to sell mortgage-related securities driven by an increase in prices as interest rates decreased during the commitment period.

Trading Securities Gains, Net

Gains from trading securities in 2014 were primarily driven by higher prices on our trading investments resulting from lower long-term interest rates, in addition to a narrowing of credit spreads on PLS.

Gains from trading securities in 2013 were primarily driven by higher prices on Alt-A and subprime PLS due to narrowing of credit spreads on these securities, as well as improvements in the credit outlook of certain financial guarantors of these securities. These gains were partially offset by losses on commercial mortgage-backed securities ("CMBS") and agency securities due to lower prices resulting from higher interest rates. Gains from our trading securities in 2012 were primarily driven by the narrowing of credit spreads on CMBS.

We provide additional information on our trading and available-for-sale securities in "Consolidated Balance Sheet Analysis—Investments in Securities."

Administrative Expenses

Administrative expenses increased in 2014 compared with 2013 driven by costs related to the execution of FHFA's 2014 conservatorship scorecard objectives and additional related initiatives. See "Executive Summary—Helping to Build a Sustainable Housing Finance System" for additional information on FHFA's conservatorship scorecard objectives and other initiatives. These costs more than offset reductions in our ongoing operating costs. We have terminated our defined benefit pension plans and expect to settle and distribute all benefits under these plans during 2015. We expect that upon settlement, all related amounts currently recognized in accumulated other comprehensive income will be reclassified to administrative expenses. We expect this reclassification will increase our administrative expenses and will be offset by an increase in other comprehensive income with no material impact to our total comprehensive income during 2015. We expect the execution of our strategic goals will also contribute to an increase in our administrative expenses in 2015.

Administrative expenses increased in 2013 compared with 2012 driven by costs related to the execution of FHFA's 2013 conservatorship scorecard objectives, as well as costs associated with FHFA's private-label mortgage-related securities litigation. These costs more than offset reductions in our ongoing operating costs.

Credit-Related Income

We refer to our (benefit) provision for loan losses and (benefit) provision for guaranty losses collectively as our "(benefit) provision for credit losses." Credit-related (income) expense consists of our (benefit) provision for credit losses and foreclosed property expense (income).

(Benefit) Provision for Credit Losses

Our total loss reserves provide for an estimate of credit losses incurred in our guaranty book of business, including concessions we granted borrowers upon modification of their loans. We establish our loss reserves through our provision for credit losses for losses that we believe have been incurred and will eventually be realized over time in our financial statements. When we reduce our loss reserves, we recognize a benefit for credit losses. When we determine that a loan is uncollectible, typically upon foreclosure, we recognize a charge-off against our loss reserves. We record recoveries of previously charged-off amounts as a reduction to charge-offs.

Table 11 displays the components of our total loss reserves and our total fair value losses previously recognized on loans purchased out of unconsolidated MBS trusts reflected in our consolidated balance sheets. Because these fair value losses lowered our recorded loan balances, we have fewer inherent losses in our guaranty book of business and consequently require lower total loss reserves. For these reasons, we consider these fair value losses as an "effective reserve," apart from our total loss reserves, to the extent that we expect to realize these amounts as credit losses on the acquired loans in the future. The fair value losses shown in Table 11 represent credit losses we expect to realize in the future or amounts that will eventually be recovered, either through net interest income for loans that cure or through foreclosed property income for loans where the sale of the collateral exceeds our recorded investment in the loan. We exclude these fair value losses from our credit loss calculation as described in "Credit Loss Performance Metrics."

Table 11: Total Loss Reserves

	As of December 31,	
	2014	**2013**
	(Dollars in millions)	
Allowance for loan losses	$ 35,541	$ 43,846
Reserve for guaranty losses	1,246	1,449
Combined loss reserves	36,787	45,295
Allowance for accrued interest receivable	723	1,156
Allowance for preforeclosure property taxes and insurance receivable	663	839
Total loss reserves	38,173	47,290
Fair value losses previously recognized on acquired credit-impaired loans[(1)]	9,864	11,316
Total loss reserves and fair value losses previously recognized on acquired credit-impaired loans	$ 48,037	$ 58,606

(1) Represents the fair value losses on loans purchased out of unconsolidated MBS trusts reflected in our consolidated balance sheets.

Table 12 displays changes in our combined loss reserves.

Table 12: Changes in Combined Loss Reserves

	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Changes in combined loss reserves:					
Beginning balance	$ 45,295	$ 60,026	$ 73,150	$ 61,879	$ 64,355
Adoption of consolidation accounting guidance	—	—	—	—	(10,527)
(Benefit) provision for credit losses	(3,964)	(8,949)	(852)	26,718	24,896
Charge-offs	(6,589)	(9,017)	(15,313)	(21,308)	(23,081)
Recoveries	1,436	2,627	1,856	5,277	3,082
Other[(1)]	609	608	1,185	584	3,154
Ending balance	$ 36,787	$ 45,295	$ 60,026	$ 73,150	$ 61,879
Allocation of combined loss reserves:					
Balance at end of each period attributable to:					
Single-family	$ 36,383	$ 44,705	$ 58,809	$ 71,512	$ 60,163
Multifamily	404	590	1,217	1,638	1,716
Total	$ 36,787	$ 45,295	$ 60,026	$ 73,150	$ 61,879
Single-family and multifamily combined loss reserves as a percentage of applicable guaranty book of business:					
Single-family	1.28%	1.55%	2.08%	2.52%	2.10%
Multifamily	0.20	0.29	0.59	0.84	0.91
Combined loss reserves as a percentage of:					
Total guaranty book of business	1.20%	1.47%	1.97%	2.41%	2.03%
Recorded investment in nonaccrual loans	56.63	54.20	52.31	51.15	36.23
Certain higher risk loan categories as a percentage of single-family combined loss reserves:					
2005-2008 loan vintages	81%	84%	85%	88%	91%
Alt-A loans	25	26	27	29	30

(1) Amounts represent the net activity recorded in our allowances for accrued interest receivable and preforeclosure property taxes and insurance receivable from borrowers. The (benefit) provision for credit losses, charge-offs and recoveries activity included in this table reflects all changes for both the allowance for loan losses and the valuation allowances for accrued interest and preforeclosure property taxes and insurance receivable that relate to the mortgage loans.

Our benefit or provision for credit losses continues to be a key driver of our results for each period presented. The amount of our benefit or provision for credit losses varies from period to period based on changes in actual and expected home prices, borrower payment behavior, the types and volumes of loss mitigation activities and foreclosures completed, and actual and estimated recoveries from our mortgage insurer counterparties. See "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management" for information on mortgage insurers. In addition, our benefit or provision for credit losses and our loss reserves can be impacted by updates to the models, assumptions and data used in determining our allowance for loan losses.

We recognized a benefit for credit losses in 2014 primarily due to increases in home prices of 4.7% in 2014. Higher home prices decrease the likelihood that loans will default and reduce the amount of credit loss on loans that do default, which impacts our estimate of losses and ultimately reduces our total loss reserves and provision for credit losses. In addition, mortgage interest rates declined in 2014 resulting in higher discounted cash flow projections on our individually impaired loans. Lower mortgage interest rates shorten the expected lives of modified loans, which reduces the impairment on these loans and results in a decrease in the provision for credit losses. In the third quarter of 2014, we updated the model and the assumptions used to estimate cash flows for individually impaired single-family loans within our allowance for loan losses,

which resulted in a decrease to our allowance for loan losses and an incremental benefit for credit losses of approximately $600 million. For additional information, see "Critical Accounting Policies and Estimates—Total Loss Reserves."

We recognized a benefit for credit losses in 2013 primarily due to increases in home prices of 8.0% in 2013, as well as higher sales prices of our REO properties as a result of strong demand. In addition, in 2013, we updated the assumptions and data used to estimate our allowance for loan losses for individually impaired single-family loans, which resulted in a decrease to our allowance for loan losses and an incremental benefit for credit losses of approximately $2.2 billion in 2013.

We recognized a benefit for credit losses in 2012 primarily due to an increase in home prices in 2012, including the sales prices of our REO properties, and a continued reduction in the number of delinquent loans in our single family book of business.

We discuss our expectations regarding our future loss reserves in "Business—Executive Summary—Outlook—Loss Reserves."

Troubled Debt Restructurings and Nonaccrual Loans

Table 13 displays the composition of loans restructured in a TDR that are on accrual status and loans on nonaccrual status. The table includes the recorded investment of held-for-investment and held-for-sale mortgage loans. For information on the impact of TDRs and other individually impaired loans on our allowance for loan losses, see "Note 3, Mortgage Loans." For activity related to our single-family TDRs, see Table 41 in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

Table 13: Troubled Debt Restructurings and Nonaccrual Loans

	As of December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
TDRs on accrual status:					
Single-family	$ 144,649	$ 140,512	$ 135,196	$ 107,991	$ 81,767
Multifamily	645	715	868	806	935
Total TDRs on accrual status	$ 145,294	$ 141,227	$ 136,064	$ 108,797	$ 82,702
Nonaccrual loans:					
Single-family	$ 64,136	$ 81,355	$ 112,555	$ 140,234	$ 169,775
Multifamily	823	2,209	2,206	2,764	1,013
Total nonaccrual loans	$ 64,959	$ 83,564	$ 114,761	$ 142,998	$ 170,788
Accruing on-balance sheet loans past due 90 days or more(1)	$ 585	$ 719	$ 3,580	$ 768	$ 896

	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Interest related to on-balance sheet TDRs and nonaccrual loans:					
Interest income forgone(2)	$ 5,945	$ 6,805	$ 7,554	$ 8,224	$ 8,185
Interest income recognized for the period(3)	6,139	5,915	6,442	6,598	7,995

(1) Includes loans that, as of the end of each period, are 90 days or more past due and continuing to accrue interest. The majority of these amounts consists of loans insured or guaranteed by the U.S. government and loans for which we have recourse against the seller in the event of a default. Amount as of December 31, 2012 includes loans of $2.8 billion which were repurchased by the lender in January 2013 pursuant to a resolution agreement.

(2) Represents the amount of interest income we did not recognize, but would have recognized during the period for nonaccrual loans and TDRs on accrual status as of the end of each period had the loans performed according to their original contractual terms.

(3) Represents interest income recognized during the period for loans classified as either nonaccrual loans or TDRs on accrual status as of the end of each period. Includes primarily amounts accrued while the loans were performing and cash payments received on nonaccrual loans.

Foreclosed Property (Expense) Income

We recognized foreclosed property expense in 2014 compared with foreclosed property income in 2013 primarily due to a decrease in the amount of compensatory fee income recognized related to servicing matters and a decrease in the gains resulting from resolution agreements reached related to representation and warranty matters. Compensatory fees are amounts we charge our primary servicers to reimburse us for damages and losses related to certain violations of our Servicing Guide, which sets forth our policies and procedures related to servicing our single-family mortgages.

We recognized foreclosed property income in 2013 compared with foreclosed property expense in 2012 primarily due to the recognition of compensatory fee income in 2013 related to servicing matters, gains resulting from resolution agreements reached in 2013 related to representation and warranty matters, and an improvement in sales prices of dispositions of our REO properties.

Credit Loss Performance Metrics

Our credit-related (income) expense should be considered in conjunction with our credit loss performance metrics. Our credit loss performance metrics, however, are not defined terms within GAAP and may not be calculated in the same manner as similarly titled measures reported by other companies. Because management does not view changes in the fair value of our mortgage loans as credit losses, we adjust our credit loss performance metrics for the impact associated with our acquisition of credit-impaired loans from unconsolidated MBS trusts. We also exclude interest forgone on nonaccrual loans and TDRs, other-than-temporary impairment losses resulting from deterioration in the credit quality of our mortgage-related securities and accretion of interest income on acquired credit-impaired loans from credit losses. We believe that credit loss performance metrics may be useful to investors as the losses are presented as a percentage of our book of business and have historically been used by analysts, investors and other companies within the financial services industry. Moreover, by presenting credit losses with and without the effect of fair value losses associated with the acquisition of credit-impaired loans, investors are able to evaluate our credit performance on a more consistent basis among periods. Table 14 displays the components of our credit loss performance metrics as well as our single-family and multifamily initial charge-off severity rates.

Table 14: Credit Loss Performance Metrics

	For the Year Ended December 31,					
	2014		2013		2012	
	Amount	Ratio[1]	Amount	Ratio[1]	Amount	Ratio[1]
	(Dollars in millions)					
Charge-offs, net of recoveries	$ 5,153	16.8 bps	$ 6,390	20.9 bps	$13,457	44.2 bps
Foreclosed property expense (income)	142	0.5	(2,839)	(9.3)	(254)	(0.8)
Credit losses including the effect of fair value losses on acquired credit-impaired loans	5,295	17.3	3,551	11.6	13,203	43.4
Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property expense (income)[2]	637	2.1	953	3.1	1,446	4.8
Credit losses and credit loss ratio	$ 5,932	19.4 bps	$ 4,504	14.7 bps	$14,649	48.2 bps
Credit losses attributable to:						
Single-family	$ 5,978		$ 4,452		$14,392	
Multifamily[3]	(46)		52		257	
Total	$ 5,932		$ 4,504		$14,649	
Single-family initial charge-off severity rate[4]		19.60 %		24.22 %		30.71 %
Multifamily initial charge-off severity rate[4]		25.08 %		23.56 %		37.43 %

(1) Basis points are based on the amount for each line item presented divided by the average guaranty book of business during the period.

(2) Includes fair value losses from acquired credit-impaired loans.

(3) Negative credit losses are the result of recoveries on previously charged-off amounts.

(4)

Single-family and multifamily rates exclude fair value losses on credit-impaired loans acquired from MBS trusts and any costs, gains or losses associated with REO after initial acquisition through final disposition. Single-family rate excludes charge-offs from short sales and third-party sales. Multifamily rate is net of risk sharing agreements.

Credit losses increased in 2014 compared with 2013 primarily due to a lower level of recoveries resulting from repurchase and compensatory fee resolution agreements in 2014 compared with 2013. The amounts we recognized in 2013 pursuant to a number of these resolution agreements significantly reduced our credit losses in 2013. We recognized less income as a result of resolution agreements in 2014. This increase in our credit losses was partially offset by lower REO acquisitions in 2014, driven by lower delinquencies and the slow pace of foreclosures in certain areas of the country. For additional information on our single-family REO inventory, refer to "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

The decrease in credit losses in 2013 compared with 2012 was primarily due to the recognition of compensatory fee income in 2013 related to servicing matters and gains resulting from resolution agreements reached in 2013 related to representation and warranty matters. Also contributing to the decrease in credit losses in 2013 was an improvement in sales prices on dispositions of our REO properties and lower REO acquisitions primarily driven by lower delinquencies.

We discuss our expectations regarding our future credit losses in "Business—Executive Summary—Outlook—Credit Losses."

Table 15 displays concentrations of our single-family credit losses based on geography, credit characteristics and loan vintages.

Table 15: Credit Loss Concentration Analysis

	Percentage of Single-Family Conventional Guaranty Book of Business Outstanding[1]			Percentage of Single-Family Credit Losses[2]		
	As of December 31,			For the Year Ended December 31,		
	2014	2013	2012	2014	2013	2012
Geographical Distribution:						
California[3]	20%	20%	19%	(1)%	5%	18%
Florida	6	6	6	33	29	21
Illinois	4	4	4	11	13	10
All other states	70	70	71	57	53	51
Select higher-risk product features[4]	22	23	22	51	55	54
Vintages:[5]						
2004 and prior	7	9	13	12	12	13
2005 - 2008	12	15	22	75	78	82
2009 - 2014	81	76	65	13	10	5

(1) Calculated based on the unpaid principal balance of loans, where we have detailed loan-level information, for each category divided by the unpaid principal balance of our single-family conventional guaranty book of business.

(2) Excludes the impact of recoveries resulting from resolution agreements related to representation and warranty matters and compensatory fee income related to servicing matters that have not been allocated to specific loans.

(3) Negative credit losses in 2014 are the result of recoveries on previously recognized credit losses.

(4) Includes Alt-A loans, subprime loans, interest-only loans, loans with original LTV ratios greater than 90% and loans with FICO credit scores less than 620.

(5) Credit losses on mortgage loans typically do not peak until the third through sixth years following origination; however, this range can vary based on many factors, including changes in macroeconomic conditions and foreclosure timelines.

As shown in Table 15, the substantial majority of our credit losses in 2014 continued to be driven by loans originated in 2005 through 2008. We provide more detailed single-family credit performance information, including serious delinquency rates share and foreclosure activity, in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

Other Non-Interest Expenses

Other non-interest expenses increased in 2014 compared with 2013 primarily due to an increase in the percentage of loans in our single-family book of business subject to TCCA fees and lower gains from partnership investments. We expect the guaranty fees collected and expenses incurred under the TCCA to continue to increase in the future.

Other non-interest expenses decreased in 2013 compared with 2012 primarily due to increased gains from partnership investments and debt extinguishment gains in 2013 compared with debt extinguishment losses in 2012. These decreases in non-interest expenses were partially offset by an increase in TCCA fees in 2013.

Gains from partnership investments increased in 2013 compared with 2012 as the continued strength of national multifamily market fundamentals resulted in improved property-level operating performance and increased gains on the sale of investments.

Debt extinguishment gains in 2013 were primarily driven by an increase in interest rates in 2013 compared with debt extinguishment losses in 2012 driven by a decrease in interest rates in 2012.

TCCA fees increased in 2013 compared with 2012 due to an increase in the volume of loans in our single-family book of business subject to TCCA provisions.

Federal Income Taxes

We recognized a provision for federal income taxes of $6.9 billion in 2014. We recognized a benefit for federal income taxes of $58.3 billion in our consolidated statement of operations and comprehensive income for the year ended December 31, 2013 related to the release of the valuation allowance against our deferred tax assets, partially offset by our 2013 provision for federal income taxes, resulting in a net tax benefit of $45.4 billion in 2013. We did not recognize a provision or a benefit for federal income taxes in 2012.

BUSINESS SEGMENT RESULTS

We provide a more complete description of our business segments in “Business—Business Segments.” Results of our three business segments are intended to reflect each segment as if it were a stand-alone business. Under our segment reporting structure, the sum of the results for our three business segments does not equal our consolidated results of operations as we separate the activity related to our consolidated trusts from the results generated by our three segments. In addition, because we apply accounting methods that differ from our consolidated results for segment reporting purposes, we include an eliminations/adjustments category to reconcile our business segment results and the activity related to our consolidated trusts to our consolidated results of operations. We describe the management reporting and allocation process used to generate our segment results and provide a reconciliation of our segment results to our consolidated results in “Note 13, Segment Reporting.”

In this section, we provide a comparative discussion of our segment results for the years ended December 31, 2014, 2013 and 2012. This section should be read together with our comparative discussion of our consolidated results of operations in “Consolidated Results of Operations.”

Single-Family Business Results

Table 16 displays the financial results of our Single-Family business for the periods indicated. For a discussion of Single-Family credit risk management, including information on serious delinquency rates and loan workouts, see “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management.” The primary source of revenue for our Single-Family business is guaranty fee income. Expenses and other items that impact income or loss primarily include credit-related income, net interest income (loss), TCCA fees and administrative expenses.

Table 16: Single-Family Business Results

	For the Year Ended December 31,			Variance	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
			(Dollars in millions)		
Net interest income (loss)[1]	$ 6	$ 205	$ (790)	$ (199)	$ 995
Guaranty fee income[2]	11,702	10,468	8,151	1,234	2,317
Credit-related income[3]	3,625	11,205	919	(7,580)	10,286
TCCA fees[2]	(1,375)	(1,001)	(238)	(374)	(763)
Other expenses[4]	(1,983)	(1,711)	(1,672)	(272)	(39)
Income before federal income taxes	11,975	19,166	6,370	(7,191)	12,796
(Provision) benefit for federal income taxes	(3,496)	29,110	(80)	(32,606)	29,190
Net income attributable to Fannie Mae	$ 8,479	$ 48,276	$ 6,290	$ (39,797)	$ 41,986
Other key performance data:					
Securitization Activity/New Business					
Single-family Fannie Mae MBS issuances	$ 375,676	$ 733,111	$ 827,749		
Credit Guaranty Activity					
Average single-family guaranty book of business[5]	$2,867,787	$2,855,821	$2,843,718		
Single-family effective guaranty fee rate (in basis points)[2][6]	40.8	36.7	28.7		
Single-family average charged guaranty fee on new acquisitions (in basis points)[2][7]	62.9	57.4	39.9		
Single-family serious delinquency rate, at end of period[8]	1.89 %	2.38 %	3.29 %		
Market					
Single-family mortgage debt outstanding, at end of period (total U.S. market)[9]	$9,855,232	$9,886,512	$9,982,578		
30-year mortgage rate, at end of period[10]	3.87 %	4.48 %	3.35 %		

(1) Includes the cost to reimburse the Capital Markets group for interest income not recognized for loans in our retained mortgage portfolio on nonaccrual status, the cost to reimburse MBS trusts for interest income not recognized for loans in consolidated trusts on nonaccrual status and income from cash payments received on loans that have been placed on nonaccrual status.

(2) Includes the impact of a 10 basis point guaranty fee increase implemented pursuant to the TCCA, the incremental revenue from which must be remitted to Treasury. The resulting revenue is included in guaranty fee income and the expense is recognized in "TCCA fees."

(3) Consists of the benefit for credit losses and foreclosed property (expense) income.

(4) Consists of investment gains (losses), net, fair value losses, net, losses from partnership investments, fee and other income, administrative expenses and other expenses.

(5) Our single-family guaranty book of business consists of (a) single-family mortgage loans of Fannie Mae, (b) single-family mortgage loans underlying Fannie Mae MBS, and (c) other credit enhancements that we provide on single-family mortgage assets, such as long-term standby commitments. It excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

(6) Calculated based on Single-Family segment guaranty fee income divided by the average single-family guaranty book of business, expressed in basis points.

(7) Calculated based on the average contractual fee rate for our single-family guaranty arrangements entered into during the period plus the recognition of any upfront cash payments ratably over an estimated average life, expressed in basis points.

(8) Calculated based on the number of single-family conventional loans that are 90 days or more past due or in the foreclosure process, divided by the number of loans in our single-family conventional guaranty book of business.

(9)

Information labeled as of December 31, 2014 is as of September 30, 2014 and is based on the Federal Reserve's December 2014 mortgage debt outstanding release, the latest date for which the Federal Reserve has estimated mortgage debt outstanding for single-family residences. Prior period amounts may have been changed to reflect revised historical data from the Federal Reserve.

(10) Based on Freddie Mac's Primary Mortgage Market Survey® rate for the last week in the period, which represents the national average mortgage commitment rate to a qualified borrower exclusive of any fees and points required by the lender.

2014 compared with 2013

Pre-tax income decreased in 2014 compared with 2013 primarily due to a decrease in credit-related income, partially offset by an increase in guaranty fee income.

Our single-family credit-related income decreased in 2014 compared with 2013 primarily due to home prices increasing at a slower pace in 2014 as compared with 2013. In addition, 2013 single-family credit-related income benefited from foreclosed property income primarily due to the recognition of income related to compensatory fee arrangements. Our single-family credit-related income represents the substantial majority of our consolidated credit-related income reflected on our consolidated statements of operations and comprehensive income. See "Consolidated Results of Operations—Credit-Related Income" for more information on the drivers of our credit-related income.

Guaranty fee income and our effective guaranty fee rate increased in 2014 compared with 2013 as loans with higher guaranty fees have become a larger part of our single-family guaranty book of business due to the cumulative impact of guaranty fee price increases implemented in 2012.

TCCA fees increased in 2014 compared with 2013, as single-family loans acquired since the implementation of the TCCA-related guaranty fee increase constituted a larger portion of our single-family guaranty book of business in 2014.

We recognized a provision for federal income taxes in 2014 compared with a benefit for federal income taxes in 2013. The benefit for federal income taxes in 2013 primarily represented the release in the first quarter of 2013 of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our Single-Family segment.

Our single-family acquisition volume and single-family Fannie Mae MBS issuances decreased significantly in 2014 compared with 2013; however, liquidations of loans from our single-family guaranty book of business also declined due to lower refinance activity. Accordingly, the size of our single-family guaranty book of business remained relatively flat.

Our average charged guaranty fee on newly acquired single-family loans increased in 2014 compared with 2013 primarily as the result of an increase in loan level price adjustments charged on our acquisitions in 2014, as these acquisitions included a higher proportion of loans with higher LTV ratios and a higher proportion of loans with lower FICO credit scores than our acquisitions in 2013.

2013 compared with 2012

Pre-tax income increased in 2013 compared with 2012 primarily due to an increase in credit-related income and increased guaranty fee income combined with net interest income in 2013 compared with a net interest loss in 2012.

Our credit results for 2013 and 2012 were positively impacted by increases in home prices, which resulted in reductions in our loss reserves. The improvement in our credit results in 2013 as compared with 2012 was due in part to a decline in the number of delinquent loans in our single-family conventional guaranty book of business, as well as the recognition of compensatory fee income in 2013 related to servicing matters and gains resulting from resolution agreements reached in 2013 related to representation and warranty matters. In addition, in 2013, we updated the assumptions and data used to estimate our allowance for loan losses for individually impaired single-family loans to reflect faster prepayment and lower default expectations for these loans, which resulted in a decrease to our allowance for loan losses. The positive impact of these factors on our credit-related income in 2013 was partially offset by lower discounted cash flow projections on our individually impaired loans due to increasing mortgage interest rates in 2013.

Guaranty fee income increased in 2013 compared with 2012 due to the cumulative impact of price increases and higher amortization income on risk-based fees.

We recognized net interest income in 2013 compared with a net interest loss in 2012 primarily due to the reduction in the amount of interest income not recognized for nonaccrual mortgage loans as the population of delinquent loans declined, as well as a resolution agreement, which resulted in the recognition of unamortized cost basis adjustments on repurchased loans.

Net income in 2013 included a benefit for federal income taxes that primarily represents the release of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our single-family segment.

Multifamily Business Results

Multifamily business results primarily reflect our multifamily guaranty business. Our multifamily business results also include activity relating to our low-income housing tax credit ("LIHTC") investments and equity investments. Although we are not currently making new LIHTC or equity investments, we continue to make contractually required contributions for our legacy investments. Activity from multifamily products is also reflected in the Capital Markets group results, which include net interest income related to multifamily loans and securities held in our retained mortgage portfolio, gains and losses from the sale of multifamily Fannie Mae MBS, mortgage loans and re-securitizations, and other miscellaneous income.

Table 17 displays the financial results of our Multifamily business for the periods indicated. The primary sources of revenue for our Multifamily business are guaranty fee income and fee and other income. Other items that affect income or loss primarily include credit-related income and administrative expenses.

Table 17: Multifamily Business Results

	For the Year Ended December 31,			Variance	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
			(Dollars in millions)		
Guaranty fee income	$ 1,297	$ 1,217	$ 1,040	$ 80	$ 177
Fee and other income	166	182	207	(16)	(25)
Gains from partnership investments[1]	299	498	123	(199)	375
Credit-related income[2]	197	583	187	(386)	396
Other expenses[3]	(338)	(335)	(250)	(3)	(85)
Income before federal income taxes	1,621	2,145	1,307	(524)	838
(Provision) benefit for federal income taxes	(158)	7,924	204	(8,082)	7,720
Net income attributable to Fannie Mae	$ 1,463	$ 10,069	$ 1,511	$ (8,606)	$ 8,558
Other key performance data:					
Securitization Activity/New Business					
Multifamily new business volume[4]	$ 28,908	$ 28,752	$ 33,763		
Multifamily units financed from new business volume	446,000	507,000	559,000		
Multifamily Fannie Mae MBS issuances[5]	$ 31,997	$ 31,403	$ 37,738		
Multifamily Fannie Mae structured securities issuances (issued by Capital Markets group)	$ 12,040	$ 10,185	$ 10,084		
Multifamily Fannie Mae MBS outstanding, at end of period[6]	$ 167,010	$ 148,724	$ 128,477		
Credit Guaranty Activity					
Average multifamily guaranty book of business[7]	$ 200,150	$ 204,284	$ 199,797		
Multifamily effective guaranty fee rate (in basis points)[8]	64.8	59.6	52.1		
Multifamily credit loss ratio (in basis points)[9]	(2.3)	2.5	12.9		
Multifamily serious delinquency rate, at end of period	0.05 %	0.10 %	0.24 %		
Percentage of multifamily guaranty book of business with credit enhancement, at end of period	93 %	91 %	90 %		
Fannie Mae percentage of total multifamily mortgage debt outstanding, at end of period[10]	19 %	20 %	21 %		
Portfolio Data					
Additional net interest income earned on Fannie Mae multifamily mortgage loans and MBS (included in Capital Markets group's results)[11]	$ 507	$ 709	$ 827		
	$ 49,677	$ 74,613	$ 98,025		

Average Fannie Mae multifamily mortgage loans and Fannie Mae MBS in Capital Markets group's portfolio(12)

(1) Gains from partnership investments are included in other expenses in our consolidated statements of operations and comprehensive income. Gains from partnership investments are reported using the equity method of accounting. As a result, net income attributable to noncontrolling interest from partnership investments is not included in income for the Multifamily segment.

(2) Consists of the benefit for credit losses and foreclosed property income (expense).

(3) Consists of net interest losses, investment gains, net, administrative expenses and other expenses.

(4) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued (excluding portfolio securitizations), multifamily loans purchased, and credit enhancements provided during the period.

(5) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued during the period. Includes: (a) issuances of new MBS, (b) Fannie Mae portfolio securitization transactions of $3.4 billion, $2.9 billion and $4.4 billion for the years ended December 31, 2014, 2013 and 2012, respectively, and (c) conversions of adjustable-rate loans to fixed-rate loans and discount MBS ("DMBS") to MBS of $3 million, $68 million and $215 million for the years ended December 31, 2014, 2013 and 2012, respectively.

(6) Includes $18.7 billion and $22.4 billion of Fannie Mae multifamily MBS held in the retained mortgage portfolio, the vast majority of which have been consolidated to loans in our consolidated balance sheets as of December 31, 2014 and 2013, respectively.

(7) Our Multifamily guaranty book of business consists of (a) multifamily mortgage loans of Fannie Mae, (b) multifamily mortgage loans underlying Fannie Mae MBS, and (c) other credit enhancements that we provide on multifamily mortgage assets. It excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

(8) Calculated based on Multifamily segment guaranty fee income divided by the average multifamily guaranty book of business, expressed in basis points.

(9) Calculated based on Multifamily segment credit losses divided by the average multifamily guaranty book of business, expressed in basis points. Negative credit losses are the result of recoveries on previously charged-off amounts.

(10) Includes mortgage loans and Fannie Mae MBS guaranteed by the Multifamily segment. Information labeled as of December 31, 2014 is as of September 30, 2014 and is based on the Federal Reserve's September 2014 mortgage debt outstanding release, the latest date for which the Federal Reserve has estimated mortgage debt outstanding for multifamily residences. Prior period amounts may have been changed to reflect revised historical data from the Federal Reserve.

(11) Interest expense estimate is based on allocated duration-matched funding costs. Net interest income was reduced by guaranty fees allocated to Multifamily from the Capital Markets group on multifamily loans in our retained mortgage portfolio.

(12) Based on unpaid principal balance.

2014 compared with 2013

Pre-tax income decreased in 2014 compared with 2013 primarily due to decreases in credit-related income and gains on partnership investments, partially offset by an increase in guaranty fee income.

Credit-related income decreased in 2014 compared with 2013 primarily as a result of smaller improvements in property valuations in 2014 compared with 2013, as well as improvements in loss severity trends in 2013.

Guaranty fee income increased in 2014 compared with 2013 as loans with higher guaranty fees have become a larger part of our multifamily guaranty book of business, while loans with lower guaranty fees continue to liquidate.

Gains from partnership investments decreased in 2014 compared with 2013 primarily as a result of lower sales activity.

We recognized a provision for federal income taxes in 2014 compared with a benefit for federal income taxes in 2013. The benefit for federal income taxes in 2013 primarily represented the release in the first quarter of 2013 of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our Multifamily segment.

Multifamily new business volume in 2014 was consistent with 2013 levels. FHFA's 2014 conservatorship scorecard included an objective to maintain the dollar volume of new multifamily business at or below the 2013 cap, excluding volume associated with affordable housing loans, as well as loans to small multifamily properties and loans to manufactured housing rental communities. Similar to the 2014 scorecard, the 2015 conservatorship scorecard includes a provision to maintain the dollar volume of new multifamily business at $30 billion or below, with the same exclusions as the 2014 scorecard.

2013 compared with 2012

Pre-tax income increased in 2013 compared with 2012 primarily due to increased guaranty fee income, increased credit-related income and increased gains from partnership investments.

Guaranty fee income increased in 2013 compared with 2012 as we continued to acquire loans with higher guaranty fees. Loans with higher guaranty fees have become a larger part of our multifamily guaranty book of business, while loans with lower guaranty fees continue to liquidate.

Credit-related income increased in 2013 compared with 2012, primarily due to improvements in default and loss severity trends and improvements in property valuations.

Gains from partnership investments increased in 2013 compared with 2012 as the continued strength of national multifamily market fundamentals resulted in improved property-level operating performance and increased gains on the sale of investments.

Net income in 2013 included a benefit for federal income taxes that primarily represents the release of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our Multifamily segment. A benefit for federal income taxes in 2012 was driven by the utilization of tax credits related to LIHTC investments to offset our alternative minimum tax liability resulting from our projected 2012 taxable income.

Capital Markets Group Results

Table 18 displays the financial results of our Capital Markets group for the periods indicated. For a discussion of the debt issued by the Capital Markets group to fund its investment activities, see "Liquidity and Capital Management." For a discussion of the derivative instruments that the Capital Markets group uses to manage interest rate risk, see "Risk Management—Market Risk Management, Including Interest Rate Risk Management" and "Note 9, Derivative Instruments." The primary sources of revenue for our Capital Markets group are net interest income and fee and other income. Expenses and other items that impact income or loss primarily include fair value gains and losses, investment gains and losses, allocated guaranty fee expense and administrative expenses.

Table 18: Capital Markets Group Results

	For the Year Ended December 31,			Variance	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
	(Dollars in millions)				
Net interest income[1]	$ 7,243	$ 9,764	$ 13,241	$ (2,521)	$ (3,477)
Investment gains, net[2]	6,378	4,847	5,506	1,531	(659)
Fair value (losses) gains, net[3]	(5,476)	3,148	(3,041)	(8,624)	6,189
Fee and other income	4,894	3,010	717	1,884	2,293
Other expenses[4]	(1,638)	(1,627)	(2,098)	(11)	471
Income before federal income taxes	11,401	19,142	14,325	(7,741)	4,817
(Provision) benefit for federal income taxes	(3,287)	8,381	(124)	(11,668)	8,505
Net income attributable to Fannie Mae	$ 8,114	$ 27,523	$ 14,201	$ (19,409)	$ 13,322

(1) Includes contractual interest income, excluding recoveries, on nonaccrual loans received from the Single-Family segment of $2.6 billion, $3.8 billion and $5.2 billion for the years ended December 31, 2014, 2013 and 2012, respectively. The Capital Markets group's net interest income is reported based on the mortgage-related assets held in the segment's retained mortgage portfolio and excludes interest income on mortgage-related assets held by consolidated MBS trusts that are owned by third parties and the interest expense on the corresponding debt of such trusts.

(2) We include the securities that we own regardless of whether the trust has been consolidated in reporting of gains and losses on securitizations and sales of available-for-sale securities. Also includes net other-than-temporary impairments on available-for-sale securities.

(3) Includes fair value gains or losses on derivatives and trading securities that we own, regardless of whether the trust has been consolidated.

(4) Includes allocated guaranty fee expense, debt extinguishment gains, net, administrative expenses, and other expenses. Gains or losses related to the extinguishment of debt issued by consolidated trusts are excluded from the Capital Markets group's results because purchases of securities are recognized as such.

<u>*2014 compared with 2013*</u>

Pre-tax income decreased in 2014 compared with 2013 primarily due to the recognition of fair value losses in 2014 compared with fair value gains recognized in 2013 and a decrease in net interest income. The decrease in pre-tax income in 2014 compared with 2013 was partially offset by increases in fee and other income and investment gains.

Fair value losses in 2014 were primarily due to fair value losses on our risk management derivatives. The derivatives fair value gains and losses that are reported for the Capital Markets group are consistent with the gains and losses reported in our consolidated statements of operations and comprehensive income. We discuss our derivatives fair value gains and losses in "Consolidated Results of Operations—Fair Value (Losses) Gains, Net."

The decrease in net interest income in 2014 compared with 2013 was primarily due to a decline in the average balance of our retained mortgage portfolio as we continued to reduce this portfolio pursuant to the requirements of our senior preferred stock purchase agreement with Treasury and FHFA's additional portfolio cap. See "The Capital Markets Group's Mortgage Portfolio" for additional information on our retained mortgage portfolio.

We supplement our issuance of debt securities with derivative instruments to further reduce interest rate risk. The effect of these derivatives, in particular the periodic net interest expense accruals on interest rate swaps, is not reflected in the Capital Markets group's net interest income but is included in our results as a component of "Fair value (losses) gains, net" and is displayed in "Table 10: Fair Value (Losses) Gains, Net."

Fee and other income increased in 2014 compared with 2013 due to an increase in income recognized as a result of settlement agreements resolving certain lawsuits relating to PLS sold to us from $2.2 billion in 2013 to $4.8 billion in 2014.

Investment gains increased in 2014 compared with 2013 primarily due to higher gains on the sale of Fannie Mae MBS AFS securities as a result of a decline in interest rates in 2014. During 2013, we had lower gains on the sale of Fannie Mae MBS AFS securities due to an increase in interest rates in 2013.

We recognized a provision for federal income taxes in 2014 compared with a benefit for federal income taxes in 2013. The benefit for federal income taxes in 2013 primarily represented the release in the first quarter of 2013 of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our Capital Markets group.

2013 compared with 2012

Pre-tax income increased in 2013 compared with 2012 primarily due to fair value gains in 2013 compared with fair value losses in 2012, an increase in fee and other income and a decrease in net other-than-temporary impairments. These factors were partially offset by a decrease in net interest income and a decrease in investment gains.

Fair value gains in 2013 were primarily driven by fair value gains on our risk management derivatives.

Fee and other income increased in 2013 compared with 2012 primarily as a result of funds we received in 2013 pursuant to settlement agreements resolving certain lawsuits relating to PLS sold to us. In addition, we recognized higher yield maintenance fees in 2013 related to large multifamily loan prepayments during the year.

The decrease in net interest income in 2013 compared with 2012 was primarily due to a decrease in the balance of our retained mortgage-related assets as we continued to reduce our retained mortgage portfolio pursuant to the requirements of our senior preferred stock purchase agreement with Treasury. In addition, during 2013, we sold $21.7 billion of non-agency mortgage-related assets to meet an objective of FHFA's 2013 conservatorship scorecard.

Investment gains decreased in 2013 compared with 2012 primarily due to decreased gains on the sale of Fannie Mae MBS AFS securities and decreased gains on portfolio securitizations due to an increase in mortgage interest rates in 2013. The decrease in gains during 2013 was partially offset by a decrease in net other-than-temporary impairments and gains on sales of non-agency mortgage-related securities.

Net income in 2013 included a benefit for federal income taxes that primarily represents the release of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our Capital Markets group.

The Capital Markets Group's Mortgage Portfolio

The Capital Markets group's mortgage portfolio, which we also refer to as our retained mortgage portfolio, consists of mortgage loans and mortgage-related securities that we own. Mortgage-related securities held by the Capital Markets group include Fannie Mae MBS and non-Fannie Mae mortgage-related securities. The Fannie Mae MBS that we own are maintained as securities on the Capital Markets group's balance sheets. The portion of assets held by consolidated MBS trusts that back mortgage-related securities owned by third parties are not included in the Capital Markets group's mortgage portfolio.

The amount of mortgage assets that we may own is restricted by our senior preferred stock purchase agreement with Treasury. By December 31 of each year, we are required to reduce our mortgage assets to 85% of the maximum allowable amount that we were permitted to own as of December 31 of the immediately preceding calendar year, until the amount of our mortgage assets reaches $250 billion in 2018. Under the agreement, the maximum allowable amount of mortgage assets we were permitted to own as of December 31, 2014 was $469.6 billion and will be $399.2 billion as of December 31, 2015.

FHFA's 2014 conservatorship scorecard required us to submit a portfolio plan to FHFA outlining how we will meet, even under adverse conditions, the reductions in our portfolio required by our senior preferred stock purchase agreement with Treasury. In connection with this portfolio plan, in October 2014, FHFA requested that we cap our portfolio each year at 90% of the annual limit under our senior preferred stock purchase agreement with Treasury. FHFA's request noted that we may seek FHFA permission to increase this cap up to 95% of the annual limit under our senior preferred stock purchase agreement with Treasury upon written request and with a documented basis for exception, such as changed market conditions. To comply with FHFA's request, we submitted a revised portfolio plan in October 2014 and reduced our mortgage portfolio to $413.3 billion as of December 31, 2014, below the $422.7 billion cap requested by FHFA, and are required to reduce our mortgage portfolio to $359.3 billion as of December 31, 2015.

As we reduce the size of our retained mortgage portfolio, our revenues generated by our retained mortgage portfolio will decrease. For additional information on the terms of the senior preferred stock purchase agreement with Treasury, see "Business—Conservatorship and Treasury Agreements—Treasury Agreements."

Table 19 displays our Capital Markets group's mortgage portfolio activity based on unpaid principal balance.

Table 19: Capital Markets Group's Mortgage Portfolio Activity

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Mortgage loans:			
Beginning balance	$ 314,664	$ 371,708	$ 398,271
Purchases	153,430	232,582	261,463
Securitizations [(1)]	(131,576)	(207,437)	(211,455)
Liquidations and sales [(2)]	(50,908)	(82,189)	(76,571)
Mortgage loans, ending balance	285,610	314,664	371,708
Mortgage securities:			
Beginning balance	176,037	261,346	310,143
Purchases [(3)]	24,885	36,848	26,874
Securitizations [(1)]	131,576	207,437	211,455
Sales	(177,883)	(278,421)	(224,208)
Liquidations [(2)]	(26,912)	(51,173)	(62,918)
Mortgage securities, ending balance	127,703	176,037	261,346
Total Capital Markets group's mortgage portfolio	$ 413,313	$ 490,701	$ 633,054

(1) Includes portfolio securitization transactions that do not qualify for sale treatment under GAAP.

(2) Includes scheduled repayments, prepayments, foreclosures, and lender repurchases.

(3) Includes purchases of Fannie Mae MBS issued by consolidated trusts.

Table 20 displays the composition of the unpaid principal balance of the Capital Markets group's mortgage portfolio and our assessment of the liquidity of these assets. Our assessment is based on the liquidity within the markets in which the assets are traded, the issuer of the asset and the nature of the collateral underlying the asset. Our unsecuritized mortgage loans, PLS and other non-agency securities are considered less liquid. Fannie Mae securities that are collateralized by non-agency mortgage-related securities are also considered to be less liquid.

Table 20: Capital Markets Group's Mortgage Portfolio Composition

	As of December 31,					
	2014			2013		
	More Liquid	Less Liquid	Total	More Liquid	Less Liquid	Total
	(Dollars in millions)					
Mortgage loans:						
Single-family loans:						
Government insured or guaranteed	$ —	$ 36,442	$ 36,442	$ —	$ 39,399	$ 39,399
Conventional	—	225,800	225,800	—	237,501	237,501
Total single-family loans	—	262,242	262,242	—	276,900	276,900
Multifamily loans:						
Government insured or guaranteed	—	243	243	—	267	267
Conventional	—	23,125	23,125	—	37,497	37,497
Total multifamily loans	—	23,368	23,368	—	37,764	37,764
Total mortgage loans	—	285,610	285,610	—	314,664	314,664
Mortgage-related securities:						
Fannie Mae	80,377	12,442	92,819	116,356	13,485	129,841
Freddie Mac	6,368	—	6,368	8,124	—	8,124
Ginnie Mae	572	—	572	899	—	899
Alt-A private-label securities	—	7,745	7,745	—	11,153	11,153
Subprime private-label securities	—	8,913	8,913	—	12,322	12,322
CMBS	—	3,686	3,686	—	3,983	3,983
Mortgage revenue bonds	—	4,556	4,556	—	6,319	6,319
Other mortgage-related securities	—	3,044	3,044	—	3,396	3,396
Total mortgage-related securities[1]	87,317	40,386	127,703	125,379	50,658	176,037
Total Capital Markets group's mortgage portfolio	$87,317	$325,996	$413,313	$125,379	$365,322	$490,701

[1] The fair value of these mortgage-related securities was $133.5 billion and $179.5 billion as of December 31, 2014 and 2013, respectively.

The Capital Markets group's mortgage portfolio decreased 16% during 2014, primarily due to sales and liquidations outpacing purchases during 2014. Purchase activity declined in 2014 compared with 2013 primarily due to fewer loan purchases as a result of lower mortgage origination volume in 2014 compared with 2013. We also continued to reduce the size of our retained mortgage portfolio to comply with the requirement of our senior preferred stock purchase agreement with Treasury and FHFA's request to further cap our portfolio.

The loans we purchased in 2014 included $17.9 billion in delinquent loans we purchased from our single-family MBS trusts. We expect to continue purchasing loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity and other factors, including the limit on the amount of mortgage assets that we may own pursuant to the senior preferred stock purchase agreement and FHFA's portfolio plan requirements. As a result of purchasing these loans, an increasing portion of the Capital Markets group's mortgage portfolio is comprised of loans restructured in a TDR and nonaccrual loans. Table 21 displays the composition of loans restructured in a TDR that were on accrual status, loans on nonaccrual status and all other mortgage-related assets in our Capital Markets group's mortgage portfolio.

Table 21: Capital Markets Group's Mortgage Portfolio

	As of December 31,			
	2014		2013	
	Unpaid Principal Balance	Percent of Total	Unpaid Principal Balance	Percent of Total
	(Dollars in millions)			
TDRs on accrual status	$140,828	34%	$136,237	28%
Nonaccrual loans	58,597	14	75,006	15
All other mortgage-related assets	213,888	52	279,458	57
Total Capital Markets group's mortgage portfolio	$413,313	100%	$490,701	100%

CONSOLIDATED BALANCE SHEET ANALYSIS

We seek to structure the composition of our balance sheet and manage its size to comply with our regulatory requirements, to provide adequate liquidity to meet our needs, and to mitigate our interest rate risk and credit risk exposure. The major asset components of our consolidated balance sheets include our mortgage investments and our cash and other investments portfolio. We fund and manage the interest rate risk on these investments through the issuance of debt securities and the use of derivatives. Our debt securities and derivatives represent the major liability components of our consolidated balance sheets.

This section provides a discussion of our consolidated balance sheets as of the dates indicated and should be read together with our consolidated financial statements, including the accompanying notes.

Table 22 displays a summary of our consolidated balance sheets.

Table 22: Summary of Consolidated Balance Sheets

	As of December 31, 2014	As of December 31, 2013	Variance
	(Dollars in millions)		
Assets			
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	$ 52,973	$ 58,203	$ (5,230)
Restricted cash	32,542	28,995	3,547
Investments in securities[1]	62,158	68,939	(6,781)
Mortgage loans:			
Of Fannie Mae	272,666	300,508	(27,842)
Of consolidated trusts	2,782,369	2,769,578	12,791
Allowance for loan losses	(35,541)	(43,846)	8,305
Mortgage loans, net of allowance for loan losses	3,019,494	3,026,240	(6,746)
Deferred tax assets, net	42,206	47,560	(5,354)
Other assets	38,803	40,171	(1,368)
Total assets	$ 3,248,176	$ 3,270,108	$ (21,932)
Liabilities and equity			
Debt:			
Of Fannie Mae	$ 460,443	$ 529,434	$ (68,991)
Of consolidated trusts	2,761,712	2,705,089	56,623
Other liabilities	22,301	25,994	(3,693)
Total liabilities	3,244,456	3,260,517	(16,061)
Senior preferred stock	117,149	117,149	—
Other[2]	(113,429)	(107,558)	(5,871)
Total equity	3,720	9,591	(5,871)
Total liabilities and equity	$ 3,248,176	$ 3,270,108	$ (21,932)

(1) Includes $19.5 billion as of December 31, 2014 and $16.3 billion as of December 31, 2013 of U.S. Treasury securities that are included in our other investments portfolio, which we present in "Table 30: Cash and Other Investments Portfolio."

(2) Consists of preferred stock, common stock, accumulated deficit, accumulated other comprehensive income, treasury stock and noncontrolling interest.

Cash and Other Investments Portfolio

Our cash and other investments portfolio consists of cash and cash equivalents, securities purchased under agreements to resell or similar arrangements, and investments in U.S. Treasury securities. See "Liquidity and Capital Management—Liquidity Management—Cash and Other Investments Portfolio" for additional information on our cash and other investments portfolio.

Restricted Cash

Restricted cash primarily includes unscheduled borrower payments received by the servicer or consolidated trusts due to be remitted to the MBS certificateholders in the subsequent month. Our restricted cash increased as of December 31, 2014 compared with the balance as of December 31, 2013, resulting from an increase in unscheduled payments received due to higher payoff volumes in December 2014 compared with December 2013.

Investments in Securities

Our investments in securities are classified in our consolidated balance sheets as either trading or available-for-sale and are measured at fair value. Table 23 displays the fair value of our investments in mortgage-related securities, including trading and available-for-sale securities, as of the dates indicated. We classify private-label securities as Alt-A, subprime or CMBS if the securities were labeled as such when issued. We have also invested in subprime private-label mortgage-related securities that we have resecuritized to include our guaranty (which we refer to as "wraps").

Table 23: Summary of Mortgage-Related Securities at Fair Value

	As of December 31,		
	2014	2013	2012
	(Dollars in millions)		
Mortgage-related securities:			
Fannie Mae	$ 10,579	$ 12,443	$ 16,683
Freddie Mac	6,897	8,681	12,173
Ginnie Mae	642	995	1,188
Alt-A private-label securities	6,598	8,865	12,405
Subprime private-label securities	6,547	8,516	8,766
CMBS	3,912	4,324	22,923
Mortgage revenue bonds	4,745	5,821	8,517
Other mortgage-related securities	2,772	2,988	3,271
Total	$ 42,692	$ 52,633	$ 85,926

The decrease in mortgage-related securities at fair value in 2014 was primarily driven by sales and liquidations outpacing purchases. We continue to reduce the size of our retained mortgage portfolio to comply with the requirement of our senior preferred stock purchase agreement with Treasury and FHFA's request to further cap our portfolio. See "Business Segment Results—The Capital Markets Group's Mortgage Portfolio" for additional information related to the reduction in our retained mortgage portfolio.

See "Note 5, Investments in Securities" for additional information on our investments in mortgage-related securities, including the composition of our trading and available-for-sale securities at amortized cost and fair value and the gross unrealized gains and losses related to our available-for-sale securities as of December 31, 2014 and 2013.

Mortgage Loans

The mortgage loans reported in our consolidated balance sheets include loans owned by Fannie Mae and loans held in consolidated trusts and are classified as either held for sale or held for investment. The increase in the balance of mortgage loans, net of the allowance for loan losses, as of December 31, 2014 compared with the balance as of December 31, 2013 was primarily driven by an increase in mortgage loans held for investment due to securitization activity from our lender swap and portfolio securitization programs and a decrease in our allowance for loan losses. For additional information on our mortgage loans, see "Note 3, Mortgage Loans," and for changes in our allowance for loan losses, see "Note 4, Allowance for Loan Losses." For additional information on the mortgage loan purchase and sale activities reported by our Capital Markets group, see "Business Segment Results—Capital Markets Group Results."

The decrease in our allowance for loan losses during 2014 was primarily due to the recognition of a benefit for credit losses and a decline in the number of seriously delinquent single-family loans. The number of our seriously delinquent single-family loans declined 21% to approximately 330,000 as of December 31, 2014 from approximately 419,000 as of December 31, 2013. The reduction in the number of delinquent loans was due to home retention solutions, foreclosure alternatives, completed foreclosures and improved loan payment performance. For additional information on our seriously delinquent single-family conventional loans, see "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Problem Loan Management—Problem Loan Statistics." For information on our benefit for credit losses, see "Consolidated Results of Operations—Credit-Related Income—(Benefit) Provision for Credit Losses."

Debt

Debt of Fannie Mae is the primary means of funding our mortgage investments. Debt of consolidated trusts represents the amount of Fannie Mae MBS issued from consolidated trusts and held by third-party certificateholders. We provide a summary of the activity of the debt of Fannie Mae and a comparison of the mix between our outstanding short-term and long-term debt in "Liquidity and Capital Management—Liquidity Management—Debt Funding." Also see "Note 8, Short-Term Borrowings and Long-Term Debt" for additional information on our outstanding debt.

The decrease in debt of Fannie Mae in 2014 was primarily driven by lower funding needs, as our retained mortgage portfolio decreased. The increase in the balance of debt of consolidated trusts during 2014 was primarily driven by sales of Fannie Mae

MBS, which are accounted for as reissuances of debt of consolidated trusts in our consolidated balance sheets, since the MBS certificate ownership is transferred from us to a third party.

Stockholders' Equity

Our net equity decreased as of December 31, 2014 compared with December 31, 2013 due to the payment of senior preferred stock dividends to Treasury during the year, partially offset by comprehensive income recognized during the year.

LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity Management

Our business activities require that we maintain adequate liquidity to fund our operations. Our liquidity risk management policy is designed to address our liquidity risk. Liquidity risk is the risk that we will not be able to meet our funding obligations in a timely manner. Liquidity risk management involves forecasting funding requirements, maintaining sufficient capacity to meet our needs based on our ongoing assessment of financial market liquidity and adhering to our regulatory requirements.

Our treasury function is responsible for implementing our liquidity and contingency planning strategies. See "Liquidity Risk Management Practices and Contingency Planning" for a discussion of our liquidity contingency plans. Also see "Risk Factors" for a description of the risks associated with our liquidity risk and liquidity contingency planning.

Primary Sources and Uses of Funds

Our primary source of funds is proceeds from the issuance of short-term and long-term debt securities. Accordingly, our liquidity depends largely on our ability to issue unsecured debt in the capital markets. Our status as a GSE and federal government support of our business continue to be essential to maintaining our access to the unsecured debt markets.

In addition to funding we obtain from the issuance of debt securities, our other sources of cash include:

- principal and interest payments received on mortgage loans, mortgage-related securities and non-mortgage investments we own;
- proceeds from the sale of mortgage-related securities, mortgage loans and non-mortgage assets, including proceeds from the sales of foreclosed real estate assets;
- guaranty fees received on Fannie Mae MBS;
- payments received from mortgage insurance counterparties and other providers of credit enhancement;
- net receipts on derivative instruments;
- receipt of cash collateral; and
- borrowings under a secured intraday funding line of credit and borrowings against mortgage-related securities and other investment securities we hold pursuant to repurchase agreements and loan agreements.

Our primary funding needs include:

- the repayment of matured, redeemed and repurchased debt;
- the purchase of mortgage loans (including delinquent loans from MBS trusts), mortgage-related securities and other investments;
- interest payments on outstanding debt;
- dividend payments made to Treasury pursuant to the senior preferred stock purchase agreement;
- net payments on derivative instruments;
- the pledging of collateral under derivative instruments;
- administrative expenses;
- losses incurred in connection with our Fannie Mae MBS guaranty obligations;
- payments of federal income taxes; and
- payments of TCCA fees to Treasury.

Liquidity Risk Management Practices and Contingency Planning

Our liquidity position could be adversely affected by many factors, both internal and external to our business, including: actions taken by our conservator, the Federal Reserve, U.S. Treasury or other government agencies; legislation relating to us or our business; a U.S. government payment default on its debt obligations; a downgrade in the credit ratings of our senior unsecured debt or the U.S. government's debt from the major ratings organizations; a systemic event leading to the withdrawal of liquidity from the market; an extreme market-wide widening of credit spreads; public statements by key policy makers; a significant decline in our net worth; potential investor concerns about the adequacy of funding available to us under the senior preferred stock purchase agreement; loss of demand for our debt, or certain types of our debt, from a major group of investors; a significant credit event involving one of our major institutional counterparties; a sudden catastrophic operational failure in the financial sector; or elimination of our GSE status. See "Risk Factors" for a discussion of factors that could adversely affect our liquidity.

We conduct liquidity contingency planning to prepare for an event in which our access to the unsecured debt markets becomes limited. We plan for alternative sources of liquidity that are designed to allow us to meet our cash obligations without relying upon the issuance of unsecured debt for specific periods of time.

Our liquidity management policies and practices require that we maintain:

- a portfolio of highly liquid securities to cover a minimum of 30 calendar days of net cash needs, assuming no access to the short- and long-term unsecured debt markets;
- within our cash and other investment portfolio a daily balance of U.S. Treasury securities and/or cash with the Federal Reserve Bank of New York that has a redemption amount of at least 50% of our average projected 30-day cash needs over the previous three months; and
- a liquidity profile that meets or exceeds our projected 365-day net cash needs by supplementing liquidity holdings with unencumbered agency mortgage securities.

As of December 31, 2014, we were in compliance with each of the liquidity risk management policies and practices set forth above.

We run routine operational testing of our ability to rely upon mortgage and U.S. Treasury collateral to obtain financing. We enter into relatively small repurchase agreements in order to confirm that we have the operational and systems capability to do so. In addition, we have provided collateral in advance to a number of clearing banks in the event we seek to enter into repurchase agreements in the future. We do not, however, have committed repurchase agreements with specific counterparties, as historically we have not relied on this form of funding. As a result, our use of such facilities and our ability to enter into them in significant dollar amounts may be challenging in a stressed market environment. See "Risk Factors" for the risks associated with our ability to fund operations.

See "Cash and Other Investments Portfolio" and "Unencumbered Mortgage Portfolio" for further discussions of our alternative sources of liquidity if our access to the debt markets were to become limited.

While our liquidity contingency planning attempts to address stressed market conditions and our status under conservatorship and Treasury arrangements, we believe that our liquidity contingency plans may be difficult or impossible to execute for a company of our size in our circumstances. See "Risk Factors" for a description of the risks associated with our liquidity contingency planning.

Debt Funding

We separately present the debt from consolidations ("debt of consolidated trusts") and the debt issued by us ("debt of Fannie Mae") in our consolidated balance sheets and in the debt tables below. Our discussion regarding debt funding in this section focuses on the debt of Fannie Mae. We fund our business primarily through the issuance of short-term and long-term debt securities in the domestic and international capital markets. Because debt issuance is our primary funding source, we are subject to "roll-over," or refinancing, risk on our outstanding debt.

We have a diversified funding base of domestic and international investors. Purchasers of our debt securities are geographically diversified and include fund managers, commercial banks, pension funds, insurance companies, foreign central banks, corporations, state and local governments, and other municipal authorities.

Our debt funding needs and debt funding activity may vary from quarter to quarter depending on market conditions and are influenced by anticipated liquidity needs, the size of our retained mortgage portfolio and our dividend payment obligations to Treasury. See "Business Segment Results—The Capital Markets Group's Mortgage Portfolio" for information about our retained mortgage portfolio, our requirement to reduce the size of our retained mortgage portfolio and our portfolio reduction plan.

Fannie Mae Debt Funding Activity

Table 24 displays the activity in debt of Fannie Mae. This activity excludes the debt of consolidated trusts and intraday loans. The reported amounts of debt issued and paid off during the period represent the face amount of the debt at issuance and redemption, respectively. Activity for short-term debt of Fannie Mae relates to borrowings with an original contractual maturity of one year or less while activity for long-term debt of Fannie Mae relates to borrowings with an original contractual maturity of greater than one year.

Table 24: Activity in Debt of Fannie Mae

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Issued during the period:			
Short-term:			
Amount	$ 213,683	$ 216,475	$ 246,092
Weighted-average interest rate	0.08%	0.11%	0.12%
Long-term:			
Amount	$ 45,805	$ 138,404	$ 255,902
Weighted-average interest rate	1.79%	1.07%	1.26%
Total issued:			
Amount	$ 259,488	$ 354,879	$ 501,994
Weighted-average interest rate	0.38%	0.49%	0.70%
Paid off during the period:[1]			
Short-term:			
Amount	$ 180,920	$ 249,357	$ 287,624
Weighted-average interest rate	0.09%	0.12%	0.12%
Long-term:			
Amount	$ 148,186	$ 192,861	$ 334,564
Weighted-average interest rate	1.80%	1.72%	1.88%
Total paid off:			
Amount	$ 329,106	$ 442,218	$ 622,188
Weighted-average interest rate	0.86%	0.82%	1.06%

[1] Consists of all payments on debt, including regularly scheduled principal payments, payments at maturity, payments resulting from calls and payments for any other repurchases. Repurchases of debt and early retirements of zero-coupon debt are reported at original face value, which does not equal the amount of actual cash payment.

Debt issuances decreased in 2014 compared with 2013 primarily due to lower funding needs as our retained mortgage portfolio decreased. Redemptions of callable debt decreased in 2014 compared with 2013 due to higher average interest rates.

Many factors could affect the amount, mix and cost of our debt funding, reduce demand for our debt securities, increase our liquidity or roll-over risk, or have a material adverse impact on our liquidity, financial condition and results of operations, including:

- changes or perceived changes in federal government support of our business;
- our status as a GSE;
- future changes or disruptions in the financial markets;
- a change or perceived change in the creditworthiness of the U.S. government, due to our reliance on the U.S. government's support; or
- a downgrade in our credit ratings.

We believe that continued federal government support of our business, as well as our status as a GSE, are essential to maintaining our access to debt funding. See "Risk Factors" for a discussion of the risks we face relating to: (1) the uncertain future of our company; (2) our reliance on the issuance of debt securities to obtain funds for our operations and the relative cost to obtain these funds; (3) our liquidity contingency plans; and (4) our credit ratings. Also see “Business—Housing Finance Reform” for more information on GSE reform.

Outstanding Debt

Total outstanding debt of Fannie Mae includes short-term and long-term debt, excluding debt of consolidated trusts.

Our outstanding short-term debt, based on its original contractual maturity, as a percentage of our total outstanding debt was 23% as of December 31, 2014 compared with 14% as of December 31, 2013. For information on our outstanding debt maturing within one year, including the current portion of our long-term debt, as a percentage of our total debt, see “Maturity Profile of Outstanding Debt of Fannie Mae.” In addition, the weighted-average interest rate on our long-term debt, based on its original contractual maturity, increased to 2.24% as of December 31, 2014 from 2.14% as of December 31, 2013.

Pursuant to the terms of the senior preferred stock purchase agreement, we are prohibited from issuing debt without the prior consent of Treasury if it would result in our aggregate indebtedness exceeding our outstanding debt limit, which is 120% of the amount of mortgage assets we were allowed to own under the senior preferred stock purchase agreement on December 31 of the immediately preceding calendar year. Our debt limit under the senior preferred stock purchase agreement was reduced to $663.0 billion in 2014. As of December 31, 2014, our aggregate indebtedness totaled $464.5 billion, which was $198.5 billion below our debt limit. Our debt limit in 2015 is $563.6 billion. The calculation of our indebtedness for purposes of complying with our debt limit reflects the unpaid principal balance and excludes debt basis adjustments and debt of consolidated trusts. Because of our debt limit, we may be restricted in the amount of debt we issue to fund our operations.

Table 25 displays information as of the dates indicated on our outstanding short-term and long-term debt based on its original contractual terms.

Table 25: Outstanding Short-Term Borrowings and Long-Term Debt(1)

	As of December 31,					
	2014			2013		
	Maturities	Outstanding	Weighted-Average Interest Rate	Maturities	Outstanding	Weighted-Average Interest Rate
	(Dollars in millions)					
Federal funds purchased and securities sold under agreements to repurchase(2)	—	$ 50	—%	—	$ —	—%
Short-term debt:						
Fixed-rate:						
Discount notes	—	$ 105,012	0.11%	—	$ 71,933	0.12%
Foreign exchange discount notes	—	—	—	—	362	1.07
Total short-term debt of Fannie Mae		105,012	0.11		72,295	0.13
Debt of consolidated trusts	—	1,560	0.09	—	2,154	0.09
Total short-term debt		$ 106,572	0.11%		$ 74,449	0.13%
Long-term debt:						
Senior fixed:						
Benchmark notes and bonds	2015 - 2030	$ 173,010	2.41%	2014 - 2030	$ 212,234	2.45%
Medium-term notes(3)	2015 - 2024	114,556	1.42	2014 - 2023	161,445	1.28
Foreign exchange notes and bonds	2021 - 2028	619	5.44	2021 - 2028	682	5.41
Other	2015 - 2038	32,322	4.63	2014 - 2038	38,444 (5)	4.99
Total senior fixed		320,507	2.29		412,805	2.24
Senior floating:						
Medium-term notes(3)	2015 - 2019	24,469	0.15	2014 - 2019	38,441	0.20
Connecticut Avenue Securities(4)	2023 - 2024	6,041	2.97	2023	689	3.81
Other(5)	2020 - 2037	363	8.71	2020 - 2037	266	8.52
Total senior floating		30,873	0.81		39,396	0.32
Subordinated fixed:						
Qualifying subordinated	—	—	—	2014	1,169	5.27
Subordinated debentures	2019	3,849	9.93	2019	3,507	9.92
Total subordinated fixed		3,849	9.93		4,676	8.76
Secured borrowings(6)	2021 - 2022	202	1.90	2021 - 2022	262	1.86
Total long-term debt of Fannie Mae		355,431	2.24		457,139	2.14
Debt of consolidated trusts(5)	2015 - 2054	2,760,152	3.02	2014 - 2053	2,702,935	3.26
Total long-term debt		$ 3,115,583	2.93%		$ 3,160,074	3.10%
Outstanding callable debt of Fannie Mae(7)		$ 114,990	1.79%		$ 168,397	1.59%

(1) Outstanding debt amounts and weighted-average interest rates reported in this table include the effects of discounts, premiums and other cost basis adjustments. Reported outstanding amounts include fair value gains and losses associated with debt that we elected to carry at fair value. Reported amounts for total debt of Fannie Mae include unamortized discounts and premiums, other cost basis adjustments and fair value adjustments of $4.1 billion and $4.9 billion as of December 31, 2014 and 2013, respectively. The unpaid

principal balance of outstanding debt of Fannie Mae, which excludes unamortized discounts, premiums and other cost basis adjustments, and debt of consolidated trusts, totaled $464.6 billion and $534.3 billion as of December 31, 2014 and 2013, respectively.

(2) Represents agreements to repurchase securities for a specified price, with repayment generally occurring on the following day.

(3) Includes long-term debt with an original contractual maturity of greater than 1 year and up to 10 years, excluding zero-coupon debt.

(4) Credit risk sharing securities that transfer a portion of the credit risk on specified pools of mortgage loans in our single-family guaranty book of business to the investors in these securities. Connecticut Avenue Securities are reported at fair value. For additional information on our credit risk sharing transactions, see "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards—Risk-Sharing Transactions."

(5) Includes a portion of structured debt instruments that is reported at fair value.

(6) Represents remaining liability for transfer of financial assets from our consolidated balance sheets that did not qualify as a sale.

(7) Consists of the unpaid principal balance of long-term callable debt of Fannie Mae that can be paid off in whole or in part at our option at any time on or after a specified date.

Table 26 below displays additional information for each category of our short-term borrowings.

Table 26: Outstanding Short-Term Borrowings[1]

	2014				
	As of December 31		Average During the Year		
	Outstanding	Weighted-Average Interest Rate	Outstanding[2]	Weighted-Average Interest Rate	Maximum Outstanding[3]
	(Dollars in millions)				
Federal funds purchased and securities sold under agreements to repurchase	$ 50	—%	$ 28	—%	$ 273
Total short-term debt of Fannie Mae	$ 105,012	0.11%	$ 86,839	0.11%	$ 114,741

	2013				
	As of December 31		Average During the Year		
	Outstanding	Weighted-Average Interest Rate	Outstanding[2]	Weighted-Average Interest Rate	Maximum Outstanding[3]
	(Dollars in millions)				
Federal funds purchased and securities sold under agreements to repurchase	$ —	—%	$ 15	—%	$ 218
Total short-term debt of Fannie Mae	$ 72,295	0.13%	$ 95,082	0.13%	$ 128,419

	2012				
	As of December 31		Average During the Year		
	Outstanding	Weighted-Average Interest Rate	Outstanding[2]	Weighted-Average Interest Rate	Maximum Outstanding[3]
	(Dollars in millions)				
Federal funds purchased and securities sold under agreements to repurchase	$ —	—%	$ 18	—%	$ 490
Total short-term debt of Fannie Mae	$ 105,233	0.16%	$ 102,859	0.14%	$ 152,502

(1) Includes the effects of discounts, premiums and other cost basis adjustments.

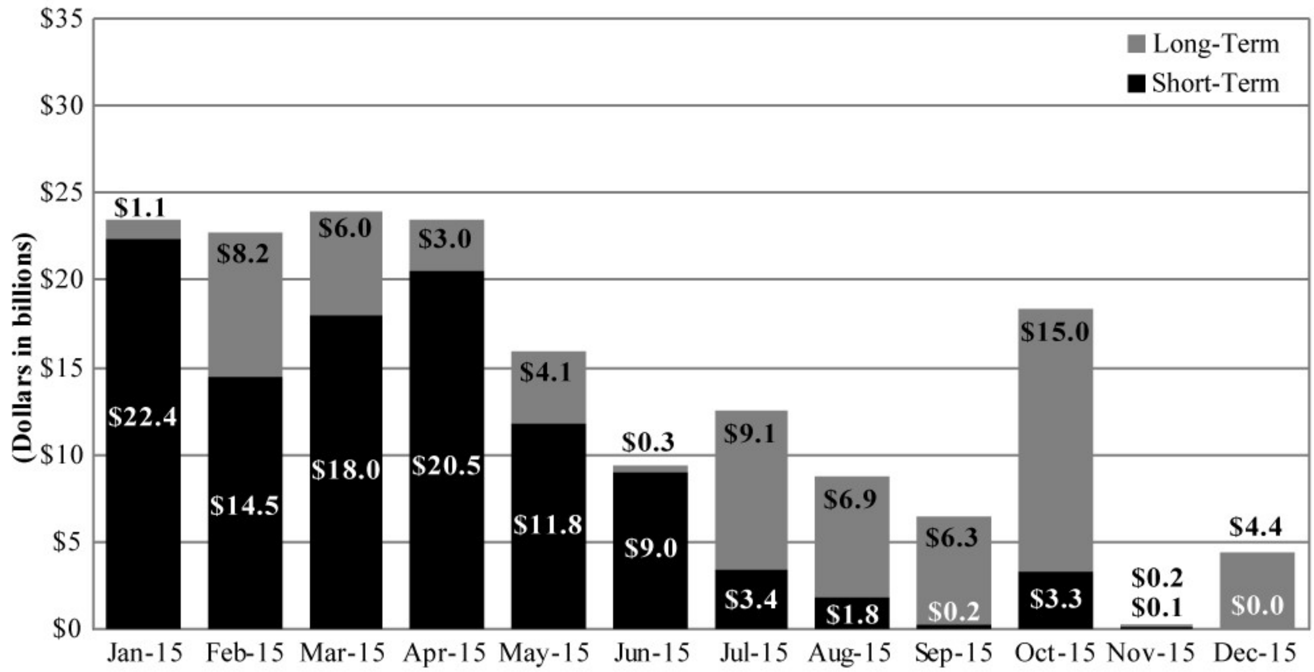
(2) Average amount outstanding has been calculated using daily balances.

(3) Maximum outstanding represents the highest daily outstanding balance during the year.

Maturity Profile of Outstanding Debt of Fannie Mae

Table 27 displays the maturity profile, as of December 31, 2014, of our outstanding debt maturing within one year, including the current portion of our long-term debt and amounts we have announced for early redemption. Our outstanding debt maturing within one year, as a percentage of our total outstanding debt, excluding debt of consolidated trusts, was 37% as of December 31, 2014 and 31% as of December 31, 2013. The weighted-average maturity of our outstanding debt that is maturing within one year was 131 days as of December 31, 2014, compared with 151 days as of December 31, 2013.

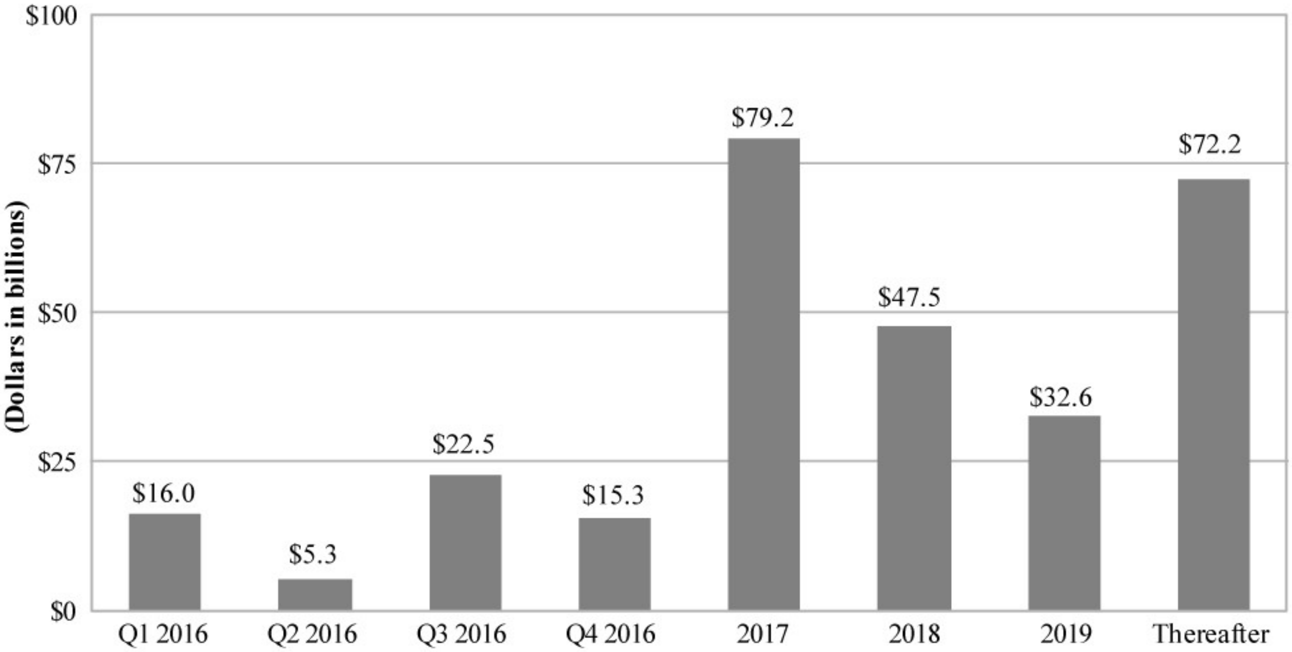
Table 27: Maturity Profile of Outstanding Debt of Fannie Mae Maturing Within One Year[(1)]



(1) Includes unamortized discounts, premiums and other cost basis adjustments.

Table 28 displays the maturity profile, as of December 31, 2014, of the portion of our long-term debt that matures in more than one year, on a quarterly basis for one year and on an annual basis thereafter, excluding amounts we have announced for early redemption within one year. The weighted-average maturity of our outstanding debt maturing in more than one year was approximately 61 months as of December 31, 2014 and approximately 59 months as of December 31, 2013.

Table 28: Maturity Profile of Outstanding Debt of Fannie Mae Maturing in More Than One Year[(1)]



(1) Includes unamortized discounts, premiums and other cost basis adjustments.

We intend to repay our short-term and long-term debt obligations as they become due primarily through proceeds from the issuance of additional debt securities. We also may use proceeds from our mortgage assets to pay our debt obligations.

Contractual Obligations

Table 29 displays, by remaining maturity, our future cash obligations related to our long term debt, announced calls, operating leases, purchase obligations and other material noncancelable contractual obligations as of December 31, 2014.

Table 29: Contractual Obligations

	Payment Due by Period as of December 31, 2014				
	Total	Less than 1 Year	1 to <3 Years	3 to 5 Years	More than 5 Years
	(Dollars in millions)				
Long-term debt obligations[(1)]	$ 355,431	$ 64,655	$ 138,317	$ 80,016	$ 72,443
Contractual interest on long-term obligations[(2)]	47,197	6,779	10,660	6,730	23,028
Operating lease obligations[(3)]	109	39	59	8	3
Purchase obligations:					
Mortgage commitments[(4)]	56,333	56,333	—	—	—
Other purchase obligations[(5)]	470	209	225	36	—
Other liabilities reflected in the consolidated balance sheet[(6)]	479	398	67	5	9
Total contractual obligations	$ 460,019	$ 128,413	$ 149,328	$ 86,795	$ 95,483

(1) Represents the carrying amount of our long-term debt assuming payments are made in full at maturity. Amounts exclude $2.8 trillion in long-term debt from consolidations. Amounts include a net unamortized discount, fair value adjustments and other cost basis adjustments of $4.1 billion.

(2) Excludes contractual interest on long-term debt from consolidations.

(3) Includes certain premises and equipment leases.

(4) Includes on- and off-balance sheet commitments to purchase mortgage loans and mortgage-related securities.

(5) Includes only unconditional purchase obligations that are subject to a cancellation penalty for certain telecom services, software and computer services, and other agreements. Excludes arrangements that may be canceled without penalty. Amounts also include off-balance sheet commitments for the unutilized portion of lending agreements entered into with multifamily borrowers.

(6) Excludes risk management derivative transactions that may require cash settlement in future periods and our obligations to stand ready to perform under our guarantees relating to Fannie Mae MBS and other financial guarantees, because the amount and timing of payments under these arrangements are generally contingent upon the occurrence of future events. For a description of the amount of our on- and off-balance sheet Fannie Mae MBS and other financial guarantees as of December 31, 2014, see "Off-Balance Sheet Arrangements." Includes cash received as collateral, unrecognized tax benefits and future cash payments due under our contractual obligations to fund LIHTC and other partnerships that are unconditional and legally binding, which are included in our consolidated balance sheets under "Other liabilities."

Equity Funding

As a result of the covenants under the senior preferred stock purchase agreement, Treasury's ownership of the warrant to purchase up to 79.9% of the total shares of our common stock outstanding and the uncertainty regarding our future, we effectively no longer have access to equity funding except through draws under the senior preferred stock purchase agreement. For a description of the funding available and the covenants under the senior preferred stock purchase agreement, see "Business—Conservatorship and Treasury Agreements—Treasury Agreements."

Cash and Other Investments Portfolio

Our cash and other investments portfolio decreased in 2014. The balance of our cash and other investments portfolio fluctuates based on changes in our cash flows, overall liquidity in the fixed income markets and our liquidity risk management policies and practices. See "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Counterparty Credit Exposure of Investments Held in our Cash and Other Investments Portfolio" for additional information on the risks associated with the assets in our cash and other investments portfolio.

Table 30 displays information on the composition of our cash and other investments portfolio.

Table 30: Cash and Other Investments Portfolio

	As of December 31,		
	2014	2013	2012
	(Dollars in millions)		
Cash and cash equivalents	$ 22,023	$ 19,228	$ 21,117
Federal funds sold and securities purchased under agreements to resell or similar arrangements	30,950	38,975	32,500
U.S. Treasury securities	19,466	16,306	17,950
Total cash and other investments	$ 72,439	$ 74,509	$ 71,567

Unencumbered Mortgage Portfolio

Another potential source of liquidity in the event our access to the unsecured debt market becomes impaired is the unencumbered mortgage assets in our retained mortgage portfolio, which could be sold or used as collateral for secured borrowing. We believe that the amount of mortgage-related assets that we could successfully sell or borrow against in the event of a liquidity crisis or significant market disruption is substantially lower than the amount of mortgage-related assets we hold. Our ability to sell whole loans from our retained mortgage portfolio is limited due to the credit-related issues of these loans, as well as operational constraints. See "Risk Factors" for a discussion of the limitations on our ability to successfully sell or borrow against the unencumbered mortgage assets in our retained mortgage portfolio in the event of a liquidity crisis.

Credit Ratings

Our credit ratings from the major credit ratings organizations, as well as the credit ratings of the U.S. government, are primary factors that could affect our ability to access the capital markets and our cost of funds. In addition, our credit ratings are important when we seek to engage in certain long-term transactions, such as derivative transactions. S&P, Moody's and Fitch have all indicated that, if they were to lower the sovereign credit ratings on the U.S., they would likely lower their ratings on the debt of Fannie Mae and certain other government-related entities. We cannot predict whether one or more of these ratings agencies will lower our debt ratings in the future. See “Risk Factors” for a discussion of the risks to our business relating to a decrease in our credit ratings, which could include an increase in our borrowing costs, limits on our ability to issue debt, and additional collateral requirements under our derivatives contracts.

Table 31 displays the credit ratings issued by the three major credit rating agencies as of February 12, 2015.

Table 31: Fannie Mae Credit Ratings

	As of February 12, 2015		
	S&P	**Moody's**	**Fitch**
Long-term senior debt	AA+	Aaa	AAA
Short-term senior debt	A-1+	P-1	F1+
Subordinated debt	AA-	Aa2	AA-
Preferred stock	D	Ca	C/RR6
Outlook	Stable	Stable	Stable
	(for Long-Term Senior Debt and Subordinated Debt)	(for Long-Term Senior Debt and Preferred Stock)	(for AAA rated Long-Term Issuer Default Ratings)

We have no covenants in our existing debt agreements that would be violated by a downgrade in our credit ratings. However, in connection with certain derivatives counterparties, we could be required to provide additional collateral to or terminate transactions with certain counterparties in the event that our senior unsecured debt ratings are downgraded. The amount of additional collateral required depends on the contract and is usually a fixed incremental amount, the market value of the exposure, or both. See "Note 9, Derivative Instruments" and "Risk Factors" for additional information on collateral we would be required to provide to our derivatives counterparties in the event of downgrades in our credit ratings.

Cash Flows

Year ended December 31, 2014. Cash and cash equivalents increased by $2.8 billion from $19.2 billion as of December 31, 2013 to $22.0 billion as of December 31, 2014. This increase in the balance was primarily driven by cash inflows from: (1) the sale of Fannie Mae MBS, (2) proceeds from repayments of loans of Fannie Mae, (3) the sale of our REO inventory, (4) proceeds from the sale and liquidation of mortgage-related securities and (5) proceeds from resolution and settlement agreements related to PLS sold to us.

Partially offsetting these cash inflows were cash outflows from: (1) the redemption of funding debt, which outpaced issuances, due to lower funding needs, (2) the payment of dividends to Treasury under our senior preferred stock purchase agreement and (3) the acquisition of delinquent loans out of MBS trusts.

Year Ended December 31, 2013. Cash and cash equivalents decreased by $1.9 billion from $21.1 billion as of December 31, 2012 to $19.2 billion as of December 31, 2013. This decrease in the balance was primarily driven by cash outflows from: (1) the payment of dividends to Treasury under our senior preferred stock purchase agreement, (2) payments to redeem debt, which outpaced issuances due to lower funding needs as we reduced our retained mortgage portfolio and (3) the acquisitions of delinquent loans out of MBS trusts.

Partially offsetting these cash outflows were cash inflows from: (1) the sale of Fannie Mae MBS, (2) proceeds from repayments of loans of Fannie Mae, (3) proceeds from the sale and liquidation of mortgage-related securities, (4) the sale of our REO inventory and (5) proceeds from resolution and settlement agreements related to representation and warranty, compensatory fees and PLS sold to us.

Capital Management

Regulatory Capital

FHFA has announced that, during the conservatorship, our existing statutory and FHFA-directed regulatory capital requirements will not be binding and that FHFA will not issue quarterly capital classifications. We submit capital reports to FHFA and FHFA monitors our capital levels. We report the deficit of our core capital over statutory minimum capital and GAAP net worth in our periodic reports on Form 10-Q and Form 10-K, and FHFA also reports them on its website. FHFA is not reporting our critical, risk-based capital or subordinated debt levels during the conservatorship. For information on our minimum capital requirements see "Note 15, Regulatory Capital Requirements."

Dodd-Frank Act—FHFA Rule Regarding Stress Testing

See "Business—Our Charter and Regulation of Our Activities—The Dodd-Frank Act—Stress Testing" for a description of FHFA's final rule implementing the Dodd-Frank Act's stress test requirements for Fannie Mae, Freddie Mac and the FHLBs.

Capital Activity

We are effectively unable to raise equity capital from private sources at this time and, therefore, are reliant on the funding available under the senior preferred stock purchase agreement to address any net worth deficit.

Senior Preferred Stock Purchase Agreement

As a result of the covenants under the senior preferred stock purchase agreement, Treasury's ownership of the warrant to purchase up to 79.9% of the total shares of our common stock outstanding and the significant uncertainty regarding our future, we effectively no longer have access to equity funding except through draws under the senior preferred stock purchase agreement.

Under the senior preferred stock purchase agreement, Treasury made a commitment to provide funding, under certain conditions, to eliminate deficiencies in our net worth. We have received a total of $116.1 billion from Treasury pursuant to the senior preferred stock purchase agreement as of December 31, 2014. The aggregate liquidation preference of the senior preferred stock, including the initial aggregate liquidation preference of $1.0 billion, remains at $117.1 billion.

While we had a positive net worth as of December 31, 2014 and have not received funds from Treasury under the agreement since the first quarter of 2012, we will be required to obtain additional funding from Treasury pursuant to the senior preferred stock purchase agreement if we have a net worth deficit in future periods. As of the date of this filing, the amount of remaining available funding under the senior preferred stock purchase agreement is $117.6 billion. If we were to draw additional funds from Treasury under the agreement in a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement. For additional information, see "Business—Conservatorship and Treasury Agreements—Treasury Agreements—Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant—Senior Preferred Stock Purchase Agreement."

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment under the senior preferred stock purchase agreement. Moreover, we are not permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock except in limited circumstances. The limited circumstances under which Treasury's funding commitment will terminate and under which we can pay down the liquidation preference of the senior preferred stock are described in "Business—Conservatorship and Treasury Agreements—Treasury Agreements."

Dividends

Our fourth quarter 2014 dividend of $4.0 billion was declared by FHFA and subsequently paid by us on December 31, 2014, bringing our senior preferred stock dividends paid in 2014 to $20.6 billion. For each dividend period from January 1, 2013 through and including December 31, 2017, when, as and if declared, the dividend amount will be the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. The capital reserve amount was $3.0 billion for dividend periods in 2013, decreased to $2.4 billion for dividend periods in 2014, and to $1.8 billion for dividend periods in 2015 and will continue to be reduced by $600 million each year until it reaches zero on January 1, 2018. For each dividend period beginning in 2018, the dividend amount will be the entire amount of our net worth, if any, as of the end of the immediately preceding fiscal quarter. Based on the terms of the senior preferred stock, we expect to pay Treasury a dividend for the first quarter of 2015 of $1.9 billion by March 31, 2015. The Director of FHFA directs us to make dividend payments on the senior preferred stock on a quarterly basis.

See "Risk Factors" for a discussion of the risks relating to our dividend obligations to Treasury on the senior preferred stock. See "Business—Conservatorship and Treasury Agreements—Treasury Agreements" for more information on the terms of the senior preferred stock and our senior preferred stock purchase agreement with Treasury.

OFF-BALANCE SHEET ARRANGEMENTS

We enter into certain business arrangements to facilitate our statutory purpose of providing liquidity to the secondary mortgage market and to reduce our exposure to interest rate fluctuations. Some of these arrangements are not recorded in our consolidated balance sheets or may be recorded in amounts different from the full contract or notional amount of the transaction, depending on the nature or structure of, and accounting required to be applied to, the arrangement. These arrangements are commonly referred to as "off-balance sheet arrangements" and expose us to potential losses in excess of the amounts recorded in our consolidated balance sheets.

Our off-balance sheet arrangements result primarily from the following:

- our guaranty of mortgage loan securitization and resecuritization transactions over which we do not have control;
- other guaranty transactions;
- liquidity support transactions; and
- partnership interests.

Our maximum potential exposure to credit losses relating to our outstanding and unconsolidated Fannie Mae MBS and other financial guarantees is primarily represented by the unpaid principal balance of the mortgage loans underlying outstanding and unconsolidated Fannie Mae MBS and other financial guarantees of $31.7 billion as of December 31, 2014 and $44.3 billion as of December 31, 2013.

For more information on the mortgage loans underlying both our on- and off-balance sheet Fannie Mae MBS, as well as whole mortgage loans that we own, see "Risk Management—Credit Risk Management."

Partnership Investment Interests

For partnership investments where we have determined that we are the primary beneficiary, we have consolidated these investments and recorded all of the partnership assets and liabilities in our consolidated balance sheets. Our partnership investments primarily consist of investments in affordable rental and for-sale housing partnerships. The carrying value of our partnership investments, including those we have consolidated, totaled $721 million as of December 31, 2014, compared with $809 million as of December 31, 2013.

LIHTC Partnership Interests

In most instances, we are not the primary beneficiary of our LIHTC partnership investments, and therefore our consolidated balance sheets reflect only our investment in the LIHTC partnership, rather than the full amount of the LIHTC partnership's assets and liabilities. FHFA informed us in 2009 that, after consultation with Treasury, generally we are not authorized to sell or transfer our LIHTC partnership interests. Some exceptions to this rule exist in very limited circumstances and, in most cases, only with FHFA consent. In 2009, we reduced the carrying value of our LIHTC partnership investments to zero, as we no longer had both the intent and ability to sell or otherwise transfer our LIHTC investments for value. However, we still have an obligation to fund our LIHTC partnership investments and have recorded such obligation as a liability in our financial statements. We did not make any LIHTC investments in 2014, other than pursuant to existing prior commitments.

Treasury Housing Finance Agency Initiative

During 2009, we entered into a memorandum of understanding with Treasury, FHFA and Freddie Mac pursuant to which we agreed to provide assistance to state and local housing finance agencies ("HFAs") through two primary programs, which together comprise what we refer to as the HFA initiative.

In November 2011, we entered into an Omnibus Consent to HFA Initiative Program Modifications with Treasury, Freddie Mac and FHFA pursuant to which the parties agreed to specified modifications to the HFA initiative programs, including a three-year extension of the expiration date for the temporary credit and liquidity facilities ("TCLFs") from December 2012 to December 2015. See "Certain Relationships and Related Transactions, and Director Independence—Transactions with Related Persons—Transactions with Treasury—Treasury Housing Finance Agency Initiative" for a discussion of the HFA initiative.

Pursuant to the TCLF program that we describe in "Related Parties" in "Note 1, Summary of Significant Accounting Policies," Treasury has purchased participation interests in TCLFs provided by us and Freddie Mac to the HFAs. These facilities create a credit and liquidity backstop for the HFAs. Our outstanding commitments under the TCLF program totaled $390 million as of December 31, 2014 and $821 million as of December 31, 2013.

Multifamily Bond Credit Enhancement Liquidity Commitments

Our total outstanding liquidity commitments to advance funds for securities backed by multifamily housing revenue bonds totaled $12.3 billion as of December 31, 2014 and $13.0 billion as of December 31, 2013. These commitments require us to advance funds to third parties that enable them to repurchase tendered bonds or securities that are unable to be remarketed. We hold cash and cash equivalents in our cash and other investments portfolio in excess of these commitments to advance funds.

RISK MANAGEMENT

Our business activities expose us to the following three major categories of financial risk: credit risk, market risk (including interest rate and liquidity risk) and operational risk. We seek to actively monitor and manage these risks by using an established risk management framework. Our risk management framework is intended to provide the basis for the principles that govern our risk management activities.

- ***Credit Risk.*** Credit risk is the potential for financial loss resulting from the failure of a borrower or institutional counterparty to honor its financial or contractual obligations, resulting in a potential loss of earnings or cash flows. In regards to financial securities or instruments, credit risk is the risk of not receiving principal, interest or any other financial obligation on a timely basis, for any reason. Credit risk exists primarily in our mortgage credit book of business and derivatives portfolio.
- ***Market Risk.*** Market risk is the exposure generated by adverse changes in the value of financial instruments caused by a change in market prices or interest rates. Two significant market risks we face and actively manage are interest rate risk and liquidity risk. Interest rate risk is the risk of changes in our long-term earnings or in the value of our assets due to fluctuations in interest rates. Liquidity risk is our potential inability to meet our funding obligations in a timely manner.
- ***Operational Risk.*** Operational risk is the loss resulting from inadequate or failed internal processes, people, systems or from external events.

In addition to our exposure to credit, market and operational risks, there is significant uncertainty regarding the future of our company, including how long we will continue to be in existence, which we discuss in more detail in "Business—Housing Finance Reform" and in "Risk Factors." This uncertainty, along with limitations on our employee compensation arising from our conservatorship, could affect our ability to retain and hire qualified employees. We are also subject to a number of other risks that could adversely impact our business, financial condition, earnings and cash flow, including human capital, legal, regulatory and compliance, reputational, technological and cybersecurity, strategic and execution risks. These risks may arise due to a failure to comply with laws, regulations or ethical standards and codes of conduct applicable to our business activities and functions. These risks are typically brought to the attention of our Management Committee, our Board of Directors or one or more of the Board's committees and, in some cases, FHFA for discussion.

Another risk that can impact our financial condition, earnings and cash flow is model risk, which is defined as the potential for model errors to adversely affect the company. This occurs because of our use of modeled estimations of future economic environments, borrower behavior and valuation methodologies. See "Risk Factors" for a discussion of the risks associated with our reliance on models.

Our risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of the major risks inherent in our business activities. Our ability to identify, assess, mitigate and control, and report and monitor risk is crucial to our safety and soundness.

- ***Risk Identification.*** Risk identification is the process of finding, recognizing and describing risk. The identification of risk facilitates effective risk management by achieving awareness of the sources, impact and magnitude of risk.
- ***Risk Assessment.*** We assess risk using a variety of methodologies, such as calculation of potential losses from loans and stress tests relating to interest rate sensitivity. When we assess risk, we look at metrics such as frequency, severity, concentration, correlation, volatility and loss. Information obtained from these assessments is reviewed on a regular basis to ensure that our risk assumptions are reasonable and reflect our current positions.
- ***Risk Mitigation & Control.*** We proactively develop appropriate mitigation strategies to prevent excessive risk exposure, address risks that exceed established tolerances and address risks that create unanticipated business impact. Mitigation strategies and controls can be in the form of reduction, transference, acceptance or avoidance of the

identified risk. We also manage risk through four control elements that are designed to work in conjunction with each other: (1) risk policies, (2) risk limits, (3) delegations of authority and (4) risk committees.

- ***Risk Reporting & Monitoring.*** Our business units actively monitor emerging and identified risks that are taken when executing our strategies. Risks and concerns are reported to the appropriate level of management to ensure that the necessary action is taken to mitigate the risk.

We manage risk by using a "three lines of defense" structure. The first line of defense is the active management of risk by the business unit. Each business unit is charged with conforming to the risk guidelines, risk appetite, risk policies and limits approved by the Board of Directors, the Board's Risk Policy & Capital Committee and the executive-level Management Committee. The second line of defense is the Enterprise Risk Management division, which is responsible for ensuring compliance with the risk framework and independently reporting on risk management issues and performance, and the Compliance division, which is responsible for developing policies and procedures to help ensure that Fannie Mae and its employees comply with the law, our code of conduct and all regulatory obligations. The third line of defense is the Internal Audit group, which is responsible for ensuring all parties are performing the actions for which they are accountable and for identifying any omissions or potential process improvements. Enterprise Risk Management reports independently to the Board's Risk Policy & Capital Committee and Internal Audit reports independently to the Board's Audit Committee.

Enterprise Risk Governance

Our enterprise risk management structure consists of the Board of Directors, executive leadership, including the Chief Risk Officer, Deputy Chief Risk Officer and Chief Credit Officer, and the Enterprise Risk Management division, designated officers responsible for managing our financial risks, business unit chief risk officers and risk management committees. This structure is designed to encourage a culture of accountability within the divisions and promote effective risk management throughout the company.

Our organizational structure and risk management framework work in conjunction with each other to identify risk-related trends with respect to customers, products or portfolios and external events and to develop appropriate strategies to mitigate emerging and identified risks.

Under our enterprise risk management framework, each business unit is responsible for managing its risks but is subject to a governance and oversight process that includes independent oversight functions, management-level risk committees and Board-level engagement.

Board of Directors

The Risk Policy & Capital Committee of the Board, pursuant to its Charter, assists the Board in overseeing our management of risk and recommends for Board approval enterprise risk governance policy and limits. In addition, the Audit Committee reviews the system of internal controls that we rely upon to provide reasonable assurance of compliance with our enterprise risk management processes.

The Board of Directors delegates day-to-day management responsibilities to the Chief Executive Officer who then further delegates this responsibility among the company's business unit heads, including the Chief Risk Officer and the Chief Compliance Officer. Risk management oversight authority, including responsibility for setting appropriate controls such as limits and policies, is delegated to the Chief Risk Officer, who then delegates certain levels of risk management oversight authority to our Chief Credit Officer and to the chief risk officers of each business unit or functional risk area (for example, model and operational risk). Management-level business risk committees serve in an advisory capacity to those officers to whom risk management authority has been delegated. In addition, certain activities require the approval of our conservator. See "Directors, Executive Officers and Corporate Governance—Corporate Governance—Conservatorship and Delegation of Authority to Board of Directors" for information about these activities.

Enterprise Risk Management Division

Our Enterprise Risk Management division reports directly to the Chief Risk Officer who reports directly to the Chief Executive Officer. The Chief Risk Officer also reports independently to the Board's Risk Policy & Capital Committee and may be removed only upon Board approval. Enterprise Risk Management is responsible for the identification of emerging risks, the monitoring and reporting of risk within the existing policies and limits, and independent oversight of risk management across the company.

Risk Committees

We use our management-level risk committees as a forum for discussing emerging risks, risk mitigation strategies and communication across business lines. Risk committees enhance the risk management framework by reinforcing our risk

management culture and providing accountability for the resolution of key risk issues and decisions. Each business risk committee is chaired by the head of the business unit. In addition, the business unit chief risk officer can be designated as the committee co-chair or as a member of the committee who is responsible for the oversight of the risks discussed. Committees are also populated with key business and risk leaders from the respective business units.

The primary management-level business risk committees include the Asset Liability Committee, the Enterprise Risk Committee, the Model Oversight Committee and the Operational Risk Committee, as well as specific committees for each line of business. Executive-level risk discussions are held primarily by the Operating Committee, which consists of members of our executive management. On a periodic basis, the Chief Risk Officer prepares a detailed summary of current and emerging risks, compliance with risk limits and other risk reports, and reports on these matters to both the Operating Committee and the Risk Policy & Capital Committee of the Board. The Chief Risk Officer also reports periodically on other topics to the Risk Policy & Capital Committee of the Board, as appropriate.

Internal Audit

Our Internal Audit group, under the direction of the Chief Audit Executive, provides an objective assessment of the design and execution of our internal control system, including our management systems, risk governance and policies and procedures. The Chief Audit Executive reports directly and independently to the Audit Committee of the Board of Directors, and audit personnel are compensated based on objectives set for the group by the Audit Committee rather than corporate financial results or goals. The Chief Audit Executive reports administratively to the Chief Executive Officer and may be removed only upon approval by the Board's Audit Committee. Internal audit activities are designed to provide reasonable assurance that resources are safeguarded; that significant financial, managerial and operating information is complete, accurate and reliable; and that employee actions comply with our policies and applicable laws and regulations.

Compliance and Ethics

The Compliance and Ethics division, under the direction of the Chief Compliance Officer, is dedicated to developing and maintaining policies and procedures to help ensure that Fannie Mae and its employees comply with the law, our Code of Conduct and all regulatory obligations. The Chief Compliance Officer reports directly to our Chief Executive Officer and independently to the Audit Committee of the Board of Directors, and Compliance and Ethics personnel are compensated on objectives set for the group by the Audit Committee of the Board of Directors rather than corporate financial results or goals. The Chief Compliance Officer may be removed only upon Board approval. The Chief Compliance Officer is responsible for overseeing our compliance activities; developing and promoting a code of ethical conduct; evaluating and investigating any allegations of misconduct; and overseeing and coordinating regulatory reporting and examinations.

Credit Risk Management

We are generally subject to two types of credit risk: mortgage credit risk and institutional counterparty credit risk. The metrics used to measure credit risk are generated using internal models. Our internal models require numerous assumptions and there are inherent limitations in any methodology used to estimate macroeconomic factors such as home prices, unemployment and interest rates, and their impact on borrower behavior. When market conditions change rapidly and dramatically, the assumptions of our models may no longer accurately capture or reflect the changing conditions. Management periodically makes judgments about the appropriateness of the risk assessments indicated by the models. See "Risk Factors" for a discussion of the risks associated with our use of models.

Mortgage Credit Risk Management

We are exposed to credit risk on our mortgage credit book of business because we either hold mortgage assets, have issued a guaranty in connection with the creation of Fannie Mae MBS backed by mortgage assets or provided other credit enhancements on mortgage assets. While our mortgage credit book of business includes all of our mortgage-related assets, both on- and off-balance sheet, our guaranty book of business excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty. See "Glossary of Terms Used in This Report" for more detail.

Mortgage Credit Book of Business

Table 32 displays the composition of our mortgage credit book of business based on unpaid principal balance. Our single-family mortgage credit book of business accounted for 93% of our mortgage credit book of business as of December 31, 2014 and 2013.

Table 32: Composition of Mortgage Credit Book of Business

	As of					
	December 31, 2014			December 31, 2013		
	Single-Family	Multifamily	Total	Single-Family	Multifamily	Total
	(Dollars in millions)					
Mortgage loans and Fannie Mae MBS(1)	$2,837,211	$187,300	$3,024,511	$2,862,306	$183,891	$3,046,197
Unconsolidated Fannie Mae MBS, held by third parties(2)	11,660	1,267	12,927	12,430	1,314	13,744
Other credit guarantees(3)	4,033	14,748	18,781	15,183	15,414	30,597
Guaranty book of business	$2,852,904	$203,315	$3,056,219	$2,889,919	$200,619	$3,090,538
Agency mortgage-related securities(4)	6,932	8	6,940	8,992	32	9,024
Other mortgage-related securities(5)	19,973	7,970	27,943	27,563	9,640	37,203
Mortgage credit book of business	$2,879,809	$211,293	$3,091,102	$2,926,474	$210,291	$3,136,765
Guaranty Book of Business Detail:						
Conventional Guaranty Book of Business(6)	$2,795,666	$201,763	$2,997,429	$2,827,169	$198,906	$3,026,075
Government Guaranty Book of Business(7)	$ 57,238	$ 1,552	$ 58,790	$ 62,750	$ 1,713	$ 64,463

(1) Consists of mortgage loans and Fannie Mae MBS recognized in our consolidated balance sheets. The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

(2) The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

(3) Consists of single-family and multifamily credit enhancements that we have provided and that are not otherwise reflected in the table.

(4) Consists of mortgage-related securities issued by Freddie Mac and Ginnie Mae.

(5) Primarily includes mortgage revenue bonds, Alt-A and subprime PLS and CMBS.

(6) Refers to mortgage loans and mortgage-related securities that are not guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies.

(7) Refers to mortgage loans and mortgage-related securities guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies.

New business purchases consist of single-family and multifamily whole mortgage loans purchased during the period and single-family and multifamily mortgage loans underlying lender swaps issued during the period. New business purchases were $409.8 billion for the year ended December 31, 2014 and $759.5 billion for the year ended December 31, 2013.

In the following sections, we discuss the mortgage credit risk of the single-family and multifamily loans in our guaranty book of business. The credit statistics reported below, unless otherwise noted, pertain generally to the portion of our guaranty book of business for which we have access to detailed loan-level information, which constituted approximately 99% of each of our single-family conventional guaranty book of business and our multifamily guaranty book of business, excluding defeased loans, as of December 31, 2014 and 2013. We typically obtain this data from the sellers or servicers of the mortgage loans in our guaranty book of business and receive representations and warranties from them as to the accuracy of the information. While we perform various quality assurance checks by sampling loans to assess compliance with our underwriting and eligibility criteria, we do not independently verify all reported information and we rely on lender representations regarding the accuracy of the characteristics of loans in our guaranty book of business. See “Risk Factors” for a discussion of the risk that we could experience mortgage fraud as a result of this reliance on lender representations.

Single-Family Mortgage Credit Risk Management

Our strategy in managing single-family mortgage credit risk consists of four primary components: (1) our acquisition and servicing policies along with our underwriting and servicing standards, including the use of credit enhancements; (2) portfolio diversification and monitoring; (3) management of problem loans; and (4) REO management. These approaches may increase our expenses and may not be effective in reducing our credit-related expense or credit losses. We provide information on our credit-related income and credit losses in “Consolidated Results of Operations—Credit-Related Income.”

In evaluating our single-family mortgage credit risk, we closely monitor changes in housing and economic conditions and the impact of those changes on the credit risk profile and performance of our single-family mortgage credit book of business. We regularly review and provide updates to our underwriting standards and eligibility guidelines that take into consideration

changing market conditions. The credit risk profile of our single-family mortgage credit book of business is influenced by, among other things, the credit profile of the borrower, features of the loan, such as the loan product type and the type of property securing the loan, the housing market and the general economy. We focus more on those loans that we believe pose a higher risk of default, which typically have been loans associated with higher mark-to-market LTV ratios, loans to borrowers with lower FICO credit scores and certain higher risk loan product categories, such as Alt-A loans. These and other factors affect both the amount of expected credit loss on a given loan and the sensitivity of that loss to changes in the economic environment.

The single-family credit statistics we focus on and report in the sections below generally relate to our single-family conventional guaranty book of business, which represents the substantial majority of our total single-family guaranty book of business. We provide information on non-Fannie Mae mortgage-related securities held in our portfolio in "Note 5, Investments in Securities."

Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards

Our Single-Family business, with the oversight of our Enterprise Risk Management division, is responsible for pricing and managing credit risk relating to the portion of our single-family mortgage credit book of business consisting of single-family mortgage loans and Fannie Mae MBS backed by single-family mortgage loans (whether held in our portfolio or held by third parties). Desktop Underwriter®, our proprietary automated underwriting system which measures credit risk by assessing the primary risk factors of a mortgage, is used to evaluate the majority of the loans we purchase or securitize. As part of our regular evaluation of Desktop Underwriter, we conduct periodic examinations of the underlying risk assessment models and recalibrate the models based on actual loan performance and market assumptions to improve Desktop Underwriter's ability to effectively analyze risk. Subject to our prior approval, we also may purchase and securitize mortgage loans that have been underwritten using other automated underwriting systems, as well as manually underwritten mortgage loans that meet our stated underwriting requirements or meet agreed-upon standards that differ from our standard underwriting and eligibility criteria.

We initiated underwriting and eligibility changes that became effective for deliveries in late 2008 and 2009 that focused on strengthening our underwriting and eligibility standards to promote sustainable homeownership. The result of many of these changes is reflected in the substantially improved risk profile of our single-family loan acquisitions since 2009. We periodically make updates to Desktop Underwriter for underwriting and eligibility changes and changes to our Selling Guide, which sets forth our policies and procedures related to selling single-family mortgages to us.

Our proprietary appraisal analysis application, Collateral Underwriter™, is now available to our lenders. This tool may be used by lenders to analyze appraisals against Fannie Mae's database of appraisals and market data before the loan is delivered to us by providing an overall risk score and detailed messaging to highlight specific aspects of the appraisal that may warrant further attention. Collateral Underwriter will be integrated with Desktop Underwriter to incorporate into a lender's existing underwriting process. Using Collateral Underwriter allows the lender to assess the appraisal and address any issues prior to delivery of the loan to us, which helps lenders mitigate repurchase risk resulting from appraisal representations and warranties.

Table 33 below displays information regarding the credit characteristics of the loans in our single-family conventional guaranty book of business by acquisition period.

Table 33: Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period

	As of December 31, 2014			
	% of Single-Family Conventional Guaranty Book of Business(1)	Current Estimated Mark-to-Market LTV Ratio(2)	Current Estimated Mark-to-Market LTV Ratio >100%(3)	Serious Delinquency Rate(4)
2009-2014 acquisitions, excluding HARP and other Refi Plus loans	62 %	60 %	* %	0.24 %
HARP loans(5)	11	86	19	1.04
Other Refi Plus loans(6)	8	51	*	0.37
2005-2008 acquisitions	12	81	22	8.17
2004 and prior acquisitions	7	48	2	3.28
Total Single-Family Book of Business	100 %	64 %	5 %	1.89 %

	As of December 31, 2013			
	% of Single-Family Conventional Guaranty Book of Business[1]	Current Estimated Mark-to-Market LTV Ratio[2]	Current Estimated Mark-to-Market LTV Ratio >100%[3]	Serious Delinquency Rate[4]
2009-2013 acquisitions, excluding HARP and other Refi Plus loans	57 %	61 %	* %	0.23 %
HARP loans[5]	11	91	25	0.84
Other Refi Plus loans[6]	9	53	*	0.31
2005-2008 acquisitions	15	86	27	9.32
2004 and prior acquisitions	8	50	3	3.52
Total Single-Family Book of Business	100 %	67 %	7 %	2.38 %

* Represents less than 0.5%.

(1) Calculated based on the aggregate unpaid principal balance of single-family loans for each category divided by the aggregate unpaid principal balance of loans in our single-family conventional guaranty book of business as of December 31, 2014 and 2013.

(2) The aggregate estimated mark-to-market LTV ratio is based on the unpaid principal balance of the loans as of the end of the applicable period divided by the estimated current value of the properties, which we calculate using an internal valuation model that estimates periodic changes in home value. Excludes loans for which this information is not readily available.

(3) The current estimated mark-to-market LTV ratio greater than 100% is based on the unpaid principal balance of the loans with mark-to-market LTV ratios greater than 100% for each category as of the end of the applicable period divided by the aggregate unpaid principal balance of loans for each category in our single-family conventional guaranty book of business as of December 31, 2014 and 2013.

(4) The serious delinquency rates for loans acquired in more recent years will be higher after the loans have aged, but we do not expect them to approach the levels of the December 31, 2014 serious delinquency rates of loans acquired in 2005 through 2008.

(5) HARP loans, which we began to acquire in 2009, have LTV ratios at origination in excess of 80%. In the fourth quarter of 2012, we revised our presentation of the data to reflect all loans under our Refi Plus program with LTV ratios at origination in excess of 80% as HARP loans. Previously we did not reflect loans that were backed by second homes or investor properties as HARP loans.

(6) Other Refi Plus loans, which we began to acquire in 2009, includes all other Refi Plus loans that are not HARP loans.

Beginning with loans delivered in 2013, and in conjunction with our new representation and warranty framework that is discussed below, we have made changes in our quality control process that move the primary focus of our quality control reviews from the time a loan defaults to shortly after the loan is delivered to us. We have implemented new tools to help identify loans delivered to us that may not have met our underwriting or eligibility guidelines and use these tools to help select discretionary and random samples of performing loans for quality control reviews shortly after delivery. Our quality control includes reviewing and recording underwriting defects noted in the file, and determining if the loan met our underwriting and eligibility guidelines. We also use these reviews to provide lenders with earlier feedback on underwriting defects. We derive an eligibility defect rate from our random reviews, which represents the proportion of loans in the sample population with underwriting defects that would make them potentially ineligible for delivery to us. The eligibility defect rate does not necessarily indicate how well the loans will ultimately perform. Instead, we use it to estimate the percentage of loans we acquired that potentially had a significant error in the underwriting process.

As of February 12, 2015, the eligibility defect rate for our single-family non-Refi Plus loan acquisitions in 2013 was 1.52%. Because of enhancements to the sampling methodology of our random reviews that we implemented in 2013, the eligibility defect rate for our 2013 loan acquisitions is not directly comparable to the “significant findings rate” we reported on our acquisitions in prior periods. We continue to work with lenders to reduce the number of defects identified.

We continue to actively pursue our contractual rights associated with outstanding repurchase requests. Failure by a mortgage seller or servicer to repurchase a loan or to otherwise make us whole for our losses may result in the imposition of certain sanctions including, but not limited to:

- requiring the posting of collateral,
- denying transfer of servicing requests or denying pledged servicing requests,
- modifying or suspending any contract or agreement with a lender, or
- suspending or terminating a lender or imposing some other formal sanction on a lender.

If we are unable to resolve our repurchase requests, either through collection or additional remedies, we will not recover the losses we have recognized on the associated loans. The unpaid principal balance of our outstanding repurchase requests was

$1.0 billion as of December 31, 2014, compared with $1.5 billion as of December 31, 2013. The amount of our outstanding repurchase requests is based on the unpaid principal balance of the loans underlying the repurchase requests and does not reflect the actual amount we have requested from the mortgage sellers or servicers, or the amount we ultimately believe we are going to collect, because in some cases we allow mortgage sellers or servicers to remit payment to make us whole for our losses, which is less than the unpaid principal balance of the loan.

As of December 31, 2014, 0.33% of the $728.6 billion of unpaid principal balance of single-family loans acquired in 2013 had been subject to a repurchase request, compared with 0.18% of the $2.70 trillion of unpaid principal balance of single-family loans acquired between 2009 and 2012 and 3.75% of the $2.33 trillion of unpaid principal balance of single-family loans acquired between 2005 and 2008. We believe the slightly higher percentage of repurchase requests for our 2013 acquisitions as compared with our 2009 to 2012 acquisitions is due to the new tools we implemented in 2013 that have improved our ability to identify loans with underwriting defects, as well as our shift in the primary focus of our quality control reviews from the time a loan defaults to shortly after the loan is delivered to us. We substantially completed our up-front loan reviews for potential underwriting defects on the loans we acquired in 2013 by the end of 2014. We will continue to review loans acquired beginning in 2009 for underwriting defects if a loan defaults and has not previously been reviewed and, for loans acquired beginning in 2013, if it has not already met the criteria for repurchase relief.

Representation and Warranty Framework

Our representation and warranty framework for single-family mortgage loans delivered on or after January 1, 2013, which is part of FHFA's seller-servicer contract harmonization initiative, seeks to provide lenders a higher degree of certainty and clarity regarding their repurchase exposure and liability on future deliveries, as well as consistency around repurchase timelines and remedies. Under the framework, lenders are relieved of repurchase liability for loans that meet specific payment history requirements and other eligibility requirements. For example, a lender would not be required to repurchase a mortgage loan in breach of certain underwriting and eligibility representations and warranties if the borrower has made timely payments for 36 months following the delivery date (or, for Refi Plus loans, including HARP loans, for 12 months following the delivery date), and the loan meets other specified eligibility requirements. Certain representations and warranties are "life of loan" representations and warranties, meaning that no relief from their enforcement is available to lenders regardless of the number of payments made by a borrower. Examples of life of loan representations and warranties include, but are not limited to, a lender's representation and warranty that it has originated the loan in compliance with applicable laws and that the loan conforms to our charter requirements.

In May 2014, at FHFA's direction, we and Freddie Mac announced changes to our representation and warranty framework effective for single-family mortgage loans delivered on or after July 1, 2014. The primary changes to the framework consisted of relaxing the 36-month timely payment history requirement to permit two instances of 30-day delinquency and adding an alternative path to relief if there is a satisfactory conclusion of a quality control review.

In November 2014, we and Freddie Mac announced additional changes and clarifications to our representation and warranty framework effective for single-family mortgage loans delivered on or after January 1, 2013, except for loans for which Fannie Mae has issued a repurchase request prior to November 20, 2014. The primary change to the framework was a significance test for post-relief date remedies related to misrepresentations or data inaccuracies. Under the significance test, we clarified that we will only seek repurchase on these loans if we would not have purchased the loans had we known the accurate information at the time of delivery. In addition, for whole loans delivered after November 20, 2014, and mortgage loans delivered into MBS with pool issue dates on or after December 1, 2014, we will only seek repurchase of a loan for failure to comply with applicable laws if we determine the failure to comply with laws could be expected to impair our rights under the note or mortgage, the failure to comply with laws could be expected to impose assignee liability on Fannie Mae, or if one of a specified list of laws or regulations is or may have been violated. All other remedies are unaffected by this change.

We continue to work with FHFA to identify opportunities to enhance our framework to provide the mortgage finance industry with more certainty and clarity regarding selling representation and warranty obligations.

As of December 31, 2014, approximately 29% of the outstanding loans in our single-family conventional guaranty book of business were acquired under the new representation and warranty framework, compared with 20% as of December 31, 2013. Table 34 below displays information regarding the relief status of single-family conventional loans, based on payment history, delivered to us beginning in 2013 under the new representation and warranty framework.

Table 34: Representation and Warranty Status of Single-Family Conventional Loans Acquired in 2013-2014

	As of December 31, 2014					
	Refi Plus		Non-Refi Plus		Total	
	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans
	(Dollars in millions)					
Single-family conventional loans that:						
Obtained relief	$ 141,393	927,345	$ —	—	$ 141,393	927,345
Remain eligible for relief	47,154	319,830	781,590	3,733,863	828,744	4,053,693
Are not eligible for relief	2,686	16,890	9,043	44,387	11,729	61,277
Total outstanding loans acquired under the new representation and warranty framework	$ 191,233	1,264,065	$ 790,633	3,778,250	$ 981,866	5,042,315

	As of December 31, 2013					
	Refi Plus		Non-Refi Plus		Total	
	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans
	(Dollars in millions)					
Single-family conventional loans that:						
Obtained relief	$ —	—	$ —	—	$ —	—
Remain eligible for relief	158,025	1,000,147	537,887	2,460,012	695,912	3,460,159
Are not eligible for relief	802	4,844	515	2,582	1,317	7,426
Total outstanding loans acquired under the new representation and warranty framework	$ 158,827	1,004,991	$ 538,402	2,462,594	$ 697,229	3,467,585

As of December 31, 2014, approximately 18% of loans acquired under the new representation and warranty framework had obtained relief. Providing lenders with relief from repurchasing loans for breaches of certain representations and warranties on loans acquired beginning in 2013 that meet specified eligibility requirements shifts some of the risk of non-compliance with our requirements back to us. However, we believe that we have taken appropriate steps to mitigate this risk, including moving the primary focus of our quality control reviews to shortly after the time the loans are delivered to us. We also retain the right to review any defaulted loans that were not previously reviewed and have not obtained relief, in addition to retaining the right to review all loans for any violations of life of loan representations and warranties.

Credit Enhancements

As discussed in "Business—Our Charter and Regulation of Our Activities—Charter Act," our charter generally requires credit enhancement on any single-family conventional mortgage loan that we purchase or securitize if it has an LTV ratio over 80% at the time of purchase. However, under HARP, we allow our borrowers who have mortgage loans with current LTV ratios above 80% to refinance their mortgages without obtaining new mortgage insurance in excess of what was already in place. See "Credit Profile Summary—HARP and Refi Plus Loans" below for more discussion of HARP and its impact on our single-family conventional business volume and guaranty book of business.

Borrower-paid primary mortgage insurance is the most common type of credit enhancement in our single-family guaranty book of business. Primary mortgage insurance transfers varying portions of the credit risk associated with a mortgage loan to a third-party insurer. In order for us to receive a payment in settlement of a claim under a primary mortgage insurance policy, the insured loan must be in default and the borrower's interest in the property that secured the loan must have been extinguished, generally in a foreclosure action. The claims process for primary mortgage insurance typically takes three to six months after title to the property has been transferred.

Mortgage insurers may also provide pool mortgage insurance, which is insurance that applies to a defined group of loans. Pool mortgage insurance benefits typically are based on actual loss incurred and are subject to an aggregate loss limit. Under some of our pool mortgage insurance policies, we are required to meet specified loss deductibles before we can recover under the policy. We typically collect claims under pool mortgage insurance three to six months after disposition of the property that secured the loan. For a discussion of our aggregate mortgage insurance coverage as of December 31, 2014 and 2013, see "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Credit Guarantors—Mortgage Insurers."

Risk-Sharing Transactions

FHFA's 2014 conservatorship scorecard included an objective to transact credit risk transfers on single-family mortgages with at least $90 billion of unpaid principal balance, adjusted for the amount of credit risk transferred. Our primary method of achieving this objective was through the issuance of CAS, which transfer some of the credit risk associated with losses on the underlying mortgage loans to investors in these securities. During 2014, we issued $5.8 billion in CAS, transferring some of the credit risk on single-family mortgages with an unpaid principal balance of $222.2 billion. In addition to our CAS offerings, we executed additional types of credit risk sharing transactions in 2014. For information on our credit risk transfer transaction with a panel of reinsurers, see "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Credit Guarantors—Reinsurers."

In a CAS transaction, we create a reference pool consisting of recently acquired single-family mortgage loans included in our single-family guaranty book of business in our consolidated balance sheet. We then create a hypothetical securitization structure with notional credit risk positions, or tranches (e.g., first loss, mezzanine and senior). We receive cash and issue CAS (which relate to the mezzanine loss position) to investors, which we recognize as "Debt of Fannie Mae" in our consolidated balance sheet.

We are obligated to make payments of principal and interest on the CAS, and we recognize the interest paid as "Long-term debt interest expense" in our consolidated statements of operations and comprehensive income. The principal balance of the CAS is reduced as a result of principal liquidations of loans in the reference pool or when certain specified credit events (such as a loan becoming 180 days delinquent) occur on the loans in the reference pool. In turn, these credit events may reduce the total amount of payments we ultimately make on the CAS. However, principal reductions will first occur on the first loss position, which is retained by us, until it is fully reduced before the CAS begin participating in reductions to the principal balances. As the reference pools underlying CAS issued to date consist of recently acquired single-family mortgage loans (loans in the reference pools underlying the 2014 transactions were acquired between October 2012 and August 2013), we have recognized minimal credit losses on loans in these reference pools to date.

Table 35 displays the credit risk transferred to third parties and retained by Fannie Mae pursuant to our 2013 and 2014 CAS transactions.

Table 35: Credit Risk Transferred Pursuant to CAS Issuances

	At Issuance					As of December 31, 2014
	Retained by Fannie Mae			Transferred to Third Parties		
	First Loss Position	Mezzanine Loss Position	Senior Loss Position	Mezzanine Loss Position	Total Reference Pool	Total Outstanding Reference Pool[(1)]
	(Dollars in millions)					
2014 CAS issuances:						
CAS 2014 C01	$ 88	$ 41	$ 28,430	$ 750	$ 29,309	$ 27,400
CAS 2014 C02	231	98	58,889	1,600	60,818	57,972
CAS 2014 C03	301	138	75,734	2,050	78,223	75,557
CAS 2014 C04	225	78	52,122	1,449	53,874	53,401
Total 2014 CAS issuances	$ 845	$ 355	$ 215,175	$ 5,849	$222,224	$ 214,330
Prior year CAS issuances:						
CAS 2013 C01	80	47	25,954	675	26,756	24,433
Total CAS issuances	$ 925	$ 402	$ 241,129	$ 6,524	$248,980	$ 238,763
Total outstanding reference pool as a percentage of single-family conventional guaranty book of business						8.54 %

(1) Includes $6.2 billion outstanding for the mezzanine loss tranche transferred to third parties as of December 31, 2014.

FHFA's 2015 conservatorship scorecard includes an objective that we transact credit risk transfers on reference pools of single-family mortgages with an unpaid principal balance of at least $150 billion in 2015, with this unpaid principal balance requirement to be reviewed periodically and adjusted as necessary to reflect market conditions. In meeting this target, we must utilize at least two types of risk transfer structures.

Single-Family Portfolio Diversification and Monitoring

Diversification within our single-family mortgage credit book of business by product type, loan characteristics and geography is an important factor that influences credit quality and performance and may reduce our credit risk. We monitor various loan attributes, in conjunction with housing market and economic conditions, to determine if our pricing, eligibility and underwriting criteria accurately reflect the risk associated with loans we acquire or guarantee. In some cases, we may decide to significantly reduce our participation in riskier loan product categories. We also review the payment performance of loans in order to help identify potential problem loans early in the delinquency cycle and to guide the development of our loss mitigation strategies.

The profile of our guaranty book of business is comprised of the following key loan attributes:

- *LTV ratio.* LTV ratio is a strong predictor of credit performance. The likelihood of default and the gross severity of a loss in the event of default are typically lower as the LTV ratio decreases. This also applies to the estimated mark-to-market LTV ratios, particularly those over 100%, as this indicates that the borrower's mortgage balance exceeds the property value.
- *Product type.* Certain loan product types have features that may result in increased risk. Generally, intermediate-term, fixed-rate mortgages exhibit the lowest default rates, followed by long-term, fixed-rate mortgages. Historically, adjustable-rate mortgages ("ARMs"), including negative-amortizing and interest-only loans, and balloon/reset mortgages have exhibited higher default rates than fixed-rate mortgages, partly because the borrower's payments rose, within limits, as interest rates changed.
- *Number of units.* Mortgages on one-unit properties tend to have lower credit risk than mortgages on two-, three- or four-unit properties.
- *Property type.* Certain property types have a higher risk of default. For example, condominiums generally are considered to have higher credit risk than single-family detached properties.
- *Occupancy type.* Mortgages on properties occupied by the borrower as a primary or secondary residence tend to have lower credit risk than mortgages on investment properties.
- *Credit score.* Credit score is a measure often used by the financial services industry, including our company, to assess borrower credit quality and the likelihood that a borrower will repay future obligations as expected. A higher credit score typically indicates lower credit risk.
- *Loan purpose.* Loan purpose refers to how the borrower intends to use the funds from a mortgage loan—either for a home purchase or refinancing of an existing mortgage. Cash-out refinancings have a higher risk of default than either mortgage loans used for the purchase of a property or other refinancings that restrict the amount of cash returned to the borrower.
- *Geographic concentration.* Local economic conditions affect borrowers' ability to repay loans and the value of collateral underlying loans. Geographic diversification reduces mortgage credit risk.
- *Loan age.* We monitor year of origination and loan age, which is defined as the number of years since origination. Credit losses on mortgage loans typically do not peak until the third through six years following origination; however, this range can vary based on many factors, including changes in macroeconomic conditions and foreclosure timelines.

Table 36 displays our single-family conventional business volumes and our single-family conventional guaranty book of business, based on certain key risk characteristics that we use to evaluate the risk profile and credit quality of our single-family loans.

Table 36: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business(1)

	Percent of Single-Family Conventional Business Volume(2) For the Year Ended December 31,			Percent of Single-Family Conventional Guaranty Book of Business(3)(4) As of December 31,		
	2014	2013	2012	2014	2013	2012
Original LTV ratio:(5)						
<= 60%	16 %	22 %	25 %	21 %	22 %	23 %
60.01% to 70%	12	14	15	14	15	15
70.01% to 80%	40	35	35	38	38	39
80.01% to 90%(6)	13	10	9	11	10	10
90.01% to 100%(6)	16	12	8	11	10	10
100.01% to 125%(6)	2	4	5	3	3	2
Greater than 125%(6)	1	3	3	2	2	1
Total	100 %	100 %	100 %	100 %	100 %	100 %
Weighted average	77 %	76 %	75 %	75 %	74 %	73 %
Average loan amount	$ 202,834	$ 204,750	$ 213,515	$ 159,997	$ 160,357	$ 157,512
Estimated mark-to-market LTV ratio:(7)						
<= 60%				42 %	38 %	28 %
60.01% to 70%				19	19	15
70.01% to 80%				18	19	22
80.01% to 90%				10	11	13
90.01% to 100%				6	6	9
100.01% to 125%				4	5	8
Greater than 125%				1	2	5
Total				100 %	100 %	100 %
Weighted average				64 %	67 %	75 %
Product type:						
Fixed-rate:(8)						
Long-term	78 %	76 %	74 %	74 %	72 %	72 %
Intermediate-term	17	22	23	17	18	17
Interest-only	—	*	*	1	1	1
Total fixed-rate	95	98	97	92	91	90
Adjustable-rate:						
Interest-only	*	*	*	2	2	3
Other ARMs	5	2	3	6	7	7
Total adjustable-rate	5	2	3	8	9	10
Total	100 %	100 %	100 %	100 %	100 %	100 %
Number of property units:						
1 unit	97 %	97 %	98 %	97 %	97 %	97 %
2-4 units	3	3	2	3	3	3
Total	100 %	100 %	100 %	100 %	100 %	100 %
Property type:						
Single-family homes	90 %	90 %	91 %	91 %	91 %	91 %
Condo/Co-op	10	10	9	9	9	9
Total	100 %	100 %	100 %	100 %	100 %	100 %

Occupancy type:						
Primary residence	87 %	87 %	89 %	88 %	88 %	89 %
Second/vacation home	4	4	4	4	4	4
Investor	9	9	7	8	8	7
Total	100 %	100 %	100 %	100 %	100 %	100 %

	Percent of Single-Family Conventional Business Volume[2] For the Year Ended December 31,			Percent of Single-Family Conventional Guaranty Book of Business[3][4] As of December 31,		
	2014	2013	2012	2014	2013	2012
FICO credit score at origination:						
< 620[9]	1 %	1 %	1 %	3 %	3 %	3 %
620 to < 660	6	4	2	5	5	6
660 to < 700	13	10	7	12	12	12
700 to < 740	21	18	16	19	19	20
>= 740	59	67	74	61	61	59
Total	100 %	100 %	100 %	100 %	100 %	100 %
Weighted average	744	753	761	744	744	742
Loan purpose:						
Purchase	52 %	30 %	21 %	31 %	28 %	28 %
Cash-out refinance	16	14	14	20	21	24
Other refinance	32	56	65	49	51	48
Total	100 %	100 %	100 %	100 %	100 %	100 %
Geographic concentration:[10]						
Midwest	15 %	14 %	16 %	15 %	15 %	15 %
Northeast	15	17	17	19	19	19
Southeast	20	20	19	22	22	23
Southwest	20	17	16	16	16	16
West	30	32	32	28	28	27
Total	100 %	100 %	100 %	100 %	100 %	100 %
Origination year:						
< = 2005				10 %	13 %	18 %
2006				3	3	5
2007				4	5	7
2008				2	3	5
2009				6	7	11
2010				9	10	13
2011				10	11	15
2012				24	26	26
2013				21	22	—
2014				11	—	—
Total				100 %	100 %	100 %

* Represents less than 0.5% of single-family conventional business volume or book of business.

(1) Second lien mortgage loans held by third parties are not reflected in the original LTV or mark-to-market LTV ratios in this table.

(2) Calculated based on unpaid principal balance of single-family loans for each category at time of acquisition.

(3) Calculated based on the aggregate unpaid principal balance of single-family loans for each category divided by the aggregate unpaid principal balance of loans in our single-family conventional guaranty book of business as of the end of each period.

(4) Our single-family conventional guaranty book of business includes jumbo-conforming and high-balance loans that represented approximately 5% of our single-family conventional guaranty book of business as of December 31, 2014, 2013 and 2012. See "Business—Our Charter and Regulation of Our Activities—Charter Act—Loan Standards" and "Credit Profile Summary—Jumbo-Conforming and High-Balance Loans" for information on our loan limits.

(5)

The original LTV ratio generally is based on the original unpaid principal balance of the loan divided by the appraised property value reported to us at the time of acquisition of the loan. Excludes loans for which this information is not readily available.

(6) We purchase loans with original LTV ratios above 80% as part of our mission to serve the primary mortgage market and provide liquidity to the housing finance system. Except as permitted under HARP, our charter generally requires primary mortgage insurance or other credit enhancement for loans that we acquire that have an LTV ratio over 80%.

(7) The aggregate estimated mark-to-market LTV ratio is based on the unpaid principal balance of the loan as of the end of each reported period divided by the estimated current value of the property, which we calculate using an internal valuation model that estimates periodic changes in home value. Excludes loans for which this information is not readily available.

(8) Long-term fixed-rate consists of mortgage loans with maturities greater than 15 years, while intermediate-term fixed-rate loans have maturities equal to or less than 15 years. Loans with interest-only terms are included in the interest-only category regardless of their maturities.

(9) Loans acquired after 2009 with FICO credit scores below 620 consist primarily of the refinance of existing loans under our Refi Plus initiative.

(10) Midwest consists of IL, IN, IA, MI, MN, NE, ND, OH, SD and WI. Northeast consists of CT, DE, ME, MA, NH, NJ, NY, PA, PR, RI, VT and VI. Southeast consists of AL, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA and WV. Southwest consists of AZ, AR, CO, KS, LA, MO, NM, OK, TX and UT. West consists of AK, CA, GU, HI, ID, MT, NV, OR, WA and WY.

Credit Profile Summary

Overview

Our acquisition of loans with original LTV ratios over 80% increased to 32% in 2014, compared with 29% in 2013. This increase was primarily due to an increase in our acquisitions of home purchase mortgage loans, which increased to 52% in 2014, compared with 30% in 2013, and a corresponding decline in our acquisitions of refinance loans. Our acquisitions of loans with FICO credit scores at origination of 740 or above decreased to 59% in 2014, compared with 67% in 2013. Our acquisition of loans with FICO credit scores at origination of less than 700 increased to 20% in 2014, compared with 15% in 2013. The weighted average FICO credit score at origination of our acquisitions decreased to 744 in 2014, compared with 753 in 2013.

Although our acquisitions in 2014 included a greater proportion of loans with higher LTV ratios or lower FICO credit scores compared with our acquisitions in 2013, our acquisitions in 2014 continued to have a strong credit profile with a weighted average original LTV ratio of 77% and a weighted average FICO credit score of 744. The average original LTV ratio of single-family loans we acquired in 2014, excluding HARP loans, was 75%, compared with 102% for HARP loans. The weighted average FICO credit score at origination of the single-family mortgage loans we acquired in 2014, excluding HARP loans, was 746, compared with 704 for HARP loans.

The credit profile of our future acquisitions will depend on many factors, including our future pricing and eligibility standards and those of mortgage insurers, FHA and VA, the percentage of loan originations representing refinancings, changes in interest rates, our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers, government policy, market and competitive conditions, and the volume and characteristics of HARP loans we acquire in the future. We expect the ultimate performance of all our loans will be affected by borrower behavior, public policy and macroeconomic trends, including unemployment, the economy and home prices. In addition, if lender customers retain more of the higher-quality loans they originate, it could negatively affect the credit profile of our new single-family acquisitions. We discuss our efforts to increase access to mortgage credit for creditworthy borrowers in "Business—Executive Summary—Single-Family Guaranty Book of Business—Recently Acquired Single-Family Loans."

HARP and Refi Plus Loans

Since 2009, we have offered HARP under our Refi Plus initiative, which was designed to expand refinancing opportunities for borrowers who may otherwise be unable to refinance their mortgage loans due to a decline in home values. HARP offers additional refinancing flexibility to eligible borrowers who are current on their loans and whose loans are owned or guaranteed by us and meet certain additional criteria. Under HARP, we allow our borrowers who have mortgage loans that have note dates prior to June 2009 with current LTV ratios greater than 80% to refinance their mortgages without obtaining new mortgage insurance in excess of what is already in place. Accordingly, HARP loans have LTV ratios at origination in excess of 80%. HARP loans cannot (1) be an adjustable-rate mortgage loan, if the initial fixed period is less than five years; (2) have an interest only feature, which permits the payment of interest without a payment of principal; (3) be a balloon mortgage loan; or (4) have the potential for negative amortization. In April 2013, FHFA announced the extension of the ending date for HARP to December 31, 2015.

The loans we acquire under HARP have higher LTV ratios than we would otherwise permit, greater than 100% in some cases. Since 2012, we have permitted HARP loans with LTV ratios greater than 125% for fixed-rate loans of eligible borrowers. In addition to the high LTV ratios that characterize HARP loans, some borrowers for HARP and Refi Plus loans may also have lower FICO credit scores and may provide less documentation than we would otherwise require. As of December 31, 2014,

HARP loans, which constituted 11% of our single-family book of business, had a weighted average FICO credit score at origination of 731 compared with 744 for loans in our single-family book of business overall.

Loans we acquire under Refi Plus and HARP represent refinancings of loans that are already in our guaranty book of business. The credit risk associated with the newly acquired loans essentially replaces the credit risk on the loans that we already held prior to the refinancing. These loans have higher risk profiles and higher serious delinquency rates than the other loans we have acquired since the beginning of 2009. However, we expect these loans will perform better than the loans they replace because HARP and Refi Plus loans should either reduce the borrowers' monthly payments or provide more stable terms than the borrowers' old loans (for example, by refinancing into a mortgage with a fixed interest rate instead of an adjustable rate).

The percentage of our acquisitions that are refinanced loans, including loans acquired under our Refi Plus initiative, which includes HARP, has continued to decline. HARP loans constituted approximately 6% of our total single-family acquisitions in 2014, compared with approximately 14% of total single-family acquisitions in 2013 and 16% in 2012. We expect the volume of refinancings under HARP to continue to decline, due to a decrease in the population of borrowers with loans that have high LTV ratios who are willing to refinance and would benefit from refinancing.

For information on the serious delinquency rates and current mark-to-market LTV ratios as of December 31, 2014 and 2013 of single-family loans we acquired under HARP and Refi Plus, compared with other single-family loans we have acquired, see "Table 33: Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period."

Alt-A Loans

We classify certain loans as Alt-A so that we can discuss our exposure to Alt-A loans in this Form 10-K and elsewhere. However, there is no universally accepted definition of Alt-A loans. Our single-family conventional guaranty book of business includes loans with some features that are similar to Alt-A loans that we have not classified as Alt-A because they do not meet our classification criteria.

We do not rely solely on our classifications of loans as Alt-A to evaluate the credit risk exposure relating to these loans in our single-family conventional guaranty book of business. For more information about the credit risk characteristics of loans in our single-family guaranty book of business, see "Table 36: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business," "Note 3, Mortgage Loans" and "Note 16, Concentrations of Credit Risk."

Our exposure to Alt-A loans included in our single-family conventional guaranty book of business, based on the classification criteria described in this section, does not include (1) our investments in private-label mortgage-related securities backed by Alt-A loans or (2) resecuritizations, or wraps, of private-label mortgage-related securities backed by Alt-A mortgage loans that we have guaranteed. See "Note 5, Investments in Securities" for more information on our exposure to private-label mortgage-related securities backed by Alt-A loans. As a result of our decision to discontinue the purchase of newly originated Alt-A loans, except for those that represent the refinancing of a loan we acquired prior to 2009, we expect our acquisitions of Alt-A mortgage loans to continue to be minimal in future periods and the percentage of the book of business attributable to Alt-A to continue to decrease over time.

We have classified a mortgage loan as Alt-A if and only if the lender that delivered the loan to us classified the loan as Alt-A, based on documentation or other features. The unpaid principal balance of Alt-A loans included in our single-family conventional guaranty book of business of $116.6 billion as of December 31, 2014, represented approximately 4% of our single-family conventional guaranty book of business.

Jumbo-Conforming and High-Balance Loans

The outstanding unpaid principal balance of our jumbo-conforming and high-balance loans was $145.0 billion, or 5.2% of our single-family conventional guaranty book of business as of December 31, 2014 compared with $142.3 billion, or 5.0% of our single-family conventional guaranty book of business as of December 31, 2013. The standard conforming loan limit for a one-unit property was $417,000 in 2014 and 2013. From 2008 to 2011, our loan limits were higher in specified high-cost areas, reaching as high as $729,750 for one-unit properties; however, our loan limits for loans originated after September 30, 2011 decreased in specified high-cost areas to an amount not to exceed $625,500 for one-unit properties. Our current loan limits apply to all new acquisitions; therefore, we cannot refinance any of our existing loans that are above our current loan limits. See "Business—Our Charter and Regulation of Our Activities—Charter Act—Loan Standards" for additional information on our loan limits.

Reverse Mortgages

The outstanding unpaid principal balance of reverse mortgage loans and Fannie Mae MBS backed by reverse mortgage loans in our guaranty book of business was $44.7 billion as of December 31, 2014 and $48.0 billion as of December 31, 2013. Since December 2010, we ceased acquisitions of newly originated reverse mortgages. The principal balance of our reverse mortgage loans could increase over time, as each month the scheduled and unscheduled payments, interest, mortgage insurance premium, servicing fee and default-related costs accrue to increase the unpaid principal balance. The majority of these loans are home equity conversion mortgages insured by the federal government through FHA. Because home equity conversion mortgages are insured by the federal government, we believe that we have limited exposure to credit losses on these loans.

Mortgage Rate Resets

Adjustable-rate mortgages ("ARMs") are mortgage loans with an interest rate that adjusts periodically over the life of the mortgage based on changes in a specified index. Interest-only loans allow the borrower to pay only the monthly interest due, and none of the principal, for a fixed term. The majority of our interest-only loans are ARMs. Our negative-amortizing loans are ARMs that allow the borrower to make monthly payments that are less than the interest actually accrued for the period. The unpaid interest is added to the principal balance of the loan, which increases the outstanding loan balance. ARMs represented approximately 8% of our single-family conventional guaranty book of business as of December 31, 2014.

Rate reset modifications are mortgage loans we have modified with terms that include a reduction in the borrowers' interest rate that is fixed for an initial period and is followed by one or more annual interest rate increases in the future. The majority of our rate reset modifications are performing HAMP modifications with fixed interest rates for an initial five year period followed by one or more annual interest rate increases, of up to one percent per year, until the mortgage rate reaches the prevailing market rate at the time of modification.

Table 37 displays information for ARMs, rate reset modifications and fixed-rate interest-only loans in our single-family guaranty book of business, aggregated by product type and categorized by the year of their next scheduled contractual reset date. The contractual reset is either an adjustment to the loan's interest rate or a scheduled change to the loan's monthly payment to begin to reflect the payment of principal. The timing of the actual reset dates may differ from those presented due to a number of factors, including refinancing or exercising of other provisions within the terms of the mortgage.

Table 37: Single-Family Adjustable-Rate Mortgage and Rate Reset Modifications by Year[(1)]

	Reset Year						
	2015	2016	2017	2018	2019	Thereafter	Total
	(Dollars in millions)						
ARMs—Amortizing	$ 34,933	$ 6,669	$ 7,175	$ 9,537	$ 14,240	$ 20,511	$ 93,065
ARMs—Interest Only	28,879	1,188	1,500	1,046	1,081	2,274	35,968
ARMs—Negative Amortizing	3,791	154	2	—	—	—	3,947
Rate Reset Modifications	50,122	19,166	8,684	5,957	4,123	151	88,203
Fixed-Rate Interest Only	486	2,534	4,913	1,021	50	314	9,318

(1) Excludes loans for which there is not an additional reset for the remaining life of the loan.

We have not observed a materially different performance trend for interest-only loans or negative-amortizing loans that have recently reset as compared to those that are still in the initial period. We believe the current performance trend is the result of the current low interest rate environment and do not expect this trend to continue if interest rates rise significantly. We discuss interest rate resets for modifications in "Problem Loan Management—Loan Workout Metrics" below.

Problem Loan Management

Our problem loan management strategies are primarily focused on reducing defaults to avoid losses that would otherwise occur and pursuing foreclosure alternatives to attempt to minimize the severity of the losses we incur. If a borrower does not make required payments, or is in jeopardy of not making payments, we work with the servicers of our loans to offer workout solutions to minimize the likelihood of foreclosure as well as the severity of loss. Our loan workouts reflect our various types of home retention solutions, including loan modifications, repayment plans and forbearances, and foreclosure alternatives, including short sales and deeds-in-lieu of foreclosure. When appropriate, we seek to move to foreclosure expeditiously.

We seek to improve the servicing of our delinquent loans through a variety of means, including improving our communications with and training of our servicers, directing servicers to contact borrowers at an earlier stage of delinquency and improve their telephone communications with borrowers, and holding our servicers accountable for following our requirements. In 2011, we issued new standards for mortgage servicers regarding the management of delinquent loans, default prevention and foreclosure time frames under FHFA's directive to align GSE policies for servicing delinquent mortgages. The new standards, reinforced by new incentives and compensatory fees, require servicers to take a more consistent approach for homeowner communications, loan modifications and other workouts, and, when necessary, foreclosures.

In addition to the new standards, we took other steps to improve the servicing of our delinquent loans, which included transferring servicing on loan populations that include loans with higher-risk characteristics to special servicers with which we have worked to develop high-touch protocols for servicing these loans. We believe retaining special servicers to service these loans using high-touch protocols will reduce our future credit losses on the transferred loan portfolio. We continue to work with some of our servicers to test and implement high-touch servicing protocols designed for managing higher-risk loans, which include lower ratios of loans per servicer employee, beginning borrower outreach strategies earlier in the delinquency cycle and establishing a single point of contact for distressed borrowers.

The efforts of our mortgage servicers are critical in keeping people in their homes and preventing foreclosures. We continue to work with our servicers to implement our foreclosure prevention initiatives effectively and to find ways to enhance our workout protocols and their workflow processes.

In the following section, we present statistics on our problem loans, describe specific efforts undertaken to manage these loans and prevent foreclosures, and provide metrics regarding the performance of our loan workout activities. Unless otherwise noted, single-family delinquency data is calculated based on number of loans. We include single-family conventional loans that we own and those that back Fannie Mae MBS in the calculation of the single-family delinquency rate. Seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. Percentage of book outstanding calculations are based on the unpaid principal balance of loans for each category divided by the unpaid principal balance of our total single-family guaranty book of business for which we have detailed loan-level information.

Problem Loan Statistics

Table 38 displays the delinquency status of loans in our single-family conventional guaranty book of business (based on number of loans) and changes in the balance of seriously delinquent loans in our single-family conventional guaranty book of business.

Table 38: Delinquency Status and Activity of Single-Family Conventional Loans

	As of December 31,		
	2014	2013	2012
Delinquency status:			
30 to 59 days delinquent	1.47%	1.64%	1.96%
60 to 89 days delinquent	0.43	0.49	0.66
Seriously delinquent (“SDQ”)	1.89	2.38	3.29
Percentage of SDQ loans that have been delinquent for more than 180 days	70%	73%	72%
Percentage of SDQ loans that have been delinquent for more than two years	34	36	30
	For the Year Ended December 31,		
	2014	**2013**	**2012**
Single-family SDQ loans (number of loans):			
Beginning balance	418,837	576,591	690,911
Additions	306,464	378,027	512,618
Removals:			
Modifications and other loan workouts	(118,860)	(157,336)	(165,489)
Liquidations	(151,586)	(226,976)	(279,838)
Cured or less than 90 days delinquent	(125,265)	(151,469)	(181,611)
Total removals	(395,711)	(535,781)	(626,938)
Ending balance	329,590	418,837	576,591

Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010. The decrease in our serious delinquency rate is primarily the result of home retention solutions, foreclosure alternatives and completed foreclosures, improved loan payment performance, as well as our acquisition of loans with stronger credit profiles since the beginning of 2009. Loans we acquired since 2009 comprised 81% of our single-family guaranty book of business and had a serious delinquency rate of 0.36% as of December 31, 2014.

Although our single-family serious delinquency rate has decreased, the pace of declines in our single-family serious delinquency rate has slowed in recent months and we expect this trend to continue. Our single-family serious delinquency rate and the period of time that loans remain seriously delinquent continue to be negatively impacted by the length of time required to complete a foreclosure in some states. High levels of foreclosures, changes in state foreclosure laws, new federal and state servicing requirements imposed by regulatory actions and legal settlements, and the need for servicers to adapt to these changes have lengthened the time it takes to foreclose on a mortgage loan in a number of states, particularly in New York, Florida and New Jersey. Longer foreclosure timelines result in these loans remaining in our book of business for a longer time, which has caused our serious delinquency rate to decrease more slowly in the last few years than it would have if the pace of foreclosures had been faster. We believe the slow pace of foreclosures in certain areas of the country will continue to negatively affect our single-family serious delinquency rates, foreclosure timelines and credit-related income (expense). Other factors such as the pace of loan modifications, changes in home prices, unemployment levels and other macroeconomic conditions also influence serious delinquency rates. We expect the number of our single-family loans in our book of business that are seriously delinquent to remain above pre-2008 levels for years.

Certain higher-risk loan categories, such as Alt-A loans and loans with higher mark-to-market LTV ratios, and our 2005 through 2008 loan vintages continue to exhibit higher than average delinquency rates and/or account for a higher share of our credit losses. Our 2005 to 2008 loan vintages represented approximately 51% of the loans added to our seriously delinquent loan population in 2014. In addition, loans in certain states such as Florida, Illinois, New Jersey and New York have exhibited higher than average delinquency rates and/or account for a higher share of our credit losses.

Table 39 displays the serious delinquency rates for, and the percentage of our total seriously delinquent single-family conventional loans represented by, the specified loan categories. We also include information for our loans in California, as this state accounts for a large share of our single-family conventional guaranty book of business. The reported categories are not mutually exclusive.

Table 39: Single-Family Conventional Seriously Delinquent Loan Concentration Analysis

	As of December 31,								
	2014			2013			2012		
	Percentage of Book Outstanding	Percentage of Seriously Delinquent Loans(1)	Serious Delinquency Rate	Percentage of Book Outstanding	Percentage of Seriously Delinquent Loans(1)	Serious Delinquency Rate	Percentage of Book Outstanding	Percentage of Seriously Delinquent Loans(1)	Serious Delinquency Rate
States:									
California	20%	5%	0.70%	20%	6%	0.98%	19%	7%	1.69%
Florida	6	15	4.42	6	19	6.89	6	21	10.06
Illinois	4	6	2.36	4	6	3.12	4	6	4.70
New Jersey	4	10	5.78	4	8	6.25	4	7	6.92
New York	5	10	4.17	5	9	4.42	6	7	4.70
All other states	61	54	1.52	61	52	1.85	61	52	2.56
Product type:									
Alt-A	4	18	7.77	5	19	9.23	6	20	11.36
Vintages(2):									
2004 and prior	7	28	3.26	9	27	3.50	13	27	3.61
2005	3	12	6.18	4	13	7.26	5	14	7.79
2006	3	16	9.61	3	18	11.26	5	19	12.15
2007	4	23	10.79	5	25	12.18	7	26	12.99
2008	2	8	6.27	3	8	6.69	5	9	6.63
2009	6	3	1.00	7	3	0.98	11	2	0.88
2010	9	3	0.59	10	2	0.56	13	2	0.48
2011	10	2	0.42	11	2	0.34	15	1	0.22
2012	24	3	0.27	26	2	0.17	26	*	0.04
2013	21	2	0.22	22	*	0.04	—	—	—
2014	11	*	0.04	—	—	—	—	—	—
Estimated mark-to-market LTV ratio:									
<= 60%	42	23	0.88	38	19	0.97	28	12	1.08
60.01% to 70%	19	12	1.36	19	11	1.47	15	8	1.84
70.01% to 80%	18	14	1.75	19	13	1.90	22	11	1.86
80.01% to 90%	10	14	3.04	11	14	3.53	13	12	3.50
90.01% to 100%	6	12	4.59	6	12	5.53	9	12	5.37
Greater than 100%	5	25	10.98	7	31	12.22	13	45	13.42
Credit enhancement:									
	16	27	3.47	15	27	4.75	14	28	7.09

Credit enhanced									
Non-credit enhanced	84	73	1.62	85	73	2.00	86	72	2.70

* Represents less than 0.5% of single-family conventional business volume or book of business.

(1) Calculated based on the number of single-family loans that were seriously delinquent for each category divided by the total number of single-family conventional loans that were seriously delinquent.

(2) The serious delinquency rates for loans acquired in more recent years will be higher after the loans have aged, but we do not expect them to approach the levels of the December 31, 2014 serious delinquency rates of loans acquired in 2005 through 2008.

Loan Workout Metrics

We continue to work with our servicers to implement our home retention and foreclosure prevention initiatives. Loan modifications involve changes to the original mortgage terms such as product type, interest rate, amortization term, maturity date and/or unpaid principal balance. For many of our modifications, we will ultimately collect less than the contractual amount due under the original loan. Other resolutions and modifications may result in our receiving the full amount due, or certain installments due, under the loan over a period of time that is longer than the period of time originally provided for under the terms of the loan. Additionally, we currently offer up to twelve months of forbearance for those homeowners who are unemployed as an additional tool to help homeowners avoid foreclosure.

Our primary loan modification initiatives include HAMP, a modification initiative under the Making Home Affordable Program, and our proprietary standard and streamlined modification initiatives. The number of HAMP-eligible borrowers has declined in recent years and completed HAMP modifications represented only 14% of our modifications completed in 2014. After a servicer determines that the borrower's hardship is not temporary in nature, we require that servicers first evaluate borrowers for eligibility under a workout option before considering foreclosure. Not all borrowers facing foreclosure will be eligible for a modification. We work with servicers to ensure that borrowers who do not qualify for a modification or who fail to successfully complete the required trial period are provided with alternative home retention options or a foreclosure prevention alternative.

Program guidance for the majority of our modifications, including HAMP, directs servicers either to cancel or to convert trial modifications to permanent modifications after three or four timely payments, depending on the borrower's circumstances. During 2014, we completed approximately 123,000 modifications representing 75% of the trials initiated in the 12 month period ending September 30, 2014, compared with 160,000 completed modifications in 2013 representing 80% of the trials initiated in the 12 month period ending September 30, 2013. As of December 31, 2014, there were approximately 40,400 borrowers in the trial modification period.

In addition, we continue to focus on foreclosure alternatives for borrowers who are unable to retain their homes. Foreclosure alternatives may be more appropriate if the borrower has experienced a significant adverse change in financial condition due to events such as unemployment or reduced income, divorce, or unexpected issues like medical bills and is therefore no longer able to make the required mortgage payments. To avoid foreclosure and satisfy the first-lien mortgage obligation, our servicers work with a borrower to accept a deed-in-lieu of foreclosure, whereby the borrower voluntarily signs over the title to their property to the servicer, or to sell the home prior to foreclosure in a short sale, whereby the borrower sells the home for less than the full amount owed to Fannie Mae under the mortgage loan. These alternatives are designed to reduce our credit losses while helping borrowers avoid having to go through a foreclosure. We work to obtain the highest price possible for the properties sold in short sales and, in 2014, we received net sales proceeds from our short sale transactions equal to 72% of the loans' unpaid principal balance, compared with 67% in 2013. The existence of a second lien may limit our ability to provide borrowers with loan workout options, particularly those that are part of our foreclosure prevention efforts; however, we are not required to contact a second lien holder to obtain their approval prior to providing a borrower with a loan modification.

Table 40 displays statistics on our single-family loan workouts that were completed, by type. These statistics include loan modifications but do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as TDRs, or repayment or forbearance plans that have been initiated but not completed.

Table 40: Statistics on Single-Family Loan Workouts

	For the Year Ended December 31,					
	2014		2013		2012	
	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans
	(Dollars in millions)					
Home retention strategies:						
Modifications	$ 20,686	122,823	$ 28,801	160,007	$ 30,640	163,412
Repayment plans and forbearances completed[(1)]	986	7,309	1,594	12,022	3,298	23,329
Total home retention strategies	21,672	130,132	30,395	172,029	33,938	186,741
Foreclosure alternatives:						
Short sales	4,795	23,188	9,786	46,570	15,916	73,528
Deeds-in-lieu of foreclosure	1,786	11,292	2,504	15,379	2,590	15,204
Total foreclosure alternatives	6,581	34,480	12,290	61,949	18,506	88,732
Total loan workouts	$ 28,253	164,612	$ 42,685	233,978	$ 52,444	275,473
Loan workouts as a percentage of single-family guaranty book of business	0.99 %	0.94 %	1.48 %	1.33 %	1.85 %	1.57 %

(1) Repayment plans reflect only those plans associated with loans that were 60 days or more delinquent. Forbearances reflect loans that were 90 days or more delinquent.

The volume of home retention solutions completed in 2014 decreased compared with 2013, primarily due to a decline in the number of delinquent loans in 2014 compared with 2013.

We continue to work with our servicers to implement our home retention and foreclosure prevention initiatives. Our approach to workouts continues to focus on the large number of borrowers facing financial hardships. Accordingly, the vast majority of loan modifications we have completed since 2009 have been concentrated on deferring or lowering the borrowers' monthly mortgage payments to allow borrowers to work through their hardships.

The majority of our home retention strategies, including trial modifications and loans to certain borrowers who received bankruptcy relief, are classified as TDRs upon initiation.

Table 41 displays the unpaid principal balance of loans post-modification related to our single-family TDRs. For more information on the impact of TDRs, see "Note 3, Mortgage Loans."

Table 41: Single-Family Troubled Debt Restructuring Activity

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Beginning balance	$ 200,507	$ 207,405	$ 177,484
New TDRs	19,050	26,320	54,032
Foreclosures[(1)]	(10,484)	(13,192)	(13,752)
Payoffs[(2)]	(7,658)	(16,054)	(6,992)
Other[(3)]	(4,116)	(3,972)	(3,367)
Ending balance	$ 197,299	$ 200,507	$ 207,405

(1) Consists of foreclosures, deeds-in-lieu of foreclosure, short sales and third-party sales.

(2) Consists of full borrower payoffs and repurchases of loans that were successfully resolved through payment by mortgage sellers and servicers.

(3) Primarily includes monthly principal payments.

Table 42 displays the percentage of our single-family loan modifications completed during 2013 and 2012 that were current or paid off one year after modification, as well as the percentage of our single-family loan modifications completed during 2012 that were current or paid off two years after modification.

Table 42: Percentage of Single-Family Loan Modifications That Were Current or Paid Off at One and Two Years Post-Modification[1]

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
One Year Post-Modification								
HAMP modifications	83%	83%	84%	83%	82%	82%	81%	79%
Non-HAMP modifications	71	71	72	73	74	74	72	70
Total	73	73	74	75	76	76	75	73
Two Years Post-Modification								
HAMP modifications					81%	80%	80%	78%
Non-HAMP modifications					72	72	71	71
Total					74	74	75	73

(1) Excludes loans that were classified as subprime ARMs that were modified into fixed-rate mortgages. Modifications do not reflect loans currently in trial modifications.

Approximately 55% of our performing loan modifications include a reduction in the borrower's interest rate that is fixed for an initial period and may be followed by one or more annual interest rate increases. The majority of these modifications with rate resets are scheduled to have their first interest rate resets in 2015. These interest rate increases could adversely affect the performance of these modifications. See "Table 37: Single-Family Adjustable-Rate Mortgage and Rate Reset Modifications by Year" in "Credit Portfolio Summary—Mortgage Rate Resets" for additional information on the timing of these initial interest rate resets.

There is significant uncertainty regarding the ultimate long term success of our modification efforts. We believe the performance of our workouts will be highly dependent on economic factors, such as unemployment rates, household wealth and income, and home prices. Modifications, even those with reduced monthly payments, may also not be sufficient to help borrowers with second liens and other significant non-mortgage debt obligations. FHFA, other agencies of the U.S. government or Congress may ask us to undertake new initiatives to support the housing and mortgage markets should our current modification efforts ultimately not perform in a manner that results in the stabilization of these markets. See "Risk Factors" for a discussion of efforts we may be required or asked to undertake and their potential effect on us.

REO Management

Foreclosure and REO activity affect the amount of credit losses we realize in a given period. Table 43 displays our foreclosure activity, by region, for the periods indicated. Regional REO acquisition and charge-off trends generally follow a pattern that is similar to, but lags, that of regional delinquency trends.

Table 43: Single-Family Foreclosed Properties

	For the Year Ended December 31,		
	2014	2013	2012
Single-family foreclosed properties (number of properties):			
Beginning of period inventory of single-family foreclosed properties (REO) (1)	103,229	105,666	118,528
Acquisitions by geographic area:(2)			
Midwest	26,013	39,113	50,583
Northeast	15,337	13,235	12,008
Southeast	48,647	57,090	58,411
Southwest	13,437	18,923	28,541
West	13,203	16,023	24,936
Total properties acquired through foreclosure(1)	116,637	144,384	174,479
Dispositions of REO	(132,803)	(146,821)	(187,341)
End of period inventory of single-family foreclosed properties (REO)(1)	87,063	103,229	105,666
Carrying value of single-family foreclosed properties (dollars in millions)	$ 9,745	$ 10,334	$ 9,505
Single-family foreclosure rate(3)	0.67 %	0.82 %	0.99 %

(1) Includes acquisitions through deeds-in-lieu of foreclosure. Also includes held for use properties, which are reported in our consolidated balance sheets as a component of "Other assets."

(2) See footnote 10 to "Table 36: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business" for states included in each geographic region.

(3) Estimated based on the total number of properties acquired through foreclosure or deeds-in-lieu of foreclosure as a percentage of the total number of loans in our single-family guaranty book of business as of the end of each respective period.

The continued decrease in the number of our seriously delinquent single-family loans, as well as lengthy foreclosure timelines in a number of states, have resulted in a reduction in the number of REO acquisitions and fewer dispositions in 2014 compared with 2013 and 2012.

Neighborhood stabilization is a core principle in our approach to managing our REO inventory. As a result, we seek to keep properties in good condition and, where appropriate, repair them to make them more marketable. Our goal is to obtain the highest price possible for the properties we sell. Additionally, before we market our foreclosed properties, we may choose to repair them in order to maximize the sales price and increase the likelihood that an owner occupant will purchase. The percentage of properties we repair prior to marketing has increased as a result of market demand and our continued focus on stabilizing neighborhoods and increasing opportunities for owner occupants to purchase. We repaired approximately 67,000 properties from our single-family REO inventory at an average cost of approximately $7,900 per property during 2014 and repaired approximately 66,000 properties at an average cost of approximately $6,700 per property during 2013 compared with repairs of approximately 84,000 properties at an average cost of approximately $6,100 per property during 2012.

Repairing REO properties increases sales to owner occupants and increases financing options for REO buyers. In addition, we encourage homeownership through our First Look™ marketing period. During this First Look period, owner occupants, some nonprofit organizations and public entities may submit offers and purchase properties without competition from investors. Approximately 75,000 of the 133,000 single-family properties we sold in 2014 were purchased by owner occupants, nonprofit organizations or public entities.

We currently lease properties to tenants who occupied the properties before we acquired them into our REO inventory and to eligible borrowers who executed a deed-in-lieu of foreclosure, which can minimize disruption by providing additional time to find alternate housing, help stabilize local communities, provide us with rental income, and support our compliance with federal and state laws protecting tenants in foreclosed properties. As of December 31, 2014, over 1,300 tenants leased our REO properties.

We continue to manage our REO inventory to minimize costs and maximize sales proceeds. However, we are unable to market and sell a large portion of our inventory, primarily due to occupancy and state or local redemption or confirmation periods, which extends the amount of time it takes to bring our properties to a marketable state and eventually dispose of them. This results in higher foreclosed property expenses, which include costs related to maintaining the property and ensuring that the property is vacant.

Table 44 displays the current status of our single-family foreclosed property inventory, including the percentage of our inventory that we are unable to market, as of the dates indicated.

Table 44: Single-Family Foreclosed Property Status

	Percent of Single-Family Foreclosed Properties As of December 31,		
	2014	2013	2012
Available-for-sale	28%	33%	28%
Offer accepted(1)	17	14	17
Appraisal stage(2)	13	17	10
Unable to market:			
Occupied status(3)	12	10	14
Redemption status(4)	7	9	11
Properties being repaired	13	9	7
Rental property(5)	2	3	5
Other	8	5	8
Total unable to market	42	36	45
Total	100%	100%	100%

(1) Properties for which an offer has been accepted, but the property has not yet been sold.

(2) Properties that are pending appraisals and being prepared to be listed for sale.

(3) Properties that are still occupied, and for which the eviction process is not yet complete.

(4) Properties that are within the period during which state laws allow the former mortgagor and second lien holders to redeem the property.

(5) Properties with a tenant living in the home under our tenant in place or deed for lease programs.

Table 45 displays the proportionate share of foreclosures as compared with their share of our single-family guaranty book of business for the states that have a higher concentration of foreclosures. Table 45 also displays this information for California, as this state accounts for a large share of our single-family conventional guaranty book of business.

Table 45: Single-Family Acquired Property Concentration Analysis

	As of	For the Year Ended	As of	For the Year Ended	As of	For the Year Ended
	December 31, 2014		December 31, 2013		December 31, 2012	
	Percentage of Book Outstanding(1)	Percentage of Properties Acquired by Foreclosure(2)	Percentage of Book Outstanding(1)	Percentage of Properties Acquired by Foreclosure(2)	Percentage of Book Outstanding(1)	Percentage of Properties Acquired by Foreclosure(2)
States:						
Florida	6%	24%	6%	21%	6%	14%
Illinois	4	7	4	9	4	8
California	20	5	20	4	19	9

(1) Calculated based on the aggregate unpaid principal balance of single-family conventional loans, where we have detailed loan-level information, for each category divided by the aggregate unpaid principal balance of our single-family conventional guaranty book of business.

(2) Calculated based on the number of properties acquired through foreclosure or deed-in-lieu of foreclosure during the period for each category divided by the total number of properties acquired through foreclosure during the same period.

Multifamily Mortgage Credit Risk Management

The credit risk profile of our multifamily mortgage credit book of business is influenced by the structure of the financing, the type and location of the property, the condition and value of the property, the financial strength of the borrower, market and sub-market trends and growth, the current and anticipated cash flows from the property, as well as the financial strength of the lender. These and other factors affect both the amount of expected credit loss on a given loan and the sensitivity of that loss to changes in the economic environment. We provide information on our credit-related income and credit losses in "Business Segment Results—Multifamily Business Results."

Multifamily Acquisition Policy and Underwriting Standards

Our Multifamily business is responsible for pricing and managing the credit risk on multifamily mortgage loans we purchase and on Fannie Mae MBS backed by multifamily loans (whether held in our retained mortgage portfolio or held by third parties), with oversight from our Enterprise Risk Management division. Our primary multifamily delivery channel is the Delegated Underwriting and Servicing, or DUS®, program, which consists of large financial institutions and independent mortgage lenders. Multifamily loans that we purchase or that back Fannie Mae MBS are either underwritten by a Fannie Mae-approved lender or subject to our underwriting review prior to closing, depending on the product type, loan size, market and/or other factors. Loans delivered to us by DUS lenders and their affiliates represented 94% of our multifamily guaranty book of business as of December 31, 2014, compared with 93% as of December 31, 2013 and 88% as of December 31, 2012.

We use various types of credit enhancement arrangements for our multifamily loans, including lender risk-sharing, lender repurchase agreements, pool insurance, subordinated participations in mortgage loans or structured pools, cash and letter of credit collateral agreements, and cross-collateralization/cross-default provisions. The most prevalent form of credit enhancement on multifamily loans is lender risk-sharing. Lenders in the DUS program typically share in loan-level credit losses in one of two ways: (1) they bear losses up to the first 5% of the unpaid principal balance of the loan and share in remaining losses up to a prescribed limit; or (2) they share up to one-third of the credit losses on an equal basis with us. Non-DUS lenders typically share or absorb credit losses based on a negotiated percentage of the loan or the pool balance.

Table 46 displays the percentage of the unpaid principal balance of loans in our multifamily guaranty book of business with lender risk-sharing and with no recourse to the lender.

Table 46: Multifamily Lender Risk-Sharing

	As of December 31,	
	2014	2013
Lender risk-sharing:		
DUS	85%	80%
Non-DUS negotiated	3	5
No recourse to the lender	12	15

Our maximum potential loss recovery from lenders under current risk-sharing agreements represented over 20% of the unpaid principal balance of our multifamily guaranty book of business as of December 31, 2014. These risk-sharing agreements not only transfer credit risk, but also better align our interest with that of the lender.

At the time of our purchase or guarantee of multifamily mortgage loans, we and our lenders rely on sound underwriting standards, which often include third-party appraisals and cash flow analysis. Our standards for multifamily loans specify maximum original LTV ratio and minimum original debt service coverage ratio ("DSCR") values that vary based on loan characteristics. Our experience has been that original LTV ratio and DSCR values have been reliable indicators of future credit performance.

Table 47 displays original LTV ratio and DSCR metrics for our multifamily guaranty book of business.

Table 47: Multifamily Guaranty Book of Business Key Risk Characteristics

	As of December 31,		
	2014	2013	2012
Weighted average original LTV ratio	66%	66%	66%
Original LTV ratio greater than 80%	3	3	4
Original DSCR less than or equal to 1.10	8	7	8

Multifamily Portfolio Diversification and Monitoring

Diversification within our multifamily mortgage credit book of business by geographic concentration, term to maturity, interest rate structure, borrower concentration, and credit enhancement coverage are important factors that influence credit performance and help reduce our credit risk.

We and our lenders monitor the performance and risk characteristics of our multifamily loans and the underlying properties on an ongoing basis throughout the life of the loan at the loan, property and portfolio levels. We track credit risk characteristics to determine the loan credit quality indicator, which are the internal risk categories and are further discussed in "Note 3, Mortgage Loans." The credit risk characteristics we use to help determine the internal risk categories include the physical condition of the property, delinquency status, the relevant local market and economic conditions that may signal changing risk or return profiles, and other risk factors. For example, in addition to capitalization rates, we closely monitor the rental payment trends and vacancy levels in local markets to identify loans that merit closer attention or loss mitigation actions. We manage our exposure to refinancing risk for multifamily loans maturing in the next several years. We have a team that proactively manages upcoming loan maturities to minimize losses on maturing loans. This team assists lenders and borrowers with timely and appropriate refinancing of maturing loans with the goal of reducing defaults and foreclosures related to loans maturing in the near term. The primary asset management responsibilities for our multifamily loans are performed by our DUS and other multifamily lenders. We periodically evaluate these lenders' and our other third party service providers' performance for compliance with our asset management criteria.

As part of our ongoing credit risk management process, we require lenders to provide quarterly and annual financial updates for the loans where we are contractually entitled to receive such information. We closely monitor loans with an estimated current DSCR below 1.0, as that is an indicator of heightened default risk. The percentage of loans in our multifamily guaranty book of business, calculated based on unpaid principal balance, with a current DSCR less than 1.0 was approximately 3% as of December 31, 2014 and 4% as of December 31, 2013. Our estimates of current DSCRs are based on the latest available income information for these properties. Although we use the most recently available results from our multifamily borrowers, there is a lag in reporting, which typically can range from 3 to 6 months, but in some cases may be longer.

Multifamily Problem Loan Management and Foreclosure Prevention

We periodically refine our underwriting standards in response to market conditions and implement proactive portfolio management and monitoring which are each designed to keep credit losses and delinquencies to a low level relative to our multifamily guaranty book of business. The multifamily serious delinquency rate decreased from 0.10% as of December 31, 2013 to 0.05% as of December 31, 2014.

REO Management

Table 48 displays our held for sale multifamily REO activity.

Table 48: Multifamily Foreclosed Properties

	For the Year Ended December 31,		
	2014	2013	2012
Multifamily foreclosed properties held for sale (number of properties):			
Beginning of period inventory of multifamily foreclosed properties (REO)	118	128	260
Total properties acquired through foreclosure	42	105	164
Transfers (from) to held for sale[1]	(1)	43	(44)
Dispositions of REO	(97)	(158)	(252)
End of period inventory of multifamily foreclosed properties (REO)	62	118	128
Carrying value of multifamily foreclosed properties (dollars in millions)	$ 349	$ 632	$ 331

(1) Represents the transfer of properties between held for use and held for sale. Held-for-use properties are reported in our consolidated balance sheets as a component of "Other assets."

The low level of foreclosure activity in 2014 reflects the stability of national multifamily market fundamentals.

Institutional Counterparty Credit Risk Management

We rely on our institutional counterparties to provide services and credit enhancements that are critical to our business. Institutional counterparty credit risk is the risk that our institutional counterparties may fail to fulfill their contractual obligations to us. Defaults by a counterparty with significant obligations to us could result in significant financial losses to us.

We have exposure primarily to the following types of institutional counterparties:

- mortgage sellers and/or servicers that service the loans we hold in our retained mortgage portfolio or that back our Fannie Mae MBS and that are obligated to repurchase loans from us or reimburse us for losses in certain circumstances;
- credit guarantors that provide credit enhancements on the mortgage assets that we hold in our retained mortgage portfolio or that back our Fannie Mae MBS, including mortgage insurers, financial guarantors, reinsurers and lenders with risk sharing arrangements;
- custodial depository institutions that hold principal and interest payments for Fannie Mae portfolio loans and MBS certificateholders, as well as collateral posted by derivatives counterparties, mortgage sellers and mortgage servicers;
- the financial institutions that issue the investments held in our cash and other investments portfolio;
- derivatives counterparties;
- mortgage originators, investors and dealers;
- debt security dealers; and
- document custodians.

We routinely enter into a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, mortgage lenders and commercial banks, and mortgage insurers, resulting in a significant credit concentration with respect to this industry. We also have significant concentrations of credit risk with particular counterparties. Many of our institutional counterparties provide several types of services for us. For example, many of our lender customers or their affiliates act as mortgage sellers, mortgage servicers, derivatives counterparties, custodial depository institutions or document custodians on our behalf.

Although the liquidity and financial condition of some of our institutional counterparties continued to improve in 2014, there is still significant risk to our business of defaults by these counterparties due to bankruptcy or receivership, lack of liquidity, insufficient capital, operational failure or other reasons.

In the event of a bankruptcy or receivership of one of our counterparties, we may be required to establish our ownership rights to the assets these counterparties hold on our behalf to the satisfaction of the bankruptcy court or receiver, which could result in a delay in accessing these assets causing a decline in their value. In addition, if we are unable to replace a defaulting counterparty that performs services that are critical to our business with another counterparty, it could adversely affect our ability to conduct our operations. See “Risk Factors” for further discussion of the risks to our business posed by our counterparties’ failure to fulfill their obligations to us.

Mortgage Sellers and Servicers

One of our primary exposures to institutional counterparty risk is with mortgage servicers that service the loans we hold in our retained mortgage portfolio or that back our Fannie Mae MBS, as well as mortgage sellers and servicers that are obligated to repurchase loans from us or reimburse us for losses in certain circumstances. We rely on mortgage servicers to meet our servicing standards and fulfill their servicing obligations. We also rely on mortgage sellers and servicers to fulfill their repurchase obligations.

Mortgage servicers collect mortgage and escrow payments from borrowers, pay taxes and insurance costs from escrow accounts, monitor and report delinquencies, and perform other required activities on our behalf. We have minimum standards and financial requirements for mortgage servicers. For example, we require mortgage servicers to collect and retain a sufficient level of servicing fees to reasonably compensate a replacement mortgage servicer in the event of a servicing contract breach. In addition, we perform periodic on-site and financial reviews of our mortgage servicers and monitor their financial and portfolio performance as compared to peers and internal benchmarks. We work with our largest mortgage servicers to establish performance goals and monitor performance against the goals, and our servicing consultants work with mortgage servicers to improve servicing results and compliance with our Servicing Guide.

We likely would incur costs and potential increases in servicing fees and could also face operational risks if we replace a mortgage servicer. If a mortgage servicer defaults, it could result in a temporary disruption in servicing and loss mitigation activities relating to the loans serviced by that mortgage servicer, particularly if there is a loss of experienced servicing personnel. We may also face challenges in transferring a large servicing portfolio.

Pursuant to FHFA’s 2014 conservatorship scorecard and at FHFA’s direction, we worked with both FHFA and Freddie Mac to develop a set of proposed new minimum financial eligibility requirements for approved single-family sellers and servicers. These newly proposed eligibility requirements align the minimum financial requirements for mortgage sellers and servicers

to do business with Fannie Mae and Freddie Mac, and include net worth, capital ratio and liquidity criteria for our mortgage sellers and servicers. These proposed eligibility requirements were published on January 30, 2015 with a request for industry feedback. FHFA has indicated that it anticipates the proposed minimum financial requirements will be finalized in the second quarter of 2015, and will be effective six months after they are finalized.

Our five largest single-family mortgage servicers, including their affiliates, serviced approximately 46% of our single-family guaranty book of business as of December 31, 2014, compared with approximately 49% as of December 31, 2013. Our largest mortgage servicer is Wells Fargo Bank, N.A., which, together with its affiliates, serviced approximately 18% of our single-family guaranty book of business as of December 31, 2014, compared with approximately 19% as of December 31, 2013. As of December 31, 2014 and 2013, one additional mortgage servicer, JPMorgan Chase Bank, N.A., with its affiliates, serviced over 10% of our single-family guaranty book of business.

Our ten largest multifamily mortgage servicers, including their affiliates, serviced approximately 67% of our multifamily guaranty book of business as of December 31, 2014, compared with approximately 65% as of December 31, 2013. Wells Fargo Bank, N.A. serviced over 10% of our multifamily guaranty book of business as of December 31, 2014 and 2013. As of December 31, 2014, one additional mortgage servicer, Walker & Dunlop, LLC, serviced over 10% of our multifamily guaranty book of business.

We have seen an increasing shift in our servicing book from depository financial institution servicers to non-depository servicers. As of December 31, 2014, 13% of our total single-family guaranty book of business, including 32% of our delinquent single-family loans, were serviced by our three largest non-depository servicers, compared with 12% of our total single-family guaranty book of business, including 31% of our delinquent single-family loans, as of December 31, 2013. These three servicers' growth in recent years is due to acquisitions from both depository and other non-depository servicers. The shift from depository to non-depository servicers poses additional risks to us because non-depository servicers may have a greater reliance on third-party sources of liquidity and may, in the event of significant increases in delinquent loan volumes, have less financial capacity to advance funds on our behalf or satisfy repurchase requests or compensatory fee obligations. In addition, the rapid expansion of these servicers' servicing portfolios results in increased operational risk, which could negatively impact their ability to effectively manage their servicing portfolios. In addition, regulatory bodies have been reviewing the activities of some of our largest non-depository servicers. See "Risk Factors" for a discussion of the risks of our reliance on servicers.

Because we delegate the servicing of our mortgage loans to mortgage servicers and do not have our own servicing function, mortgage servicers' lack of appropriate process controls or the loss of business from a significant mortgage servicer counterparty could pose significant risks to our ability to conduct our business effectively. Many of our largest mortgage servicer counterparties continue to reevaluate the effectiveness of their process controls. Many mortgage servicers are also subject to federal and state regulatory actions and legal settlements that require the mortgage servicers to correct foreclosure process deficiencies and improve their servicing and foreclosure practices. This has contributed to extended foreclosure timelines and, therefore, additional holding costs for us, such as property taxes and insurance, repairs and maintenance, and valuation adjustments due to home price changes. See "Risk Factors" for a discussion of risks relating to the slow pace of foreclosures in some states.

Our five largest single-family mortgage sellers, including their affiliates, accounted for approximately 33% of our single-family business acquisition volume in 2014, compared with approximately 42% in 2013. Our largest mortgage seller is Wells Fargo Bank, N.A., which, together with its affiliates, accounted for approximately 12% of our single-family business acquisition volume in 2014, compared with approximately 20% in 2013. A number of our largest single-family mortgage seller counterparties have reduced or eliminated their purchases of mortgage loans from mortgage brokers and correspondent lenders in recent years, resulting in a decline in our single-family mortgage seller concentration. As a result, we are acquiring a greater portion of our business volume directly from non-depository and smaller depository financial institutions that may not have the same financial strength or operational capacity as our largest mortgage seller counterparties. We could be required to absorb losses on defaulted loans that a failed mortgage seller is obligated to repurchase from us if we determine there was an underwriting eligibility breach. See "Risk Factors" for a discussion of the risks to our business due to changes in the mortgage industry.

Risk management steps we have taken or may take to mitigate our risk to mortgage sellers and servicers with whom we have significant counterparty exposure include guaranty of obligations by higher-rated entities, reduction or elimination of exposures, reduction or elimination of certain business activities, transfer of exposures to third parties, receipt of collateral and suspension or termination of the selling and servicing relationship.

We are exposed to the risk that a mortgage seller and servicer or another party involved in a mortgage loan transaction will engage in mortgage fraud by misrepresenting the facts about the loan. We have experienced significant financial losses in the

past and may experience significant financial losses and reputational damage in the future as a result of mortgage fraud. See "Risk Factors" for a discussion of the risks to our business as a result of mortgage fraud.

If we determine that a mortgage loan did not meet our underwriting or eligibility requirements, loan representations or warranties were violated or a mortgage insurer rescinded coverage, then our mortgage sellers and/or servicers are obligated to either repurchase the loan or foreclosed property, reimburse us for our losses or provide other remedies. If the collateral property relating to such a loan has been foreclosed upon and we have accepted an offer from a third party to purchase the property, or if a loan is in the process of being liquidated or has been liquidated, we require the mortgage seller or servicer to reimburse us for our losses. We may consider additional facts and circumstances when determining whether to require a mortgage seller or servicer to reimburse us for our losses instead of repurchasing the related loan or foreclosed property. On an economic basis, we are made whole for our losses regardless of whether the mortgage seller or servicer repurchases the loan or reimburses us for our losses. We consider the anticipated benefits from these types of recoveries when we establish our allowance for loan losses. We refer to our demands that mortgage sellers and servicers meet these obligations collectively as repurchase requests. In addition, we charge our primary servicers compensatory fees for certain servicing violations to reimburse us for the related damages. Compensatory fees may be assessed for a variety of servicing violations, including, without limitation, delays in foreclosing, liquidating, reporting, processing claims or remitting funds.

Mortgage sellers and servicers may not meet the terms of their repurchase obligations, and we may be unable to recover on all outstanding loan repurchase obligations resulting from their breaches of contractual obligations. Failure by a significant mortgage seller or servicer, or a number of mortgage sellers or servicers, to fulfill repurchase obligations to us could result in an increase in our credit losses and credit-related expense, and have an adverse effect on our results of operations and financial condition. In addition, actions we take to pursue our contractual remedies could increase our costs, reduce our revenues, or otherwise have an adverse effect on our results of operations or financial condition. As of December 31, 2014 and 2013, in estimating our allowance for loan losses, we assumed no benefit from repurchase demands due to us from mortgage sellers or servicers that, in our view, lacked the financial capacity to honor their contractual obligations. The unpaid principal balance of our outstanding repurchase requests was $1.0 billion as of December 31, 2014, compared with $1.5 billion as of December 31, 2013. For a discussion of our repurchase requests, see "Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards."

As described in "Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards—Representation and Warranty Framework," we implemented a new representation and warranty framework on January 1, 2013. Under the framework, we no longer require repurchase for loans that have breaches of certain selling representations and warranties if they have met specified criteria for relief.

Credit Guarantors

We use various types of credit guarantors to manage our single-family mortgage credit risk, including mortgage insurers, financial guarantors, reinsurers and lenders with risk sharing.

Mortgage Insurers

We are generally required, pursuant to our charter, to obtain credit enhancements on single-family conventional mortgage loans that we purchase or securitize with LTV ratios over 80% at the time of purchase. We use several types of credit enhancements to manage our single-family mortgage credit risk, including primary and pool mortgage insurance coverage. Table 49 displays our risk in force for mortgage insurance coverage on single-family loans in our guaranty book of business and our insurance in force for our mortgage insurer counterparties. The table includes our top ten mortgage insurer counterparties, which provided over 99% of our total mortgage insurance coverage on single-family loans in our guaranty book of business as of December 31, 2014 and 2013. In addition, for our mortgage insurer counterparties not approved to write new business, we have provided the percentage of their claims payments the counterparties are currently deferring based on direction of state regulators, referred to as their deferred payment obligation. Both our risk in force and our insurance in force increased in 2014 primarily due to the increase in our acquisition of loans with LTV ratios greater than 80%, which generally are required to carry mortgage insurance. As of December 31, 2014, approximately 1% of our total risk in force mortgage insurance coverage was pool insurance and approximately 2% of our total insurance in force mortgage insurance coverage was pool insurance. As of December 31, 2013, approximately 1% of our total risk in force mortgage insurance coverage was pool insurance and approximately 3% of our total insurance in force mortgage insurance coverage was pool insurance.

Table 49: Mortgage Insurance Coverage

	Risk in Force[1]		Insurance in Force[2]		Deferred Payment Obligation %[3]
	As of December 31,		As of December 31,		
	2014	2013	2014	2013	
	(Dollars in millions)				
Counterparty:[4]					
Approved:[5]					
United Guaranty Residential Insurance Co.	$ 25,018	$ 22,096	$ 96,906	$ 86,936	
Radian Guaranty, Inc.	24,284	22,435	95,845	89,644	
Mortgage Guaranty Insurance Corp.	22,184	21,000	86,069	82,823	
Genworth Mortgage Insurance Corp.	15,477	14,602	61,408	58,475	
Essent Guaranty, Inc.	6,637	4,394	27,679	17,748	
Arch Mortgage Insurance Co.[6]	3,049	2,868	12,267	11,825	
National Mortgage Insurance Corp.	468	109	6,286	5,142	
Others	185	165	1,092	960	
Total approved	97,302	87,669	387,552	353,553	
Not approved:[5]					
PMI Mortgage Insurance Co.[7]	5,895	7,123	23,655	29,034	33%
Republic Mortgage Insurance Co.[7][8]	4,796	5,801	19,393	23,970	—[8]
Triad Guaranty Insurance Corp.[7]	1,585	1,908	5,858	7,523	25%
Others	12	15	57	72	
Total not approved	12,288	14,847	48,963	60,599	
Total	$109,590	$102,516	$436,515	$414,152	
Total as a percentage of single-family guaranty book of business	4 %	4 %	15 %	14 %	

(1) Risk in force is generally the maximum potential loss recovery under the applicable mortgage insurance policies in force and is based on the loan level insurance coverage percentage and, if applicable, any aggregate pool loss limit, as specified in the policy.

(2) Insurance in force represents the unpaid principal balance of single-family loans in our guaranty book of business covered under the applicable mortgage insurance policies.

(3) Deferred payment obligation represents the percentage of cash payments on policyholder claims being deferred as directed by the insurer's respective regulator in the state of domicile as of December 31, 2014.

(4) Insurance coverage amounts provided for each counterparty may include coverage provided by consolidated affiliates and subsidiaries of the counterparty.

(5) "Approved" mortgage insurers are counterparties approved to write new insurance with us. "Not approved" mortgage insurers are counterparties that are no longer approved to write new insurance with us.

(6) In January 2014, we approved the acquisition of CMG Mortgage Insurance Company and its affiliates by Arch U.S. MI Holdings, Inc. CMG Mortgage Insurance Company has since changed its name to Arch Mortgage Insurance Company in Wisconsin, its state of domicile.

(7) These mortgage insurers are under various forms of supervised control by their state regulators and are in run-off.

(8) Effective July 1, 2014, the terms of RMIC's order regarding its deferred payment arrangements changed to no longer defer payments on policyholder claims and to increase its cash payments to 100%. In addition, RMIC paid us amounts equivalent to its outstanding deferred payment obligations to bring payment on our claims to 100%.

We manage our exposure to mortgage insurers by maintaining eligibility requirements that an insurer must meet to become a qualified mortgage insurer. We require a certification and supporting documentation annually from each mortgage insurer and perform periodic reviews of mortgage insurers to confirm compliance with eligibility requirements and to evaluate their management, control and underwriting practices. Our monitoring of the mortgage insurers includes in-depth financial reviews and stress analyses of the insurers' portfolios and capital adequacy.

On June 24, 2014, we announced the implementation of new mortgage insurance master primary policies. Loans delivered to us with application dates on or after October 1, 2014 that require primary mortgage insurance must be insured under one of the new policies. These policies provide the terms of coverage under which loans having LTV ratios greater than 80% are insured. These new master policies also provide specific timelines for mortgage insurers to review and pay claims, and include terms for when mortgage insurers must sunset certain rescission rights. Finalization of these new policies helped us meet one of our 2014 conservatorship scorecard goals.

On July 10, 2014, FHFA posted for public input proposed revisions by Fannie Mae and Freddie Mac to their eligibility standards for approved private mortgage insurers. The proposed standards include enhanced financial requirements, including risk-based and minimum asset standards, and are designed to ensure that mortgage insurers have sufficient liquid assets to pay all claims under a hypothetical future stress scenario. The proposed standards also set forth enhanced operational performance expectations and define remedial actions that may be imposed should an approved mortgage insurer fail to comply with the revised requirements. In addition, Fannie Mae and Freddie Mac have established a framework and timelines for existing approved mortgage insurers to come into compliance with the new standards while they continue to insure new business eligible for delivery to us. FHFA, along with Fannie Mae and Freddie Mac, are continuing to review the public input provided on the proposed revisions to the eligibility standards for approved private mortgage insurers.

Although the financial condition of our primary mortgage insurer counterparties currently approved to write new business continued to improve during 2014, there is still risk that these counterparties may fail to fulfill their obligations to pay our claims under insurance policies. In addition, as shown in "Table 49: Mortgage Insurance Coverage," three of our top mortgage insurer counterparties—PMI, RMIC and Triad—are currently under various forms of supervised control by their state regulators and are in run-off, which increases the risk that these counterparties will pay claims only in part or fail to pay claims at all under existing insurance policies. If we determine that it is probable that we will not collect all of our claims from one or more of our mortgage insurer counterparties, or if we have already made that determination but our estimate of the shortfall increases, it could result in an increase in our loss reserves, which could adversely affect our earnings, liquidity, financial condition and net worth. See "Risk Factors" for a discussion of the risks to our business of claims under our mortgage insurance policies not being paid in full or at all, including the risks associated with our three mortgage insurance counterparties that are in run-off.

When we estimate the credit losses that are inherent in our mortgage loans and under the terms of our guaranty obligations we also consider the recoveries that we will receive on primary mortgage insurance, as mortgage insurance recoveries would reduce the severity of the loss associated with defaulted loans. We evaluate the financial condition of our mortgage insurer counterparties and adjust the contractually due recovery amounts to ensure that only probable losses as of the balance sheet date are included in our loss reserve estimate. As a result, if our assessment of one or more of our mortgage insurer counterparties' ability to fulfill their respective obligations to us worsens, it could result in an increase in our loss reserves.

The following table displays the amount by which our estimated benefit from mortgage insurance as of December 31, 2014 and 2013 reduced our total loss reserves as of those dates.

Table 50: Estimated Mortgage Insurance Benefit

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Contractual mortgage insurance benefit	$ 4,409	$ 6,751
Less: Collectibility adjustment[1]	290	431
Estimated benefit included in total loss reserves	$ 4,119	$ 6,320

(1) Represents an adjustment that reduces the contractual benefit for our assessment of our mortgage insurer counterparties' inability to fully pay the contractual mortgage insurance claims.

During 2014, we experienced an improvement in the credit profile of our single-family book of business, which resulted in a decrease in the contractual benefit we expect to receive from mortgage insurers. Our remaining collectibility adjustment is primarily due to the two mortgage insurers who are currently deferring a percentage of their claim payments at the direction of state regulators. For loans that are collectively evaluated for impairment, we estimate the portion of our loss that we expect to recover from each of our mortgage insurance counterparties, the contractual mortgage insurance coverage, and an estimate of each counterparty's resources available to pay claims to us. An analysis by our Counterparty Risk group determines whether, based on all the information available to us, any counterparty is considered probable to fail to meet their obligations in the next 30 months. This period is consistent with the amount of time over which claims related to losses incurred today are expected to be paid in the normal course of business. If this analysis finds a failure of a counterparty is probable, we then reserve for the shortfall between projected claims and estimated resources available to pay claims to us.

For loans with delayed foreclosure timelines, where we expect the counterparty to meet its obligations beyond 30 months, we extend the time frame used to evaluate the mortgage insurer's claims-paying ability to a long-term forecast and use that long-term expected claims-paying ability to determine the reserve amount, if any.

For loans that have been determined to be individually impaired and measured for impairment using a cash flow analysis, we calculate a net present value of the expected cash flows for each loan to determine the level of impairment, which is included in our allowance for loan losses. These expected cash flow projections include proceeds from mortgage insurance that are based on the expected ability of the counterparties to pay the claims as incurred through time, including those counterparties that are operating under deferred payment obligation arrangements. For loans that have been determined to be individually impaired and are deemed probable of foreclosure, the reserve is determined using the process for loans that are collectively evaluated for impairment; we expect these claims to be paid in the normal course of business.

As described above, our methodologies for individually and collectively impaired loans differ as required by GAAP, but both consider the ability of our counterparties to pay their obligations in a manner that is consistent with each impairment methodology. As the loans individually assessed for impairment using a cash flow analysis considers the life of the loan, we use the expected claims-paying ability of counterparties through time to adjust the loss severity in our estimates of future cash flows. As the loans collectively assessed for impairment look only to the probable payments we would receive associated with our probable losses, we use the noted shortfall, or haircut, to adjust the loss severity. For counterparties under deferred payment obligation arrangements, the estimated mortgage insurance benefits are determined based on the long-term claims-paying ability of each counterparty.

When an insured loan held in our retained mortgage portfolio subsequently goes into foreclosure, we charge off the loan, eliminating any previously-recorded loss reserves, and record REO and a mortgage insurance receivable for the claim proceeds deemed probable of recovery, as appropriate. However, if a mortgage insurer rescinds, cancels or denies insurance coverage, the initial receivable becomes due from the mortgage seller or servicer. We had outstanding receivables of $1.4 billion recorded in "Other assets" in our consolidated balance sheets as of December 31, 2014 and $2.1 billion as of December 31, 2013 related to amounts claimed on insured, defaulted loans excluding government insured loans. Of this amount, $269 million as of December 31, 2014 and $402 million as of December 31, 2013 was due from our mortgage sellers or servicers. We assessed the total outstanding receivables for collectibility, and they are recorded net of a valuation allowance of $799 million as of December 31, 2014 and $655 million as of December 31, 2013. The valuation allowance reduces our claim receivable to the amount which is considered probable of collection as of December 31, 2014 and 2013.

Financial Guarantors

We are the beneficiary of non-governmental financial guarantees on non-agency securities held in our retained mortgage portfolio and on non-agency securities that have been resecuritized to include a Fannie Mae guaranty and sold to third parties. The total unpaid principal balance of guaranteed non-agency securities in our retained mortgage portfolio was $4.6 billion and $5.6 billion as of December 31, 2014 and 2013. See "Note 16, Concentrations of Credit Risk—Financial Guarantors" for a further discussion of our exposure to financial guarantors.

We are also the beneficiary of financial guarantees included in securities issued by Freddie Mac, the federal government and its agencies that totaled $19.2 billion as of December 31, 2014 and $22.5 billion as of December 31, 2013.

Reinsurers

In December 2014, we executed a credit insurance risk transfer ("CIRT™") transaction that shifted a portion of the credit risk on a reference pool of loans with an unpaid principal balance of approximately $6.4 billion to a panel of reinsurers. In this transaction, Fannie Mae retains risk on the initial $32 million of losses on the loans and then is covered for any additional losses up to approximately $193 million in excess of the losses retained by Fannie Mae. Loans with LTV ratios over 80 percent that are included in the reference pool are already covered by primary mortgage insurance. The CIRT transaction provides supplemental coverage for losses that exceed those covered by primary mortgage insurance. This transaction counted towards a 2014 conservatorship scorecard goal to complete a variety of credit risk sharing transactions. We anticipate we will enter into additional CIRT transactions in the future.

Lenders with Risk Sharing

We enter into risk sharing agreements with lenders pursuant to which the lenders agree to bear all or some portion of the credit losses on the covered loans. Our maximum potential loss recovery from lenders under these risk sharing agreements on single-family loans was $8.9 billion as of December 31, 2014, compared with $10.7 billion as of December 31, 2013. As of December 31, 2014, 47% of our maximum potential loss recovery on single-family loans was from three lenders, compared with 52% as of December 31, 2013. Our maximum potential loss recovery from lenders under risk sharing agreements on DUS and non-DUS multifamily loans was $41.7 billion as of December 31, 2014, compared with $39.4 billion as of

December 31, 2013. As of December 31, 2014 and 2013, 32% of our maximum potential loss recovery on multifamily loans was from three DUS lenders.

The percentage of single-family recourse obligations from lenders with investment grade credit ratings (based on the lower of S&P, Moody's and Fitch ratings) was 49% as of December 31, 2014, compared with 55% as of December 31, 2013. The recourse obligations from lender counterparties rated below investment grade was 23% as of December 31, 2014, compared with 21% as of December 31, 2013. The remaining recourse obligations were from lender counterparties that were not rated by rating agencies, which was 28% as of December 31, 2014, compared with 24% as of December 31, 2013. Given the stressed financial condition of some of our single-family lenders, we expect in some cases we will recover less than the amount the lender is obligated to provide us under our risk sharing arrangement with them. Depending on the financial strength of the counterparty, we may require a lender to pledge collateral to secure its recourse obligations.

As noted above in "Multifamily Mortgage Credit Risk Management—Multifamily Acquisition Policy and Underwriting Standards," our primary multifamily delivery channel is our DUS program, which is comprised of lenders that range from large depositories to independent non-bank financial institutions. As of December 31, 2014, approximately 36% of the unpaid principal balance of loans in our multifamily guaranty book of business serviced by our DUS lenders was from institutions with an external investment grade credit rating or a guaranty from an affiliate with an external investment grade credit rating, compared with approximately 37% as of December 31, 2013. Given the recourse nature of the DUS program, the lenders are bound by eligibility standards that dictate, among other items, minimum capital and liquidity levels, and the posting of collateral at a highly rated custodian to secure a portion of the lenders' future obligations. We actively monitor the financial condition of these lenders to help ensure the level of risk remains within our standards and to ensure required capital levels are maintained and are in alignment with actual and modeled loss projections.

Custodial Depository Institutions

A total of $33.2 billion in deposits for single-family payments were received and held by 269 institutions during the month of December 2014 and a total of $34.6 billion in deposits for single-family payments were received and held by 284 institutions during the month of December 2013. Of these total deposits, 93% as of December 31, 2014, compared with 94% as of December 31, 2013, were held by institutions rated as investment grade by S&P, Moody's and Fitch. Our transactions with custodial depository institutions are concentrated. Our six largest custodial depository institutions held 83% of these deposits as of December 31, 2014, compared with 86% as of December 31, 2013.

We evaluate our custodial depository institutions to determine whether they are eligible to hold deposits on our behalf based on requirements specified in our Servicing Guide. If a custodial depository institution were to fail while holding remittances of borrower payments of principal and interest due to us in our custodial account, we would be an unsecured creditor of the depository for balances in excess of the deposit insurance protection and might not be able to recover all of the principal and interest payments being held by the depository on our behalf, or there might be a substantial delay in receiving these amounts. If this were to occur, we would be required to replace these amounts with our own funds to make payments that are due to Fannie Mae MBS certificateholders. Accordingly, the insolvency of one of our principal custodial depository counterparties could result in significant financial losses to us. During the month of December 2014, approximately $2.4 billion, or 7%, of our total deposits for single-family payments received and held by these institutions was in excess of the deposit insurance protection limit compared with approximately $1.7 billion, or 5%, during the month of December 2013. These amounts can vary as they are calculated based on individual payments of mortgage borrowers and we must estimate which borrowers are paying their regular principal and interest payments and other types of payments, such as prepayments from refinancing or sales.

Counterparty Credit Exposure of Investments Held in our Cash and Other Investments Portfolio

Our cash and other investments portfolio consists of cash and cash equivalents, securities purchased under agreements to resell or similar arrangements and U.S. Treasury securities. Our cash and other investment counterparties are primarily financial institutions and the Federal Reserve Bank. See "Liquidity and Capital Management—Liquidity Management—Cash and Other Investments Portfolio" for more detailed information on our cash and other investments portfolio.

As of December 31, 2014, our cash and other investments portfolio totaled $72.4 billion and included $19.5 billion of U.S. Treasury securities. As of December 31, 2013, our cash and other investments portfolio totaled $74.5 billion and included $16.3 billion of U.S. Treasury securities. As of December 31, 2014, we held a total of $2.0 billion short-term unsecured deposits with two financial institutions that had a short-term credit rating of A-1 from S&P (or its equivalent), based on the lowest credit rating issued by S&P, Moody's and Fitch, and no other unsecured positions other than U.S. Treasury securities, compared with $1.0 billion at one such institution as of December 31, 2013. The remaining amounts in our cash and other

investment portfolio other than U.S. Treasury securities were primarily composed of securities purchased under agreements to resell or similar arrangements.

We monitor the credit risk position of our cash and other investments portfolio. If one of these counterparties fails to meet its obligations to us under the terms of the investments, it could result in financial losses to us and have a material adverse effect on our earnings, liquidity, financial condition and net worth.

Derivative Counterparty Credit Exposure

Our derivative counterparty credit exposure relates principally to interest rate derivative contracts. We are exposed to the risk that a counterparty in a derivative transaction will default on payments due to us, which may require us to seek a replacement derivative from a different counterparty. This replacement may be at a higher cost, or we may be unable to find a suitable replacement. Historically, our risk management derivative transactions have been made pursuant to bilateral contracts with a specific counterparty governed by the terms of an International Swaps and Derivatives Association Inc. master agreement. Pursuant to regulations implementing the Dodd-Frank Act that became effective June 10, 2013, we are required to submit certain categories of new interest rate swaps to a derivatives clearing organization. We refer to our derivative transactions made pursuant to bilateral contracts as our OTC derivative transactions and our derivative transactions accepted for clearing by a derivatives clearing organization as our cleared derivative transactions.

We manage our derivative counterparty credit exposure relating to our OTC derivative transactions through enforceable master netting arrangements. These arrangements allow us to net derivative assets and liabilities with the same counterparty. We also manage our derivative counterparty exposure relating to our OTC derivative transactions by requiring counterparties to post collateral, which includes cash, U.S. Treasury securities, agency debt and agency mortgage-related securities.

Our cleared derivative transactions are submitted to a derivatives clearing organization on our behalf through a clearing member of the organization. A contract accepted by a derivatives clearing organization is governed by the terms of the clearing organization's rules and arrangements between us and the clearing member of the clearing organization. As a result, we are exposed to the institutional credit risk of both the derivatives clearing organization and the member who is acting on our behalf. We manage our credit exposure relating to our cleared derivative transactions through enforceable master netting arrangements. These arrangements allow us to net our exposure to cleared derivatives by clearing organization and by clearing member.

Our institutional credit risk exposure to derivatives clearing organizations and certain of their members will increase substantially in the future as cleared derivative contracts comprise a larger percentage of our derivative instruments. We estimate our exposure to credit loss on derivative instruments by calculating the replacement cost, on a present value basis, to settle at current market prices all outstanding derivative contracts in a net gain position at the counterparty level where the right of legal offset exists.

The fair value of derivatives in a gain position is included in our consolidated balance sheets in "Other assets." Table 51 below displays our credit exposure on outstanding risk management derivative instruments in a gain position.

Table 51: Credit Loss Exposure of Risk Management Derivative Instruments

	As of December 31,							
	2014				2013			
	OTC	Cleared	Other[(1)]	Total	OTC	Cleared	Other[(1)]	Total
	(Dollars in millions)							
Credit loss exposure[(2)]	$ 267	$ 1	$ 27	$ 295	$ 1,087	$ 1,475	$ 28	$ 2,590
Less: Collateral held[(3)]	267	1	—	268	1,038	1,382	—	2,420
Exposure net of collateral	$ —	$ —	$ 27	$ 27	$ 49	$ 93	$ 28	$ 170

(1) Primarily consists of mortgage insurance contracts accounted for as derivatives.

(2) Represents the exposure to credit loss on derivative instruments, which we estimate using the fair value of all outstanding derivative contracts in a gain position. Credit loss exposure for cleared derivative transactions as of December 31, 2013 does not reflect netting of derivative assets and liabilities where we have enforceable master netting arrangements.

(3) Represents cash and non-cash collateral posted by our counterparties to us. Does not include collateral held in excess of exposure. We reduce the value of non-cash collateral in accordance with the counterparty arrangements to ensure recovery of any loss through the disposition of the collateral.

As of December 31, 2014 and 2013, we had sixteen counterparties with whom we may transact OTC derivatives transactions, all of which had enforceable master netting arrangements. We had outstanding notional amounts with all these counterparties and the highest concentration by our total outstanding notional amount was approximately 11% as of December 31, 2014 and 14% as of December 31, 2013.

See "Note 9, Derivative Instruments" and "Note 17, Netting Arrangements" for additional information on our derivative contracts as of December 31, 2014 and 2013.

Mortgage Originators, Investors and Dealers

We are routinely exposed to pre-settlement risk through the purchase or sale of closed mortgage loans and mortgage-related securities with mortgage originators, mortgage investors and mortgage dealers. The risk is the possibility that the counterparty will be unable or unwilling to either deliver mortgage assets or compensate us for the cost to cancel or replace the transaction. We manage this risk by determining position limits with these counterparties, based upon our assessment of their creditworthiness, and by monitoring and managing these exposures.

Debt Security Dealers

The credit risk associated with dealers that commit to place our debt securities is that they will fail to honor their contracts to take delivery of the debt, which could result in delayed issuance of the debt through another dealer. We manage these risks by establishing approval standards, monitoring our exposure positions and monitoring changes in the credit quality of dealers.

Document Custodians

We use third-party document custodians to provide loan document certification and custody services for some of the loans that we purchase and securitize. In many cases, our lender customers or their affiliates also serve as document custodians for us. Our ownership rights to the mortgage loans that we own or that back our Fannie Mae MBS could be challenged if a lender intentionally or negligently pledges or sells the loans that we purchased or fails to obtain a release of prior liens on the loans that we purchased, which could result in financial losses to us. When a lender or one of its affiliates acts as a document custodian for us, the risk that our ownership interest in the loans may be adversely affected is increased, particularly in the event the lender were to become insolvent. We mitigate these risks through legal and contractual arrangements with these custodians that identify our ownership interest, as well as by establishing qualifying standards for document custodians and requiring removal of the documents to our possession or to an independent third-party document custodian if we have concerns about the solvency or competency of the document custodian.

Other

We filed claims as a creditor in the bankruptcy case of Lehman Brothers, which filed for bankruptcy in September 2008. In January 2014, we resolved our outstanding unsecured bankruptcy claims against Lehman Brothers for an allowed amount of $2.15 billion. As of December 31, 2014, we had received distributions totaling $634 million pursuant to the Lehman Brothers plan of reorganization, representing approximately 29% of the allowed amount. We may receive additional distributions in the future, but under the terms of the Lehman Brothers plan of reorganization, we expect that the total amount we will receive will constitute only a portion of the $2.15 billion allowed amount. Due to the uncertainty of future payments, we recognize income in our consolidated statement of operations related to these claims upon notification of a claim payout.

Market Risk Management, Including Interest Rate Risk Management

We are subject to market risk, which includes interest rate risk, spread risk and liquidity risk. These risks arise from our mortgage asset investments. Interest rate risk is the risk of loss in value or expected future earnings that may result from changes to interest rates. Spread risk or basis risk is the resulting impact of changes in the spread between our mortgage assets and our debt and derivatives we use to hedge our position. Liquidity risk is the risk that we will not be able to meet our funding obligations in a timely manner.

Interest Rate Risk Management

Our goal is to manage market risk to be neutral to movements in interest rates and volatility, subject to model constraints and prevailing market conditions. We employ an integrated interest rate risk management strategy that allows for informed risk taking within pre-defined corporate risk limits. Decisions regarding our strategy in managing interest rate risk are based upon our corporate market risk policy and limits that are established by our Chief Market Risk Officer and our Chief Risk Officer and are subject to review and approval by our Board of Directors. Our Capital Markets Group has primary responsibility for executing our interest rate risk management strategy.

We have actively managed the interest rate risk of our "net portfolio," which is defined below, through the following techniques: (1) asset selection and structuring (that is, by identifying or structuring mortgage assets with attractive prepayment and other risk characteristics); (2) issuing a broad range of both callable and non-callable debt instruments; and (3) using interest-rate derivatives. We have not actively managed or hedged our spread risk or basis risk, which would include the impact of changes in the spread between our mortgage assets and debt (referred to as mortgage-to-debt spreads) after we purchase mortgage assets, other than through asset monitoring and disposition. For mortgage assets in our portfolio that we intend to hold to maturity to realize the contractual cash flows, we accept period-to-period volatility in our financial performance attributable to changes in mortgage-to-debt spreads that occur after our purchase of mortgage assets. See "Risk Factors" for a discussion of the risks to our business posed by changes in interest rates or the loss of our ability to successfully manage interest risk.

We monitor current market conditions, including the interest rate environment, to assess the impact of these conditions on individual positions and our overall interest rate risk profile. In addition to qualitative factors, we use various quantitative risk metrics in determining the appropriate composition of our retained mortgage portfolio, our investments in non-mortgage securities and relative mix of debt and derivatives positions in order to remain within pre-defined risk tolerance levels that we consider acceptable. We regularly disclose two interest rate risk metrics that estimate our overall interest rate exposure: (1) fair value sensitivity to changes in interest rate levels and the slope of the yield curve and (2) duration gap.

The metrics used to measure our interest rate exposure are generated using internal models. Our internal models, consistent with standard practice for models used in our industry, require numerous assumptions. There are inherent limitations in any methodology used to estimate the exposure to changes in market interest rates. The reliability of our prepayment estimates and interest rate risk metrics depends on the availability and quality of historical data for each of the types of securities in our net portfolio. When market conditions change rapidly and dramatically, as they did during the financial market crisis of late 2008, the assumptions of our models may no longer accurately capture or reflect the changing conditions. On a continuous basis, management makes judgments about the appropriateness of the risk assessments indicated by the models. See "Risk Factors" for a discussion of the risks associated with our reliance on models to manage risk.

Sources of Interest Rate Risk Exposure

The primary source of our interest rate risk is the composition of our net portfolio. Our net portfolio consists of our retained mortgage portfolio assets; cash and other investment portfolio; our outstanding debt of Fannie Mae that is used to fund the retained mortgage portfolio assets and cash and other investment portfolio; mortgage commitments and risk management derivatives. Risk management derivatives along with our debt instruments are used to manage interest rate risk.

Our performing mortgage assets consist mainly of single-family and multifamily mortgage loans. For single-family loans, borrowers have the option to prepay at any time before the scheduled maturity date or continue paying until the stated maturity. Given this prepayment option held by the borrower, we are exposed to uncertainty as to when or at what rate prepayments will occur, which affects the length of time our mortgage assets will remain outstanding and the timing of the cash flows related to these assets. This prepayment uncertainty results in a potential mismatch between the timing of receipt of cash flows related to our assets and the timing of payment of cash flows related to our liabilities.

Changes in interest rates, as well as other factors, influence mortgage prepayment rates and duration and also affect the value of our mortgage assets. When interest rates decrease, prepayment rates on fixed-rate mortgages generally accelerate because borrowers usually can pay off their existing mortgages and refinance at lower rates. Accelerated prepayment rates have the effect of shortening the duration and average life of the fixed-rate mortgage assets we hold in our net portfolio. In a declining interest rate environment, existing mortgage assets held in our net portfolio tend to increase in value or price because these mortgages are likely to have higher interest rates than new mortgages, which are being originated at the then-current lower interest rates. Conversely, when interest rates increase, prepayment rates generally slow, which extends the duration and average life of our mortgage assets and results in a decrease in value.

Although the fair value of our guaranty assets and our guaranty obligations is highly sensitive to changes in interest rates and the market's perception of future credit performance, we do not actively manage the change in the fair value of our guaranty business that is attributable to changes in interest rates. We do not believe that periodic changes in fair value due to movements in interest rates are the best indication of the long-term value of our guaranty business because these changes do not take into account future guaranty business activity.

Interest Rate Risk Management Strategy

Our goal for managing the interest rate risk of our net portfolio is to be neutral to movements in interest rates and volatility. This involves asset selection and structuring of our liabilities to match and offset the interest rate characteristics of our retained mortgage portfolio and our investments in non-mortgage securities. Our strategy consists of the following principal elements:

- *Debt Instruments.* We issue a broad range of both callable and non-callable debt instruments to manage the duration and prepayment risk of expected cash flows of the mortgage assets we own.
- *Derivative Instruments.* We supplement our issuance of debt with derivative instruments to further reduce duration and prepayment risks.
- *Monitoring and Active Portfolio Rebalancing.* We continually monitor our risk positions and actively rebalance our portfolio of interest rate-sensitive financial instruments to maintain a close match between the duration of our assets and liabilities.

Debt Instruments

Historically, the primary tool we have used to fund the purchase of mortgage assets and manage the interest rate risk implicit in our mortgage assets is the variety of debt instruments we issue. The debt we issue is a mix that typically consists of short- and long-term, non-callable and callable debt. The varied maturities and flexibility of these debt combinations help us in reducing the mismatch of cash flows between assets and liabilities in order to manage the duration risk associated with an investment in long-term fixed-rate assets. Callable debt helps us manage the prepayment risk associated with fixed-rate mortgage assets because the duration of callable debt changes when interest rates change in a manner similar to changes in the duration of mortgage assets. See “Liquidity and Capital Management—Liquidity Management—Debt Funding” for additional information on our debt activity.

Derivative Instruments

Derivative instruments also are an integral part of our strategy in managing interest rate risk. Derivative instruments may be privately negotiated contracts, which are often referred to as over-the-counter derivatives, or they may be listed and traded on an exchange. When deciding whether to use derivatives, we consider a number of factors, such as cost, efficiency, the effect on our liquidity, results of operations and our overall interest rate risk management strategy.

The derivatives we use for interest rate risk management purposes fall into these broad categories:

- *Interest rate swap contracts.* An interest rate swap is a transaction between two parties in which each agrees to exchange, or swap, interest payments. The interest payment amounts are tied to different interest rates or indices for a specified period of time and are generally based on a notional amount of principal. The types of interest rate swaps we use include pay-fixed swaps, receive-fixed swaps and basis swaps.
- *Interest rate option contracts.* These contracts primarily include pay-fixed swaptions, receive-fixed swaptions, cancelable swaps and interest rate caps. A swaption is an option contract that allows us or a counterparty to enter into a pay-fixed or receive-fixed swap at some point in the future.
- *Foreign currency swaps.* These swaps convert debt that we issue in foreign denominated currencies into U.S. dollars. We enter into foreign currency swaps only to the extent that we issue foreign currency debt.
- *Futures.* These are standardized exchange-traded contracts that either obligate a buyer to buy an asset at a predetermined date and price or a seller to sell an asset at a predetermined date and price. The types of futures contracts we enter into include Eurodollar, U.S. Treasury and swaps.

We use interest rate swaps, interest rate options and futures, in combination with our issuance of debt securities, to better match the duration of our assets with the duration of our liabilities. We are generally an end user of derivatives; our principal purpose in using derivatives is to manage our aggregate interest rate risk profile within prescribed risk parameters. We generally only use derivatives that are relatively liquid and straightforward to value. We use derivatives for four primary purposes:

(1) As a substitute for notes and bonds that we issue in the debt markets;

(2) To achieve risk management objectives not obtainable with debt market securities;

(3) To quickly and efficiently rebalance our portfolio; and

(4) To hedge foreign currency exposure.

Decisions regarding the repositioning of our derivatives portfolio are based upon current assessments of our interest rate risk profile and economic conditions, including the composition of our retained mortgage portfolio, our investments in non-mortgage securities and relative mix of our debt and derivative positions, the interest rate environment and expected trends.

Measurement of Interest Rate Risk

Below we present two quantitative metrics that provide estimates of our interest rate risk exposure: (1) fair value sensitivity of our net portfolio to changes in interest rate levels and slope of yield curve; and (2) duration gap. The metrics presented are calculated using internal models that require standard assumptions regarding interest rates and future prepayments of principal over the remaining life of our securities. These assumptions are derived based on the characteristics of the underlying structure of the securities and historical prepayment rates experienced at specified interest rate levels, taking into account current market conditions, the current mortgage rates of our existing outstanding loans, loan age and other factors. On a continuous basis, management makes judgments about the appropriateness of the risk assessments and will make adjustments as necessary to properly assess our interest rate exposure and manage our interest rate risk. The methodologies used to calculate risk estimates are periodically changed on a prospective basis to reflect improvements in the underlying estimation process.

Interest Rate Sensitivity to Changes in Interest Rate Level and Slope of Yield Curve

Pursuant to a disclosure commitment with FHFA, we disclose on a monthly basis the estimated adverse impact on the fair value of our net portfolio that would result from the following hypothetical situations:

- A 50 basis point shift in interest rates.
- A 25 basis point change in the slope of the yield curve.

In measuring the estimated impact of changes in the level of interest rates, we assume a parallel shift in all maturities of the U.S. LIBOR interest rate swap curve.

In measuring the estimated impact of changes in the slope of the yield curve, we assume a constant 7-year rate and a shift of 16.7 basis points for the 1-year rate and 8.3 basis points for the 30-year rate. We believe the aforementioned interest rate shocks for our monthly disclosures represent moderate movements in interest rates over a one-month period.

Duration Gap

Duration gap measures the price sensitivity of our assets and liabilities in our net portfolio to changes in interest rates by quantifying the difference between the estimated durations of our assets and liabilities. Our duration gap analysis reflects the extent to which the estimated maturity and repricing cash flows for our assets are matched, on average, over time and across interest rate scenarios to those of our liabilities. A positive duration gap indicates that the duration of our assets exceeds the duration of our liabilities. We disclose duration gap on a monthly basis under the caption “Interest Rate Risk Disclosures” in our Monthly Summary, which is available on our Web site and announced in a press release.

While our goal is to reduce the price sensitivity of our net portfolio to movements in interest rates, various factors can contribute to a duration gap that is either positive or negative. For example, changes in the market environment can increase or decrease the price sensitivity of our mortgage assets relative to the price sensitivity of our liabilities because of prepayment uncertainty associated with our assets. In a declining interest rate environment, prepayment rates tend to accelerate, thereby shortening the duration and average life of the fixed rate mortgage assets we hold in our net portfolio. Conversely, when interest rates increase, prepayment rates generally slow, which extends the duration and average life of our mortgage assets. Our debt and derivative instrument positions are used to manage the interest rate sensitivity of our retained mortgage portfolio and our investments in non-mortgage securities. As a result, the degree to which the interest rate sensitivity of our retained mortgage portfolio and our investments in non-mortgage securities is offset will be dependent upon, among other factors, the mix of funding and other risk management derivative instruments we use at any given point in time.

The market value sensitivities of our net portfolio are a function of both the duration and the convexity of our net portfolio. Duration provides a measure of the price sensitivity of a financial instrument to changes in interest rates while convexity reflects the degree to which the duration of the assets and liabilities in our net portfolio changes in response to a given change in interest rates. We use convexity measures to provide us with information about how quickly and by how much our net portfolio’s duration may change in different interest rate environments. The market value sensitivity of our net portfolio will depend on a number of factors, including the interest rate environment, modeling assumptions and the composition of assets and liabilities in our net portfolio, which vary over time.

Results of Interest Rate Sensitivity Measures

The interest rate risk measures discussed below exclude the impact of changes in the fair value of our guaranty assets and liabilities resulting from changes in interest rates. We exclude our guaranty business from these sensitivity measures based on our current assumption that the guaranty fee income generated from future business activity will largely replace guaranty fee income lost due to mortgage prepayments.

Table 52 displays the pre-tax market value sensitivity of our net portfolio to changes in the level of interest rates and the slope of the yield curve as measured on the last day of each period presented. In addition, the table also provides the daily average, minimum, maximum and standard deviation values for duration gap and for the most adverse market value impact on the net portfolio to changes in the level of interest rates and the slope of the yield curve for the three months ended December 31, 2014 and 2013.

The sensitivity measures displayed in Table 52, which we disclose on a quarterly basis pursuant to a disclosure commitment with FHFA, are an extension of our monthly sensitivity measures. There are three primary differences between our monthly sensitivity disclosure and the quarterly sensitivity disclosure presented below: (1) the quarterly disclosure is expanded to include the sensitivity results for larger rate level shocks of plus or minus 100 basis points; (2) the monthly disclosure reflects the estimated pre-tax impact on the market value of our net portfolio calculated based on a daily average, while the quarterly disclosure reflects the estimated pre-tax impact calculated based on the estimated financial position of our net portfolio and the market environment as of the last business day of the quarter; and (3) the monthly disclosure shows the most adverse pre-tax impact on the market value of our net portfolio from the hypothetical interest rate shocks, while the quarterly disclosure includes the estimated pre-tax impact of both up and down interest rate shocks.

Table 52: Interest Rate Sensitivity of Net Portfolio to Changes in Interest Rate Level and Slope of Yield Curve[1]

	As of December 31,[2]	
	2014	2013
	(Dollars in billions)	
Rate level shock:		
-100 basis points	$ 0.4	$ 0.1
-50 basis points	0.1	0.0
+50 basis points	(0.1)	(0.1)
+100 basis points	(0.1)	(0.5)
Rate slope shock:		
-25 basis points (flattening)	0.0	0.0
+25 basis points (steepening)	(0.0)	0.0

	For the Three Months Ended December 31, 2014[3]		
	Duration Gap	Rate Slope Shock 25 bps	Rate Level Shock 50 bps
		Exposure	
	(In months)	(Dollars in billions)	
Average	0.1	$ 0.1	$ 0.0
Minimum	(0.3)	0.0	—
Maximum	0.5	0.1	0.1
Standard deviation	0.2	0.0	0.0

	For the Three Months Ended December 31, 2013[3]		
	Duration Gap	Rate Slope Shock 25 bps	Rate Level Shock 50 bps
		Exposure	
	(In months)	(Dollars in billions)	
Average	(0.2)	$ 0.0	$ 0.2
Minimum	(0.6)	0.0	0.1
Maximum	0.3	0.1	0.2
Standard deviation	0.2	0.0	0.0

(1) Computed based on changes in U.S. LIBOR interest rates swap curve.

(2) Measured on the last day of each period presented.

(3) Computed based on daily values during the period presented.

The market value sensitivity of our net portfolio varies across a range of interest rate shocks depending upon the duration and convexity profile of our net portfolio. The average duration gap was 0.1 months for the last three months of 2014, which is consistent with the average duration gap for the last three months of 2013. Because the effective duration gap of our net portfolio was close to zero months in the periods presented, convexity risk was the primary driver of the market value sensitivity of our net portfolio in those periods.

A majority of the interest rate risk associated with our mortgage-related securities and loans is hedged with our debt issuances, which include callable debt. We use derivatives to help manage the residual interest rate risk exposure between our assets and liabilities. Derivatives have enabled us to keep our interest rate risk exposure at consistently low levels in a wide range of interest-rate environments. Table 53 displays an example of how derivatives impacted the net market value exposure for a 50 basis point parallel interest rate shock.

Table 53: Derivative Impact on Interest Rate Risk (50 Basis Points)[(1)]

	As of December 31,	
	2014	2013
	(Dollars in billions)	
Before derivatives	$ (1.9)	$ (0.3)
After derivatives	(0.1)	(0.1)
Effect of derivatives	1.8	0.1

(1) Measured on the last day of each period presented.

Liquidity Risk Management

See "Liquidity and Capital Management—Liquidity Management" for a discussion on how we manage liquidity risk.

Operational Risk Management

Operational risk is the risk resulting from a failure in our operational systems or infrastructure, or those of third parties, including as a result of cyber attacks, that could materially adversely affect our business, impair our liquidity, cause financial losses and harm our reputation. Our operations rely on the secure processing, storage and transmission of confidential or personal information that is subject to privacy laws, regulations or customer-imposed controls. Information security risks for large institutions like us have significantly increased in recent years and from time to time we have been, and likely will continue to be, the target of attempted cyber attacks and other information security breaches. We take measures to protect the security of our computer systems, software and networks. These risks are an unavoidable result of being in business, and managing these risks is part of our business activities. We continue to enhance our risk-conscious culture, in which all employees are expected to identify, discuss, manage and remediate potential and actual operational risk. To date, we have not experienced any material losses relating to cyber attacks or other information security breaches. See "Risk Factors" for additional discussion of cybersecurity risks to our business.

Our corporate operational risk framework is based on the OFHEO/FHFA Enterprise Guidance on Operational Risk Management, published September 23, 2008. We have made a number of enhancements to our operational risk management efforts including our business process focus, policies and framework. Our framework is intended to provide a methodology to identify, assess, mitigate, control and monitor operational risks by embedding the concepts of operational risk in the day-to-day activities of individuals across the company. Included in this framework is a requirement for a system to track and report operational risk incidents. The framework also includes a methodology for business owners to conduct risk and control self assessments to self identify potential operational risks and points of execution failure, the effectiveness of associated controls, and document corrective action plans to close identified deficiencies. The success of our operational risk effort will depend on the consistent execution of the operational risk programs and the timely remediation of high operational risk issues. To quantify our operational risk exposure, we rely on the Basel Standardized approach, which is based on a percentage of gross income.

While each business unit is responsible for managing its operational risk, our Operational Risk Management group provides the business units and process owners with the tools, techniques, expertise and guiding principles to assist them in prudent management of their operational risk exposure. Operational risk lead teams, comprised of centralized resources within our Enterprise Risk Management division, are aligned with each of our primary business units as well as with our corporate functions such as finance and legal. Each risk lead reports to the Vice President and Chief Risk Officer of Operational Risk, who reports directly to the Executive Vice President and Chief Risk Officer. The Operational Risk Committee provides an additional governance forum for managing operational risk.

See "Risk Factors" for more information regarding our operational risk and "Risk Management" for more information regarding our governance of operational risk management.

Management of Business Resiliency

Our business resiliency program is designed to provide reasonable assurance for continuity of critical business operations in the event of disruptions caused by the loss of facilities, technology or personnel. We recently built an out-of-region data center for disaster recovery in order to increase the geographic diversity of our business continuity plans. This data center became operational in the fourth quarter of 2014. Despite the planning, testing and preparation of back up venues that we engage in, a catastrophic event may still result in a significant business disruption and financial losses. See “Risk Factors” for a discussion of the risks to our business relating to a catastrophic event that could disrupt our business.

Non-Mortgage Related Fraud Risk

Our anti-fraud program provides a framework for managing non-mortgage related fraud risk. The program is designed to provide reasonable assurance for the prevention and detection of non-mortgage related fraudulent activity. However, because fraudulent activity requires the intentional circumvention of the internal control structure, the efforts of the program may not always prevent, or immediately detect, instances of such activity.

IMPACT OF FUTURE ADOPTION OF NEW ACCOUNTING GUIDANCE

We identify and discuss the expected impact on our consolidated financial statements of recently issued accounting guidance in "Note 1, Summary of Significant Accounting Policies."

GLOSSARY OF TERMS USED IN THIS REPORT

Terms used in this report have the following meanings, unless the context indicates otherwise.

An *"Acquired credit-impaired loan"* refers to a loan we have acquired for which there is evidence of credit deterioration since origination and for which it is probable we will not be able to collect all of the contractually due cash flows. We record our net investment in such loans at the lower of the acquisition cost of the loan or the estimated fair value of the loan at the date of acquisition. Typically, loans we acquire from our unconsolidated MBS trusts pursuant to our option to purchase upon default meet these criteria. Because we acquire these loans from our MBS trusts at par value plus accrued interest, to the extent the par value of a loan exceeds the estimated fair value at the time we acquire the loan, we record the related fair value loss as a charge against the "Reserve for guaranty losses."

"Alt-A mortgage loan" or *"Alt-A loan"* generally refers to a mortgage loan originated under a lender's program offering reduced or alternative documentation than that required for a full documentation mortgage loan but may also include other alternative product features. As a result, Alt-A mortgage loans have a higher risk of default than non-Alt-A mortgage loans. We classify certain loans as Alt-A so that we can discuss our exposure to Alt-A loans in this Form 10-K and elsewhere. However, there is no universally accepted definition of Alt-A loans. In reporting our Alt-A exposure, we have classified mortgage loans as Alt-A if and only if the lenders that delivered the mortgage loans to us classified the loans as Alt-A, based on documentation or other product features. We have loans with some features that are similar to Alt-A mortgage loans that we have not classified as Alt-A because they do not meet our classification criteria. We do not rely solely on our classifications of loans as Alt-A to evaluate the credit risk exposure relating to these loans in our single-family conventional guaranty book of business. For more information about the credit risk characteristics of loans in our single-family guaranty book of business, see "Risk Management—Credit Risk Management—Mortgage Credit Risk Management—Single-Family Mortgage Credit Risk Management," "Note 3, Mortgage Loans" and "Note 6, Financial Guarantees." We have classified private-label mortgage-related securities held in our retained mortgage portfolio as Alt-A if the securities were labeled as such when issued. For more information on the Alt-A loans and securities in our mortgage credit book of business, see "Note 16, Concentrations of Credit Risk."

"Business volume" or *"new business acquisitions"* refers to the sum in any given period of the unpaid principal balance of: (1) the mortgage loans and mortgage-related securities we purchase for our retained mortgage portfolio; (2) the mortgage loans we securitize into Fannie Mae MBS that are acquired by third parties; and (3) credit enhancements that we provide on our mortgage assets. It excludes mortgage loans we securitize from our portfolio and the purchase of Fannie Mae MBS for our retained mortgage portfolio.

"Buy-ups" refer to upfront payments we make to lenders to adjust the monthly contractual guaranty fee rate on a Fannie Mae MBS so that the pass-through coupon rate on the MBS is in a more easily tradable increment of a whole or half percent.

"Buy-downs" refer to upfront payments we receive from lenders to adjust the monthly contractual guaranty fee rate on a Fannie Mae MBS so that the pass-through coupon rate on the MBS is in a more easily tradable increment of a whole or half percent.

"Charge-off" refers to loan amounts written off as uncollectible bad debts. These loan amounts are removed from our consolidated balance sheet and charged against our loss reserves when the balance is deemed uncollectible, which is generally at foreclosure.

"Connecticut Avenue Securities" refers to a type of debt structure that allows Fannie Mae to transfer a portion of the credit risk from loan reference pools, consisting of certain single-family mortgage loans in our single-family guaranty book of business in our consolidated balance sheets, to third-party investors.

"Conventional mortgage" refers to a mortgage loan that is not guaranteed or insured by the U.S. government or its agencies, such as the VA, the FHA or the Rural Development Housing and Community Facilities Program of the Department of Agriculture.

"Credit enhancement" refers to an agreement used to reduce credit risk by requiring collateral, letters of credit, mortgage insurance, corporate guarantees, or other agreements to provide an entity with some assurance that it will be compensated to some degree in the event of a financial loss.

"Duration" refers to the sensitivity of the value of a financial instrument to changes in interest rates. The duration of a financial instrument is the expected percentage change in its value in the event of a change in interest rates of 100 basis points.

"Guaranty book of business" refers to the sum of the unpaid principal balance of: (1) mortgage loans of Fannie Mae; (2) mortgage loans underlying Fannie Mae MBS; and (3) other credit enhancements that we provide on mortgage assets. It excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

"Implied volatility" refers to the market's expectation of the magnitude of future changes in interest rates.

"Interest rate swap" refers to a transaction between two parties in which each agrees to exchange payments tied to different interest rates or indices for a specified period of time, generally based on a notional principal amount. An interest rate swap is a type of derivative.

"HARP loans" refer to loans we have acquired through the Obama Administration's Home Affordable Refinance Program® ("HARP®"), which allows eligible Fannie Mae borrowers with high LTV ratio loans to refinance into more sustainable loans.

"LIHTC partnerships" refer to low-income housing tax credit limited partnerships or limited liability companies.

"Loans," "mortgage loans" and *"mortgages"* refer to both whole loans and loan participations, secured by residential real estate, cooperative shares or by manufactured housing units.

"Mortgage assets," when referring to our assets, refers to both mortgage loans and mortgage-related securities we hold in our retained mortgage portfolio. For purposes of the senior preferred stock purchase agreement, the definition of mortgage assets is based on the unpaid principal balance of such assets and does not reflect market valuation adjustments, allowance for loan losses, impairments, unamortized premiums and discounts and the impact of our consolidation of variable interest entities. We disclose the amount of our mortgage assets for purposes of the senior preferred stock purchase agreement on a monthly basis under the caption "Gross Mortgage Portfolio" in our Monthly Summaries, which are available on our Web site and announced in a press release.

"Mortgage-backed securities" or "MBS" refers generally to securities that represent beneficial interests in pools of mortgage loans or other mortgage-related securities. These securities may be issued by Fannie Mae or by others.

"Mortgage credit book of business" refers to the sum of the unpaid principal balance of: (1) mortgage loans of Fannie Mae; (2) mortgage loans underlying Fannie Mae MBS; (3) non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio; and (4) other credit enhancements that we provide on mortgage assets.

"Multifamily mortgage loan" refers to a mortgage loan secured by a property containing five or more residential dwelling units.

"Notional amount" refers to the hypothetical dollar amount in an interest rate swap transaction on which exchanged payments are based. The notional amount in an interest rate swap transaction generally is not paid or received by either party to the transaction, or generally perceived as being at risk. The notional amount is typically significantly greater than the potential market or credit loss that could result from such transaction.

"Option-adjusted spread" refers to the incremental expected return between a security, loan or derivative contract and a benchmark yield curve (typically, U.S. Treasury securities, LIBOR and swaps or agency debt securities). The option-adjusted spread provides explicit consideration of the variability in the security's cash flows across multiple interest rate scenarios resulting from any options embedded in the security, such as prepayment options. For example, the option-adjusted spread of a mortgage that can be prepaid by the homeowner without penalty is typically lower than a nominal yield spread to the same benchmark because the option-adjusted spread reflects the exercise of the prepayment option by the homeowner,

which lowers the expected return of the mortgage investor. In other words, option-adjusted spread for mortgage loans is a risk-adjusted spread after consideration of the prepayment risk in mortgage loans. The market convention for mortgages is typically to quote their option-adjusted spread to swaps. The option-adjusted spread of our debt and derivative instruments are also frequently quoted to swaps. The option-adjusted spread of our net mortgage assets is therefore the combination of these two spreads to swaps and is the option-adjusted spread between our assets and our funding and hedging instruments.

"Outstanding Fannie Mae MBS" refers to the total unpaid principal balance of Fannie Mae MBS that is held by third-party investors and held in our retained mortgage portfolio.

"Pay-fixed swap" refers to an interest rate swap trade under which we pay a predetermined fixed rate of interest based upon a set notional amount and receive a variable interest payment based upon a stated index, with the index resetting at regular intervals over a specified period of time. These contracts generally increase in value as interest rates rise and decrease in value as interest rates fall.

"Private-label securities" or *"PLS"* refers to mortgage-related securities issued by entities other than agency issuers Fannie Mae, Freddie Mac or Ginnie Mae.

"Receive-fixed swap" refers to an interest rate swap trade under which we make a variable interest payment based upon a stated index, with the index resetting at regular intervals, and receive a predetermined fixed rate of interest based upon a set notional amount and over a specified period of time. These contracts generally increase in value as interest rates fall and decrease in value as interest rates rise.

"Recorded investment for held-for-investment loans" refers to loans at the unpaid principal balance, net of unamortized premiums and discounts, other cost basis adjustments, and accrued interest receivable.

"Refi Plus Loans" refers to loans we acquire under our Refi Plus™ initiative, which offers additional refinancing flexibility to eligible borrowers who are current on their loans and whose loans are owned or guaranteed by us and meet certain additional criteria. Refi Plus has no limits on maximum LTV ratio and provides mortgage insurance flexibilities for loans with LTV ratios greater than 80%.

"REMIC" or *"Real Estate Mortgage Investment Conduit"* refers to a type of mortgage-related security in which interest and principal payments from mortgages or mortgage-related securities are structured into separately traded securities.

"REO" refers to real-estate owned by Fannie Mae because we have foreclosed on the property or obtained the property through a deed-in-lieu of foreclosure.

"Retained mortgage portfolio" refers to the mortgage-related assets we own (which excludes the portion of assets held by consolidated MBS trusts that back mortgage-related securities owned by third parties).

"Severity rate" or *"loss severity rate"* refers to a measure of the amounts that will not be recovered in the event a loan defaults. Severity rates generally reflect charge-offs as a percentage of unpaid principal balance. Additional items may be taken into account in calculating severity rates. For example, the numerator may reflect items such as foreclosed property expenses, taxes and insurance, and expected recoveries from mortgage insurance, while the denominator may reflect items such as purchased interest, basis, and selling costs.

"Single-class Fannie Mae MBS" refers to Fannie Mae MBS where the investors receive principal and interest payments in proportion to their percentage ownership of the MBS issue.

"Single-family mortgage loan" refers to a mortgage loan secured by a property containing four or fewer residential dwelling units.

"Structured Fannie Mae MBS" refers to Fannie Mae MBS that are resecuritizations of other Fannie Mae MBS.

"Subprime mortgage loan" generally refers to a mortgage loan made to a borrower with a weaker credit profile than that of a prime borrower. As a result of the weaker credit profile, subprime borrowers have a higher likelihood of default than prime borrowers. Subprime mortgage loans were typically originated by lenders specializing in this type of business or by subprime divisions of large lenders, using processes unique to subprime loans. We classify certain loans as subprime so that we can discuss our exposure to subprime loans in this Form 10-K and elsewhere. However, there is no universally accepted definition of subprime loans. In reporting our subprime exposure, we have classified mortgage loans as subprime if and only if the loans were originated by a lender specializing in subprime business or by a subprime division of a large lender; however, we exclude loans originated by these lenders from the subprime classification if we acquired the loans in accordance with our standard underwriting criteria, which typically require compliance by the seller with our Selling Guide (including standard representations and warranties) and/or evaluation of the loans through our Desktop Underwriter system. We have loans with some features that are similar to subprime mortgage loans that we have not classified as subprime

because they do not meet our classification criteria. We do not rely solely on our classifications of loans as subprime to evaluate the credit risk exposure relating to these loans in our single-family conventional guaranty book of business. We are not currently acquiring newly originated subprime loans, although we are acquiring refinancings of existing Fannie Mae subprime loans in connection with our Refi Plus initiative. Unlike the loans they replace, these refinancings are not included in our reported subprime loans because they do not meet our classification criteria for subprime loans. We have classified private-label mortgage-related securities held in our retained mortgage portfolio as subprime if the securities were labeled as such when issued. For more information on the subprime securities in our mortgage credit book of business, see "Note 5, Investments in Securities."

"Swaption" refers to an option that gives the option buyer the right, but not the obligation, to enter into an interest rate swap on a future date with the option seller on terms specified on the date the parties agreed to the swaption.

"TCCA fees" refers to the expense recognized as a result of the 10 basis point increase in guaranty fees on all single-family residential mortgages delivered to us on or after April 1, 2012 pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, which we remit to Treasury on a quarterly basis.

"Total loss reserve" consists of allowance for loan losses, allowance for accrued interest receivable, allowance for preforeclosure property taxes and insurance receivables and reserve for guaranty losses. Our total loss reserve reflects our estimate of the probable losses we have incurred in our guaranty book of business, including concessions we granted borrowers upon modification of their loans.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Information about market risk is set forth in "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management."

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements and notes thereto are included elsewhere in this annual report on Form 10-K as described below in "Exhibits and Financial Statement Schedules."

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

OVERVIEW

We are required under applicable laws and regulations to maintain controls and procedures, which include disclosure controls and procedures as well as internal control over financial reporting, as further described below.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures refer to controls and other procedures designed to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as in effect as of December 31, 2014, the end of the period covered by this report. As a result of management's evaluation, our Chief

Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of December 31, 2014 or as of the date of filing this report.

Our disclosure controls and procedures were not effective as of December 31, 2014 or as of the date of filing this report because they did not adequately ensure the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws. As a result, we were not able to rely upon the disclosure controls and procedures that were in place as of December 31, 2014 or as of the date of this filing, and we continue to have a material weakness in our internal control over financial reporting. This material weakness is described in more detail below under "Management's Report on Internal Control Over Financial Reporting—Description of Material Weakness." Based on discussions with FHFA and the structural nature of this material weakness, we do not expect to remediate this material weakness while we are under conservatorship.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Overview

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting, as defined in rules promulgated under the Exchange Act, is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by our Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our Board of Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process, and it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") published an updated *Internal Control-Integrated Framework* and related illustrative documents. This updated 2013 framework superseded COSO's previous 1992 framework effective December 15, 2014. We adopted the 2013 framework in December 2014. Accordingly, in making its assessment of the effectiveness of our internal control over financial reporting as of December 31, 2014, management used the criteria established in the 2013 framework.

Management's assessment of our internal control over financial reporting as of December 31, 2014 identified a material weakness, which is described below. Because of this material weakness, management has concluded that our internal control over financial reporting was not effective as of December 31, 2014 or as of the date of filing this report.

Our independent registered public accounting firm, Deloitte & Touche LLP, has issued an audit report on our internal control over financial reporting, expressing an adverse opinion on the effectiveness of our internal control over financial reporting as of December 31, 2014. This report is included below.

Description of Material Weakness

The Public Company Accounting Oversight Board's Auditing Standard No. 5 defines a material weakness as a deficiency or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Management has determined that we continued to have the following material weakness as of December 31, 2014 and as of the date of filing this report:

- *Disclosure Controls and Procedures.* We have been under the conservatorship of FHFA since September 6, 2008. Under the 2008 Reform Act, FHFA is an independent agency that currently functions as both our conservator and our regulator with respect to our safety, soundness and mission. Because of the nature of the conservatorship under the 2008 Reform Act, which places us under the "control" of FHFA (as that term is defined by securities laws), some of the information that we may need to meet our disclosure obligations may be solely within the knowledge of FHFA. As our conservator, FHFA has the power to take actions without our knowledge that could be material to our shareholders and other stakeholders, and could significantly affect our financial performance or our continued existence as an ongoing business. Although we and FHFA attempted to design and implement disclosure policies and procedures that would account for the conservatorship and accomplish the same objectives as a disclosure controls and procedures policy of a typical reporting company, there are inherent structural limitations on our ability to design, implement, test or operate effective disclosure controls and procedures. As both our regulator and our conservator under the 2008 Reform Act, FHFA is limited in its ability to design and implement a complete set of disclosure controls and procedures relating to Fannie Mae, particularly with respect to current reporting pursuant to Form 8-K. Similarly, as a regulated entity, we are limited in our ability to design, implement, operate and test the controls and procedures for which FHFA is responsible.

  Due to these circumstances, we have not been able to update our disclosure controls and procedures in a manner that adequately ensures the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws, including disclosures affecting our consolidated financial statements. As a result, we did not maintain effective controls and procedures designed to ensure complete and accurate disclosure as required by GAAP as of December 31, 2014 or as of the date of filing this report. Based on discussions with FHFA and the structural nature of this weakness, we do not expect to remediate this material weakness while we are under conservatorship.

MITIGATING ACTIONS RELATING TO MATERIAL WEAKNESS

As described above under "Management's Report on Internal Control Over Financial Reporting—Description of Material Weakness," we continue to have a material weakness in our internal control over financial reporting relating to our disclosure controls and procedures. However, we and FHFA have engaged in the following practices intended to permit accumulation and communication to management of information needed to meet our disclosure obligations under the federal securities laws:

- FHFA has established the Division of Conservatorship, which is intended to facilitate operation of the company with the oversight of the conservator.
- We have provided drafts of our SEC filings to FHFA personnel for their review and comment prior to filing. We also have provided drafts of external press releases, statements and speeches to FHFA personnel for their review and comment prior to release.
- FHFA personnel, including senior officials, have reviewed our SEC filings prior to filing, including this annual report on Form 10-K for the year ended December 31, 2014 ("2014 Form 10-K"), and engaged in discussions regarding issues associated with the information contained in those filings. Prior to filing our 2014 Form 10-K, FHFA provided Fannie Mae management with a written acknowledgment that it had reviewed the 2014 Form 10-K, and it was not aware of any material misstatements or omissions in the 2014 Form 10-K and had no objection to our filing the 2014 Form 10-K.
- The Director of FHFA and our Chief Executive Officer have been in frequent communication, typically meeting on at least a bi-weekly basis.
- FHFA representatives attend meetings frequently with various groups within the company to enhance the flow of information and to provide oversight on a variety of matters, including accounting, credit and market risk management, external communications and legal matters.
- Senior officials within FHFA's Office of the Chief Accountant have met frequently with our senior finance executives regarding our accounting policies, practices and procedures.

In view of these activities, we believe that our consolidated financial statements for the year ended December 31, 2014 have been prepared in conformity with GAAP.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, whether any changes in our internal control over financial reporting that occurred during our last fiscal quarter have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. There have been no changes in our internal control over financial reporting since September 30, 2014 that management believes have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Fannie Mae:

We have audited the internal control over financial reporting of Fannie Mae and consolidated entities (in conservatorship) (the "Company") as of December 31, 2014, based on criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management's assessment:

- Disclosure Controls and Procedures—The Company's disclosure controls and procedures did not adequately ensure the accumulation and communication to management of information known to the Federal Housing Finance Agency that is needed to meet their disclosure obligations under the federal securities laws as they relate to financial reporting.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2014, of the Company and this report does not affect our report on such financial statements.

In our opinion, because of the effect of the material weakness identified above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014, of the Company and our report dated February 20, 2015, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's dependence upon the continued support from various agencies of the United States Government, including the United States Department of Treasury and the Company's conservator and regulator, the Federal Housing Finance Agency.

/s/ Deloitte & Touche LLP

McLean, Virginia
February 20, 2015

Item 9B. Other Information

In September 2014, Terence W. Edwards, our Executive Vice President and Chief Operating Officer, notified us that he plans to leave the company during the first half of 2015. On February 18, 2015, Mr. Edwards notified us that his departure will be effective on April 10, 2015.

Our Board of Directors approved a change to the retirement provisions for our executive compensation program for 2015 and future years. See "Executive Compensation—Compensation Discussion and Analysis—Retirement Provisions for the 2015 Executive Compensation Program," which is incorporated herein by reference, for a description of this change.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

DIRECTORS

Our current directors are listed below. They have provided the following information about their principal occupation, business experience and other matters. Upon FHFA's appointment as our conservator on September 6, 2008, FHFA succeeded to all rights, titles, powers and privileges of any director of Fannie Mae with respect to Fannie Mae and its assets.

As discussed in more detail below under "Corporate Governance—Conservatorship and Delegation of Authority to Board of Directors," FHFA, as conservator, appointed an initial group of directors to our Board following our entry into conservatorship, delegated to the Board certain authority, including the authority to appoint directors to subsequent vacancies subject to conservator review, and defined the term of service of directors during conservatorship. The Nominating & Corporate Governance Committee evaluates the qualifications of individual directors on an annual basis. In its assessment of current directors and evaluation of potential candidates for director, the Nominating & Corporate Governance Committee considers, among other things, whether the Board as a whole possesses meaningful experience, qualifications and skills in the following subject areas: business; finance; capital markets; accounting; risk management; public policy; mortgage lending, real estate, low-income housing and/or homebuilding; technology; and the regulation of financial institutions. See "Corporate Governance—Composition of Board of Directors" below for further information on the factors the Nominating & Corporate Governance Committee considers in evaluating and selecting board members.

Amy E. Alving, 52, served as Chief Technology Officer and Senior Vice President at Science Applications International Corporation ("SAIC"), an engineering and technology applications company, from December 2007 to September 2013. Dr. Alving's prior positions include director of the Special Projects Office at the Defense Advanced Research Projects Agency, White House Fellow, and tenured faculty member at the University of Minnesota. Dr. Alving is currently a member of the Board of Directors of Pall Corporation, where she serves as a member of the Audit Committee and the Nominating/Governance Committee. In addition, she is a member of the Defense Science Board. Dr. Alving has been a Fannie Mae director since October 2013. Dr. Alving serves as a member of the Nominating & Corporate Governance Committee, the Risk Policy & Capital Committee and the Strategic Initiatives Committee.

The Nominating & Corporate Governance Committee concluded that Dr. Alving should serve as a director due to her extensive experience in business, risk management, public policy matters and technology, which she gained in the positions described above.

William Thomas Forrester, 66, served as Chief Financial Officer of The Progressive Corporation from 1999 until his retirement in March 2007, and he served in a variety of senior financial and operating positions with Progressive prior to that time. Prior to joining The Progressive Corporation in 1984, Mr. Forrester was with Price Waterhouse LLP, a major public accounting firm, from 1976 to 1984. Mr. Forrester was previously a member of the Board of Directors of Alterra Capital Holdings Limited, from May 2010 to May 2013, where he served on the Audit and Risk Management Committee and the Underwriting Committee. He previously was also a member of the Board of Directors of The Navigators Group, Inc. from December 2006 to May 2012, where he served as Chair of the Audit Committee and also as a member of the Finance and Compensation Committees. Mr. Forrester has been a Fannie Mae director since December 2008. Mr. Forrester serves as Chair of the Audit Committee and is also a member of the Risk Policy & Capital Committee, the Strategic Initiatives Committee and the Executive Committee.

The Nominating & Corporate Governance Committee concluded that Mr. Forrester should continue to serve as a director due to his extensive experience in business, finance, accounting and risk management, which he gained in the positions described above.

Brenda J. Gaines, 65, served as President and Chief Executive Officer of Diners Club North America, a subsidiary of Citigroup, from October 2002 until her retirement in April 2004. She served as President, Diners Club North America, from February 1999 to September 2002. From 1988 until her appointment as President, she held various positions within Diners Club North America, Citigroup and Citigroup's predecessor corporations. She also served as Deputy Chief of Staff for the Mayor of the City of Chicago from 1985 to 1987 and as Chicago Commissioner of Housing from 1983 to 1985. Ms. Gaines also has over 12 years of experience with the Department of Housing and Urban Development, including serving as Deputy Regional Administrator from 1980 to 1981. Ms. Gaines is currently a member of the Board of Directors of AGL Resources Inc., where she serves as a member of both the Audit Committee and the Nominating, Governance and Corporate Responsibility Committee, and Tenet Healthcare Corporation, where she serves as a member of both the Compensation Committee and the Quality, Compliance & Ethics Committee. She previously was a member of the Board of Directors of NICOR, Inc. from April 2006 to December 2011, where she served on the Corporate Governance Committee, and Office Depot, Inc. from February 2002 to August 2013, where she served as a member of both the Audit Committee and the Corporate Governance and Nominating Committee. Ms. Gaines initially became a Fannie Mae director in September 2006, before we were put into conservatorship, and FHFA appointed Ms. Gaines to Fannie Mae's Board in December 2008. Ms. Gaines serves as Chair of the Compensation Committee and is also a member of the Audit Committee and the Executive Committee.

The Nominating & Corporate Governance Committee concluded that Ms. Gaines should continue to serve as a director due to her extensive experience in business, finance, accounting, risk management, public policy matters, real estate, low-income housing and the regulation of financial institutions, which she gained in the positions described above.

Charlynn Goins, 72, is an attorney. Ms. Goins served as the Chairperson of the New York Community Trust from 2009 to 2014, and she remains on its Board as Chairperson Emerita. Ms. Goins previously served as a director of AXA Financial Inc. from September 2006 to December 2012, where she served as a member of the Organization and Compensation Committee. Ms. Goins served as Chairperson of the Board of Directors of New York City Health and Hospitals Corporation, from June 2004 to October 2008. She also served on the Board of Trustees of The Mainstay Funds, New York Life Insurance Company's retail family of funds, from June 2001 through July 2006 and on the Board of Directors of The Community's Bank from February 2001 through June 2004. Ms. Goins was a Senior Vice President of Prudential Financial, Inc. (formerly, Prudential Securities, Inc.) from 1990 to 1997. Ms. Goins has been a Fannie Mae director since December 2008. Ms. Goins serves as Chair of the Nominating & Corporate Governance Committee and is also a member of the Strategic Initiatives Committee and the Executive Committee.

The Nominating & Corporate Governance Committee concluded that Ms. Goins should continue to serve as a director due to her extensive experience in business, finance, public policy matters and the regulation of financial institutions, which she gained in the positions described above.

Frederick B. "Bart" Harvey III, 65, retired in March 2008 from his role as chairman of the Board of Trustees of Enterprise Community Partners and Enterprise Community Investment, providers of development capital and technical expertise to create affordable housing and rebuild communities. Enterprise is a national non-profit that raises funds from the private sector to finance homes primarily for low and very low income people. Enterprise has also pioneered "green" affordable housing with its EnterpriseGreen Communities initiative. Mr. Harvey was Enterprise's chief executive officer from 1993 to 2007. He joined Enterprise in 1984, and a year later became vice chairman. Before joining Enterprise, Mr. Harvey served for 10 years in various domestic and international positions with Dean Witter Reynolds (now Morgan Stanley), leaving as Managing Director of Corporate Finance. Mr. Harvey was a member of the Board of Directors of the Federal Home Loan Bank of Atlanta from 1996 to 1999, a director of the National Housing Trust from 1990 to 2008, and also served as an executive committee member of the National Housing Conference from 1999 to 2008. Mr. Harvey initially became a Fannie Mae director in August 2008, before we were put into conservatorship, and FHFA appointed Mr. Harvey to Fannie Mae's Board in December 2008. Mr. Harvey serves as a member of the Nominating & Corporate Governance Committee and the Risk Policy & Capital Committee.

The Nominating & Corporate Governance Committee concluded that Mr. Harvey should continue to serve as a director due to his extensive experience in business, finance, capital markets, risk management, public policy matters, real estate, low-income housing and homebuilding, which he gained in the positions described above.

Robert H. Herz, 61, serves as President of Robert H. Herz LLC, providing consulting services on financial reporting and other matters. He previously served as a senior advisor to and as a member of the Advisory Board of Workiva Inc. (formerly WebFilings LLC), a provider of financial reporting software, from February 2011 to December 2014. From July 2002 to September 2010, Mr. Herz was Chairman of the Financial Accounting Standards Board, or FASB. He was also a part-time member of the International Accounting Standards Board, or IASB, from January 2001 to June 2002. He was a partner in PricewaterhouseCoopers LLP from 1985 until his retirement in 2002. He serves on the Accounting Standards Oversight

Council of Canada, as a member of the Standing Advisory Group of the Public Company Accounting Oversight Board, as a member of the Board of Directors of the Sustainability Accounting Standards Board, on the Leadership Board of the Manchester Business School in England, on the Advisory Council of AccountAbility, as Trustee of the Kessler Foundation and as an executive in residence at the Columbia Business School. Mr. Herz is currently a member of the Board of Directors of Morgan Stanley, where he serves as Chair of the Audit Committee, and he is a member of the Board of Directors of Workiva Inc. Mr. Herz has been a Fannie Mae director since June 2011. Mr. Herz serves as a member of the Audit Committee and the Nominating & Corporate Governance Committee.

The Nominating & Corporate Governance Committee concluded that Mr. Herz should continue to serve as a director due to his extensive experience in accounting, business, finance, capital markets, risk management and the regulation of financial institutions, which he gained in the positions described above.

Timothy J. Mayopoulos, 55, has been President and Chief Executive Officer of Fannie Mae since June 2012. He previously served as Fannie Mae's Executive Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary from September 2010 to June 2012, and as Fannie Mae's Executive Vice President, General Counsel and Corporate Secretary from April 2009 to September 2010. Before joining Fannie Mae, Mr. Mayopoulos was Executive Vice President and General Counsel of Bank of America Corporation from January 2004 to December 2008. He was Managing Director and General Counsel, Americas of Deutsche Bank AG's Corporate and Investment Bank from January 2002 to January 2004. He was Managing Director and Senior Deputy General Counsel, Americas of Credit Suisse First Boston from November 2000 to May 2001, and Managing Director and Associate General Counsel of Donaldson, Lufkin & Jenrette, Inc. from May 1996 to November 2000. Mr. Mayopoulos was previously in private law practice at Davis Polk & Wardwell and served in the Office of the Independent Counsel during the Whitewater investigation. Mr. Mayopoulos is currently a member of the Board of Directors of Science Applications International Corporation ("SAIC"), where he serves as a member of the Audit Committee and the Nominating and Corporate Governance Committee. Mr. Mayopoulos has been a Fannie Mae director since June 2012. He is a member of the Executive Committee.

Mr. Mayopoulos serves as a member of our Board of Directors pursuant to an FHFA order that specifies that our Chief Executive Officer will serve as a member of the Board. In addition, the Nominating and Corporate Governance Committee concluded that Mr. Mayopoulos should continue to serve as a director due to his extensive experience in business, finance, risk management, public policy, mortgage lending and the regulation of financial institutions, which he gained in the positions described above.

Diane C. Nordin, 56, served as a partner of Wellington Management Company, LLP, a private asset management company, from December 1995 to December 2011, and originally joined Wellington in 1991. She served in many global leadership roles at Wellington, most notably as head of Fixed Income, Vice Chair of the Compensation Committee and Audit Chair of the Wellington Management Trust Company. Ms. Nordin spent over three decades in the investment business, having previously been employed by Fidelity Investments and Putnam Investments. Ms. Nordin is a Chartered Financial Analyst. Following her retirement from the asset management industry, Ms. Nordin served as an Advanced Leadership Initiative Fellow at Harvard University from December 2011 to December 2012. Ms. Nordin currently serves as a Trustee of Wheaton College, where she is an Executive Committee and Audit Committee member and Chair of the Investment Committee. She is also a Director of the Appalachian Mountain Club, where she is Chair of the Investment and Audit Committees, and a Foundation Board Member of the Massachusetts College of Art and Design. Ms. Nordin has been a Fannie Mae director since November 2013. Ms. Nordin serves as a member of the Audit Committee and the Compensation Committee.

The Nominating & Corporate Governance Committee concluded that Ms. Nordin should serve as a director due to her extensive experience in business, finance, capital markets, mortgage securities investment and regulation of financial institutions, which she gained in the positions described above.

Egbert L. J. Perry, 59, is the Chairman and Chief Executive Officer of The Integral Group LLC. Founded in 1993 by Mr. Perry, Integral is a real estate development, advisory and investment management company based in Atlanta. Mr. Perry has over 35 years of experience as a real estate professional, including work in urban development, developing and investing in mixed-income, mixed-use communities, affordable/work force housing and commercial real estate projects in markets across the country. Mr. Perry currently serves as Chair of the Advisory Board of the Penn Institute for Urban Research and as a long-time trustee of the University of Pennsylvania. Mr. Perry also served from 2002 through 2008 as a director of the Federal Reserve Bank of Atlanta. Mr. Perry has been a Fannie Mae director since December 2008 and Chairman of Fannie Mae's Board since March 2014. Mr. Perry is Chair of the Executive Committee.

The Nominating & Corporate Governance Committee concluded that Mr. Perry should continue to serve as a director due to his extensive experience in business, finance, accounting, risk management, real estate, low-income housing and homebuilding, which he gained in the positions described above.

Jonathan Plutzik, 60, has served as Chairman of Betsy Ross Investors, LLC since August 2005. He also has served as President of the Jonathan Plutzik and Lesley Goldwasser Family Foundation Inc. since January 2003. Mr. Plutzik served as Non-Executive Chairman of the Board of Directors at Firaxis Games from June 2002 to December 2005. Before that, he served from 1978 to June 2002 in various positions with Credit Suisse First Boston, retiring in June 2002 from his role as Vice Chairman. Mr. Plutzik has been a Fannie Mae director since November 2009. Mr. Plutzik is Chair of the Strategic Initiatives Committee and is a member of the Compensation Committee, the Executive Committee and the Risk Policy & Capital Committee.

The Nominating & Corporate Governance Committee concluded that Mr. Plutzik should continue to serve as a director due to his extensive experience in business, finance, capital markets, risk management, mortgage lending and the regulation of financial institutions, which he gained in the positions described above.

David H. Sidwell, 61, served as Executive Vice President and Chief Financial Officer of Morgan Stanley from March 2004 to October 2007, when he retired. From 1984 to March 2004, Mr. Sidwell worked for JPMorgan Chase & Co. in a variety of financial and operating positions, most recently as Chief Financial Officer of JPMorgan Chase's investment bank from January 2000 to March 2004. Prior to joining JP Morgan in 1984, Mr. Sidwell was with Price Waterhouse LLP, a major public accounting firm, from 1975 to 1984. Mr. Sidwell is currently a member of the Board of Directors and Senior Independent Director of UBS AG, where he serves as Chair of the Risk Committee and a member of the Governance & Nominating Committee. He is also a member of the Board of Directors of Ace Limited, where he serves as a member of the Audit Committee. He previously was a member of the Board of Directors of MSCI Inc. from November 2007 through September 2008, where he served as Chair of the Audit Committee and a member of the Nominating and Corporate Governance Committee. Mr. Sidwell served as a Trustee of the International Accounting Standards Committee Foundation from January 2007 until his term ended in December 2012. Mr. Sidwell has been a Fannie Mae director since December 2008. Mr. Sidwell is Chair of the Risk Policy & Capital Committee and a member of the Compensation Committee and the Executive Committee.

The Nominating & Corporate Governance Committee concluded that Mr. Sidwell should continue to serve as a director due to his extensive experience in business, finance, capital markets, accounting, risk management and the regulation of financial institutions, which he gained in the positions described above.

CORPORATE GOVERNANCE

Conservatorship and Delegation of Authority to Board of Directors

On September 6, 2008, the Director of FHFA appointed FHFA as our conservator in accordance with the GSE Act. Upon its appointment, the conservator immediately succeeded to all rights, titles, powers and privileges of Fannie Mae, and of any shareholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and succeeded to the title to the books, records and assets of any other legal custodian of Fannie Mae. As a result, our Board of Directors no longer had the power or duty to manage, direct or oversee our business and affairs.

In November 2008, FHFA, as conservator, reconstituted our Board of Directors and directed us regarding the function and authorities of the Board of Directors. FHFA delegated to our Board of Directors and management the authority to conduct our day-to-day operations, subject to the direction of the conservator. FHFA's delegation of authority to the Board became effective in December 2008, when FHFA appointed nine Board members to serve in addition to the Board Chairman, who was appointed by FHFA in September 2008. Pursuant to FHFA's delegation of authority to the Board, the Board is responsible for carrying out normal Board functions, but is required to ensure that management has obtained the review and approval of FHFA as conservator before taking action in the areas described below. The delegation of authority will remain in effect until modified or rescinded by the conservator. The conservatorship has no specified termination date. The directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, where required, of the conservator. Our directors have no fiduciary duties to any person or entity except to the conservator. Accordingly, our directors are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator.

In connection with FHFA's delegation of authority to the Board, in November 2008, FHFA instructed the Board to consult with and obtain FHFA's approval before taking action in certain specified areas. In November 2012, FHFA revised and replaced these prior instructions to the Board. Pursuant to the 2012 instructions, FHFA increased the number of matters that require conservator approval before we may take action. Since 2012, FHFA has slightly modified the 2012 instructions. As

modified, FHFA's 2012 instructions require the Board to oversee that management consult with and obtain the written approval of the conservator before taking action in the following areas:

- engaging in redemptions or repurchases of our subordinated debt, except as may be necessary to comply with the senior preferred stock purchase agreement;
- increases in Board risk limits, material changes in accounting policy, and reasonably foreseeable material increases in operational risk;
- matters that relate to the conservator's powers, our conservatorship status, or the legal effect of the conservatorship on contracts;
- retention and termination of external auditors and law firms serving as consultants to the Board;
- agreements relating to litigation, claims, regulatory proceedings or tax-related matters where the value of the claim exceeds a specified threshold, including related matters that aggregate to more than the threshold;
- alterations or changes to the terms of the master agreement between us and one of our top five single-family sellers or top five single-family servicers that are not otherwise mandated by FHFA and that will materially alter the business relationship between the parties;
- the termination of a contract between us and one of our top five single-family sellers or top five single-family servicers, other than an expiration pursuant to its terms;
- actions that in the reasonable business judgment of management, at the time that the action is to be taken, are likely to cause significant reputational risk to us or result in substantial negative publicity;
- creation of any subsidiary or affiliate, or entering into a substantial transaction with a subsidiary or affiliate, except for the creation of, or a transaction with, a subsidiary or affiliate undertaken in the ordinary course of business;
- setting or increasing the compensation or benefits payable to members of the Board of Directors;
- entering into new compensation arrangements or increasing amounts or benefits payable under existing compensation arrangements of executives at the senior vice president level and above, and other executives as FHFA may deem necessary to successfully execute its role as conservator;
- any establishment or modification by us of performance management processes for executives at the senior vice president level and above and any executives designated as "officers" pursuant to Section 16 of the Exchange Act, including the establishment or modification of a conservator scorecard;
- establishing the annual operating budget; and
- matters that require the approval of or consultation with Treasury under the senior preferred stock purchase agreement. See "Note 14, Equity" for a list of matters that require the approval of Treasury under the senior preferred stock purchase agreement.

The 2012 instructions state that, in regards to the matters described above, the Board should review and approve these matters before they are submitted to the conservator for approval. FHFA's instructions also require the company to notify FHFA of planned changes in business processes or operations, so that FHFA may participate in decision-making as FHFA determines appropriate. For more information on the conservatorship, refer to "Business—Conservatorship and Treasury Agreements—Conservatorship."

Composition of Board of Directors

In November 2008, FHFA directed that our Board should have a minimum of nine and not more than thirteen directors. There is a non-executive Chairman of the Board, and our Chief Executive Officer is the only corporate officer serving as a director. Our initial directors were appointed by the conservator and subsequent vacancies have been and may continue to be filled by the Board, subject to review by the conservator. Each director serves on the Board until the earlier of (1) resignation or removal by the conservator or (2) the election of a successor director at an annual meeting of shareholders.

Fannie Mae's bylaws provide that each director holds office for the term for which he or she was elected or appointed and until his or her successor is chosen and qualified or until he or she dies, resigns, retires or is removed from office in accordance with applicable law or regulation, whichever occurs first. Under the Charter Act, each director is elected or appointed for a term ending on the date of our next annual shareholders' meeting. As noted above, however, the conservator appointed the initial directors to our Board, delegated to the Board the authority to appoint directors to subsequent vacancies subject to conservator review, and defined the term of service of directors during conservatorship.

Under the Charter Act, our Board shall at all times have as members at least one person from each of the homebuilding, mortgage lending and real estate industries, and at least one person from an organization that has represented consumer or community interests for not less than two years or one person who has demonstrated a career commitment to the provision of housing for low-income households. It is the policy of the Board that a substantial majority of Fannie Mae's directors will be independent, in accordance with the standards adopted by the Board. In addition, our Corporate Governance guidelines provide that the Board, as a group, must be knowledgeable in business, finance, capital markets, accounting, risk management, public policy, mortgage lending, real estate, low-income housing, homebuilding, regulation of financial institutions, technology and any other areas that may be relevant to the safe and sound operation of Fannie Mae. In addition to expertise in the areas noted above, our Corporate Governance Guidelines specify that the Nominating & Corporate Governance Committee will seek out Board members who possess the highest personal values, judgment, and integrity, and who have an understanding of the regulatory and policy environment in which Fannie Mae does business. The Committee also considers whether a prospective candidate for the Board has the ability to attend meetings and fully participate in the activities of the Board.

The Nominating & Corporate Governance Committee also considers diversity when evaluating the composition of the Board. Our Corporate Governance Guidelines specify that the Nominating & Corporate Governance Committee is committed to considering minorities, women and individuals with disabilities in the identification and evaluation process of prospective candidates. The Guidelines also specify that the Committee will seek out Board members who represent diversity in ideas, perspectives, gender, race, and disability. These provisions of our Corporate Governance Guidelines implement FHFA regulations that require the company to implement and maintain policies and procedures that, among other things, encourage the consideration of diversity in nominating or soliciting nominees for positions on our Board.

The Nominating & Corporate Governance Committee evaluates the qualifications and performance of current directors on an annual basis. Factors taken into consideration by the Committee in making this evaluation include:

- a director's contribution to the effective functioning of the corporation;
- any change in the director's principal area of responsibility with his or her company or his or her retirement from the company;
- whether the director continues to bring relevant experience to the Board;
- whether the director has the ability to attend meetings and fully participate in the activities of the Board;
- whether the director has developed any relationships with Fannie Mae or another organization, or other circumstances have arisen, that might make it inappropriate for the director to continue serving on the Board;
- the director's age and length of service on the Board; and
- the director's particular experience, qualifications, attributes and skills.

Information regarding the particular experience, qualifications, attributes and skills of each of our current directors is provided above under "Directors."

Board Leadership Structure

We have had a non-executive Chairman of the Board since 2004. FHFA examination guidance and our Corporate Governance Guidelines require separate Chairman of the Board and Chief Executive Officer positions and require that the Chairman of the Board be an independent director. Our Board is also structured so that all but one of our directors, our Chief Executive Officer, are independent. A non-executive Chairman structure enables non-management directors to raise issues and concerns for Board consideration without immediately involving management and is consistent with the Board's emphasis on independent oversight, as well as our conservator's directives.

Our Board has six standing committees: the Audit Committee, the Compensation Committee, the Executive Committee, the Nominating & Corporate Governance Committee, the Risk Policy & Capital Committee, and the Strategic Initiatives Committee. The Board and the standing Board committees function in accordance with their designated duties and with the authorities as set forth in federal statutes, regulations and FHFA examination and policy guidance, Delaware law (for corporate governance purposes) and in Fannie Mae's bylaws and applicable charters of Fannie Mae's Board committees. Such duties or authorities may be modified by the conservator at any time.

The Board oversees risk management primarily through the Risk Policy & Capital Committee. This Committee oversees management's risk-related policies, including receiving, reviewing and discussing with management presentations and analyses on corporate level risk policies and limits, performance against these policies and limits, and the sufficiency of risk

management capabilities. For more information on the Board's role in risk oversight, see "MD&A—Risk Management—Enterprise Risk Governance—Board of Directors."

Corporate Governance Information, Committee Charters and Codes of Conduct

Our Corporate Governance Guidelines, as well as the charters for our Board's Audit Committee, Compensation Committee, Nominating & Corporate Governance Committee, Risk Policy & Capital Committee, and Strategic Initiatives Committee, are posted on our Web site, www.fanniemae.com, under "Governance" in the "About Us" section of our Web site. Our Executive Committee does not have a written charter. The responsibilities, duties and authorities of the Executive Committee are set forth in our bylaws, which are also posted on our Web site, www.fanniemae.com, under "Governance" in the "About Us" section of our Web site.

We have a Code of Conduct that is applicable to all officers and employees and a Code of Conduct and Conflicts of Interest Policy for Members of the Board of Directors. Our Code of Conduct also serves as the code of ethics for our Chief Executive Officer and senior financial officers required by the Sarbanes-Oxley Act of 2002 and implementing regulations of the SEC. We have posted these codes on our Web site, www.fanniemae.com, under "Governance" in the "About Us" section of our Web site. We intend to disclose any changes to or waivers from these codes that apply to any of our executive officers or directors by posting this information on our Web site.

Although our equity securities are no longer listed on the New York Stock Exchange ("NYSE"), we are required by FHFA's corporate governance regulations and examination guidance for corporate governance, compensation practices and accounting practices to follow specified NYSE corporate governance requirements relating to, among other things, the independence of our Board members and the charters, independence, composition, expertise, duties and other requirements of our Board Committees.

Audit Committee Membership

Our Board has a standing Audit Committee consisting of Mr. Forrester, who is the Chair, Ms. Gaines, Mr. Herz and Ms. Nordin, all of whom are independent under the requirements of independence set forth in FHFA's corporate governance regulations (which requires the standard of independence adopted by the NYSE), Fannie Mae's Corporate Governance Guidelines and other SEC rules and regulations applicable to audit committees. The Board has determined that Mr. Forrester, Ms. Gaines, Mr. Herz and Ms. Nordin each have the requisite experience to qualify as an "audit committee financial expert" under the rules and regulations of the SEC and has designated each of them as such.

Executive Sessions

Our non-management directors meet regularly in executive sessions without management present. Our Board of Directors reserves time for executive sessions at every regularly scheduled Board meeting. The non-executive Chairman of the Board, Mr. Perry, presides over these sessions.

Communications with Directors or the Audit Committee

Interested parties wishing to communicate any concerns or questions about Fannie Mae to the non-executive Chairman of the Board or to our non-management directors individually or as a group may do so by electronic mail addressed to "board@fanniemae.com," or by U.S. mail addressed to Board of Directors, c/o Office of the Corporate Secretary, Fannie Mae, Mail Stop 1H-2S/05, 3900 Wisconsin Avenue NW, Washington, DC 20016-2892. Communications may be addressed to a specific director or directors, including Mr. Perry, the Chairman of the Board, or to groups of directors, such as the independent or non-management directors.

Interested parties wishing to communicate with the Audit Committee regarding accounting, internal accounting controls or auditing matters may do so by electronic mail addressed to "auditcommittee@fanniemae.com," or by U.S. mail addressed to Audit Committee, c/o Office of the Corporate Secretary, Fannie Mae, Mail Stop 1H-2S/05, 3900 Wisconsin Avenue NW, Washington, DC 20016-2892.

The Office of the Corporate Secretary is responsible for processing all communications to a director or directors. Communications that are deemed by the Office of the Corporate Secretary to be commercial solicitations, ordinary course customer inquiries or complaints, incoherent or obscene are not forwarded to directors.

Director Nominations; Shareholder Proposals

During the conservatorship, FHFA, as conservator, has all powers of the shareholders and Board of Directors of Fannie Mae. As a result, under the GSE Act, Fannie Mae's common shareholders no longer have the ability to recommend director nominees or elect the directors of Fannie Mae or bring business before any meeting of shareholders pursuant to the procedures in our bylaws. We currently do not plan to hold an annual meeting of shareholders in 2015. For more information on the conservatorship, refer to "Business—Conservatorship and Treasury Agreements—Conservatorship."

EXECUTIVE OFFICERS

Our current executive officers who are not also members of the Board of Directors are listed below. They have provided the following information about their principal occupation, business experience and other matters.

David C. Benson, 55, has been Executive Vice President and Chief Financial Officer since April 2013. Mr. Benson previously served as Executive Vice President—Capital Markets, Securitization & Corporate Strategy from September 2012 to April 2013 and as Executive Vice President—Capital Markets from April 2009 to September 2012. He also served as Treasurer from June 2010 to January 2012. Mr. Benson previously served as Fannie Mae's Executive Vice President—Capital Markets and Treasury from August 2008 to April 2009, as Fannie Mae's Senior Vice President and Treasurer from March 2006 to August 2008, and as Fannie Mae's Vice President and Assistant Treasurer from June 2002 to February 2006. Prior to joining Fannie Mae in 2002, Mr. Benson was Managing Director in the fixed income division of Merrill Lynch & Co. From 1988 through 2002, he served in several capacities at Merrill Lynch in the areas of risk management, trading, debt syndication and e-commerce based in New York and London.

Pascal Boillat, 48, has been Senior Vice President and Head of Operations and Technology since August 2012 and began acting as Head of Operations and Technology in July 2012. Mr. Boillat previously served as Fannie Mae's Senior Vice President and Chief Information Officer from October 2009 to July 2012. Prior to joining Fannie Mae, Mr. Boillat was Managing Director of Operations Technology at Citigroup from September 2004 to October 2009.

Andrew J. Bon Salle, 49, has been Executive Vice President—Single-Family Business since December 2014. Prior to that time, he served as Executive Vice President—Single-Family Underwriting, Pricing, and Capital Markets, from April 2013 to December 2014. Mr. Bon Salle previously served as Fannie Mae's Senior Vice President and Head of Underwriting and Pricing from May 2011 to April 2013, Senior Vice President—Capital Markets from March 2006 to May 2011, and as Fannie Mae's Vice President—Portfolio Management from November 2000 to February 2006. Mr. Bon Salle held the positions of Director, Finance from December 1996 to November 2000 and of Manager, Early Funding Programs from March 1994 to December 1996. Mr. Bon Salle joined Fannie Mae in September 1992 as a senior capital markets analyst.

Brian P. Brooks, 45, has been Executive Vice President, General Counsel and Corporate Secretary since November 2014. Prior to joining Fannie Mae, Mr. Brooks was Vice Chairman of OneWest Bank N.A., from May 2011 to November 2014, where he served as chief legal officer. Previously, Mr. Brooks was a partner at the law firm of O'Melveny & Myers LLP, where he served from February 2008 through January 2011 as managing partner of the Washington, D.C. office and from February 2010 through April 2011 as group leader of the firm's financial services practice.

Joy C. Cianci, 52, has been Senior Vice President of Credit Portfolio Management since September 2014. Ms. Cianci has served in various roles at Fannie Mae for over 20 years. She served as Senior Vice President—Making Home Affordable and Foreclosure Prevention from September 2012 to September 2014 and as Senior Vice President—Making Home Affordable from June 2010 to September 2012. Ms. Cianci was Senior Vice President—Giving and Community Outreach from December 2009 to June 2010, having previously served as Vice President in Fannie Mae's Office of Community & Charitable Giving, from July 2007 to December 2009, and as Vice President in Fannie Mae's Housing and Community Development division, from April 2006 to July 2007. Ms. Cianci served as Vice President in various roles in our Single-Family division and in our former eBusiness division, from January 2004 to April 2006. Prior to that time, she served as a Director in our eBusiness division and in our Legal Division. Ms. Cianci joined Fannie Mae in June 1993 as counsel.

Terence W. Edwards, 59, has been Executive Vice President and Chief Operating Officer since September 2013, responsible most recently for oversight of various strategic initiatives and for work in connection with the common securitization platform. Mr. Edwards has notified us that he plans to leave the company in April 2015. Prior to September 2014, when he first notified us of his plans to leave the company, Mr. Edwards was also responsible for Fannie Mae's credit portfolio management organization and for overseeing Fannie Mae's work in developing and integrating to a common securitization platform. Mr. Edwards served as Fannie Mae's Executive Vice President—Credit Portfolio Management from September 2009, when he joined Fannie Mae, to September 2013. Prior to joining Fannie Mae, Mr. Edwards served as the President and

Chief Executive Officer of PHH Corporation, a leading outsource provider of mortgage and fleet management services, from January 2005 to June 2009. Mr. Edwards was also a member of the Board of Directors of PHH Corporation during that time. Prior to PHH Corporation's spin-off from Cendant Corporation (now known as Avis Budget Group, Inc.) in January 2005, Mr. Edwards served as President and Chief Executive Officer of Cendant Mortgage Corporation (now known as PHH Mortgage Corporation), a subsidiary of Cendant Corporation, beginning in February 1996. Mr. Edwards had previously served in other executive roles at PHH Corporation, which he joined in 1980.

Jeffery R. Hayward, 59, Executive Vice President and Head of Multifamily, has served as Head of Multifamily since January 2012, first as Senior Vice President and, since December 2014, as Executive Vice President. Mr. Hayward has served in various roles at Fannie Mae for over 25 years. He previously served as Fannie Mae's Senior Vice President—National Servicing Organization from April 2010 to January 2012. He also served as Senior Vice President of Community Lending in Fannie Mae's Multifamily division from May 2004 to April 2010. Prior to that time, Mr. Hayward served as both a Senior Vice President and a Vice President in Fannie Mae's Single-Family division, including as Senior Vice President in the National Business Center from November 2001 to May 2004, as Vice President for Single-Family Business Strategy from November 1999 to November 2001, as Vice President for Asset Management Services from August 1998 to November 1999 and as Vice President for Quality Control and Operations from January 1996 to August 1998. Mr. Hayward also served as Vice President for Risk Management from June 1993 to January 1996. Before that, he served as Director, Loan Acquisition from October 1992 to June 1993, as Director, Marketing from December 1989 to September 1992, and as Senior Negotiator from July 1988 to December 1989. Mr. Hayward joined the company in April 1987 as a senior MBS representative.

John R. Nichols, 52, has been Executive Vice President and Chief Risk Officer since August 2011. Mr. Nichols previously served as Fannie Mae's Senior Vice President and Interim Chief Risk Officer from March 2011 to August 2011. He also served as Fannie Mae's Senior Vice President and Capital Markets Chief Risk Officer from November 2010 to June 2011. Prior to joining Fannie Mae, Mr. Nichols was Managing Director of BlackRock from February 2005 to October 2010.

Zachary Oppenheimer, 55, has been Senior Vice President and Head of Customer Engagement since May 2011. Mr. Oppenheimer previously served as Fannie Mae's Senior Vice President and Chief Acquisition Officer from August 2009 to May 2011, and as Senior Vice President, Single-Family Mortgage Business from November 1998 through August 2009. Mr. Oppenheimer was Vice President of Marketing from April 1991 through November 1998. He held the positions of Director, Sales and Marketing from June 1988 to April 1991, of Director, MBS from May 1987 to June 1988, of MBS Manager from August 1985 to May 1987, and of Senior Sales Representative from October 1984 to August 1985. Mr. Oppenheimer joined Fannie Mae in August 1983 as an associate quality control representative.

Under our bylaws, each executive officer holds office until his or her successor is chosen and qualified or until he or she dies, resigns, retires or is removed from office, whichever occurs first.

Section 16(a) Beneficial Ownership Reporting Compliance

Our directors and officers file with the SEC reports on their ownership of our stock and on changes in their stock ownership. Based on a review of forms filed during 2014 or with respect to 2014 and on written representations from our directors and officers, we believe that all of our directors and officers timely filed all required reports and reported all transactions reportable during 2014.

Item 11. Executive Compensation

COMPENSATION DISCUSSION AND ANALYSIS

Named Executives for 2014

This Compensation Discussion and Analysis focuses on compensation decisions relating to our Chief Executive Officer, our Chief Financial Officer, and our next three most highly compensated executive officers during 2014. We refer to these individuals as our named executives. For 2014, our named executives were:

- Timothy J. Mayopoulos, President and Chief Executive Officer;
- David C. Benson, Executive Vice President and Chief Financial Officer;
- Andrew J. Bon Salle, Executive Vice President—Single-Family Business;
- Terence W. Edwards, Executive Vice President and Chief Operating Officer; and
- John R. Nichols, Executive Vice President and Chief Risk Officer.

This Compensation Discussion and Analysis describes our executive compensation program that was in effect for 2014. A change to our executive compensation program effective for 2015 is described under "Retirement Provisions for the 2015 Executive Compensation Program."

Executive Summary

Due to our conservatorship status and other legal requirements discussed under "Chief Executive Officer Compensation and 2014 Executive Compensation Program—Impact of Conservatorship and Other Legal Requirements," FHFA, our conservator and regulator, has significant oversight and approval rights over our executive compensation arrangements and determinations. In March 2012, FHFA announced and directed us to implement a compensation program for our named executives, which it developed in consultation with Treasury. We refer to our compensation arrangements for 2014 with our named executives other than our Chief Executive Officer as the "2014 executive compensation program." Our 2014 compensation arrangements are based upon the structure of our compensation program that FHFA announced in March 2012, which included the following features:

- Compensation for the Chief Executive Officer was sharply reduced from historical levels. Since January 1, 2013, our Chief Executive Officer's total target direct compensation has consisted solely of a base salary of $600,000.
- Named executives other than our Chief Executive Officer receive two principal elements of compensation: base salary and deferred salary. These elements are described under "Chief Executive Officer Compensation and 2014 Executive Compensation Program—Elements of 2014 Executive Compensation Program—Direct Compensation." Base salary is paid on a bi-weekly basis, and deferred salary is paid on a quarterly basis after a one-year deferral. There are two components to deferred salary: a fixed portion that is subject to reduction if an executive leaves the company within one year following the end of the performance year, and an at-risk portion. One half of the at-risk portion is subject to reduction based on corporate performance against goals for 2014 set by the conservator, referred to as the 2014 conservatorship scorecard, and the other half of the at-risk portion is subject to reduction based on individual performance, taking into account corporate performance against goals established by the Board of Directors, referred to as the 2014 Board of Directors' goals.
- Named executives do not receive bonuses or any form of equity or performance-based long-term incentives as a component of annual compensation.

While reducing pay levels to conserve taxpayer resources was an important objective of FHFA's redesign of our executive compensation program in 2012, we and FHFA understand that this objective must be balanced against our need to attract and retain able and experienced executives to prudently manage our $3.1 trillion book of business and enable the company to be an effective steward of taxpayer resources. Under the leadership of our experienced executives, including our named executives, the company achieved net income of $14.2 billion in 2014. The company completed all of the corporate goals in the 2014 conservatorship scorecard within its control, and in January 2015 FHFA determined that the portion of 2014 at-risk deferred salary subject to performance against these goals would be paid at 100% of target. The goals in the 2014 conservatorship scorecard related to the following objectives:

- Maintain in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets;
- Reduce taxpayer risk through increasing the role of private capital in the mortgage market; and
- Build a new single-family securitization infrastructure for use by Fannie Mae and Freddie Mac (the "Enterprises") that is also adaptable for use by other participants in the secondary market in the future.

The company also completed in all material respects the 2014 Board of Directors' goals. Based on its assessment of the company's performance in January 2015, the Compensation Committee recommended and the Board determined that management should be credited with 100% performance of the goals as a result of management's significant achievements. The 2014 Board of Directors' goals were:

- Achieve key financial targets;
- Acquire and manage a profitable, high-quality book of new business from 2009 forward;
- Serve the housing market by being a major source of liquidity, effectively managing our legacy book of business and assisting troubled borrowers;
- Improve the company's risk, control and compliance environment; and
- Improve the company's capabilities, infrastructure and efficiency.

See "Determination of 2014 Compensation" for more information on the company's performance against the FHFA objectives and the 2014 Board of Directors' goals.

Chief Executive Officer Compensation and 2014 Executive Compensation Program

Overview

FHFA has advised us that the design of our executive compensation program was intended to fulfill, and to balance, three primary objectives:

- *Maintain Reduced Pay Levels to Conserve Taxpayer Resources.* A primary objective of the structure of our executive compensation program is to establish reduced pay levels given our conservatorship status.
- *Attract and Retain Executive Talent.* Another primary objective of the 2014 executive compensation program is to attract and retain executive talent with the specialized skills and knowledge necessary to effectively manage a large financial services company. Executives with these qualifications are needed for the company to continue to fulfill its important role in providing liquidity to the mortgage market and supporting the housing market, as well as to prudently manage our $3.1 trillion book of business and enable the company to be an effective steward of the government's and taxpayers' support. We face competition from both within the financial services industry and from businesses outside of this industry for qualified executives. The Compensation Committee and the Board regularly consider and discuss with FHFA the level of our executives' compensation and whether changes are needed to attract or retain executives.
- *Reduce Pay if Goals Are Not Achieved.* To support FHFA's goals for our conservatorship and encourage performance in furtherance of these goals, 30% of each named executive's total target direct compensation (other than the Chief Executive Officer's) consists of "at-risk" deferred salary. At-risk deferred salary is subject to reduction based on corporate performance against the conservatorship scorecard and an assessment of individual performance that takes into account the company's performance against the Board of Directors' goals.

The current levels of our executive compensation put pressure on our ability to attract and retain executive talent. As discussed in "Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data," our named executives' total target direct compensation under the 2014 executive compensation program in aggregate was substantially below the market median for comparable firms, and more than 90% below the market median in the case of our Chief Executive Officer. Our inability to offer market-based compensation hinders our succession planning, particularly for our Chief Executive Officer role. See "Risk Factors" for a discussion of the risks associated with executive retention and succession planning.

Impact of Conservatorship and Other Legal Requirements

As discussed in "Business—Conservatorship and Treasury Agreements—Conservatorship," we have been under the conservatorship of FHFA since September 2008. The conservatorship has had a significant impact on the compensation received by our named executives, as well as the process by which executive compensation is determined. Regulatory and other legal requirements affecting our executive compensation program and policies include the following:

- Our directors serve on behalf of FHFA and exercise their authority subject to the direction of FHFA. More information about the role of our directors is described in "Directors, Executive Officers and Corporate Governance—Corporate Governance—Conservatorship and Delegation of Authority to Board of Directors."
- While we are in conservatorship, FHFA, as our conservator, has retained the authority to approve and to modify both the terms and amount of any executive compensation. FHFA has directed that management consult with and obtain FHFA's written approval before entering into new compensation arrangements or increasing amounts or benefits payable under existing compensation arrangements of executives at the senior vice president level and above, and other executives as FHFA may deem necessary to successfully execute its role as conservator. FHFA has also directed that management consult with and obtain FHFA's written approval before establishing or modifying performance management processes for executives at the senior vice president level and above and any executives designated as "officers" pursuant to Section 16 of the Exchange Act.
- During the conservatorship, FHFA, as our conservator, has all powers of the shareholders. Accordingly, we have not held shareholders' meetings since entering into conservatorship, nor have we held any shareholder advisory votes on executive compensation.
-

FHFA, as our regulator, must approve any termination benefits we offer to our named executives and certain other officers identified by FHFA.

- Under the terms of the senior preferred stock purchase agreement with Treasury, we may not enter into any new compensation arrangements with, or increase amounts or benefits payable under existing compensation arrangements of, any named executives or executive officers without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury.
- Under the terms of the senior preferred stock purchase agreement, we may not sell or issue any equity securities without the prior written consent of Treasury, other than as required by the terms of any binding agreement in effect on the date of the senior preferred stock purchase agreement. This effectively eliminates our ability to offer stock-based compensation.
- Pursuant to the STOCK Act and related regulations issued by FHFA, the named executives are prohibited from receiving bonuses during any period of conservatorship on or after the April 4, 2012 enactment of the law.
- Our Charter Act provides that Fannie Mae has the power to pay compensation to our executives that the Board of Directors determines is reasonable and comparable with compensation for employment in other similar businesses, including other publicly held financial institutions or major financial services companies, involving similar duties and responsibilities. As described under “Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data,” our named executives’ total target direct compensation under the 2014 executive compensation program in aggregate is substantially below the market median for comparable firms. The Charter Act also provides that a significant portion of our executive officers’ potential compensation must be based on the company’s performance. Except for our Chief Executive Officer, 30% of each named executive’s total target direct compensation consists of “at-risk” deferred salary, which is subject to reduction based on performance.

Elements of 2014 Executive Compensation Program

Direct Compensation

The table below summarizes the principal elements, objectives and key features of our 2014 executive compensation program for our named executives other than our Chief Executive Officer, whose direct compensation for 2014 consisted solely of $600,000 in base salary. All elements of our named executives' direct compensation are paid in cash.

<table>
<tr><th>Compensation Element</th><th>Form</th><th>Primary Compensation Objectives</th><th>Key Features</th></tr>
<tr><td>Base Salary</td><td>Fixed cash payments, which are paid during the year on a bi-weekly basis.</td><td>Attract and retain named executives by providing a fixed level of current cash compensation.</td><td>Base salary reflects each named executive's level of responsibility and experience, as well as individual performance over time.
Base salary is capped at $500,000 for all of our executive officers other than our Chief Executive Officer and Chief Financial Officer.</td></tr>
<tr><td rowspan="4">Deferred Salary</td><td rowspan="4">Deferred salary is earned in bi-weekly installments over the course of the performance year, and is paid in quarterly installments in March, June, September and December of the following year. Interest accrues on deferred salary at one-half of the one-year Treasury Bill rate in effect on the last business day immediately preceding the year in which the deferred salary is earned.
There are two elements of deferred salary:
• a fixed portion that is subject to reduction if an executive leaves the company within one year following the end of the performance year; and
• an at-risk portion that is subject to reduction based on corporate and individual performance.</td><td colspan="2">Fixed Deferred Salary</td></tr>
<tr><td>Retain named executives.</td><td>Earned but unpaid fixed deferred salary is subject to reduction if a named executive leaves the company within one year following the end of the performance year. The amount of earned but unpaid fixed deferred salary received by the named executive will be reduced by 2% for each full or partial month by which the executive's separation date precedes January 31 of the second year following the performance year.</td></tr>
<tr><td colspan="2">At-Risk Deferred Salary</td></tr>
<tr><td>Retain named executives and encourage them to achieve corporate and individual performance objectives.</td><td>Equal to 30% of each named executive's total target direct compensation. Half of at-risk deferred salary is subject to reduction based on corporate performance against the 2014 conservatorship scorecard as determined by FHFA. The remaining half of at-risk deferred salary is subject to reduction based on individual performance as determined by the Board of Directors, with FHFA's review, taking into account corporate performance against the 2014 Board of Directors' goals.

There is no potential for at-risk deferred salary to be paid out at greater than 100% of target; at-risk deferred salary is subject only to reduction.</td></tr>
</table>

Employee Benefits

Our employee benefits are a fundamental part of our 2014 executive compensation program, and serve as an important tool in attracting and retaining senior executives. We describe the employee benefits available in 2014 to our named executives in the table below. We provide more detail on our retirement plans available to our named executives under “Compensation Tables—Pension Benefits” and “Compensation Tables—Nonqualified Deferred Compensation.”

Benefit	Form	Primary Objective
401(k) Plan (“Retirement Savings Plan”)	A tax-qualified defined contribution plan (401(k) plan) available to our employee population as a whole. All of the named executives are eligible to participate in this plan.	Attract and retain named executives by providing retirement savings in a tax-efficient manner.
Non-qualified Deferred Compensation (“Supplemental Retirement Savings Plan”)	The Supplemental Retirement Savings Plan is an unfunded, non-tax-qualified defined contribution plan. The plan supplements our tax-qualified defined contribution plan by providing benefits to participants whose annual eligible earnings exceed the IRS limit on eligible compensation for 401(k) plans. In connection with our termination of our defined benefit pension plan, for a limited time we are providing additional benefits under this plan for employees close to retirement who meet age and length of service criteria. All of the named executives are eligible to participate in this plan. Mr. Benson is eligible for the additional benefits for employees meeting age and length of service criteria.	Attract and retain named executives by providing additional retirement savings.
Health, Welfare and Other Benefits	In general, the named executives are eligible for the same benefits available to our employee population as a whole, including our medical insurance plans, life insurance program and matching charitable gifts program. The named executives are also eligible to participate in our voluntary supplemental long-term disability plan, which is available to many of our employees.	Provide for the well-being of the named executive and his or her family.

Prior to 2014, we maintained a tax-qualified defined benefit pension plan that was generally available to employees before participation in the plan was frozen in 2007, as well as two non-tax-qualified supplemental plans. In 2013, these plans were amended to cease benefits accruals and were subsequently terminated. See “Compensation Tables—Pension Benefits” for more information on the payments Mr. Benson and Mr. Bon Salle, the only named executives who participated in these plans, will receive under them.

The perquisites we provided to all of our named executives in aggregate in 2014 did not exceed $1,000.

Severance Benefits

We have not entered into agreements with any of our named executives that entitle the executive to severance benefits. Under the 2014 executive compensation program, a named executive is entitled to receive a specified portion of his or her earned but unpaid deferred salary if his or her employment is terminated for any reason other than for cause. See “Compensation Tables—Potential Payments Upon Termination or Change-in-Control” for information on compensation that we may pay to a named executive in certain circumstances in the event the executive’s employment is terminated.

Determination of 2014 Compensation

Summary of 2014 Compensation Actions

The table below displays the 2014 compensation targets compared to actual amounts for each of our named executives. This table is presented on a different basis from, and is not intended to replace, the Summary Compensation Table required under applicable SEC rules, which is included below under "Compensation Tables—Summary Compensation Table for 2014, 2013 and 2012."

			2014 Corporate Performance-Based At-Risk Deferred Salary ($)		2014 Individual Performance-Based At-Risk Deferred Salary ($)		Total ($)	
Named Executive	2014 Base Salary Rate ($)	2014 Fixed Deferred Salary ($)	Target	Actual	Target	Actual	Target	Actual
Timothy Mayopoulos	600,000	—	—	—	—	—	600,000	600,000
President and Chief Executive Officer								
David Benson	600,000	1,500,000	450,000	450,000	450,000	450,000	3,000,000	3,000,000
Executive Vice President and Chief Financial Officer								
Andrew Bon Salle[(1)]	476,233	860,385	286,154	286,154	286,154	286,154	1,908,926	1,908,926
Executive Vice President—Single-Family Business								
Terence Edwards	500,000	1,264,000	378,000	378,000	378,000	359,100	2,520,000	2,501,100
Executive Vice President and Chief Operating Officer								
John Nichols	450,000	950,000	300,000	300,000	300,000	285,000	2,000,000	1,985,000
Executive Vice President and Chief Risk Officer								

(1) Effective December 14, 2014, in connection with his promotion to Executive Vice President—Single-Family Business and as approved by FHFA, Mr. Bon Salle's annual base salary rate increased from $475,000 to $500,000, his fixed deferred salary increased from an annual rate of $855,000 to an annual rate of $1,110,000, and his at-risk deferred salary target increased from an annual target of $570,000 to an annual target of $690,000.

Assessment of Corporate Performance on 2014 Conservatorship Scorecard

Overview

In May 2014, FHFA announced the 2014 conservatorship scorecard, a set of corporate performance objectives and related targets for 2014. The elements of the 2014 conservatorship scorecard are shown below under "FHFA Assessment." The 2014 conservatorship scorecard provides the implementation roadmap for FHFA's strategic plan for Fannie Mae and Freddie Mac. See "Business—Executive Summary—Helping to Build a Sustainable Housing Finance System" for a description of FHFA's strategic goals for the Enterprises. FHFA developed these objectives and related targets with input from management and the Board of Directors. Half of each named executive's 2014 at-risk deferred salary, or 15% of their overall 2014 total target direct compensation, was subject to reduction based on FHFA's assessment of the company's performance against the 2014 conservatorship scorecard.

As part of the 2014 conservatorship scorecard, FHFA determined that, for all scorecard items, the company's performance would be assessed based on the following criteria:

•

The extent to which Fannie Mae conducts initiatives in a safe and sound manner consistent with FHFA's expectations for all activities;

- The extent to which the outcomes of Fannie Mae's activities support a competitive, resilient, and liquid secondary mortgage market to the benefit of homeowners and renters;

- The extent to which Fannie Mae conducts initiatives with the appropriate consideration for diversity and inclusion consistent with FHFA's expectations for all activities;
- Cooperation and collaboration with FHFA, Common Securitization Solutions, LLC, Freddie Mac, the industry, and other stakeholders as appropriate; and
- The quality, thoroughness, creativity, effectiveness, and timeliness of Fannie Mae's work products.

FHFA Assessment

In early 2015, FHFA reviewed and assessed our performance against the 2014 conservatorship scorecard, with input from management and the Compensation Committee. FHFA determined that the company had a successful year and met or exceeded all of the 2014 conservatorship scorecard objectives. FHFA did note that improvements could be made in some areas so that results are delivered more quickly and efficiently and that more focus could have yielded better results on some of the data initiatives and on the sales of retained portfolio assets unrelated to litigation. FHFA determined that, in light of the overall results achieved in a period of uncertainty and transition, the portion of 2014 at-risk deferred salary based on corporate-performance would be paid at 100% of target.

The table below sets forth the 2014 conservatorship scorecard and a summary of FHFA's assessment of the company's achievement of the scorecard objectives and targets.

Objectives and Weighting	Summary of Performance
Maintain in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets—40% weight	
The Enterprises are to: **Work to increase access to mortgage credit for creditworthy borrowers, consistent with the full extent of applicable credit requirements and risk-management practices through:** • Continuing to improve the Representations and Warranties Framework for originations; • Providing additional clarity regarding servicing Representations and Warranties and remedies for poor performance, including compensatory fees; • Providing transparency regarding servicer eligibility standards; • Assessing and developing plans to encourage greater participation by small lenders, rural lenders, and state and local Housing Finance Agencies.	**The objective was achieved.** The company's activities to encourage lenders to originate loans across the full range of credit eligibility for borrowers meeting credit requirements included: providing additional clarity regarding seller and servicer representations and warranties; working to make new and improved quality control tools available to lenders; conducting increased outreach to lenders and other industry stakeholders to increase awareness of Fannie Mae's available products and programs; working to clarify the company's financial requirements for servicers; and changing the company's eligibility requirements to increase the maximum LTV ratio for loans to first-time home buyers from 95% to 97%. For more information on these activities, see "Business—Executive Summary—Single-Family Guaranty Book of Business—Providing Targeted Access to Credit Opportunities for Creditworthy Borrowers."
Continue to undertake key loss mitigation and foreclosure prevention activities, including: • Analyzing and pursing opportunities to encourage take-up by currently HARP-eligible borrowers; • Assessing and developing additional plans for loss mitigation strategies, including those for the post-HAMP marketplace; • Developing and implementing a plan for targeted non-performing loan sales and Real Estate Owned property sales that facilitate neighborhood stabilization, especially in hardest hit markets.	**The objective was achieved.** In 2014, Fannie Mae conducted research, analysis and outreach to identify factors that discouraged eligible borrowers from participating in HARP and undertook a number of actions to encourage participation, including developing new ways to reach potentially eligible borrowers, lowering costs for certain borrowers, and reaching out to lenders to clarify borrower eligibility in certain cases. The company also undertook a number of initiatives related to loss mitigation, including new product development and working on an enhancement to HAMP to provide additional borrower incentives. Additionally, Fannie Mae collaborated with FHFA and Freddie Mac on an initiative that involves working with housing partners to stabilize neighborhoods that have been hardest hit by the housing downturn, promoting strategies to help delinquent borrowers avoid foreclosure and for more efficient disposition of foreclosed properties. The program was piloted in Detroit in 2014 and is scheduled to be piloted in Chicago in 2015.

Continue to develop approaches to reduce borrower, and therefore Enterprise, costs for Lender Placed Insurance (LPI).	**The objective was achieved.** Fannie Mae continued to work in 2014 with its servicers and with FHFA on approaches to reducing borrower costs for LPI.

<table>
<tr><th>Objectives and Weighting</th><th>Summary of Performance</th></tr>
<tr><td>Maintain the dollar volume of new multifamily business for each Enterprise at or below the 2013 caps, excluding:
• Affordable housing loans, loans to small multifamily properties and loans to manufactured housing rental communities.</td><td>The objective was achieved. The company provided $28.9 billion in liquidity to the multifamily market in 2014, compared to a $30.4 billion cap.</td></tr>
<tr><td colspan="2">Reduce taxpayer risk through increasing the role of private capital in the mortgage market—30% weight</td></tr>
<tr><td>Single Family:
• Each Enterprise will transact credit risk transfers on single family mortgages with at least $90 billion of unpaid principal balances adjusted for the amount of credit risk transferred;
• Each Enterprise must utilize at least one transaction type in addition to the Freddie Mac Structured Agency Credit Risk (STACR®) or the Fannie Mae Connecticut Avenue Securities (CAS) structures (e.g. insurance, upfront credit risk transfers, and senior/subordinated securitizations):
○ FHFA will provide some extra Scorecard credit for the substantial completion of R&D efforts in this space;
○ FHFA will provide more extra Scorecard credit for completing any additional types of transactions beyond the first two.</td><td>The objective was achieved. The company issued $5.8 billion in CAS in 2014, transferring some of the credit risk on single-family mortgages with an unpaid principal balance of $222.2 billion. See “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Risk Sharing Transactions.” The company also engaged in several additional transaction types including, in December 2014, a credit insurance risk transfer (“CIRT™”) transaction that shifted a portion of the credit risk on a reference pool of loans with an unpaid principal balance of approximately $6.4 billion to a panel of reinsurers, as discussed in “MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Credit Guarantors—Reinsurers.”</td></tr>
<tr><td>Multifamily:
• The Enterprises are to assess the economics and feasibility of adopting additional types of risk transfer structures and of increasing the amount of risk transferred in current risk transfer structures (risk is broadly defined to include, but is not limited to, credit, counterparty or aggregation risk).</td><td>The objective was achieved. Fannie Mae conducted an assessment of the economics and feasibility of adopting additional types of multifamily mortgage credit risk transfer structures and submitted the assessment to FHFA.</td></tr>
<tr><td>Retained Portfolio:
• The Enterprises shall submit to FHFA within 60 days retained portfolio plans that meet, even under adverse conditions, the annual Senior Preferred Stock Purchase Agreement (PSPA) requirements and the $250 billion PSPA cap by December 31, 2018:
○ The plans should focus on reducing less liquid assets;
○ Any sales should be economically sensible transactions that consider impacts to the market and neighborhood stability.</td><td>The objective was achieved. Fannie Mae submitted a portfolio plan to FHFA in July 2014 outlining how the company will meet, even under adverse conditions, the reductions in its portfolio required by the senior preferred stock purchase agreement with Treasury. In October 2014, FHFA requested that the company revise the portfolio plan to cap the portfolio each year at 90% of the annual limit under the senior preferred stock purchase agreement. The company submitted a revised portfolio plan in October 2014 and reduced its mortgage portfolio to $413.3 billion as of December 31, 2014, below the $422.7 billion cap requested by FHFA. See “MD&A—Business Segment Results—The Capital Markets Group’s Mortgage Portfolio” for more information about Fannie Mae’s mortgage portfolio.</td></tr>
<tr><td>The Enterprises are to finalize mortgage insurance Master Policies and enhanced eligibility requirements.</td><td>To the extent that this objective was within management’s control, the objective was achieved. The company announced the implementation of new mortgage insurance master primary policies in 2014. Also in 2014, FHFA posted for public input proposed revisions by Fannie Mae and Freddie Mac to their eligibility standards for approved private mortgage insurers. FHFA, Fannie Mae and Freddie Mac are continuing to review the public input provided on the proposed revisions to the eligibility standards for approved private mortgage insurers. For more information on these policies and requirements, see “MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Credit Guarantors—Mortgage Insurers.”</td></tr>
</table>

Objectives and Weighting	Summary of Performance
Build a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future—30% weight	
The Enterprises are to: **Continue working with FHFA, each other and Common Securitization Solutions, LLC to build and test the Common Securitization Platform ("CSP") and continue the implementation of required changes to the Enterprises' related systems and operations for integration into the CSP. The Enterprises' work on CSP should incorporate the following design principles:** • Focus on the functions necessary for current Enterprise single family securitization activities; • Include the development of the operational and system capabilities necessary to issue a single (common) security for the Enterprises; and • Allow the option for the integration of additional market participants in a future system.	**The objective was achieved.** Fannie Mae continued to work with FHFA, Freddie Mac and Common Securitization Solutions, LLC on building and testing the common securitization platform, as well as on implementing required changes to Fannie Mae's systems and operations to integrate with the CSP. See "Business—Housing Finance Reform—Conservator Developments" for more information on the progress of the common securitization platform initiative.
Identify key components, features and standards needed for a single (common) security in the CSP. Assess key issues and begin to address these issues: • Continue to explore other shorter-term changes that may improve market liquidity in the Agency MBS market.	**The objective was achieved.** Fannie Mae worked with FHFA and Freddie Mac on a Request for Input published by FHFA in August 2014 on the proposed structure for a single security and engaging in follow up and outreach activities. See "Business—Housing Finance Reform—Conservator Developments" for more information on the single common security.
Provide active support for mortgage data standardization initiatives: • Servicing Data and Technology Initiative. ○ Engage with FHFA and the industry to identify current and anticipated mortgage servicing data and technology gaps in order to explore technology improvements and expand data standardization. • The Uniform Closing Disclosure Dataset (UCD) initiative. ○ Develop a standardized dataset to support the Consumer Financial Protection Bureau's Integrated Mortgage Disclosure Regulation and Closing Disclosure; ○ Create a strategy for the collection and use of the UCD dataset; and ○ Publish an industry announcement of the UCD dataset, as well as a timeline for the collection of the data. • Uniform Loan Application Dataset. ○ Reassess loan application data needs; ○ Update the physical format of the Uniform Residential Loan Application, and ○ Demonstrate progress towards creating a draft Uniform Loan Application Dataset specification.	**The objective was achieved.** Fannie Mae actively supported these mortgage data standardization initiatives, which are designed to improve the accuracy and quality of loan data through the mortgage lifecycle with the development and implementation of the uniform data standards for single-family mortgages. Fannie Mae's activities in this area included: participating in and supporting significant outreach activities with FHFA and Freddie Mac in connection with the Servicing Data and Technology Initiative; working with Freddie Mac on the UCD by providing the industry a standardized dataset specification and supporting documents in March 2014 and announcing the plans and timeline for the collection of UCD in December 2014; and, coordinating with Freddie Mac, conducting industry outreach, developing a draft Uniform Loan Application Dataset specification and other activities in support of the Uniform Loan Application Dataset initiative.

Assessment by Board of Directors of Company Performance

In April 2014, the Board established the 2014 Board of Directors' goals, which are presented in the table below. Performance against these goals was a factor the Board considered in determining the individual performance of the named executives for purposes of the individual performance-based component of the named executives' 2014 at-risk deferred salary. The Board did not assign any relative weight to the goals.

In late 2014 and early 2015, the Compensation Committee reviewed performance against the 2014 Board of Directors' goals and related metrics. In connection with the Compensation Committee's review, management provided the Compensation Committee with a report assessing management's performance against the goals, which was reviewed for accuracy by our

Internal Audit group. The Compensation Committee considered management's assessment of its performance against the goals and also discussed with the Chief Executive Officer the performance of the company and of each named executive (other than the Chief Executive Officer).

The Compensation Committee noted in its review that management's achievements with respect to the 2014 Board of Directors' goals were accomplished in a complicated and evolving operating environment, at a time when management was continuing to implement major organizational changes, designing and implementing changes to the company's systems and operations to integrate with the common securitization platform and running the company's business at a high level. The Committee also favorably recognized management's efforts to address any issues with the 2014 Board of Directors' goals on an ongoing basis, which allowed management to identify and resolve problems throughout the year.

In January 2015, following its review of management's and the company's performance in 2014, and after discussions among all independent members of the Board of Directors, the Compensation Committee recommended and the Board determined that the individual component of the 2014 at-risk deferred salary should be funded at the 100% level as a result of management's significant achievements. The Compensation Committee also provided FHFA with its assessment of management's performance against the 2014 Board of Directors' goals and its qualitative assessment of management's performance against the 2014 conservatorship scorecard objectives. See "Assessment of 2014 Individual Performance" below for information regarding the review by the Compensation Committee and the Board of the named executives' individual performance in establishing the individual performance-based component of 2014 at-risk deferred salary.

The table below presents our 2014 Board of Directors' goals and related metrics, and the assessment of achievement against these goals and metrics.

Goals and Related Metrics	Performance Against Goal/Metric
Goal 1: Achieve key financial targets. ***Expenses.*** Take all appropriate management action to ensure managed expenses do not exceed 2014 Plan of $2,590 million. ***Treasury draws.*** Take all appropriate management action to ensure there are no draws from Treasury for 2014.	**Achieved this goal.** The company's managed expenses were $2,464 million in 2014, $126 million below the 2014 Plan. (Managed expenses exclude $313 million in costs related primarily to extraordinary litigation and the company's efforts to integrate its systems with the CSP, as well as expense reimbursements relating to its work with Common Securitization Solutions, LLC and certain costs primarily in connection with negotiating resolution agreements relating to its private-label mortgage-related securities.) The company's net worth has been positive at the end of each quarter of 2014 and, accordingly, Fannie Mae has not drawn funds from Treasury for 2014.
Goal 2: Acquire and manage a profitable, high quality book of new business from 2009 forward. ***Manage within risk limits.*** Ensure businesses are managed within board risk limits as approved and modified from time to time by the Board of Directors, including timely remediation of instances where limits are exceeded and with Board approval for exceptions.	**Achieved this goal.** Fannie Mae continued to achieve strong credit performance in 2014. The company acquired single-family loans with strong credit profiles and executed on its strategies for reducing single-family credit losses. See "Business—Executive Summary—Single-Family Guaranty Book of Business" for information on the credit performance of Fannie Mae's single-family loans. Fannie Mae's multifamily new business volume in 2014 also reflected loans with a solid credit profile.

Goals and Related Metrics	Performance Against Goal/Metric
Goal 3: Serve the housing market by being a major source of liquidity, effectively managing the legacy book and assisting troubled borrowers. ***Seriously delinquent loans.*** Reduce the number of seriously delinquent single-family loans below 300,000 by the end of 2014. ***Assisting troubled borrowers/MHA Program.*** Meet our obligations as program administrator under the Financial Agency Agreement with Treasury in support of Making Home Affordable ("MHA") program. ***Provide liquidity.*** Be a major provider of liquidity. ***Expand access.*** Develop a plan to expand accessibility and affordability of Fannie Mae products to more moderate and low income households in a responsible and sustainable way.	**Achieved this goal in all material respects.** Fannie Mae's achievements on this goal included: • The number of seriously delinquent loans in Fannie Mae's single-family conventional guaranty book of business was 329,590 as of December 31, 2014. While the final count exceeded 300,000, the company made significant progress, with a net reduction of 89,247 seriously delinquent single-family loans in 2014. • The company met its program administrator obligations under its financial agency agreement with Treasury, which included deploying technology releases related to the MHA system of record, overseeing borrower outreach events in hard hit communities, administering incentive payments, supporting policy implementation and industry trainings, and overseeing program call centers. • Fannie Mae provided approximately $434 billion in liquidity to the mortgage market in 2014 through its purchases and guarantees of loans and securities. This liquidity enabled borrowers to complete approximately 937,000 mortgage refinancings and approximately 887,000 home purchases, and provided financing for approximately 446,000 units of multifamily housing. • The company's activities to expand accessibility and affordability of Fannie Mae products to more moderate and low income households in a responsible and sustainable way included changing the company's eligibility requirements to increase the maximum LTV ratio for loans to first-time home buyers from 95% to 97%. For more information on this change and Fannie Mae's other activities to expand access, see "Business—Executive Summary—Single-Family Guaranty Book of Business—Providing Targeted Access to Credit Opportunities for Creditworthy Borrowers."
Goal 4: Improve the company's risk, control and compliance environment. ***Resolve controls issues.*** Resolve all high priority internal audit issues and risk and control matters identified by the Federal Housing Finance Agency ("FHFA") within established timeframes or mutually acceptable extensions. ***Prevent new controls issues.*** Prevent new SOX material weaknesses and significant deficiencies. ***Remediation plans and responses.*** Submit remediation plans and responses to FHFA-identified risk and control matters within established timeframes. ***Reduce repeat "needs improvement" and "unsatisfactory" internal audit reports.*** Reduce the percentage of repeat "needs improvement" and "unsatisfactory" internal audit reports. ***Enterprise Risk Management ("ERM") goals.*** Accomplish the 2014 ERM goals as reviewed by the Board's Risk Policy and Capital Committee. ***Compliance.*** Resolve all compliance action items within established timeframes or mutually acceptable extensions.	**Achieved this goal.** Fannie Mae improved its risk, control and compliance environment in 2014. The company's accomplishments in this area included: accomplishing all ERM goals, including improving enterprise risk management by implementing an enhanced economic capital framework and risk appetite for measuring and managing the company's business activities, including modeling, reporting, policies and governance; and making substantial progress on its initiatives to replace the company's securities accounting and capital markets infrastructure, and to transform the structure and function of its data centers to increase capacity and strengthen its infrastructure.

Safety and soundness. Make substantial progress on the following safety and soundness initiatives in accordance with the 2014 Investment Plan as reviewed and modified from time to time by the Board's Strategic Initiatives Committee: • Replacing our securities accounting and capital markets infrastructure; and • Transforming the structure and function of our data centers.	

Goals and Related Metrics	Performance Against Goal/Metric
Goal 5: Improve the company's capabilities, infrastructure and efficiency. ***Investment plan.*** Make substantial progress on the following high priority projects in accordance with the 2014 Investment Plan as reviewed and modified from time to time by the Strategic Initiatives Committee: • Undertaking critical projects to change the company's systems and operations to integrate with the CSP; and • Preparing our multifamily business and infrastructure for the future. ***Human Capital.*** Develop Integrated Human Capital Plan that aligns to key enterprise priorities and enables an inclusive culture. Deliver plan to the Board's Compensation Committee in July, and deliver all 2014 milestones by year-end.	**Achieved this goal.** Fannie Mae made significant progress in its efforts to make required changes to its systems and operations to integrate with the CSP. The company made significant progress in preparing its multifamily business and infrastructure for the future. The company also developed an Integrated Human Capital Plan, which is an integrated Human Resources approach that supports Fannie Mae's business and financial priorities from a human capital perspective and focuses on risk mitigation, workforce and talent planning, compensation and benefits, and employee engagement.

Assessment of 2014 Individual Performance

Overview. For each named executive other than the Chief Executive officer, half of the executive's 2014 at-risk deferred salary was subject to reduction based on individual performance in 2014.

The Board of Directors assessed the Chief Executive Officer's performance with input from the Compensation Committee and from the Chief Executive Officer regarding his accomplishments. In approving compensation for each named executive, the Compensation Committee and the Board considered the Chief Executive Officer's recommendation and assessment of each executive's performance and contribution to the company's achievement of the 2014 conservatorship goals and the 2014 Board of Directors' goals. The amount of individual performance-based at-risk deferred salary for 2014 for each named executive is presented in the table above in "Summary of 2014 Compensation Actions."

Timothy Mayopoulos, President and Chief Executive Officer. In evaluating Mr. Mayopoulos' performance, the Board acknowledged Mr. Mayopoulos' strong leadership in 2014 and his significant contributions to the company's numerous accomplishments. For example, the company met all of its 2014 conservatorship scorecard objectives within its control and all of the 2014 Board of Directors' goals in all material respects in a complicated and evolving operating environment, at a time when management was continuing to implement major organizational changes, designing and implementing changes to the company's systems and operations to integrate with the common securitization platform and running the company's business at a high level. The company was profitable in 2014, with net income of $14.2 billion, while continuing to acquire loans with a strong credit profile and providing access to affordable mortgage credit. The company undertook initiatives to help prepare its business and infrastructure for changes in the U.S. housing finance system and to help ensure its safety and soundness during conservatorship. The company also redesigned its approach to succession planning to feature an enterprise-wide view of senior talent, enhancing management's ability to effectively address a variety of succession issues. In addition, in 2014 the company focused on strengthening customer relationships and improving its business efficiency, including launching an initiative to improve the company's front-end business capabilities to make customers' interactions with the company simpler and more efficient. Because Mr. Mayopoulos' total target direct compensation consists solely of base salary, with no additional performance-based component, the Board of Directors' assessment of his performance in 2014 did not affect his compensation.

David Benson, Executive Vice President and Chief Financial Officer. In recommending and determining Mr. Benson's individual performance-based at-risk deferred salary, the Chief Executive Officer, the Compensation Committee and the Board of Directors considered Mr. Benson's many achievements in 2014. As Chief Financial Officer, Mr. Benson made significant improvements to our forecasting, stress testing and internal reporting capabilities while continuing to provide strong intellectual contributions on our business and strategic direction to the company as a whole. Mr. Benson supported the company's achievement of the 2014 Board of Directors' goals by managing the risk of the retained portfolio within risk limits established by the Board of Directors and ensuring managed expenses remained within plan. Mr. Benson also successfully led our efforts to meet the 2014 conservatorship scorecard objective by managing and successfully executing a plan for the reduction of our retained portfolio. In addition, Mr. Benson provided leadership in the company's interactions with FHFA, Treasury and the industry.

Andrew Bon Salle, Executive Vice President-Single-Family Business. In recommending and determining Mr. Bon Salle's individual performance-based at-risk deferred salary, the Chief Executive Officer, the Compensation Committee and the Board of Directors considered Mr. Bon Salle's many achievements in 2014 as he led significant initiatives related to the conservatorship scorecard and the 2014 Board of Directors' Goals. Mr. Bon Salle's accomplishments include managing the company's single-family business within risk limits, improving the representation and warranty framework, leading the development and execution of credit risk transfer transactions, and developing plans for integrating Fannie Mae's systems with the common securitization platform and improving the company's front-end business capabilities. Mr. Bon Salle met or exceeded goals while successfully managing these responsibilities amidst increasing competition and risk.

Terence Edwards, Executive Vice President and Chief Operating Officer. In recommending and determining Mr. Edwards' individual performance-based at-risk deferred salary, the Chief Executive Officer, the Compensation Committee and the Board of Directors considered Mr. Edwards' many achievements in 2014, including his oversight of our safety and soundness initiatives to replace our securities accounting and capital markets infrastructure and to transform the management of our data, his oversight of our initiative to prepare our multifamily business and infrastructure for the future and his work in connection with the common securitization platform, as well as his leadership of the credit portfolio management division. Mr. Edwards' efforts contributed to our success in meeting a number of objectives in the 2014 conservatorship scorecard, including developing additional plans for loss mitigation strategies. Mr. Edwards also contributed to the company's achievement of the 2014 Board of Directors' goals, including our efforts to meet program administrator obligations to Treasury in support of the Making Home Affordable program.

John Nichols, Executive Vice President and Chief Risk Officer. In recommending and determining Mr. Nichols' individual performance-based at-risk deferred salary, the Chief Executive Officer, the Compensation Committee and the Board of Directors considered Mr. Nichols' many achievements in 2014 and his leadership of the Enterprise Risk Management organization. Mr. Nichols led the company's achievement of the 2014 Enterprise Risk Management goals included in the 2014 Board of Directors' goals. He implemented an economic capital framework for measuring the company's business activities, including modeling, reporting, policies and governance; developed a framework for assessing our corporate risk appetite and a comprehensive set of risk limits; launched a significant modeling effort; and strengthened his team.

Other Executive Compensation Considerations

Role of Compensation Consultants

The Compensation Committee's independent compensation consultant is Frederic W. Cook & Co., Inc. ("FW Cook"). Management's outside compensation consultant is McLagan.

For 2014, McLagan advised management and the Compensation Committee on various compensation and human resources matters, including:

- providing guidance and feedback on the company's 2014 executive compensation program;
- advising on market trends, competitive pay levels and various compensation proposals for new hires and promotions; and
- providing market compensation data for senior management positions, including the named executives' positions.

For 2014, FW Cook advised the Compensation Committee and the Board on various executive compensation matters, including:

- assisting the Compensation Committee in its discussions with FHFA on the company's 2014 executive compensation program;
- preparing an analysis of compensation for executives in positions comparable to Fannie Mae executive positions at companies in our primary comparator group, based on information in proxy statements filed by those companies;
- reviewing McLagan's analysis of market compensation data for select senior management positions;
- reviewing various management proposals relating to compensation structures and levels, and for new hires and promotions;
- reviewing the company's risk assessment of its 2014 compensation program;
- assisting the Compensation Committee in its evaluation of the company's performance against the 2014 conservatorship scorecard and communicating its views to FHFA;
- assisting the Compensation Committee in its evaluation of the company's performance against the 2014 Board of Directors' goals;
- facilitating the Compensation Committee's evaluation of the Company's CEO performance in 2014;
- informing the Compensation Committee of regulatory updates and market trends in compensation and benefits; and
- assisting with the preparation of executive compensation disclosure in this Annual Report on Form 10-K.

Compensation Consultant Independence Assessment

The Compensation Committee assessed the independence of FW Cook and McLagan. Based on its assessments, the Compensation Committee determined that FW Cook is independent from management. FW Cook's work for the Compensation Committee raises no conflicts of interest.

Because McLagan was retained by and provides services to management, it is not an independent adviser. McLagan's work raises no material conflicts of interest, and any conflict of interest raised by the fact that McLagan is retained by and provides services to management as well as to the Compensation Committee is addressed by the fact that the Compensation Committee also receives the advice of and has access to its independent compensation consultant.

Comparator Group and Role of Benchmark Data

Our Compensation Committee typically requests benchmark compensation data for our senior executives on an annual basis to assess the compensation of the company's senior executives as compared to a group of similar firms. Finding comparable firms for purposes of benchmarking executive compensation is challenging due to our unique business, structure and mission, and the large size of our book of business compared to other financial services firms. The only directly comparable firm to us is Freddie Mac. At FHFA's request, we and Freddie Mac use the same comparator group of companies for benchmarking executive compensation to provide consistency in the market data used for compensation decisions. Factors relevant to the selection of companies for our comparator group included their status as U.S. public companies, the industry in which they operate (each is a commercial bank, insurance company, finance lessor or government-sponsored enterprise) and their size (in terms of total revenues) relative to the size of Fannie Mae. Our primary comparator group, which was established by the Compensation Committee in 2012, consists of the following 17 companies:

- Allstate Corporation
- Ally Financial Inc.
- American International Group Inc.
- Bank of New York Mellon Corporation
- BB&T Corporation
- Capital One Financial Corporation
- Fifth Third Bancorp
- Freddie Mac
- Hartford Financial Services Group, Inc.
- Metlife, Inc.
- Northern Trust Corporation
- PNC Financial Services Group, Inc.
- Prudential Financial, Inc.
- Regions Financial Corporation
- State Street Corporation
- SunTrust Banks, Inc.
- U.S. Bancorp

The Compensation Committee follows a bifurcated approach to benchmarking senior executive positions. Under this approach, while the comparator group noted above is the primary group of companies used for benchmarking senior management pay levels, for certain senior management roles that are more comparable in function and/or scope to roles at firms outside this comparator group, the Compensation Committee considers pay levels against a broader group of companies. The company believes this more comprehensive approach results in more relevant and better aligned market data. In late 2014, the Compensation Committee adjusted the companies against which certain senior management roles were compared to reflect newly available market data.

The named executives' compensation was compared to compensation at other companies as follows:

- The compensation of our Chief Executive Officer (Mr. Mayopoulos), our Chief Financial Officer (Mr. Benson) and our Executive Vice President and Chief Operating Officer (Mr. Edwards) was benchmarked against our primary comparator group identified above;
- The compensation of our Executive Vice President—Single-Family Business (Mr. Bon Salle) was benchmarked against a group of large banks consisting of Bank of America Corporation, Citigroup Inc., JPMorgan Chase & Co. and Wells Fargo & Company, to the extent those firms have executives in comparable positions, Freddie Mac and other comparable U.S.-based financial services firms; and
- The compensation of our Executive Vice President and Chief Risk Officer (Mr. Nichols) was benchmarked against both the primary comparator group and the same group of large banks, to the extent those firms have executives in comparable positions.

In late 2014, FW Cook provided the Compensation Committee with a comparison of our named executives' total target direct compensation for 2014 with compensation for comparable positions at companies in our primary comparator group, based on

FW Cook's analysis of proxy statements and other SEC filings. McLagan also provided the Compensation Committee with updated benchmarking data for our named executives. The McLagan data compared the named executives' total target direct compensation for 2014 with the 25th percentile, 50th percentile and 75th percentile of 2013 direct compensation for comparable positions in the applicable comparator group of companies based on McLagan's proprietary database and as disclosed in the comparator companies' proxy statements and other SEC filings. Members of the Compensation Committee reviewed and discussed this data in late 2014. Our named executives' total target direct compensation under the 2014 executive compensation program in aggregate was substantially below the market median for comparable firms, and more than 90% below the market median in the case of our Chief Executive Officer.

Compensation Recoupment Policy

Our executive officers' compensation (other than executive officers serving on an interim basis) is subject to the following forfeiture and repayment provisions, also known as "clawback" provisions:

- *Materially Inaccurate Information.* If an executive officer has been granted deferred salary or incentive payments (including performance-based compensation) based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria, he or she will forfeit or must repay amounts granted in excess of the amounts the Board of Directors determines would likely have been granted using accurate metrics.
- *Termination for Cause.* If we terminate an executive officer's employment for cause, he or she will immediately forfeit all deferred salary and any incentive payments that have not yet been paid. We may terminate an executive officer's employment for cause if we determine that the officer has: (a) materially harmed the company by, in connection with the officer's performance of his or her duties for the company, engaging in gross misconduct or performing his or her duties in a grossly negligent manner, or (b) been convicted of, or pleaded *nolo contendere* with respect to, a felony.
- *Subsequent Determination of Cause.* If an executive officer's employment was not terminated for cause, but the Board of Directors later determines, within a specified period of time, that he or she could have been terminated for cause and that the officer's actions materially harmed the business or reputation of the company, the officer will forfeit or must repay, as the case may be, deferred salary and any incentive payments received by the officer to the extent the Board of Directors deems appropriate under the circumstances. The Board of Directors may require the forfeiture or repayment of all deferred salary and any incentive payments so that the officer is in the same economic position as if he or she had been terminated for cause as of the date of termination of his or her employment.
- *Effect of Willful Misconduct.* If an executive officer's employment: (a) is terminated for cause (or the Board of Directors later determines that cause for termination existed) due to either (i) willful misconduct by the officer in connection with his or her performance of his or her duties for the company or (ii) the officer has been convicted of, or pleaded *nolo contendere* with respect to, a felony consisting of an act of willful misconduct in the performance of his or her duties for the company and (b) in the determination of the Board of Directors, this has materially harmed the business or reputation of the company, then, to the extent the Board of Directors deems it appropriate under the circumstances, in addition to the forfeiture or repayment of deferred salary and any incentive payments described above, the executive officer will also forfeit or must repay, as the case may be, deferred salary and annual incentives or long-term awards paid to him or her in the two-year period prior to the date of termination of his or her employment or payable to him or her in the future. Misconduct is not considered willful unless it is done or omitted to be done by the officer in bad faith or without reasonable belief that his or her action or omission was in the best interest of the company.

Certain of the incentive-based compensation for our Chief Executive Officer and Chief Financial Officer also may be subject to a requirement that they be reimbursed to the company in the event that Section 304 of the Sarbanes-Oxley Act of 2002 applies to that compensation.

Stock Ownership and Hedging Policies

We ceased paying new stock-based compensation to our executives after entering into conservatorship in September 2008. In 2009, our Board eliminated our stock ownership requirements. All employees, including our named executives, are prohibited from transacting in derivative securities related to our securities, including options, puts and calls, other than pursuant to our stock-based benefit plans.

Tax Deductibility of our Compensation Expenses

Subject to certain exceptions, section 162(m) of the Internal Revenue Code imposes a $1 million limit on the amount that a company may annually deduct for compensation to its Chief Executive Officer and certain other named executives, unless, among other things, the compensation is “performance-based,” as defined in section 162(m), and provided under a plan that has been approved by the shareholders. Compensation the company pays the named executives does not qualify as performance-based compensation under section 162(m). We have not adopted a policy requiring all compensation to be deductible under section 162(m). This approach allows us flexibility in light of the conservatorship.

Retirement Provisions for the 2015 Executive Compensation Program

The Board approved a change to the retirement age for the executive compensation program for 2015 and future years. FHFA approved this change on February 17, 2015. The 2014 executive compensation program, which is not affected by this change, provides that the reduction provisions applicable to payments of earned but unpaid fixed deferred salary do not apply if an officer retires from Fannie Mae at or after reaching age 65. As amended, the 2015 executive compensation program provides that the reduction provisions applicable to payments of earned but unpaid fixed deferred salary do not apply if the officer retires from Fannie Mae at or after: age 62; or age 55 with 10 years of service with Fannie Mae.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors of Fannie Mae has reviewed and discussed the Compensation Discussion and Analysis included in this Form 10-K with management. Based on such review and discussions, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Form 10-K.

Compensation Committee:

Brenda J. Gaines, Chair
Diane C. Nordin
Jonathan Plutzik
David H. Sidwell

COMPENSATION RISK ASSESSMENT

Our Enterprise Risk Management division conducted a risk assessment of our 2014 employee compensation policies and practices. In conducting this risk assessment, the division reviewed, among other things, our performance goals, pay mix and compensation structure, variable compensation plans applicable to some employees who support our credit portfolio management division, an incentive plan targeted to employees working on one of our strategic initiatives, our severance arrangements and compensation recoupment policy, oversight of aspects of our compensation by FHFA, the Compensation Committee and the Board of Directors, our corporate culture with regard to risk, and our performance appraisal management process. The division also assessed whether policies, procedures or other mitigating controls existed that would reduce the opportunity for excessive or inappropriate risk-taking within our compensation policies and practices.

Based on the results of this risk assessment, management concluded that our 2014 employee compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the company. Several factors contributed to this conclusion, including:

- Payment of performance-based compensation for achievement of the 2014 conservatorship scorecard objectives and the 2014 Board of Directors' goals is based on the achievement of goals that we have concluded do not encourage unnecessary or excessive risk-taking.
- Our extensive performance appraisal process is designed to ensure achievement of goals without encouraging executives or employees to take excessive risks.
- Deferred salary for our SEC executive officers is subject to the terms of the recoupment policy.
- We have no pre-arranged severance arrangements for our executive officers that would guarantee additional compensation upon termination of employment.

Our Chief Risk Officer discussed the risk assessment of the company's 2014 compensation policies and practices with the Compensation Committee of the Board of Directors.

Despite the determination that our 2014 employee compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the company, we believe that we face an elevated risk of executive officer attrition due in part to the level of our senior executives' compensation as compared to comparable firms. As described in

"Compensation Discussion and Analysis—Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data," our named executives' total target direct compensation for 2014 in aggregate was substantially below the market median for comparable firms, and more than 90% below the market median in the case of our Chief Executive Officer. Other factors that increase our risk of executive officer attrition include our conservatorship status and the uncertainty of our future. See "Risk Factors" for a discussion of the risks associated with executive and employee retention.

COMPENSATION TABLES

Summary Compensation Table for 2014, 2013 and 2012

The following table shows summary compensation information for 2014, 2013 and 2012 for the named executives. For more information on the compensation reflected in this table, see the footnotes following the table.

		Salary ($)		Non-Equity Incentive Plan Compensation ($)				
Name and Principal Position	Year	Base Salary[1]	Fixed Deferred Salary (Service-Based)[2]	At-Risk Deferred Salary (Performance-Based)[3]	Long-Term Incentive Awards[4]	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)[5]	All Other Compensation ($)[6]	Total ($)
Timothy Mayopoulos[7]	2014	600,000	—	—	—	—	48,000	648,000
President and Chief	2013	599,615	—	—	—	—	87,969	687,584
Executive Officer	2012	500,000	1,358,500	776,588	521,538	—	80,000	3,236,626
David Benson	2014	600,000	1,500,000	900,585	—	210,000	143,164	3,353,749
Executive Vice President	2013	574,231	1,436,462	818,170	—	332,926	66,825	3,228,614
and Chief Financial Officer	2012	500,000	1,264,000	737,100	465,000	321,555	13,350	3,301,005
Andrew Bon Salle[8]	2014	475,769	860,385	572,680	—	209,000	74,982	2,192,816
Executive Vice President —Single-Family Business								
Terence Edwards	2014	500,000	1,264,000	737,579	—	—	80,822	2,582,401
Executive Vice President	2013	500,000	1,264,000	737,100	—	—	81,000	2,582,100
and Chief Operating Officer	2012	500,000	1,264,000	737,100	465,000	—	80,000	3,046,100
John Nichols	2014	450,000	950,000	585,380	—	—	75,118	2,060,498
Executive Vice President	2013	450,000	950,000	570,000	—	—	70,477	2,040,477
and Chief Risk Officer	2012	430,962	861,538	540,000	187,069	—	66,862	2,086,431

(1) Amounts shown in this sub-column consist of base salary paid during the year on a bi-weekly basis.

(2) Amounts shown in this sub-column for 2014 consist of the fixed, service-based portion of deferred salary. As described in footnote 4 below, the remaining portion of 2014 deferred salary is included in the "Non-Equity Incentive Plan Compensation" column because it is performance-based. Deferred salary shown for 2014 generally will be paid in four equal installments in March, June, September and December 2015. Beginning in 2014, deferred salary accrues interest at one-half of the one-year Treasury Bill rate in effect on the last business day immediately preceding the year in which the deferred salary is earned. For deferred salary earned in 2014, this rate is .065% per year. Interest on the named executives' 2014 fixed deferred salary is shown in the "All Other Compensation" column. Deferred salary shown for 2013 was paid to our named executives during 2014. More information about 2014 deferred salary is presented above in "Compensation Discussion and Analysis—Chief Executive Officer Compensation and 2014 Executive Compensation Program—Elements of 2014 Executive Compensation Program—Direct Compensation."

(3) Amounts shown in this sub-column consist of the at-risk, performance-based portion of deferred salary earned during the year and, beginning in 2014, interest payable on that deferred salary. Half of at-risk deferred salary for each named executive was subject to reduction based on corporate performance for the year and the remaining half was subject to reduction based on individual

performance for the year. The table below provides more detail on the 2014 at-risk deferred salary awarded to each named executive who received it. Mr. Mayopoulos did not receive deferred salary for 2014.

Name	2014 Corporate Performance-Based At-Risk Deferred Salary	2014 Individual Performance-Based At-Risk Deferred Salary	Interest Payable on 2014 At-Risk Deferred Salary
David Benson	450,000	450,000	585
Andrew Bon Salle	286,154	286,154	372
Terence Edwards	378,000	359,100	479
John Nichols	300,000	285,000	380

(4) Long-term incentive awards were eliminated as a component of Fannie Mae's executive compensation program beginning in 2012. Amounts shown for 2012 in this sub-column consist of the second installment of the 2011 long-term incentive award, which was based on corporate and individual performance for both 2011 and 2012. The second installment of the 2011 long-term incentive award was determined in early 2013 and paid in February 2013.

(5) None of our named executives received above-market or preferential earnings on nonqualified deferred compensation. The reported amounts represent the change in value of Mr. Benson's and Mr. Bon Salle's pension benefits. Mr. Benson and Mr. Bon Salle are entitled to receive benefits under our qualified pension plan, which we refer to as the "Retirement Plan," as well as under the Supplemental Plans. Our other named executives joined the company after 2007 and were therefore not eligible to participate in Fannie Mae's defined benefit pension plans.

Pursuant to a directive from FHFA, we terminated our defined benefit pension plans for employees as of December 31, 2013, and we plan to distribute all benefits remaining in the plans. Please see "Pension Benefits—Termination of Defined Benefits Pension Plans" and "Pension Benefits for 2014" for more information about the benefits Mr. Benson and Mr. Bon Salle will receive under our defined benefit pension plans.

Consistent with our assumptions used for financial reporting purposes, we calculated the change in pension value amounts for Mr. Benson and Mr. Bon Salle as though they were to elect to receive 80% of their benefits under the Retirement Plan in the form of a lump sum payment, and 20% in the form of an annuity. Under the terms of the Retirement Plan, they will not be able to make such an election and will be required to elect to receive all benefits under the Retirement Plan either in a lump sum or in an annuity. See "Pension Benefits," below for more discussion of how their benefits under the pension plans have been calculated. The table below shows more detail regarding the change in pension value for 2014.

Name	Interest cost	Changes in actuarial assumptions (primarily a decrease in the discount rate)	Total
David Benson	74,000	136,000	210,000
Andrew Bon Salle	70,000	139,000	209,000

(6) The table below shows more information about the amounts reported for 2014 in the "All Other Compensation" column, which consist of (1) company contributions under our Retirement Savings Plan (401(k) Plan); (2) company credits to our Supplemental Retirement Savings Plan; (3) matching charitable contributions under our matching charitable gifts program; and (4) interest payable on 2014 fixed deferred salary.

Name	Company Contributions to Retirement Savings (401(k)) Plan	Company Credits to Supplemental Retirement Savings Plan	Charitable Award Programs	Interest Payable on 2014 Fixed Deferred Salary
Timothy Mayopoulos	20,800	27,200	—	—
David Benson	31,200	110,739	250	975
Andrew Bon Salle	20,800	51,123	2,500	559
Terence Edwards	20,800	59,200	—	822
John Nichols	20,800	51,200	2,500	618

In accordance with SEC rules, amounts shown under "All Other Compensation" for 2014 do not include perquisites or personal benefits for a named executive that, in the aggregate, amount to less than $10,000. In aggregate, the perquisites we provided to all of our named executives in 2014 did not exceed $1,000.

See “Pension Benefits” for the vesting provisions for company contributions to the Retirement Savings Plan and “Nonqualified Deferred Compensation” for the vesting provisions for company credits to the Supplemental Retirement Savings Plan. As discussed below in “Pension Benefits—Termination of Defined Benefit Pension Plans,” in connection with the termination of our defined benefit pension plan, we are making additional contributions to the Retirement Savings Plan and the Supplemental Retirement Savings Plan for employees close to retirement who satisfied a rule of 65. Amounts shown for Mr. Benson reflect these additional contributions.

Amounts shown in the "Charitable Award Programs" column reflect gifts we made on behalf of our named executives under our matching charitable gifts program, under which gifts made by our employees and directors to Section 501(c)(3) charities were matched, up to an aggregate total of $2,500 for the 2014 calendar year.

(7) The amount shown as 2013 base salary for Mr. Mayopoulos is slightly less than his $600,000 base salary rate because the amount shown reflects a payment at his 2012 base salary rate, which was lower than his 2013 base salary rate, in the first payroll period in 2013. Mr. Mayopoulos' 2012 compensation reflects that, prior to June 2012, when he became our Chief Executive Officer, Mr. Mayopoulos was Fannie Mae's Executive Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary. Mr. Mayopoulos did not receive any increase in his 2012 compensation as a result of his promotion to Chief Executive Officer and, since 2013, his direct compensation has consisted solely of $600,000 in base salary.

(8) The amount shown as 2014 base salary for Mr. Bon Salle is slightly less than his $476,233 base salary rate shown in "Compensation Discussion and Analysis—Determination of 2014 Compensation—Summary of 2014 Compensation Actions" because the amount shown in the table above reflects a payment at his 2013 base salary rate, which was lower than his 2014 base salary rate, in the first payroll period in 2014.

Grants of Plan-Based Awards in 2014

The following table shows the at-risk grants of deferred salary made to the named executives during 2014. The terms of 2014 deferred salary are described in "Compensation Discussion and Analysis—Chief Executive Officer Compensation and 2014 Executive Compensation Program—Elements of 2014 Executive Compensation Program—Direct Compensation." Deferred salary amounts shown represent only the at-risk, performance-based portion of the named executives' 2014 deferred salary.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards ($)[1]		
Name	**Award Type**	**Threshold**	**Target**	**Maximum**
Timothy Mayopoulos[2]	Not applicable	—	—	—
David Benson	At-risk deferred salary—Corporate	—	450,000	450,000
	At-risk deferred salary—Individual	—	450,000	450,000
	Total at-risk deferred salary	—	900,000	900,000
Andrew Bon Salle	At-risk deferred salary—Corporate	—	286,154	286,154
	At-risk deferred salary—Individual	—	286,154	286,154
	Total at-risk deferred salary	—	572,308	572,308
Terence Edwards	At-risk deferred salary—Corporate	—	378,000	378,000
	At-risk deferred salary—Individual	—	378,000	378,000
	Total at-risk deferred salary	—	756,000	756,000
John Nichols	At-risk deferred salary—Corporate	—	300,000	300,000
	At-risk deferred salary—Individual	—	300,000	300,000
	Total at-risk deferred salary	—	600,000	600,000

(1) Amounts shown are the target amounts of the at-risk, performance-based portion of the named executives' 2014 deferred salary. Half of 2014 at-risk deferred salary was subject to reduction based on corporate performance against the 2014 conservatorship scorecard, as determined by FHFA, and half was subject to reduction based on individual performance in 2014, taking into account corporate performance against the 2014 Board of Directors' goals, as determined by the Board of Directors with FHFA's review. No amounts are shown in the "Threshold" column because deferred salary does not specify a threshold payout amount. The amounts shown in the "Maximum" column are the same as the amounts shown in the "Target" column because 2014 deferred salary is only subject to reduction; amounts higher than the target amount cannot be awarded. The actual amounts of the at-risk portion of 2014 deferred salary that will be paid to the named executives for 2014 performance are included in the "Non-Equity Incentive Plan Compensation" column of the "Summary Compensation Table for 2014, 2013 and 2012" and explained in footnote 3 to that table.

(2) Mr. Mayopoulos' target direct compensation consists solely of a base salary of $600,000.

Pension Benefits

Termination of Defined Benefit Pension Plans.

In October 2013, pursuant to a directive from FHFA, our Board of Directors approved the termination of our qualified pension plan, The Federal National Mortgage Association Retirement Plan for Employees Not Covered Under Civil Service

Retirement Law, referred to as the "Retirement Plan," as well as the Supplemental Pension Plan and the 2003 Supplemental Pension Plan, referred to collectively as the "Supplemental Plans," in each case effective December 31, 2013. These terminations follow the cessation (or "freeze") of benefit accruals under the plans in 2008 for all employees who did not then satisfy a rule of 45 (that is, the sum of their age plus years of service was 45 or greater) and in June 2013 for all employees who continued to accrue benefits under the Retirement Plan and the Supplemental Plans after the initial freeze in 2008. Mr. Benson and Mr. Bon Salle are the only named executives who participated in the Retirement Plan and the Supplemental Plans.

We plan to distribute all benefits remaining in the Retirement Plan following receipt of approval from the Internal Revenue Service. Except for retirees currently receiving payments under the Retirement Plan (or "in pay status"), participants in that plan will have the choice of receiving either a single lump sum payment or an annuity. For participants who elect to receive a lump sum payment, the amount they receive will represent the actuarial equivalent value of the participant's accrued benefit under the Retirement Plan as of the distribution date, calculated in accordance with the amended terms of the Retirement Plan using the plan's benefit reduction factors for early retirement applicable for annuity payments and based on the participant's age on the distribution date. Retirees in pay status will continue to receive payments under their current annuity elections. For participants electing an annuity and those in pay status, we will purchase annuities from an annuity provider.

We plan to distribute all benefits remaining in the Supplemental Plans by October 2015. Each participant will receive a lump sum payment representing the actuarial equivalent value of the participant's remaining accrued benefits under the plans as of the distribution dates, calculated in accordance with the terms of the plans using the Supplemental Plans' benefit reduction factors for early retirement applicable for annuity payments and based on the participant's age on the distribution dates.

In connection with the termination of our defined benefit pension plan, we are making additional contributions to the Retirement Savings Plan and the Supplemental Retirement Savings Plan for employees close to retirement who satisfied a rule of 65, including Mr. Benson. These contributions consist of fully vested contributions to the Retirement Savings Plan equal to 4% of eligible earnings (subject to applicable IRS limits on contributions) and to the Supplemental Retirement Savings Plan for earnings in excess of the applicable IRS limits (subject to an overall limit of two times base salary), during the period from July 1, 2013 through June 2018. To satisfy the rule of 65 for this additional contribution, as of June 30, 2013 an employee must have been at least age 50 and the sum of the employee's age plus years of vesting service under the Retirement Plan must have equaled at least 65.

See the table below for the present value of accumulated benefits under the Retirement Plan and the Supplemental Plans for Mr. Benson and Mr. Bon Salle as of December 31, 2014. The amount of the payments the executives will receive under these plans will be determined as of the applicable distribution dates in accordance with the terms of each of the plans. The amounts they ultimately receive under these plans will differ from the present value of the accumulated benefit under these plans as of December 31, 2014 due to several factors, including the applicable interest rates used to determine the present value of these benefits on the distribution dates, their age on the distribution dates and whether they elect to receive benefits under the Retirement Plan in a lump sum or in the form of an annuity. As a result of the freeze and termination of the Retirement Plan and the Supplemental Plans, in 2014 Mr. Benson and Mr. Bon Salle received benefits under our Retirement Savings Plan and our Supplemental Retirement Savings Plan, which is discussed below in "Nonqualified Deferred Compensation."

Retirement Savings Plan

The Retirement Savings Plan is a tax-qualified defined contribution plan for which all of our employees are generally eligible that includes a 401(k) before-tax feature, a regular after-tax feature and a Roth after-tax feature. Under the plan, eligible employees may allocate investment balances to a variety of investment options. Subject to IRS limits for 401(k) plans, we make a contribution to this plan for our employees equal to 2% of salary and eligible incentive compensation, which includes the deferred salary element of our executive compensation program. Participants are fully vested in this 2% contribution after three years of service. In addition, we match in cash employee contributions up to 6% of base salary and eligible incentive compensation. Employees are 100% vested in our matching contributions. Also, for employees who satisfied the rule of 65 discussed above in "Termination of Defined Benefit Pension Plans," the company is making additional fully vested contributions to the Retirement Savings Plan equal to 4% of eligible earnings during the period from July 1, 2013 through June 2018. Because he satisfied the rule of 65, Mr. Benson's 2014 benefits under this plan included the additional 4% contribution.

Terminated Defined Benefit Pension Plans

Retirement Plan. The Retirement Plan is a tax-qualified defined benefit pension plan. Prior to the freeze on June 30, 2013 of benefit accruals under, and termination effective December 31, 2013 of, the Retirement Plan, participation in the Retirement

Plan was frozen. After December 31, 2007, newly hired employees were not eligible for the plan and employees who had not satisfied the rule of 45 did not earn additional benefits under the Retirement Plan after June 30, 2008. Prior to 2007, participation in the Retirement Plan was generally available to employees. Participants became fully vested in the Retirement Plan when they completed five years of service. Mr. Benson and Mr. Bon Salle are the only named executives who participated in the Retirement Plan.

Under the Retirement Plan, normal retirement benefits are computed on a single life basis using a formula based on final average annual earnings and years of credited service. For years of service after 1988, the pension formula is:

- 1 1/2% multiplied by final average annual earnings, plus
- 1/2% multiplied by final average annual earnings over Social Security-covered compensation multiplied by years of credited service.

Final average annual earnings are average annual base salary in the participant's highest paid 36 consecutive calendar months during the participant's last 120 calendar months of employment prior to June 30, 2013. As a result of the freeze of benefits under the Retirement Plan, earnings and service after June 30, 2013 are not taken into account in determining plan benefits. Provisions of the Internal Revenue Code of 1986, as amended, limit the amount of annual compensation that may be used for calculating pension benefits and the annual benefit that may be paid. For 2013, the last year during which benefits accrued under the Retirement Plan, the statutory compensation cap was $255,000 and the benefit cap was $205,000. The normal form of benefit under the Retirement Plan is an annuity providing monthly payments for the life of the participant and a survivor annuity for the participant's spouse, if applicable. The normal retirement age under the Retirement Plan is age 65; however, early retirement under the plan is generally available at age 55. For an employee who retires before age 65, benefit payments are reduced for each year that the employee's age is less than 65.

Supplemental Pension Plan and 2003 Supplemental Pension Plan. Prior to the freeze of benefit accruals on June 30, 2013 and termination of the Supplemental Plans effective December 31, 2013, the purpose of the Supplemental Pension Plan was to provide supplemental retirement benefits using the Retirement Plan formula to employees whose base salary exceeded the statutory compensation cap applicable to the Retirement Plan or whose benefit under the Retirement Plan was limited by the statutory benefit cap applicable to the Retirement Plan. The purpose of the Supplemental Pension Plan of 2003 was to provide additional benefits based on eligible incentive compensation not taken into account under the Retirement Plan or the Supplemental Pension Plan. Eligible incentive compensation for executive officers includes deferred salary under our current executive compensation program and other types of incentive compensation paid in prior years under our prior executive compensation programs. For purposes of determining benefits under the Supplemental Pension Plan of 2003, the amount of an officer's eligible incentive compensation taken into account is limited in the aggregate to 50% of base salary. Benefits under these plans vested at the same time as benefits under the Retirement Plan, and benefits under these plans typically commence at the later of age 55 or separation from service. The normal retirement age under these plans is age 65; however, early retirement under the plans is generally available at age 55. For employees who retire before age 65, benefit payments are reduced for each year that they are younger than 65 in the same manner as under the Retirement Plan. Mr. Benson and Mr. Bon Salle are the only named executives who participated in the Supplemental Plans.

The table below shows the years of credited service and the present value of accumulated benefits for each named executive under our defined benefit pension plans as of December 31, 2014. See "Termination of Defined Benefit Pension Plans" above for information about our plans to distribute all benefits remaining in our defined benefit pension plans.

Pension Benefits for 2014

Name	Plan Name	Number of Years Credited Service (#)[1]	Present Value of Accumulated Benefit ($)[2]
Timothy Mayopoulos	Not applicable		
David Benson	Retirement Plan	11.3	540,000
	Supplemental Pension Plan	11.3	615,000
	2003 Supplemental Pension Plan	11.3	598,000
Andrew Bon Salle	Retirement Plan	20.7	755,000
	Supplemental Pension Plan	20.7	344,000
	2003 Supplemental Pension Plan	20.7	572,000
Terence Edwards	Not applicable		

John Nichols	Not applicable

(1) Because benefit accruals under the Retirement Plan and the Supplemental Pension Plans were frozen as of June 30, 2013, Mr. Benson's credited service under these plans was frozen in 2013 at 11.3 years and Mr. Bon Salle's credit service was frozen at 20.7 years.

(2) As a result of the termination of the Retirement Plan, Mr. Benson and Mr. Bon Salle will have the choice of receiving benefits under the Retirement Plan in either in a single lump sum payment or in an annuity. Each will receive a single lump sum payment for his benefits under the Supplemental Plans. Using the same assumptions we use for financial reporting under GAAP, the present value of the executives' benefits under these plans presented in this column have been calculated assuming that each will receive lump sum payments for his benefits under the Supplemental Plans and based on the values that would result if each were to elect to receive 80% of his benefits under the Retirement Plan in a lump sum, and the other 20% in the form of an annuity. Under the terms of the Retirement Plan, the executives will not be able to make such an election and will be required to elect to receive all benefits under the Retirement Plan either in a lump sum or in an annuity. Under the plans, the amount of the lump sum payments and the annuity will be calculated using the benefit reduction factors for early retirement. We have assumed that Mr. Benson and Mr. Bon Salle would begin receiving annuity benefits under the Retirement Plan at the later of the earliest age at which each can retire under the plan or June 30, 2015, consistent with our assumptions used for financial reporting purposes. Even though the terms of the plans provide for a reduction in benefit payments for those electing to receive benefits prior to the normal retirement ages, the actuarial valuations of the present value of Mr. Benson's and Mr. Bon Salle's benefits are higher for retirement at age 55 than for retirement at the normal retirement ages, because the reductions in benefit payments specified in the plans do not fully offset the value of the additional years of benefits they would receive by electing to receive benefits earlier. The lump sum post-retirement mortality assumption for the executives is based on the IRS prescribed mortality table for lump sums paid in 2015. The annuities post-retirement mortality assumption is based on the RP-2000 mortality tables with generational mortality improvement projections. For additional information regarding the calculation of present value and the assumptions underlying these amounts, see "Note 12, Employee Retirement Benefits."

Nonqualified Deferred Compensation

We provide nonqualified deferred compensation to the named executives pursuant to our Supplemental Retirement Savings Plan. Our Supplemental Retirement Savings Plan is an unfunded, non-tax-qualified defined contribution plan. The Supplemental Retirement Savings Plan is intended to supplement our Retirement Savings Plan, or 401(k) plan, by providing benefits to participants whose eligible earnings exceed the IRS annual limit on eligible compensation for 401(k) plans (for 2014, the annual limit was $260,000). All of our named executives participated in the Supplemental Retirement Savings Plan in 2014.

We credit 8% of the eligible compensation for our named executives that exceeds the applicable IRS annual limit. Eligible compensation in any year consists of base salary plus any eligible incentive compensation (which includes deferred salary) earned for that year, up to a combined maximum of two times base salary. The 8% credit consists of two parts: (1) a 2% credit that will vest after the participant has completed three years of service with us; and (2) a 6% credit that is immediately vested. As discussed above under "Pension Benefits—Termination of Defined Benefit Pension Plans," because Mr. Benson satisfied the rule of 65, we made an additional credit to the Supplemental Retirement Savings Plan for Mr. Benson equal to 4% of his base salary and deferred salary paid in 2014, capped at two times his base salary for the year and reduced by the IRS annual limit for the year. Employees who satisfied the rule of 65 are eligible to receive this type of credit each year through June 2018.

While the Supplemental Retirement Savings Plan is not funded, amounts credited on behalf of a participant under the Supplemental Retirement Savings Plan are deemed to be invested in mutual fund investments selected by the participant that are similar to the investments offered under our Retirement Savings Plan.

Amounts deferred under the Supplemental Retirement Savings Plan are payable to participants in the January or July following separation from service with us, subject to a six month delay in payment for the 50 most highly-compensated officers. Participants may not withdraw amounts from the Supplemental Retirement Savings Plan while they are employees.

The table below provides information on the nonqualified deferred compensation of the named executives in 2014, all of which was provided pursuant to our Supplemental Retirement Savings Plan.

Nonqualified Deferred Compensation for 2014

Name	Executive Contributions in 2014 ($)	Company Contributions in 2014 ($)(1)	Aggregate Earnings in 2014 ($)(2)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at December 31, 2014 ($)(3)
Timothy Mayopoulos	—	27,200	22,577	—	359,954
David Benson(4)	—	110,739	3,942	—	158,093
Andrew Bon Salle	—	51,123	1,237	—	66,468
Terence Edwards	—	59,200	30,959	—	375,300
John Nichols	—	51,200	10,438	—	177,557

(1) All amounts reported in this column as company contributions in the last fiscal year are also reported as 2014 compensation in the "All Other Compensation" column of the "Summary Compensation Table for 2014, 2013 and 2012."

(2) None of the earnings reported in this column are reported as 2014 compensation in the "Summary Compensation Table for 2014, 2013 and 2012" because the earnings are neither above-market nor preferential.

(3) Amounts reported in this column for Mr. Mayopoulos include company contributions in 2013 and 2012 to the Supplemental Retirement Savings Plan of $67,569 and $60,000, respectively, that are also reported as compensation for those years, respectively, in the "All Other Compensation" column of the "Summary Compensation Table for 2014, 2013 and 2012."

Amounts reported in this column for Mr. Benson include company contributions in 2013 to the Supplemental Retirement Savings Plan of $42,900 that are also reported as and 2013 compensation in the "All Other Compensation" column of the "Summary Compensation Table for 2014, 2013 and 2012."

Amounts reported in this column for Mr. Edwards include company contributions in 2013 and 2012 to the Supplemental Retirement Savings Plan of $59,600 and $60,000, respectively, that are also reported as compensation for those years, respectively, in the "All Other Compensation" column of the "Summary Compensation Table for 2014, 2013 and 2012."

Amounts reported in this column for Mr. Nichols include company contributions in 2013 and 2012 to the Supplemental Retirement Savings Plan of $50,077 and $41,862 that are also reported as 2013 and 2012 compensation in the "All Other Compensation" column of the "Summary Compensation Table for 2014, 2013 and 2012."

(4) Company contributions for Mr. Benson include the additional credits he receives as a result of satisfying the rule of 65, which are described above under "Pension Benefits—Termination of Defined Benefit Pension Plans."

Potential Payments Upon Termination or Change-in-Control

The information below describes and quantifies certain compensation and benefits that would have become payable to each of our named executives under our existing plans and arrangements if the named executive's employment had terminated on December 31, 2014 under each of the circumstances described below, taking into account the named executive's compensation and service levels as of that date. The discussion below does not reflect retirement or deferred compensation plan benefits to which our named executives may be entitled, as these benefits are described above under "Pension Benefits" and "Nonqualified Deferred Compensation." The information below also does not generally reflect compensation and benefits available to all salaried employees upon termination of employment with us under similar circumstances. We are not obligated to provide any additional compensation to our named executives in connection with a change-in-control.

Potential Payments to Named Executives

We have not entered into agreements with any of our named executives that would entitle the executive to severance benefits. Under the 2014 executive compensation program, a named executive would be entitled to receive a specified portion of his earned but unpaid 2014 deferred salary if his employment was terminated for any reason, other than for cause.

Below we discuss various elements of the named executives' compensation that would become payable in the event a named executive dies, resigns, retires, or his employment is terminated by the company. We then quantify the amounts that would be paid to our named executives in these circumstances, in each case assuming the triggering event occurred on December 31, 2014.

- *Deferred Salary.* If a named executive is separated from employment with the company for any reason other than termination for cause (including his death, resignation, retirement or the termination of his employment by the company without cause), he would receive:
  - the earned but unpaid portion of his fixed deferred salary, reduced by 2% for each full or partial month by which the named executive's termination precedes January 31 of the second year following the performance year, except that the reduction will not apply if the executive is age 65 or older at the time of separation;
  - the earned but unpaid portion of his at-risk deferred salary, subject to reduction from the target level for corporate and individual performance for the applicable performance year; and
  - interest on the earned but unpaid portion of his 2014 deferred salary, which accrues at one-half of the one-year Treasury Bill rate in effect on the last business day immediately preceding the year in which the deferred salary is earned. For 2014 deferred salary, interest accrues at an annual rate of .065%.

  Installment payments of deferred salary would be made on the original payment schedule.

  If a named executive's employment is terminated by the company for cause, he would not receive any of the earned but unpaid portion of his deferred salary. The company may terminate an executive for cause if it determines that the executive has: (a) materially harmed the company by, in connection with the performance of his duties for the company, engaging in gross misconduct or performing his duties in a grossly negligent manner; or (b) been convicted of, or pleaded *nolo contendere* with respect to, a felony.
- *Retiree Medical Benefits.* We currently make certain retiree medical benefits available to our full-time employees who meet certain age and service requirements at the time of retirement.

The table below shows the amounts that would have become payable to each of our named executives if his employment had terminated on December 31, 2014. Because Mr. Mayopoulos did not earn any deferred salary for 2014, he would not be entitled to receive any additional amounts if his employment had terminated on December 31, 2014.

Potential Payments Upon Termination as of December 31, 2014

Name	2014 Fixed Deferred Salary ($)[1]	2014 At-Risk Deferred Salary ($)[2]	Total ($)
Timothy Mayopoulos			
Resignation, retirement, death or termination with or without cause	—	—	—
David Benson			
Resignation, retirement, death or termination without cause	1,110,722	900,585	2,011,307
Termination for cause	—	—	—
Andrew Bon Salle			
Resignation, retirement, death or termination without cause	637,099	572,680	1,209,779
Termination for cause	—	—	—
Terence Edwards			
Resignation, retirement, death or termination without cause	935,968	737,579	1,673,547
Termination for cause	—	—	—
John Nichols			
Resignation, retirement, death or termination without cause	703,457	585,380	1,288,837
Termination for cause	—	—	—

(1) Each named executive other than Mr. Mayopoulos would have received 74% of his 2014 fixed deferred salary, which is the earned but unpaid portion of his 2014 fixed deferred salary as of December 31, 2014, reduced by 2% for each full or partial month by which the named executive's separation of employment preceded January 31, 2016. Amounts shown in the table include interest payable on the

fixed deferred salary. Because Mr. Mayopoulos did not earn any deferred salary for 2014, he had no earned but unpaid fixed deferred salary as of December 31, 2014.

(2) Each named executive other than Mr. Mayopoulos would have received all of his earned but unpaid 2014 at-risk deferred salary, as determined by FHFA and the Board in early 2015 (that is, his earned but unpaid 2014 at-risk deferred salary target, reduced by the amounts determined by FHFA and the Board in early 2015 as a result of corporate and individual performance). See the "At-Risk Deferred Salary (Performance-Based)" sub-column of the "Summary Compensation Table for 2014, 2013 and 2012" above for the amount of 2014 at-risk deferred salary that was awarded to each named executive. Amounts shown in the table include interest payable on the at-risk deferred salary.

Director Compensation

Our non-management directors receive cash compensation pursuant to a program authorized by FHFA in November 2008. This compensation for the directors is designed to be reasonable, appropriate and commensurate with the duties and responsibilities of their Board service.

The total 2014 compensation for our non-management directors is shown in the table below. Mr. Mayopoulos, our only director who also served as an employee of Fannie Mae during 2014, was not entitled to receive any additional compensation for his service as a director.

2014 Non-Employee Director Compensation Table

Name	Fees Earned or Paid in Cash ($)[1]
Amy E. Alving	160,000
William Thomas Forrester	185,000
Brenda J. Gaines	180,000
Charlynn Goins	170,000
Frederick B. "Bart" Harvey III	160,000
Robert H. Herz	170,000
Philip A. Laskawy	72,500
Diane C. Nordin	166,317
Egbert L. J. Perry	257,500
Jonathan Plutzik	170,000
David H. Sidwell	180,095

(1) Directors who chair a Board committee or serve on the Audit Committee receive additional fees for their service. Amounts shown in this table reflect that some of our Board members served on the Audit Committee for only part of 2014. In addition, Mr. Perry began serving as non-executive Chairman in March 2014, upon Mr. Laskawy's resignation from the Board and his role as its Chairman.

Compensation Arrangements for our Non-Management Directors

Our non-management directors receive a retainer at an annual rate of $160,000, with no meeting fees. Committee chairs and Audit Committee members receive an additional retainer at an annual rate of $25,000 for the Audit Committee chair, $15,000 for the Risk Policy & Capital Committee chair and $10,000 for all other committee chairs and each member of the Audit Committee. In recognition of the substantial amount of time and effort necessary to fulfill the duties of non-executive Chairman of the Board, the annual retainer for our non-executive Chairman is $290,000. This retainer was paid on a pro-rated basis in 2014 to Mr. Laskawy for his service as Chairman until March 31, 2014 and to Mr. Perry for his service as Chairman thereafter. Our directors receive no equity compensation.

Additional Arrangements with our Non-Management Directors

Matching Charitable Gifts Program. To further our support for charitable giving, non-employee directors are able to participate in our corporate matching gifts program on the same terms as our employees. Under this program, gifts made by employees and directors to Section 501(c)(3) charities are matched, up to an aggregate total of $2,500 for the 2014 calendar year. No non-employee directors participated in our matching gifts program in 2014.

Stock Ownership Guidelines for Directors. In 2009, our Board eliminated our stock ownership requirements for directors.

Other Expenses. We also pay for or reimburse directors for out-of-pocket expenses incurred in connection with their service on the Board, including travel to and from our meetings, accommodations, meals and training.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

EQUITY COMPENSATION PLAN INFORMATION

The following table provides information as of December 31, 2014 with respect to shares of common stock that may be issued under our equity compensation plans. However, we are prohibited from issuing new stock without the prior written consent of Treasury other than as required by the terms of any binding agreement in effect on the date of the senior preferred stock purchase agreement.

Equity Compensation Plan Information

	As of December 31, 2014		
Plan Category	Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights	Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in First Column)
Equity compensation plans approved by stockholders	4,817 [1]	N/A [2]	11,960,258 [3]
Equity compensation plans not approved by stockholders	N/A	N/A	N/A
Total	4,817	N/A	11,960,258

(1) These shares of common stock underlie deferred shares that were issued under the Fannie Mae Stock Compensation Plan of 2003. These shares will become payable to the holder of the deferred shares in accordance with the terms of that plan.

(2) There is no exercise price associated with the payout of deferred shares.

(3) Our only plan under which shares remain available for issuance is the 1985 Employee Stock Purchase Plan. Under the terms of our senior preferred stock purchase agreement with Treasury, we may not sell or issue any equity securities without the prior written consent of Treasury, other than as required by the terms of any binding agreement in effect on the date of the senior preferred stock purchase agreement.

BENEFICIAL OWNERSHIP

The following table shows the beneficial ownership of our common stock by each of our current directors and the named executives, and all current directors and executive officers as a group, as of February 15, 2015. As of that date, no director or named executive, nor all directors and current executive officers as a group, owned as much as 1% of our outstanding common stock or preferred stock.

Name and Position	Number of Shares Beneficially Owned[1]: 8.25% Non-Cumulative Series T Preferred Stock	Number of Shares Beneficially Owned[1]: Common Stock
Amy E. Alving Director	0	0
David C. Benson Executive Vice President—Chief Financial Officer	0	0
Andrew J. Bon Salle Executive Vice President—Single-Family Business	1,000	0
Terence W. Edwards Executive Vice President—Chief Operating Officer	0	0
William Thomas Forrester Director	0	0
Brenda J. Gaines Director	0	487
Charlynn Goins Director	0	0
Frederick B. Harvey, III Director	0	0
Robert H. Herz Director	0	0
Timothy J. Mayopoulos President and Chief Executive Officer	0	0
John R. Nichols Executive Vice President and Chief Risk Officer	0	0
Diane C. Nordin Director	0	0
Egbert L. J. Perry Chairman of the Board	0	0
Jonathan Plutzik Director	0	0
David H. Sidwell Director	0	0
All directors and current executive officers as a group (20 persons)	2,000	49,369

(1) Beneficial ownership is determined in accordance with the rules of the SEC for computing the number of shares of common stock beneficially owned by each person and the percentage owned. Each holder has sole investment and voting power over the shares referenced in this table.

The following table shows the beneficial ownership of our common stock by each holder of more than 5% of our common stock as of February 15, 2014.

5% Holders	Common Stock Beneficially Owned	Percent of Class
Department of the Treasury 1500 Pennsylvania Avenue, NW., Room 3000 Washington, DC 20220	Variable(1)	79.9%
Pershing Square Capital Management, L.P. PS Management GP, LLC William A. Ackman 888 Seventh Avenue, 42nd Floor New York, New York 10019	115,569,796(2)	9.98%

(1) In September 2008, we issued to Treasury a warrant to purchase, for one one-thousandth of a cent ($0.00001) per share, shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised. The warrant may be exercised in whole or in part at any time until September 7, 2028. As of February 20, 2015, Treasury has not exercised the warrant. The information above assumes Treasury beneficially owns no other shares of our common stock.

(2) Information regarding these shares and their holders is based solely on information contained in a Schedule 13D filed with the SEC on November 15, 2013, as amended by an amendment to the Schedule 13D filed on March 31, 2014. The Schedule 13D and its amendment were filed by these holders as well as by Pershing Square GP, LLC. According to the original Schedule 13D Pershing Square Capital Management, L.P., as investment adviser for a number of funds for which it purchased the shares reported in the table above, and PS Management GP, LLC, its general partner, may be deemed to share voting and dispositive power for the shares. Pershing Square GP, LLC, as general partner of two of the funds, may be deemed to share voting and dispositive power for 40,114,044 of the shares reported in the table above, which are held by the two funds. As the Chief Executive Officer of Pershing Square Capital Management, L.P. and managing member of each of PS Management GP, LLC and Pershing Square GP, LLC, William A. Ackman may be deemed to share voting and dispositive power for all of the shares reported in the table above. In the amendment, the parties further reported that certain of them had entered into swap transactions resulting in their having additional economic exposure to approximately 15,434,715 notional shares of common stock under certain cash-settled total return swaps, bringing their total aggregate economic exposure to 131,004,511 shares of common stock (approximately 11.31% of the outstanding common stock).

In the amendment to the Schedule 13D, these parties indicated that they would forgo future reporting on Schedule 13D based on their determination that shares of the common stock are not voting securities as such term is used in Rule 13d-1(i) under the Securities Exchange Act. As a result, the information in the table above does not reflect any acquisitions or dispositions by these holders of Fannie Mae common stock that occurred after March 31, 2014.

Item 13. Certain Relationships and Related Transactions, and Director Independence

POLICIES AND PROCEDURES RELATING TO TRANSACTIONS WITH RELATED PERSONS

We review transactions in which Fannie Mae is a participant and in which any of our directors or executive officers or their immediate family members may have a material interest to determine whether any of those persons has a material interest in the transaction. Our current written policies and procedures for the review, approval or ratification of transactions with related persons that are required to be reported under Item 404(a) of Regulation S-K are set forth in our:

- Code of Conduct and Conflicts of Interest Policy for Members of the Board of Directors;
- Nominating & Corporate Governance Committee Charter;
- Board of Directors' delegation of authorities and reservation of powers;
- Code of Conduct for employees; and
- Conflict of Interest Policy and Conflict of Interest Procedure for employees.

In addition, depending on the circumstances, relationships and transactions with related persons may require approval of the conservator pursuant to the 2012 instructions issued to the Board of Directors by the conservator or may require the approval of Treasury pursuant to the senior preferred stock purchase agreement.

Our Code of Conduct and Conflicts of Interest Policy for Members of the Board of Directors prohibits our directors from engaging in any conduct or activity that is inconsistent with our best interests, as defined by the conservator's express directions, its policies and applicable federal law. The Code of Conduct and Conflicts of Interest Policy for Members of the Board of Directors requires each of our directors to excuse himself or herself from voting on any issue before the Board that could result in a conflict, self-dealing or other circumstance where the director's position as a director would be detrimental to us or result in a noncompetitive, favored or unfair advantage to either the director or the director's associates. In addition, our directors must disclose to the Chair of the Nominating & Corporate Governance Committee, or another member of the committee, any situation that involves or appears to involve a conflict of interest. This includes, for example, any financial interest of a director, an immediate family member of a director or a business associate of a director in any transaction being considered by the Board, as well as any financial interest a director may have in an organization doing business with us. Each of our directors also must annually certify compliance with the Code of Conduct and Conflicts of Interest Policy for Members of the Board of Directors.

The Nominating & Corporate Governance Committee Charter and our Board's delegation of authorities and reservation of powers require the Nominating & Corporate Governance Committee to approve any transaction that Fannie Mae engages in with any director, nominee for director or executive officer, or any immediate family member of a director, nominee for director or executive officer, that is required to be disclosed pursuant to Item 404 of Regulation S-K. In addition, the Board's delegation of authorities and reservation of powers requires the Board and the conservator to approve any action that in the reasonable business judgment of management at the time the action is taken is likely to cause significant reputational risk to the company or result in substantial negative publicity. Depending on management's business judgment, this requirement might include a related party transaction.

Our Code of Conduct for employees requires that we and our employees seek to avoid any actual or apparent conflict between our business interests and the personal interests of our employees or their family members. An employee who knows or suspects a violation of our Code of Conduct must raise the issue with the employee's manager, another appropriate member of management, a member of our Human Resources division or our Compliance and Ethics division.

Our Conflict of Interest Policy and Conflict of Interest Procedure for employees requires that our executive officers report to the Compliance & Ethics division any existing or currently proposed transaction with us, whether or not in the ordinary course of business, in which the executive officer or any immediate family member of the executive officer has a direct or indirect interest. Our Conflict of Interest Procedure for employees provides that the Compliance & Ethics division will refer any such report to the Legal department for review to determine whether the Nominating & Corporate Governance Committee or FHFA is required to review and approve the transaction pursuant to the Nominating & Corporate Governance Committee Charter and/or the Board's delegation of authorities and reservation of powers.

We are required by the conservator to obtain its approval for various matters, some of which may involve relationships or transactions with related persons. These matters include actions involving the senior preferred stock purchase agreement, the creation of any subsidiary or affiliate, any substantial non-ordinary course transaction with a subsidiary or affiliate, the compensation or benefits of directors and officers at the senior vice president level and above and other executives FHFA may designate, and actions that in the reasonable business judgment of management at the time that the action is to be taken are likely to cause significant reputational risk or result in substantial negative publicity. The senior preferred stock purchase agreement requires us to obtain written Treasury approval of transactions with affiliates unless, among other things, the transaction is upon terms no less favorable to us than would be obtained in a comparable arm's-length transaction with a non-affiliate or the transaction is undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence at the time the senior preferred stock purchase agreement was entered into.

We also require our directors and executive officers, not less than annually, to describe to us any situation involving a transaction with us in which a director or executive officer could potentially have a personal interest that would require disclosure under Item 404 of Regulation S-K.

TRANSACTIONS WITH RELATED PERSONS

Transactions with Treasury

Treasury beneficially owns more than 5% of the outstanding shares of our common stock by virtue of the warrant we issued to Treasury on September 7, 2008. The warrant entitles Treasury to purchase shares of our common stock equal to 79.9% of our outstanding common stock on a fully diluted basis on the date of exercise, for an exercise price of $0.00001 per share, and is exercisable in whole or in part at any time on or before September 7, 2028. We describe below our current agreements with Treasury, as well as payments we are making to Treasury pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011 and payments we expect to make to Treasury beginning in 2016 pursuant to the GSE Act.

FHFA, as conservator, approved the senior preferred stock purchase agreement and the amendments to the agreement, our role as program administrator for the Home Affordable Modification Program and other initiatives under the Making Home Affordable Program, and the housing finance agency transactions described below.

Treasury Senior Preferred Stock Purchase Agreement

We issued the warrant to Treasury pursuant to the terms of the senior preferred stock purchase agreement we entered into with Treasury on September 7, 2008. Under the senior preferred stock purchase agreement, we also issued to Treasury one million shares of senior preferred stock. We issued the warrant and the senior preferred stock as an initial commitment fee in consideration of Treasury's commitment to provide funds to us under the terms and conditions set forth in the senior preferred stock purchase agreement. The senior preferred stock purchase agreement was subsequently amended on September 26, 2008, May 6, 2009, December 24, 2009 and August 17, 2012. See "Business—Conservatorship and Treasury Agreements—Treasury Agreements" for a description of the terms of the senior preferred stock purchase agreement, the senior preferred stock and the warrant, including the revisions to the agreement and the senior preferred stock set forth in the August 2012 amendment to the agreement.

As of December 31, 2014, we had received an aggregate of $116.1 billion from Treasury under the senior preferred stock purchase agreement, and the remaining amount of funding available to us under the agreement was $117.6 billion. Through December 31, 2014, we had paid an aggregate of $134.5 billion to Treasury in dividends on the senior preferred stock. We expect to pay Treasury additional senior preferred stock dividends of $1.9 billion for the first quarter of 2015.

Treasury Making Home Affordable Program

In February 2009, the Obama Administration announced its Homeowner Affordability and Stability Plan, a plan to provide stability and affordability to the U.S. housing market. Pursuant to this plan, in March 2009, the Administration announced the details of its Making Home Affordable Program, a program intended to provide assistance to homeowners and prevent foreclosures. One of the primary initiatives under the Making Home Affordable Program is the Home Affordable Modification Program, or HAMP, which is aimed at helping borrowers whose loan is either currently delinquent or at imminent risk of default by modifying their mortgage loan to make their monthly payments more affordable. In addition to our participation in the Administration's initiatives under the Making Home Affordable Program, Treasury engaged us to serve as program administrator for loans modified under HAMP and other initiatives under the Making Home Affordable Program pursuant to a financial agency agreement between Treasury and us, dated February 18, 2009. Our principal activities as program administrator include:

- implementing the guidelines and policies of the Treasury program;
- preparing the requisite forms, tools and training to facilitate efficient loan modifications by servicers;
- creating, making available and managing the process for servicers to report modification activity and program performance;
- calculating incentive compensation consistent with program guidelines;
- acting as record-keeper for executed loan modifications and program administration;
- coordinating with Treasury and other parties toward achievement of the program's goals, including assisting with development and implementation of updates to the program and initiatives expanding the program's reach;
- helping servicers implement the program; and
- performing other tasks as directed by Treasury from time to time.

In June 2014, the Administration announced an extension of the Making Home Affordable Program until at least December 31, 2016. We expect our role as program administrator will continue for some time after the termination of HAMP.

Under our arrangement with Treasury, Treasury has agreed to compensate us for a significant portion of the work we have performed in our role as program administrator for HAMP and other initiatives under the Making Home Affordable Program. We expect we will have received an aggregate of approximately $380 million from Treasury for our work as program administrator from 2009 through 2014, as well as an additional amount of approximately $99 million for this period to be passed through to third-party vendors engaged by us for HAMP and other initiatives under the Making Home Affordable Program. We expect to continue to receive reimbursements from Treasury for our work as program administrator for HAMP and other initiatives under the Making Home Affordable Program in future years, even after the termination of HAMP, through the completion of our role as program administrator.

In January 2015, we announced an additional borrower "pay for performance" incentive of $5,000 for Fannie Mae borrowers whose loans have been modified under HAMP and who remain in good standing in year six of the modification. Treasury will fund certain of these borrower "pay for performance" incentives from the Troubled Asset Relief Program.

Treasury Housing Finance Agency Initiative

In 2009, we entered into a memorandum of understanding with Treasury, FHFA and Freddie Mac that established terms under which we, Freddie Mac and Treasury would provide assistance to state and local housing finance agencies ("HFAs") so that the HFAs could continue to meet their mission of providing affordable financing for both single-family and multifamily housing. Pursuant to this HFA initiative, we, Freddie Mac and Treasury have provided assistance to the HFAs through two primary programs: a temporary credit and liquidity facilities ("TCLF") program, which was intended to improve the HFAs' access to liquidity for outstanding HFA bonds, and a new issue bond ("NIB") program, which was intended to support new lending by the HFAs. We entered into various agreements in 2009 to implement these HFA assistance programs, including several to which Treasury is a party. Pursuant to the TCLF program, Treasury has purchased participation interests in temporary credit and liquidity facilities provided by us and Freddie Mac to the HFAs, which facilities create a credit and liquidity backstop for the HFAs. Pursuant to the NIB program, Treasury has purchased new securities issued and guaranteed by us and Freddie Mac, which are backed by new housing bonds issued by the HFAs.

In 2011, we entered into an Omnibus Consent to HFA Initiative Program Modifications with Treasury, Freddie Mac and FHFA pursuant to which the parties agreed to specified modifications to the HFA initiative programs, including a three-year extension of the expiration date for the TCLFs from December 2012 to December 2015, and a one-year extension of the expiration date for release of escrowed funds for the NIB program from December 31, 2011 to December 31, 2012. Six HFAs participated in the extension of the TCLF program. Prior to the extension of these HFAs' TLCFs, each HFA agreed to a plan with Treasury, Fannie Mae and Freddie Mac that included a summary of the methods the HFA will use to reduce TCLF exposure in the future.

The total amount originally established by Treasury for the TCLF program and the NIB program was $23.4 billion: an aggregate of $8.2 billion for the TCLF program (of which $7.7 billion consisted of principal and approximately $500 million consisted of accrued interest) and an aggregate of $15.2 billion for the NIB program (of which $12.4 billion related to single-family bonds and $2.8 billion related to multifamily bonds). The amounts outstanding under these programs have been reduced since the programs were established and will continue to be reduced over time as liquidity facilities under the TCLF program are replaced by the HFAs and as principal payments are received on the mortgage loans financed by the NIB program. As of December 31, 2014, the total amount outstanding for both Fannie Mae and Freddie Mac under the TCLF program was $780 million (of which $737 million consisted of principal and $43 million consisted of accrued interest) and the total unpaid principal amount outstanding for both Fannie Mae and Freddie Mac under the NIB program was $8.4 billion.

We and Freddie Mac administer these programs on a coordinated basis. We issued temporary credit and liquidity facilities and securities backed by HFA bonds on a 50-50 pro rata basis with Freddie Mac under these programs. Treasury will bear the initial losses of principal under the TCLF program and the NIB program up to 35% of total original principal on a combined program-wide basis, and thereafter we and Freddie Mac each will bear the losses of principal that are attributable to our own portion of the temporary credit and liquidity facilities and the securities that we have issued. Treasury will also bear any losses of unpaid interest under the two programs. Accordingly, as of December 31, 2014, Fannie Mae's maximum potential risk of loss under these programs, assuming a 100% loss of principal, was $554 million. As of December 31, 2014, there had been no losses of principal or interest under the TCLF program or the NIB program.

Temporary Payroll Tax Cut Continuation Act of 2011

In December 2011, Congress enacted the Temporary Payroll Tax Cut Continuation Act of 2011 which, among other provisions, required that we increase our single-family guaranty fees by at least 10 basis points and remit this increase to Treasury. To meet our obligations under the TCCA and at the direction of FHFA, we increased the guaranty fee on all single-family residential mortgages delivered to us by 10 basis points effective April 1, 2012. FHFA and Treasury advised us to remit this fee increase to Treasury with respect to all loans acquired by us on or after April 1, 2012 and before January 1, 2022, and to continue to remit these amounts to Treasury on and after January 1, 2022 with respect to loans we acquired before this date until those loans are paid off or otherwise liquidated. We paid $1.3 billion to Treasury in 2014 for our obligations under the TCCA, and as of December 31, 2014 our liability to Treasury for TCCA-related guaranty fees for the fourth quarter of 2014 was $367 million.

Treasury Interest in Affordable Housing Allocations

The GSE Act requires us to set aside each year an amount equal to 4.2 basis points for each dollar of the unpaid principal balance of our total new business purchases to fund HUD's Housing Trust Fund and Treasury's Capital Magnet Fund. In

November 2008, FHFA directed us not to set aside or allocate funds for the Housing Trust Fund and Capital Magnet Fund until further notice. In December 2014, FHFA ended its temporary suspension of allocations to the Housing Trust Fund and the Capital Magnet Fund and directed us to begin making contributions to these funds pursuant to the GSE Act. Based on FHFA's directive, we expect to make our first allocation to the funds on or before February 29, 2016, based on the amount of our new business purchases in 2015. If this requirement had been in effect during fiscal year 2014, we estimate that we would have incurred approximately $172 million of expense related to the allocation of these funds. See "Business—Our Charter and Regulation of Our Activities—The GSE Act—Affordable Housing Allocations" for more information regarding these allocations.

Transactions involving The Integral Group LLC

Egbert L. J. Perry, who is the Chairman of our Board and who has been a member of our Board since December 2008, is the Chairman, Chief Executive Officer and controlling member of The Integral Group LLC, referred to as Integral. Over the past twelve years, our Multifamily business has invested indirectly in certain limited partnerships or limited liability companies that are controlled and managed by entities affiliated with Integral, in the capacity of general partner or managing member, as the case may be. These limited partnerships or limited liability companies are referred to as the Integral Property Partnerships. The Integral Property Partnerships own and manage LIHTC properties. We also hold multifamily mortgage loans made to borrowing entities sponsored by Integral. We believe that Mr. Perry has no material direct or indirect interest in these transactions, and therefore disclosure of these transactions in this report is not required pursuant to Item 404 of Regulation S-K. In addition, as described in "Director Independence—Our Board of Directors" below, the Board of Directors has concluded that these business relationships are not material to Mr. Perry's independence.

Mr. Perry has informed us that Integral accepted no further equity investments from us relating to Integral Property Partnerships beginning in December 2008, when he joined our Board. Mr. Perry has also informed us that Integral does not intend to seek debt financing intended specifically to be purchased by us, although, as a secondary market participant, in the ordinary course of our business we may purchase multifamily mortgage loans made to borrowing entities sponsored by Integral.

DIRECTOR INDEPENDENCE

Our Board of Directors, with the assistance of the Nominating & Corporate Governance Committee, has reviewed the independence of all current Board members under the requirements set forth in FHFA's corporate governance regulations (which requires the standard of independence adopted by the NYSE) and under the standards of independence adopted by the Board, as set forth in our Corporate Governance Guidelines and outlined below. It is the policy of our Board of Directors that a substantial majority of our seated directors will be independent in accordance with these standards. Our Board is currently structured so that all but one of our directors, our Chief Executive Officer, is independent. Based on its review, the Board has determined that all of our non-employee directors meet the director independence requirements set forth in FHFA's corporate governance regulations and in our Corporate Governance Guidelines.

Independence Standards

Under the standards of independence adopted by our Board, which meet and in some respects exceed the independence requirements set forth in FHFA's corporate governance regulations (which requires the standard of independence adopted by the NYSE), an "independent director" must be determined to have no material relationship with us, either directly or through an organization that has a material relationship with us. A relationship is "material" if, in the judgment of the Board, it would interfere with the director's independent judgment. The Board did not consider the Board's duties to the conservator, together with the federal government's controlling beneficial ownership of Fannie Mae, in determining independence of the Board members.

In addition, under FHFA's corporate governance regulations, both our Audit Committee and our Compensation Committee are required to be in compliance with the NYSE's listing requirements for these committees, under which committee members must meet additional, heightened independence criteria. Our own independence standards require all independent directors to meet these criteria.

To assist it in determining whether a director is independent, our Board has adopted the standards set forth below, which are posted on our Web site, www.fanniemae.com, under "Governance" in the "About Us" section of our Web site:

- A director will not be considered independent if, within the preceding five years:
  - the director was our employee; or
  - an immediate family member of the director was employed by us as an executive officer.
- A director will not be considered independent if:
  - the director is a current partner or employee of our external auditor, or within the preceding five years, was (but is no longer) a partner or employee of our external auditor and personally worked on our audit within that time; or
  - an immediate family member of the director is a current partner of our external auditor, or is a current employee of our external auditor and personally works on Fannie Mae's audit, or, within the preceding five years, was (but is no longer) a partner or employee of our external auditor and personally worked on our audit within that time.
- A director will not be considered independent if, within the preceding five years:
  - the director was employed by a company at a time when one of our current executive officers sat on that company's compensation committee; or
  - an immediate family member of the director was employed as an officer by a company at a time when one of our current executive officers sat on that company's compensation committee.
- A director will not be considered independent if, within the preceding five years:
  - the director received any compensation from us, directly or indirectly, other than fees for service as a director; or
  - an immediate family member of the director received any compensation from us, directly or indirectly, other than compensation received for service as our employee (other than an executive officer).
- A director will not be considered independent if:
  - the director is a current executive officer, employee, controlling stockholder or partner of a company or other entity that does or did business with us and to which we made, or from which we received, payments within the preceding five years that, in any single fiscal year, were in excess of $1 million or 2% of the entity's consolidated gross annual revenues, whichever is greater; or
  - an immediate family member of the director is a current executive officer of a company or other entity that does or did business with us and to which we made, or from which we received, payments within the preceding five years that, in any single fiscal year, were in excess of $1 million or 2% of the entity's consolidated gross annual revenues, whichever is greater.
- A director will not be considered independent if the director or the director's spouse is an executive officer, employee, director or trustee of a nonprofit organization to which we make or have made contributions within the preceding three years that, in a single year, were in excess of 5% of the organization's consolidated gross annual revenues, or $120,000, whichever is less (amounts matched under our Matching Gifts Program are not included in the contributions calculated for purposes of this standard). The Nominating & Corporate Governance Committee also will receive periodic reports regarding charitable contributions to organizations otherwise associated with a director or any spouse of a director.

After considering all the facts and circumstances, our Board may determine in its judgment that a director is independent (in other words, the director has no relationship with us that would interfere with the director's independent judgment), even though the director does not meet the standards listed above, so long as the determination of independence is consistent with the NYSE definition of "independence." Where the standards above do not address a particular relationship, the determination of whether the relationship is material, and whether a director is independent, will be made by our Board, based upon the recommendation of the Nominating & Corporate Governance Committee.

Our Board of Directors

Our Board of Directors, with the assistance of the Nominating & Corporate Governance Committee, has reviewed the independence of all current Board members under the requirements set forth in FHFA's corporate governance regulations (which requires the standard of independence adopted by the NYSE) and under the standards of independence adopted by the Board contained in our Corporate Governance Guidelines, as outlined above. Based on its review, the Board has affirmatively determined that all of our non-employee directors meet the director independence standards of our Guidelines and the NYSE, and that each of the following ten directors is independent: Egbert L. J. Perry, Amy E. Alving, William Thomas Forrester, Brenda J. Gaines, Charlynn Goins, Frederick B. Harvey III, Robert H. Herz, Diane C. Nordin, Jonathan Plutzik and David H. Sidwell.

In determining the independence of each of these Board members, the Board of Directors considered the following relationships in addition to those addressed by the standards contained in our Guidelines as set forth above:

- Certain of these Board members and an immediate family member of another Board member serve as directors or advisory Board members of other companies that engage in business with Fannie Mae. In each of these cases, the Board members and the immediate family member are only directors or advisory Board members of these other companies. In addition, in most instances, the payments made by or to Fannie Mae pursuant to these relationships during the past five years fell below our Guidelines' thresholds of materiality for a Board member that is a current executive officer, employee, controlling shareholder or partner of a company engaged in business with Fannie Mae. In light of these facts, the Board of Directors has concluded that these business relationships are not material to the independence of these Board members.
- Two Board members serve as Board members of charitable organizations that have received fees from Fannie Mae. The amount of these fees fell substantially below our Guidelines' thresholds of materiality for a Board member who is a current trustee or board member of a charitable organization that receives donations from Fannie Mae. In light of this fact, the Board of Directors has concluded that these relationships with the charitable organizations are not material to the independence of these Board members.
- Certain of these Board members serve as directors of other companies that hold Fannie Mae fixed income securities or control entities that direct investments in such securities. It is not possible for Fannie Mae to determine the extent of the holdings of these companies in Fannie Mae fixed income securities as all payments to holders are made through the Federal Reserve, and most of these securities are held in turn by financial intermediaries. Each director has confirmed that the transactions by these other companies in Fannie Mae fixed income securities are entered into in the ordinary course of business of these companies and are not entered into at the direction of, or upon approval by, the director in his or her capacity as a director of these companies. In light of these facts, the Board of Directors has concluded that these business relationships are not material to the independence of these Board members.
- Mr. Perry is an executive officer and majority member of The Integral Group LLC, which has had multiple indirect business relationships with Fannie Mae during the past five years. These business relationships include the following:
  - Since 2006, Fannie Mae has held six multifamily mortgage loans made to six borrowing entities sponsored by Integral. During 2014, Integral paid off four of these loans, and only two remain. In each case, Integral participates in the borrowing entity as a general partner of the limited partnership, or as a managing member of the limited liability company, as the case may be, and holds a 0.01% economic interest in such entity. The aggregate unpaid principal balance of the remaining loans as of December 31, 2014 constituted approximately 2% of Integral's total debt outstanding. The borrowing entities have made interest payments on these loans. The total amount of these interest payments did not exceed $1 million in any of the last five years.
  - Fannie Mae has invested as a limited partner or member in certain LIHTC funds that in turn have invested as a limited partner or member in various Integral Property Partnerships, which are lower-tier project partnerships or limited liability companies that own LIHTC properties. Integral participates indirectly as a member or the general partner of the Integral Property Partnerships (each a "Project General Partner"). The Integral Property Partnerships construct, develop and manage housing projects, a portion of which includes affordable housing units. Each Project General Partner and its affiliates earn certain fees each year in connection with those project activities, and such fees are paid from income generated by the project (other than certain developer fees paid from development sources). Fannie Mae's indirect investments in the Integral Property Partnerships, through the LIHTC funds, have not resulted in any direct payments by Fannie Mae to any Project General Partner or its affiliates, including Integral. Fannie Mae's indirect equity investment in the Integral Property Partnerships as of December 31, 2014 constituted approximately 4% of the total capitalization and approximately 8% of the total equity in all of the Integral Property Partnerships.

  The aggregate debt service and other required payments made, directly and indirectly, to or on behalf of Fannie Mae pursuant to these relationships with Integral for each of the past five years fall below our Guidelines' thresholds of materiality for a Board member who is a current executive officer, employee, controlling shareholder or partner of a company that engages in business with Fannie Mae. In addition, as a limited partner or member in the LIHTC funds, which in turn are limited partners in the Integral Property Partnerships, Fannie Mae has no direct dealings with Integral or Mr. Perry and has not been involved in the management of the Integral Property Partnerships. Mr. Perry also was not generally aware of the identity of the limited partners or members of the LIHTC funds, as Integral sells the partnership or LLC interests to syndicators who, in turn, syndicate these interests to limited partners or members of their choosing. Further, Integral has not accepted additional equity investments from Fannie Mae since Mr. Perry joined the Board. Fannie Mae is not currently making additional equity investments in the LIHTC market and Mr. Perry has informed Fannie Mae that Integral does not intend to seek debt financing specifically to be purchased by Fannie Mae. Based on the foregoing, the Board of Directors has concluded that these business relationships are not material to Mr. Perry's independence.

The Board determined that none of these relationships would interfere with the director's independent judgment.

Mr. Mayopoulos is not considered an independent director under the Guidelines because of his position as Chief Executive Officer.

Item 14. Principal Accounting Fees and Services

The Audit Committee of our Board of Directors is directly responsible for the appointment, oversight and evaluation of our independent registered public accounting firm, subject to conservator approval of matters relating to retention and termination. In accordance with the Audit Committee's charter, it must approve, in advance of the service, all audit and permissible non-audit services to be provided by our independent registered public accounting firm and establish policies and procedures for the engagement of the external auditor to provide audit and permissible non-audit services. Our independent registered public accounting firm may not be retained to perform non-audit services specified in Section 10A(g) of the Exchange Act.

Deloitte & Touche LLP was our independent registered public accounting firm for the years ended December 31, 2014 and 2013. Deloitte & Touche LLP has advised the Audit Committee that they are independent accountants with respect to the company, within the meaning of standards established by the PCAOB and federal securities laws administered by the SEC.

The following table displays the aggregate estimated or actual fees for professional services provided by Deloitte & Touche LLP in 2014 and 2013, including fees for the 2014 and 2013 audits.

	For the Year Ended December 31,	
Description of Fees	**2014**	**2013**
Audit fees	$33,300,000	$35,500,000
Audit-related fees[1]	247,000	1,675,000
Total fees	$33,547,000	$37,175,000

[1] Consists of fees billed for attest-related services on debt offerings, securitization transactions and compliance with the covenants in the senior preferred stock purchase agreement with Treasury.

Pre-Approval Policy

The Audit Committee's policy is to pre-approve all audit and permissible non-audit services to be provided by the independent registered public accounting firm. The independent registered public accounting firm and management are required to present reports on the nature of the services provided by the independent registered public accounting firm for the past year and the fees for such services, categorized into audit services, audit-related services, tax services and other services.

In connection with its approval of Deloitte & Touche as Fannie Mae's independent registered public accounting firm for Fannie Mae's 2014 integrated audit, the Audit Committee delegated the authority to pre-approve any additional audit and audit-related services to its Chairman, Mr. Forrester, who was required to report any such pre-approvals at the next scheduled meeting of the Audit Committee. Additionally, any services provided by Deloitte & Touche outside of the scope of the integrated audit must be approved by the conservator.

In 2014, we paid no fees to the independent registered public accounting firm pursuant to the de minimis exception established by the SEC, and all services were pre-approved.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a) Documents filed as part of this report

1. Consolidated Financial Statements

An index to financial statements has been filed as part of this report beginning on page F-1 and is incorporated herein by reference.

2. Financial Statement Schedules

None.

3. Exhibits

An index to exhibits has been filed as part of this report beginning on page E-1 and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Federal National Mortgage Association

/s/ Timothy J. Mayopoulos

Timothy J. Mayopoulos
President and Chief Executive Officer

Date: February 20, 2015

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Timothy J. Mayopoulos and David C. Benson and each of them severally, his or her true and lawful attorney-in-fact with power of substitution and resubstitution to sign in his or her name, place and stead, in any and all capacities, to do any and all things and execute any and all instruments that such attorney may deem necessary or advisable under the Securities Exchange Act of 1934 and any rules, regulations and requirements of the U.S. Securities and Exchange Commission in connection with the Annual Report on Form 10-K and any and all amendments hereto, as fully for all intents and purposes as he or she might or could do in person, and hereby ratifies and confirms all said attorneys-in-fact and agents, each acting alone, and his or her substitute or substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Egbert L. J. Perry Egbert L. J. Perry	Chairman of the Board of Directors	February 20, 2015
/s/ Timothy J. Mayopoulos Timothy J. Mayopoulos	President and Chief Executive Officer and Director	February 20, 2015
/s/ David C. Benson David C. Benson	Executive Vice President and Chief Financial Officer	February 20, 2015
/s/ Gregory A. Fink Gregory A. Fink	Senior Vice President and Controller	February 20, 2015
/s/ Amy E. Alving	Director	February 20, 2015

Amy E. Alving

Signature	Title	Date
/s/ William Thomas Forrester William Thomas Forrester	Director	February 20, 2015
/s/ Brenda J. Gaines Brenda J. Gaines	Director	February 20, 2015
/s/ Charlynn Goins Charlynn Goins	Director	February 20, 2015
/s/ Frederick B. Harvey III Frederick B. Harvey III	Director	February 20, 2015
/s/ Robert H. Herz Robert H. Herz	Director	February 20, 2015
/s/ Diane C. Nordin Diane C. Nordin	Director	February 20, 2015
/s/ Jonathan Plutzik Jonathan Plutzik	Director	February 20, 2015
/s/ David H. Sidwell	Director	February 20, 2015

David H. Sidwell

INDEX TO EXHIBITS

Item	Description
3.1	Fannie Mae Charter Act (12 U.S.C. § 1716 et seq.) as amended through July 30, 2008 (Incorporated by reference to Exhibit 3.1 to Fannie Mae's Annual Report on Form 10-K (Commission file number 001-34140) for the year ended December 31, 2010, filed February 24, 2011.)
3.2	Fannie Mae Bylaws, as amended through January 30, 2009 (Incorporated by reference to Exhibit 3.2 to Fannie Mae's Annual Report on Form 10-K (Commission file number 001-34140) for the year ended December 31, 2008, filed February 26, 2009.)
4.1	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series D (Incorporated by reference to Exhibit 4.1 to Fannie Mae's registration statement on Form 10 (Commission file number 000-50231), filed March 31, 2003.)
4.2	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series E (Incorporated by reference to Exhibit 4.2 to Fannie Mae's registration statement on Form 10 (Commission file number 000-50231), filed March 31, 2003.)
4.3	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series F (Incorporated by reference to Exhibit 4.3 to Fannie Mae's registration statement on Form 10 (Commission file number 000-50231), filed March 31, 2003.)
4.4	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series G (Incorporated by reference to Exhibit 4.4 to Fannie Mae's registration statement on Form 10 (Commission file number 000-50231), filed March 31, 2003.)
4.5	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series H (Incorporated by reference to Exhibit 4.5 to Fannie Mae's registration statement on Form 10 (Commission file number 000-50231), filed March 31, 2003.)
4.6	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series I (Incorporated by reference to Exhibit 4.6 to Fannie Mae's registration statement on Form 10 (Commission file number 000-50231), filed March 31, 2003.)
4.7	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series L (Incorporated by reference to Exhibit 4.7 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 001-34140), filed August 8, 2008.)
4.8	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series M (Incorporated by reference to Exhibit 4.8 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 001-34140), filed August 8, 2008.)
4.9	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series N (Incorporated by reference to Exhibit 4.9 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 001-34140), filed August 8, 2008.)
4.10	Certificate of Designation of Terms of Fannie Mae Non-Cumulative Convertible Preferred Stock, Series 2004-1 (Incorporated by reference to Exhibit 4.10 to Fannie Mae's Annual Report on Form 10-K (Commission file number 001-34140) for the year ended December 31, 2009, filed February 26, 2010.)
4.11	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series O (Incorporated by reference to Exhibit 4.11 to Fannie Mae's Annual Report on Form 10-K (Commission file number 001-34140) for the year ended December 31, 2009, filed February 26, 2010.)
4.12	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series P (Incorporated by reference to Exhibit 4.12 to Fannie Mae's Annual Report on Form 10-K (Commission file number 000-50231) for the year ended December 31, 2012, filed April 2, 2013.)
4.13	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series Q (Incorporated by reference to Exhibit 4.13 to Fannie Mae's Annual Report on Form 10-K (Commission file number 000-50231) for the year ended December 31, 2012, filed April 2, 2013.)
4.14	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series R (Incorporated by reference to Exhibit 4.14 to Fannie Mae's Annual Report on Form 10-K (Commission file number 000-50231) for the year ended December 31, 2012, filed April 2, 2013.)
4.15	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series S (Incorporated by reference to Exhibit 4.15 to Fannie Mae's Annual Report on Form 10-K (Commission file number 000-50231) for the year ended December 31, 2012, filed April 2, 2013.)

Item	Description
4.16	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series T (Incorporated by reference to Exhibit 4.1 to Fannie Mae's Current Report on Form 8-K (Commission file number 000-50231), filed May 19, 2008.)
4.17	Amended and Restated Certificate of Designation of Terms of Variable Liquidation Preference Senior Preferred Stock, Series 2008-2, amended and restated as of September 27, 2012 (Incorporated by reference to Exhibit 4.1 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 000-50231) for the quarter ended September 30, 2012, filed November 7, 2012.)
4.18	Warrant to Purchase Common Stock, dated September 7, 2008 (Incorporated by reference to Exhibit 4.3 to Fannie Mae's Current Report on Form 8-K (Commission file number 001-34140), filed September 11, 2008.)
4.19	Amended and Restated Senior Preferred Stock Purchase Agreement, dated as of September 26, 2008, between the United States Department of the Treasury and Federal National Mortgage Association, acting through the Federal Housing Finance Agency as its duly appointed conservator (Incorporated by reference to Exhibit 4.1 to Fannie Mae's Current Report on Form 8-K (Commission file number 001-34140), filed October 2, 2008.)
4.20	Amendment to Amended and Restated Senior Preferred Stock Purchase Agreement, dated as of May 6, 2009, between the United States Department of the Treasury and Federal National Mortgage Association, acting through the Federal Housing Finance Agency as its duly appointed conservator (Incorporated by reference to Exhibit 4.21 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 001-34140) for the quarter ended March 31, 2009, filed May 8, 2009.)
4.21	Second Amendment to Amended and Restated Senior Preferred Stock Purchase Agreement, dated as of December 24, 2009, between the United States Department of the Treasury and Federal National Mortgage Association, acting through the Federal Housing Finance Agency as its duly appointed conservator (Incorporated by reference to Exhibit 4.1 to Fannie Mae's Current Report on Form 8-K (Commission file number 001-34140), filed December 30, 2009.)
4.22	Third Amendment to Amended and Restated Senior Preferred Stock Purchase Agreement, dated as of August 17, 2012, between the United States Department of the Treasury and Federal National Mortgage Association, acting through the Federal Housing Finance Agency as its duly appointed conservator (Incorporated by reference to Exhibit 4.1 to Fannie Mae's Current Report on Form 8-K (Commission file number 000-50231), filed August 17, 2012.)
10.1	Repayment Provisions for SEC Executive Officers, amended and restated as of March 8, 2012† (Incorporated by reference to Exhibit 10.44 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 000-50231) for the quarter ended March 31, 2012, filed May 9, 2012.)
10.2	Long-Term Incentive Plan, effective December 16, 2009† (Incorporated by reference to Exhibit 10.9 to Fannie Mae's Annual Report on Form 10-K (Commission file number 001-34140) for the year ended December 31, 2009, filed February 26, 2010.)
10.3	Fannie Mae Form of Indemnification Agreement for directors and officers of Fannie Mae (Incorporated by reference to Exhibit 10.15 to Fannie Mae's Annual Report on Form 10-K (Commission file number 001-34140) for the year ended December 31, 2008, filed February 26, 2009.)
10.4	Federal National Mortgage Association Supplemental Pension Plan, as amended on November 20, 2007† (Incorporated by reference to Exhibit 10.6 to Fannie Mae's Annual Report on Form 10-K (Commission file number 000-50231) for the year ended December 31, 2012, filed April 2, 2013.)
10.5	Amendment to Fannie Mae Supplemental Pension Plan for Internal Revenue Code Section 409A, effective January 1, 2009† (Incorporated by reference to Exhibit 10.7 to Fannie Mae's Annual Report on Form 10-K (Commission file number 000-50231) for the year ended December 31, 2012, filed April 2, 2013.)
10.6	Amendment to Fannie Mae Supplemental Pension Plan, executed December 22, 2008† (Incorporated by reference to Exhibit 10.18 to Fannie Mae's Annual Report on Form 10-K (Commission file number 001-34140) for the year ended December 31, 2008, filed February 26, 2009.)
10.7	Amendment, effective June 30, 2013, to Fannie Mae Supplemental Pension Plan† (Incorporated by reference to Exhibit 10.2 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 000-50231) for the quarter ended September 30, 2013, filed November 7, 2013.)
10.8	Amendment, effective December 31, 2013, to Fannie Mae Supplemental Pension Plan† (Incorporated by reference to Exhibit 10.10 to Fannie Mae's Annual Report on Form 10-K (Commission file number 000-50231) for the year ended December 31, 2013, filed February 21, 2014.)

10.9	Fannie Mae Supplemental Pension Plan of 2003, as amended on November 20, 2007† (Incorporated by reference to Exhibit 10.9 to Fannie Mae's Annual Report on Form 10-K (Commission file number 000-50231) for the year ended December 31, 2012, filed April 2, 2013.)

Item	Description
10.10	Amendment to Fannie Mae Supplemental Pension Plan of 2003 for Internal Revenue Code Section 409A, effective January 1, 2009† (Incorporated by reference to Exhibit 10.10 to Fannie Mae's Annual Report on Form 10-K (Commission file number 000-50231) for the year ended December 31, 2012, filed April 2, 2013.)
10.11	Amendment to Fannie Mae Supplemental Pension Plan of 2003 for Internal Revenue Code Section 409A, adopted December 22, 2008† (Incorporated by reference to Exhibit 10.21 to Fannie Mae's Annual Report on Form 10-K (Commission file number 001-34140) for the year ended December 31, 2008, filed February 26, 2009.)
10.12	Amendment to Fannie Mae Supplemental Pension Plan of 2003, effective May 14, 2010† (Incorporated by reference to Exhibit 10.1 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 001-34140) for the quarter ended June 30, 2010, filed August 5, 2010.)
10.13	Amendment to Fannie Mae Supplemental Pension Plan of 2003 for 2012 Executive Compensation Program, adopted May 18, 2012† (Incorporated by reference to Exhibit 10.2 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 000-50231) for the quarter ended June 30, 2012, filed August 8, 2012.)
10.14	Amendment, effective June 30, 2013, to Fannie Mae Supplemental Pension Plan of 2003† (Incorporated by reference to Exhibit 10.3 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 000-50231) for the quarter ended September 30, 2013, filed November 7, 2013.)
10.15	Amendment, effective December 31, 2013, to Fannie Mae Supplemental Pension Plan of 2003† (Incorporated by reference to Exhibit 10.17 to Fannie Mae's Annual Report on Form 10-K (Commission file number 000-50231) for the year ended December 31, 2013, filed February 21, 2014.)
10.16	Fannie Mae Stock Compensation Plan of 2003, as amended through December 14, 2007† (Incorporated by reference to Exhibit 10.21 to Fannie Mae's Annual Report on Form 10-K (Commission file number 000-50231) for the year ended December 31, 2012, filed April 2, 2013.)
10.17	Amendment to Fannie Mae Stock Compensation Plan of 2003, as amended, for Internal Revenue Code Section 409A, adopted December 22, 2008† (Incorporated by reference to Exhibit 10.28 to Fannie Mae's Annual Report on Form 10-K (Commission file number 001-34140) for the year ended December 31, 2008, filed February 26, 2009.)
10.18	2009 Amendment to Fannie Mae Stock Compensation Plans of 1993 and 2003† (Incorporated by reference to Exhibit 10.1 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 001-34140), filed November 5, 2009.)
10.19	Fannie Mae Supplemental Retirement Savings Plan, as amended through April 29, 2008† (Incorporated by reference to Exhibit 10.2 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 001-34140) for the quarter ended June 30, 2008, filed August 8, 2008.)
10.20	Amendment to Fannie Mae Supplemental Retirement Savings Plan, effective October 8, 2008† (Incorporated by reference to Exhibit 10.32 to Fannie Mae's Annual Report on Form 10-K (Commission file number 001-34140) for the year ended December 31, 2008, filed February 26, 2009.)
10.21	Amendment to Fannie Mae Supplemental Retirement Savings Plan, effective May 14, 2010† (Incorporated by reference to Exhibit 10.2 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 001-34140) for the quarter ended June 30, 2010, filed August 5, 2010.)
10.22	Amendment to Fannie Mae Supplemental Retirement Savings plan for 2012 Executive Compensation Program, adopted May 18, 2012† (Incorporated by reference to Exhibit 10.3 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 000-50231) for the quarter ended June 30, 2012, filed August 8, 2012.)
10.23	Amendment, effective July 1, 2013, to Fannie Mae Supplemental Retirement Savings Plan† (Incorporated by reference to Exhibit 10.4 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 000-50231) for the quarter ended September 30, 2013, filed November 7, 2013.)
10.24	Amended and Restated Senior Preferred Stock Purchase Agreement, dated as of September 26, 2008, between the United States Department of the Treasury and Federal National Mortgage Association, acting through the Federal Housing Finance Agency as its duly appointed conservator (Incorporated by reference Exhibit 4.1 to Fannie Mae's Current Report on Form 8-K (Commission file number 001-34140), filed October 2, 2008.)
10.25	Amendment to Amended and Restated Senior Preferred Stock Purchase Agreement, dated as of May 6, 2009, between the United States Department of the Treasury and Federal National Mortgage Association, acting

through the Federal Housing Finance Agency as its duly appointed conservator (Incorporated by reference to Exhibit 4.21 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 001-34140), filed May 8, 2009.)

Item	Description
10.26	Second Amendment to Amended and Restated Senior Preferred Stock Purchase Agreement, dated as of December 24, 2009, between the United States Department of the Treasury and Federal National Mortgage Association, acting through the Federal Housing Finance Agency as its duly appointed conservator (Incorporated by reference to Exhibit 4.1 to Fannie Mae's Current Report on Form 8-K (Commission file number 001-34140), filed December 30, 2009.)
10.27	Third Amendment to Amended and Restated Senior Preferred Stock Purchase Agreement, dated as of August 17, 2012, between the United States Department of the Treasury and Federal National Mortgage Association, acting through the Federal Housing Finance Agency as its duly appointed conservator (Incorporated by reference to Exhibit 4.1 to Fannie Mae's Current Report on Form 8-K (Commission file number 000-50231), filed August 17, 2012.)
10.28	Letter Agreement between Fannie Mae and Timothy J. Mayopoulos, dated March 9, 2009† (Incorporated by reference to Exhibit 10.44 to Fannie Mae's Annual Report on Form 10-K (Commission file number 001-34140) for the year ended December 31, 2009, filed February 26, 2010.)
10.29	Letter Agreement between Timothy J. Mayopoulos and Fannie Mae, effective as of June 18, 2012† (Incorporated by reference to Exhibit 99.1 to Fannie Mae's Current Report on Form 8-K (Commission file number 000-50231), filed June 5, 2012.)
10.30	Memorandum of Understanding among the Department of the Treasury, the Federal Housing Finance Agency, the Federal National Mortgage Association, and the Federal Home Loan Mortgage Corporation, dated October 19, 2009 (Incorporated by reference to Exhibit 99.1 to Fannie Mae's Current Report on Form 8-K (Commission file number 001-34140), filed October 23, 2009.)
10.31	Omnibus Consent to HFA Initiative Program Modifications among the Department of Treasury, the Federal Housing Finance Agency, Federal National Mortgage Association, and Federal Home Loan Mortgage Corporation, dated November 23, 2011 (Incorporated by reference to Exhibit 10.42 to Fannie Mae's Annual Report on Form 10-K (Commission file number 000-50231) for the year ended December 31, 2011, filed February 29, 2012.)
12.1	Statement re: computation of ratio of earnings to fixed charges
12.2	Statement re: computation of ratio of earnings to combined fixed charges and preferred stock dividends and issuance cost at redemption
31.1	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)
31.2	Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)
32.1	Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350
32.2	Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350
101. INS	XBRL Instance Document*
101. SCH	XBRL Taxonomy Extension Schema*
101. CAL	XBRL Taxonomy Extension Calculation*
101. DEF	XBRL Taxonomy Extension Definition*
101. LAB	XBRL Taxonomy Extension Labels*
101. PRE	XBRL Taxonomy Extension Presentation*

† This Exhibit is a management contract or compensatory plan or arrangement.

* The financial information contained in these XBRL documents is unaudited.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Fannie Mae:

We have audited the accompanying consolidated balance sheets of Fannie Mae and consolidated entities (in conservatorship) (the "Company") as of December 31, 2014 and 2013, and the related consolidated statements of operations and comprehensive income, cash flows, and changes in equity (deficit) for each of the three years in the period ended December 31, 2014. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Fannie Mae and consolidated entities (in conservatorship) as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2014, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the consolidated financial statements, the Company is currently under the control of its conservator and regulator, the Federal Housing Finance Agency ("FHFA"). Further, the Company directly and indirectly received substantial support from various agencies of the United States Government, including the United States Department of Treasury and FHFA. The Company is dependent upon continued support of the United States Government, various United States Government agencies and the Company's conservator and regulator, FHFA.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2014, based on the criteria established in *Internal Control - Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated February 20, 2015, expressed an adverse opinion on the Company's internal control over financial reporting because of a material weakness.

/s/ Deloitte & Touche LLP

McLean, Virginia
February 20, 2015

FANNIE MAE
(In conservatorship)
Consolidated Balance Sheets
(Dollars in millions, except share amounts)

	As of December 31,	
	2014	**2013**
ASSETS		
Cash and cash equivalents	$ 22,023	$ 19,228
Restricted cash (includes $27,515 and $23,982, respectively, related to consolidated trusts)	32,542	28,995
Federal funds sold and securities purchased under agreements to resell or similar arrangements	30,950	38,975
Investments in securities:		
Trading, at fair value	31,504	30,768
Available-for-sale, at fair value (includes $596 and $998, respectively, related to consolidated trusts)	30,654	38,171
Total investments in securities	62,158	68,939
Mortgage loans:		
Loans held for sale, at lower of cost or fair value	331	380
Loans held for investment, at amortized cost:		
Of Fannie Mae	272,360	300,159
Of consolidated trusts (includes $15,629 and $14,268, respectively, at fair value and loans pledged as collateral that may be sold or repledged of $0 and $442, respectively)	2,782,344	2,769,547
Total loans held for investment	3,054,704	3,069,706
Allowance for loan losses	(35,541)	(43,846)
Total loans held for investment, net of allowance	3,019,163	3,025,860
Total mortgage loans	3,019,494	3,026,240
Accrued interest receivable, net (includes $7,169 and $7,271, respectively, related to consolidated trusts)	8,193	8,319
Acquired property, net	10,618	11,621
Deferred tax assets, net	42,206	47,560
Other assets (includes cash pledged as collateral of $1,646 and $1,590, respectively)	19,992	20,231
Total assets	$3,248,176	$3,270,108
LIABILITIES AND EQUITY		
Liabilities:		
Accrued interest payable (includes $8,282 and $8,276, respectively, related to consolidated trusts)	$ 10,232	$ 10,553
Federal funds purchased and securities sold under agreements to repurchase	50	—
Debt:		
Of Fannie Mae (includes $6,403 and $1,308, respectively, at fair value)	460,443	529,434
Of consolidated trusts (includes $19,483 and $14,976, respectively, at fair value)	2,761,712	2,705,089
Other liabilities (includes $503 and $488, respectively, related to consolidated trusts)	12,019	15,441
Total liabilities	3,244,456	3,260,517
Commitments and contingencies (Note 19)	—	—
Fannie Mae stockholders' equity:		
Senior preferred stock, 1,000,000 shares issued and outstanding	117,149	117,149
Preferred stock, 700,000,000 shares are authorized— 555,374,922 shares issued and outstanding	19,130	19,130
Common stock, no par value, no maximum authorization—1,308,762,703 shares issued, 1,158,082,750 and 1,158,080,657 shares outstanding, respectively	687	687
Accumulated deficit	(127,618)	(121,227)
Accumulated other comprehensive income	1,733	1,203
Treasury stock, at cost, 150,679,953 and 150,682,046 shares, respectively	(7,401)	(7,401)
Total Fannie Mae stockholders' equity	3,680	9,541
Noncontrolling interest	40	50

Total equity (See Note 1: *Senior Preferred Stock and Warrant Issued to Treasury* and *(Loss) Earnings per Share* for information on our dividend obligation to Treasury)	3,720	9,591
Total liabilities and equity	$3,248,176	$3,270,108

See Notes to Consolidated Financial Statements

FANNIE MAE
(In conservatorship)
Consolidated Statements of Operations and Comprehensive Income
(Dollars and shares in millions, except per share amounts)

	For the Year Ended December 31,		
	2014	**2013**	**2012**
Interest income:			
Trading securities	$ 553	$ 779	$ 989
Available-for-sale securities	1,622	2,357	3,299
Mortgage loans (includes $101,835, $101,448, and $110,451, respectively, related to consolidated trusts)	112,120	114,238	124,706
Other	110	175	196
Total interest income	114,405	117,549	129,190
Interest expense:			
Short-term debt	94	131	152
Long-term debt (includes $85,835, $84,751, and $95,612, respectively, related to consolidated trusts)	94,343	95,014	107,537
Total interest expense	94,437	95,145	107,689
Net interest income	19,968	22,404	21,501
Benefit for credit losses	3,964	8,949	852
Net interest income after benefit for credit losses	23,932	31,353	22,353
Investment gains (losses), net	936	1,127	(226)
Fair value (losses) gains, net	(4,833)	2,959	(2,977)
Debt extinguishment gains (losses), net	66	131	(244)
Fee and other income	5,887	3,930	1,487
Non-interest income (loss)	2,056	8,147	(1,960)
Administrative expenses:			
Salaries and employee benefits	1,321	1,218	1,195
Professional services	1,076	910	766
Occupancy expenses	203	189	188
Other administrative expenses	177	228	218
Total administrative expenses	2,777	2,545	2,367
Foreclosed property expense (income)	142	(2,839)	(254)
Temporary Payroll Cut Continuation Act of 2011 (“TCCA”) fees	1,375	1,001	238
Other expenses, net	544	226	822
Total expenses	4,838	933	3,173
Income before federal income taxes	21,150	38,567	17,220
(Provision) benefit for federal income taxes	(6,941)	45,415	—
Net income	14,209	83,982	17,220
Other comprehensive income:			
Changes in unrealized gains on available-for-sale securities, net of reclassification adjustments and taxes	494	693	1,735
Other	36	126	(116)
Total other comprehensive income	530	819	1,619
Total comprehensive income	14,739	84,801	18,839
Less: Comprehensive (income) loss attributable to noncontrolling interest	(1)	(19)	4
Total comprehensive income attributable to Fannie Mae	$ 14,738	$ 84,782	$ 18,843
Net income	$ 14,209	$ 83,982	$ 17,220
Less: Net (income) loss attributable to noncontrolling interest	(1)	(19)	4

Net income attributable to Fannie Mae	$ 14,208	$ 83,963	$ 17,224
Dividends distributed or available for distribution to senior preferred stockholder (Note 11)	(15,323)	(85,419)	(15,827)
Net (loss) income attributable to common stockholders (Note 11)	$ (1,115)	$ (1,456)	$ 1,397
(Loss) earnings per share:			
Basic	$ (0.19)	$ (0.25)	$ 0.24
Diluted	(0.19)	(0.25)	0.24
Weighted-average common shares outstanding:			
Basic	5,762	5,762	5,762
Diluted	5,762	5,762	5,893

See Notes to Consolidated Financial Statements

FANNIE MAE
(In conservatorship)
Consolidated Statements of Cash Flows
(Dollars in millions)

	For the Year Ended December 31,		
	2014	**2013**	**2012**
Cash flows (used in) provided by operating activities:			
Net income	$ 14,209	$ 83,982	$ 17,220
Reconciliation of net income to net cash (used in) provided by operating activities:			
Amortization of cost basis adjustments	(4,265)	(5,104)	(2,335)
Benefit for credit losses	(3,964)	(8,949)	(852)
Valuation gains	(2,159)	(2)	(1,345)
Current and deferred federal income taxes	4,126	(47,766)	10
Net change in trading securities	(2,666)	1,575	31,972
Net gains related to the disposition of acquired property and preforeclosure sales, including credit enhancements	(4,510)	(6,024)	(6,009)
Other, net	(2,109)	(4,809)	(1,660)
Net cash (used in) provided by operating activities	(1,338)	12,903	37,001
Cash flows provided by investing activities:			
Purchases of trading securities held for investment	—	(7,521)	(3,216)
Proceeds from maturities and paydowns of trading securities held for investment	1,358	2,491	3,508
Proceeds from sales of trading securities held for investment	1,668	14,585	3,861
Proceeds from maturities and paydowns of available-for-sale securities	5,853	10,116	12,636
Proceeds from sales of available-for-sale securities	3,265	15,497	1,306
Purchases of loans held for investment	(132,650)	(195,386)	(210,488)
Proceeds from repayments and sales of loans acquired as held for investment of Fannie Mae	26,719	48,875	31,322
Proceeds from repayments and sales of loans acquired as held for investment of consolidated trusts	388,348	631,088	797,331
Net change in restricted cash	(3,547)	38,924	(17,122)
Advances to lenders	(100,045)	(139,162)	(144,064)
Proceeds from disposition of acquired property and preforeclosure sales	25,476	38,349	38,685
Net change in federal funds sold and securities purchased under agreements to resell or similar arrangements	8,025	(6,475)	13,500
Other, net	197	1,373	434
Net cash provided by investing activities	224,667	452,754	527,693
Cash flows used in financing activities:			
Proceeds from issuance of debt of Fannie Mae	380,282	372,361	736,065
Payments to redeem debt of Fannie Mae	(450,140)	(459,745)	(854,111)
Proceeds from issuance of debt of consolidated trusts	275,353	409,979	396,513
Payments to redeem debt of consolidated trusts	(405,505)	(707,544)	(832,537)
Payments of cash dividends on senior preferred stock to Treasury	(20,594)	(82,452)	(11,608)
Proceeds from senior preferred stock purchase agreement with Treasury	—	—	4,571
Other, net	70	(145)	(9)
Net cash used in financing activities	(220,534)	(467,546)	(561,116)
Net increase (decrease) in cash and cash equivalents	2,795	(1,889)	3,578
Cash and cash equivalents at beginning of period	19,228	21,117	17,539
Cash and cash equivalents at end of period	$ 22,023	$ 19,228	$ 21,117
Cash paid during the period for:			

Interest	$ 108,667	$ 109,240	$ 119,259
Income taxes	2,815	2,350	—
Non-cash activities:			
Net mortgage loans acquired by assuming debt	$ 190,151	$ 433,007	$ 537,862
Net transfers from mortgage loans of Fannie Mae to mortgage loans of consolidated trusts	113,611	179,097	165,272
Transfers from advances to lenders to loans held for investment of consolidated trusts	93,909	137,074	133,554
Net transfers from mortgage loans to acquired property	24,742	34,024	46,981

See Notes to Consolidated Financial Statements

FANNIE MAE
(In conservatorship)
Consolidated Statements of Changes in Equity (Deficit)
(Dollars and shares in millions)

	Fannie Mae Stockholders' Equity (Deficit)											
	Shares Outstanding											
	Senior Preferred	Preferred	Common	Senior Preferred Stock	Preferred Stock	Common Stock	Additional Paid-In Capital	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Non Controlling Interest	Total Equity (Deficit)
Balance as of December 31, 2011	1	556	1,158	$112,578	$ 19,130	$ 687	$ —	$ (128,381)	$ (1,235)	$(7,403)	$ 53	$(4,571)
Change in investment in noncontrolling interest	—	—	—	—	—	—	—	—	—	—	(8)	(8)
Comprehensive income:												
Net income	—	—	—	—	—	—	—	17,224	—	—	(4)	17,220
Other comprehensive income, net of tax effect:												
Changes in net unrealized losses on available-for-sale securities (net of tax of $702)	—	—	—	—	—	—	—	—	1,289	—	—	1,289
Reclassification adjustment for losses included in net income (net of tax of $241)	—	—	—	—	—	—	—	—	446	—	—	446
Prior service cost and actuarial gains, net of amortization for defined benefit plans	—	—	—	—	—	—	—	—	(116)	—	—	(116)
Total comprehensive income												18,839
Senior preferred stock dividends	—	—	—	—	—	—	1	(11,609)	—	—	—	(11,608)
Increase to senior preferred liquidation preference	—	—	—	4,571	—	—	—	—	—	—	—	4,571
Other	—	—	—	—	—	—	(1)	—	—	2	—	1
Balance as of December 31, 2012	1	556	1,158	117,149	19,130	687	—	(122,766)	384	(7,401)	41	7,224
Change in investment in noncontrolling interest	—	—	—	—	—	—	—	—	—	—	(10)	(10)
Comprehensive income:												
Net income	—	—	—	—	—	—	—	83,963	—	—	19	83,982
Other comprehensive income, net of tax effect:												
Changes in net unrealized gains on available-for-sale securities (net of tax of $529)	—	—	—	—	—	—	—	—	983	—	—	983
Reclassification adjustment for gains included in net income (net of tax of $157)	—	—	—	—	—	—	—	—	(290)	—	—	(290)
Prior service cost and actuarial gains, net of amortization for defined benefit plans (net of tax of $68)	—	—	—	—	—	—	—	—	126	—	—	126
Total comprehensive income												84,801
Senior preferred stock dividends	—	—	—	—	—	—	—	(82,452)	—	—	—	(82,452)
Other	—	—	—	—	—	—	—	28	—	—	—	28
Balance as of December 31, 2013	1	556	1,158	117,149	19,130	687	—	(121,227)	1,203	(7,401)	50	9,591
Change in investment in noncontrolling interest	—	—	—	—	—	—	—	—	—	—	(11)	(11)
Comprehensive income:												
Net income	—	—	—	—	—	—	—	14,208	—	—	1	14,209
Other comprehensive income, net of tax effect:												
Changes in net unrealized gains on available-for-sale securities (net of tax of $389)	—	—	—	—	—	—	—	—	722	—	—	722
Reclassification adjustment for gains included in net income (net of tax of $123)	—	—	—	—	—	—	—	—	(228)	—	—	(228)

Prior service cost and actuarial gains, net of amortization for defined benefit plans (net of tax of $20)	—	—	—	—	—	—	—	—	36	—	—	36
Total comprehensive income												14,739
Senior preferred stock dividends	—	—	—	—	—	—	—	(20,594)	—	—	—	(20,594)
Other	—	—	—	—	—	—	—	(5)	—	—	—	(5)
Balance as of December 31, 2014	1	556	1,158	$ 117,149	$ 19,130	$ 687	$ —	$ (127,618)	$ 1,733	$ (7,401)	$ 40	$ 3,720

See Notes to Consolidated Financial Statements

FANNIE MAE
(In conservatorship)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Organization

We are a stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act (the "Charter Act" or our "charter"). We are a government-sponsored enterprise ("GSE"), and we are subject to government oversight and regulation. Our regulators include the Federal Housing Finance Agency ("FHFA"), the U.S. Department of Housing and Urban Development ("HUD"), the U.S. Securities and Exchange Commission ("SEC"), and the U.S. Department of the Treasury ("Treasury"). The U.S. government does not guarantee our securities or other obligations.

We operate in the secondary mortgage market by purchasing mortgage loans and mortgage-related securities, including mortgage-related securities guaranteed by us, from primary mortgage market institutions, such as commercial banks, savings and loan associations, mortgage banking companies, securities dealers and other investors. We do not lend money directly to consumers in the primary mortgage market. We provide additional liquidity in the secondary mortgage market by issuing guaranteed mortgage-related securities.

We operate under three business segments: Single-Family Credit Guaranty ("Single-Family"), Multifamily and Capital Markets. Our Single-Family segment generates revenue primarily from the guaranty fees on the mortgage loans underlying guaranteed single-family Fannie Mae mortgage-backed securities ("Fannie Mae MBS"). Our Multifamily segment generates revenue from a variety of sources, including guaranty fees on the mortgage loans underlying multifamily Fannie Mae MBS, transaction fees associated with the multifamily business and bond credit enhancement fees. Our Capital Markets segment invests in mortgage loans, mortgage-related securities and other investments, and generates income primarily from the difference, or spread, between the yield on the mortgage assets we own and the interest we pay on the debt we issue in the global capital markets to fund the purchases of these mortgage assets.

Conservatorship

On September 7, 2008, the Secretary of the Treasury and the Director of FHFA announced several actions taken by Treasury and FHFA regarding Fannie Mae, which included: (1) placing us in conservatorship and (2) the execution of a senior preferred stock purchase agreement by our conservator, on our behalf, and Treasury, pursuant to which we issued to Treasury both senior preferred stock and a warrant to purchase common stock.

Under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act of 2008 (together, the "GSE Act"), the conservator immediately succeeded to (1) all rights, titles, powers and privileges of Fannie Mae, and of any stockholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and (2) title to the books, records and assets of any other legal custodian of Fannie Mae. The conservator has since delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. The conservator retains the authority to withdraw its delegations at any time.

We were directed by FHFA to voluntarily delist our common stock and each listed series of our preferred stock from the New York Stock Exchange and the Chicago Stock Exchange. The last trading day for the listed securities on the New York Stock Exchange and the Chicago Stock Exchange was July 7, 2010, and since July 8, 2010, the securities have been traded on the over-the-counter market.

The conservator has the power to transfer or sell any asset or liability of Fannie Mae (subject to limitations and post-transfer notice provisions for transfers of qualified financial contracts) without any approval, assignment of rights or consent of any party. The GSE Act, however, provides that mortgage loans and mortgage-related assets that have been transferred to a Fannie Mae MBS trust must be held by the conservator for the beneficial owners of the Fannie Mae MBS and cannot be used to satisfy the general creditors of Fannie Mae.

Neither the conservatorship nor the terms of our agreements with Treasury change our obligation to make required payments on our debt securities or perform under our mortgage guaranty obligations. FHFA issued a rule establishing a framework for conservatorship and receivership operations for the GSEs, which became effective in 2011. The rule established procedures for conservatorship and receivership, and priorities of claims for contract parties and other claimants. This rule is part of FHFA's implementation of the powers provided by the Federal Housing Finance Regulatory Reform Act of 2008, and does not seek to anticipate or predict future conservatorships or receiverships.

The conservatorship has no specified termination date and there continues to be significant uncertainty regarding our future, including how long we will continue to exist in our current form, the extent of our role in the market, what form we will have, what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship

FANNIE MAE
(In conservatorship)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

is terminated and whether we will continue to exist following conservatorship. Under the GSE Act, FHFA must place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations or if we have not been paying our debts, in either case, for a period of 60 days. In addition, the Director of FHFA may place us in receivership at his discretion at any time for other reasons set forth in the GSE Act, including if we are critically undercapitalized or if we are undercapitalized and have no reasonable prospect of becoming adequately capitalized. Should we be placed into receivership, different assumptions would be required to determine the carrying value of our assets, which could lead to substantially different financial results. We are not aware of any plans of FHFA to significantly change our business model or capital structure in the near term.

Senior Preferred Stock and Warrant Issued to Treasury

Senior Preferred Stock

On September 7, 2008, we, through FHFA in its capacity as conservator, entered into a senior preferred stock purchase agreement with Treasury. This agreement was amended and restated on September 26, 2008. The amended and restated agreement was subsequently amended on May 6, 2009, December 24, 2009 and August 17, 2012.

Pursuant to the senior preferred stock purchase agreement, Treasury has committed to provide us with funding as described below to help us maintain a positive net worth thereby avoiding the mandatory receivership trigger described above. As consideration for Treasury's funding commitment, we issued one million shares of senior preferred stock and a warrant to purchase shares of our common stock to Treasury. As of December 31, 2014 and 2013, we have received a total of $116.1 billion from Treasury pursuant to the senior preferred stock purchase agreement. The aggregate liquidation preference of the senior preferred stock, including the initial aggregate liquidation preference of $1.0 billion, was $117.1 billion as of December 31, 2014. As of December 31, 2014, the amount of remaining funding available to us under the senior preferred stock purchase agreement was $117.6 billion.

In August 2012, we, through FHFA acting on our behalf in its capacity as conservator, entered into an amendment to the senior preferred stock purchase agreement with Treasury. The amendment included, among other things, the following revisions:

- *Dividends.* The method for calculating the amount of dividends we are required to pay Treasury on the senior preferred stock changed as of January 1, 2013. Effective January 1, 2013, when, as and if declared, the amount of dividends payable on the senior preferred stock for a dividend period is determined based on our net worth as of the end of the immediately preceding fiscal quarter. Our net worth as defined by the agreement is the amount, if any, by which our total assets (excluding Treasury's funding commitment and any unfunded amounts related to the commitment) exceed our total liabilities (excluding any obligation in respect of capital stock), in each case as reflected on our balance sheet prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). For each dividend period from January 1, 2013 through and including December 31, 2017, the dividend amount will be the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. If our net worth does not exceed the applicable capital reserve amount as of the end of a fiscal quarter, then no dividend amount will accrue or be payable for the applicable dividend period. The capital reserve amount was $3.0 billion, $2.4 billion and $1.8 billion for dividend periods in 2013, 2014 and 2015, respectively, and will continue to be reduced by $600 million each year until it reaches zero on January 1, 2018. For each dividend period thereafter, the dividend amount will be the entire amount of our net worth, if any, as of the end of the immediately preceding fiscal quarter.
- *Periodic Commitment Fee.* Effective January 1, 2013, the periodic commitment fee provided for under the agreement will not be set, accrue or be payable, as long as the dividend payment provisions described above remain in effect.

This amendment to the senior preferred stock purchase agreement was not accounted for as an extinguishment of the existing senior preferred stock purchase agreement. As a result, we did not recognize a gain or loss upon modification of the senior preferred stock purchase agreement. Consistent with our accounting policy, dividends on the senior preferred stock are accrued upon declaration, which occurs each quarter when FHFA directs us to pay the quarterly dividend to Treasury.

On December 31, 2014, we paid Treasury a dividend of $4.0 billion based on our net worth as of September 30, 2014. Based on the terms of the senior preferred stock, we expect to pay Treasury a dividend for the first quarter of 2015 of $1.9 billion, based on our net worth of $3.7 billion as of December 31, 2014 less the applicable capital reserve amount of $1.8 billion.

FANNIE MAE
(In conservatorship)
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Warrant Issued to Treasury

On September 7, 2008, we issued a warrant to Treasury giving it the right to purchase, at a nominal price, shares of our common stock equal to 79.9% of the total common stock outstanding on a fully diluted basis on the date Treasury exercises the warrant. Treasury has the right to exercise the warrant, in whole or in part, at any time on or before September 7, 2028. We recorded the warrant at fair value in our stockholders' equity as a component of additional paid-in-capital. The fair value of the warrant was calculated using the Black-Scholes Option Pricing Model. Since the warrant has an exercise price of $0.00001 per share, the model is insensitive to the risk-free rate and volatility assumptions used in the calculation and the share value of the warrant is equal to the price of the underlying common stock. We estimated that the fair value of the warrant at issuance was $3.5 billion based on the price of our common stock on September 8, 2008, which was after the dilutive effect of the warrant had been reflected in the market price. Subsequent changes in the fair value of the warrant are not recognized in our financial statements. If the warrant is exercised, the stated value of the common stock issued will be reclassified as "Common stock" in our consolidated balance sheets. Because the warrant's exercise price per share is considered non-substantive (compared to the market price of our common stock), the warrant was determined to have characteristics of non-voting common stock, and thus is included in the computation of basic and diluted loss per share. The weighted-average shares of common stock outstanding for 2014, 2013 and 2012 included shares of common stock that would be issuable upon full exercise of the warrant issued to Treasury.

Impact of U.S. Government Support

We continue to rely on support from Treasury to eliminate any net worth deficits we may experience in the future, which would otherwise trigger our being placed into receivership. Based on consideration of all the relevant conditions and events affecting our operations, including our reliance on the U.S. government, we continue to operate as a going concern and in accordance with our delegation of authority from FHFA.

We fund our business primarily through the issuance of short-term and long-term debt securities in the domestic and international capital markets. Because debt issuance is our primary funding source, we are subject to "roll-over," or refinancing, risk on our outstanding debt. Our ability to issue long-term debt has been strong primarily due to actions taken by the federal government to support us.

We believe that continued federal government support of our business, as well as our status as a GSE, are essential to maintaining our access to debt funding. Changes or perceived changes in federal government support of our business or our status as a GSE could materially and adversely affect our liquidity, financial condition and results of operations. In addition, due to our reliance on the U.S. government's support, our access to debt funding or the cost of debt funding also could be materially adversely affected by a change or perceived change in the creditworthiness of the U.S. government. A downgrade in our credit ratings could reduce demand for our debt securities and increase our borrowing costs. Future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, which also could increase our liquidity and roll-over risk and have a material adverse impact on our liquidity, financial condition and results of operations.

In 2011, the Administration released a report to Congress on ending the conservatorships of the GSEs and reforming America's housing finance market. The report provides that the Administration will work with FHFA to determine the best way to responsibly reduce Fannie Mae and Freddie Mac's role in the market and ultimately wind down both institutions. The report emphasizes the importance of proceeding with a careful transition plan and providing the necessary financial support to Fannie Mae and Freddie Mac during the transition period. In August 2013, the White House released a paper confirming that a core principle of the Administration's housing policy priorities is to wind down Fannie Mae and Freddie Mac through a responsible transition. In January 2015, the White House reaffirmed the Administration's view that housing finance reform should include ending Fannie Mae and Freddie Mac's business model.

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with GAAP. To conform to our current period presentation, we have reclassified certain amounts reported in our prior periods' consolidated financial statements.

Related Parties

As a result of our issuance to Treasury of the warrant to purchase shares of Fannie Mae common stock equal to 79.9% of the total number of shares of Fannie Mae common stock, we and Treasury are deemed related parties. As of December 31, 2014,

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Treasury held an investment in our senior preferred stock with an aggregate liquidation preference of $117.1 billion. FHFA's control of both us and Freddie Mac has caused us, FHFA and Freddie Mac to be deemed related parties.

Our administrative expenses were reduced by $71 million, $92 million and $96 million for the years ended December 31, 2014, 2013 and 2012, respectively, due to reimbursements from Treasury and Freddie Mac for expenses incurred as program administrator for Treasury's Home Affordable Modification Program ("HAMP") and other initiatives under Treasury's Making Home Affordable Program.

During the years ended December 31, 2014 and 2013, we made tax payments of $2.8 billion and $2.4 billion, respectively, to the Internal Revenue Service ("IRS"), a bureau of Treasury. We did not make any tax payments for the year ended December 31, 2012.

In 2009, we entered into a memorandum of understanding with Treasury, FHFA and Freddie Mac pursuant to which we agreed to provide assistance to state and local housing finance agencies ("HFAs") through two primary programs: a temporary credit and liquidity facilities ("TCLF") program and a new issue bond ("NIB") program. Pursuant to the TCLF program, Treasury has purchased participation interests in temporary credit and liquidity facilities provided by us and Freddie Mac which create a credit and liquidity backstop for the HFAs. Pursuant to the NIB program, Treasury has purchased new securities issued and guaranteed by us and Freddie Mac, which are backed by new housing bonds issued by the HFAs.

Under the TCLF program, we had $390 million and $821 million outstanding, which includes principal and interest, of standby credit and liquidity support as of December 31, 2014 and 2013, respectively. Under the NIB program, we had $4.2 billion and $4.5 billion outstanding of pass-through securities backed by single-family and multifamily housing bonds issued by HFAs as of December 31, 2014 and 2013, respectively. Treasury will bear the initial losses of principal under the TCLF program and the NIB program up to 35% of the total original principal on a combined program-wide basis, and thereafter we will bear the losses of principal that are attributable to the TCLF and the securities we have issued. Treasury will also bear any losses of unpaid interest under the two programs. As of December 31, 2014, there had been no losses of principal or interest under the TCLF program or the NIB program.

In December 2011, Congress enacted the Temporary Payroll Tax Cut Continuation Act of 2011 ("TCCA") which, among other provisions, requires that we increase our single-family guaranty fees by at least 10 basis points and remit this increase to Treasury. Effective April 1, 2012, the guaranty fee on all single-family residential mortgages delivered to Fannie Mae on or after that date was increased by 10 basis points. FHFA and Treasury have advised us to remit this fee increase to Treasury with respect to all loans acquired by us on or after April 1, 2012 and before January 1, 2022, and to continue to remit these amounts to Treasury on and after January 1, 2022 with respect to loans we acquired before this date until those loans are paid off or otherwise liquidated.

The resulting fee revenue and expense are recorded in "Mortgage loans interest income" and "TCCA fees," respectively, in our consolidated statements of operations and comprehensive income. We recognized $1.4 billion, $1.0 billion, and $238 million as TCCA fees for the years ended December 31, 2014, 2013 and 2012, respectively. We remitted $1.3 billion, $829 million, and $104 million in TCCA-related guaranty fees to Treasury for our quarterly obligations during the years ended December 31, 2014, 2013 and 2012, respectively. For the three months ended December 31, 2014, we have incurred $367 million in TCCA-related guaranty fees that have not been remitted to Treasury.

As of December 31, 2014 and 2013, we held Freddie Mac mortgage-related securities with a fair value of $6.9 billion and $8.7 billion, respectively, and accrued interest receivable of $26 million and $35 million, respectively. We recognized interest income on these securities held by us of $283 million, $387 million and $551 million for the years ended December 31, 2014, 2013 and 2012, respectively. In addition, Freddie Mac may be an investor in variable interest entities that we have consolidated, and we may be an investor in variable interest entities that Freddie Mac has consolidated.

The Housing and Economic Recovery Act of 2008 authorizes FHFA to establish an annual assessment for regulated entities, including Fannie Mae, which is payable on a semi-annual basis (April and October), for FHFA's costs and expenses, as well as to maintain FHFA's working capital. We recognized FHFA assessment fees, which are recorded in "Administrative expenses" in our consolidated statements of operations and comprehensive income of $108 million, $109 million and $91 million for the years ended December 31, 2014, 2013 and 2012.

In October 2013, Fannie Mae and Freddie Mac established Common Securitization Solutions, LLC ("CSS"), a jointly owned limited liability company formed to design, develop, build and ultimately operate a common securitization platform. In connection with the establishment of CSS, we entered into a Limited Liability Company Agreement with Freddie Mac and secured new office space. In November 2014, Fannie Mae and Freddie Mac executed agreements pertaining to CSS, which

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provide further details regarding the rights, obligations and understandings between us, Freddie Mac and CSS. For the year ended December 31, 2014, we contributed $43 million of capital into CSS. No other transactions outside of normal business activities have occurred between us and Freddie Mac during the years ended December 31, 2014, 2013 or 2012.

Use of Estimates

Preparing consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect our reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the dates of our consolidated financial statements, as well as our reported amounts of revenues and expenses during the reporting periods. Management has made significant estimates in a variety of areas including, but not limited to, valuation of certain financial instruments and other assets and liabilities, recoverability of our deferred tax assets, and allowance for loan losses. Actual results could be different from these estimates.

We continually monitor prepayment, delinquency, modification, default and loss severity trends and periodically make changes in our historically developed assumptions to better reflect present conditions of loan performance. In the three months ended September 30, 2014, we updated the model and the assumptions used to estimate cash flows for individually impaired single-family loans within our allowance for loan losses. In addition to incorporating recent loan performance, this update better captures regional variations in expected future cash flows, particularly with respect to expectations of future home prices. This update resulted in a decrease to our allowance for loan losses and an incremental benefit for credit losses of approximately $600 million.

In the three months ended June 30, 2013, we updated the assumptions and data used to estimate our allowance for loan losses for individually impaired single family loans based on current observable performance trends as well as future expectations of payment behavior. These updates reflect faster prepayment and lower default expectations for these loans, primarily as a result of improvements in loan performance, in part due to increases in home prices. Increases in home prices reduce the mark-to-market loan-to-value (“LTV”) ratios on these loans and, as a result, borrowers’ equity increases. Faster prepayment and lower default expectations shortened the expected average life of modified loans, which reduced the expected credit losses and lowered concessions on modified loans. This resulted in a decrease to our allowance for loan losses and an incremental benefit for credit losses of approximately $2.2 billion.

As of March 31, 2013, we concluded that it was more likely than not that our deferred tax assets, except the deferred tax assets relating to capital loss carryforwards, would be realized. This conclusion was based upon significant positive evidence of our ability to generate sufficient taxable income and utilize our net operating loss carryforwards. As a result, we released the valuation allowance on our deferred tax assets as of March 31, 2013, except for amounts that were expected to be released against income before federal income taxes for the remainder of the year. As of December 31, 2013, we retained a $525 million valuation allowance that pertains to our capital loss carryforwards, which we believe will likely expire unused. The release of the valuation allowance resulted in the recognition of $58.3 billion in benefit for income taxes in our consolidated statement of operations and comprehensive income. See “Note 10, Income Taxes” for additional information regarding the factors that led to our conclusion to release the valuation allowance against our deferred tax assets.

Principles of Consolidation

Our consolidated financial statements include our accounts as well as the accounts of the other entities in which we have a controlling financial interest. All intercompany balances and transactions have been eliminated. The typical condition for a controlling financial interest is ownership of a majority of the voting interests of an entity. A controlling financial interest may also exist in entities through arrangements that do not involve voting interests, such as a variable interest entity (“VIE”).

VIE Assessment

We have interests in various entities that are considered VIEs. A VIE is an entity (1) that has total equity at risk that is not sufficient to finance its activities without additional subordinated financial support from other entities, (2) where the group of equity holders does not have the power to direct the activities of the entity that most significantly impact the entity’s economic performance, or the obligation to absorb the entity’s expected losses or the right to receive the entity’s expected residual returns, or both, or (3) where the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity, their rights to receive the expected residual returns of the entity, or both, and substantially all of the entity's activities either involve or are conducted on behalf of an investor that has disproportionately few voting rights.

We determine if an entity is a VIE by performing a qualitative analysis, which requires certain subjective decisions including, but not limited to, the design of the entity, the variability that the entity was designed to create and pass along to its interest

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holders, the rights of the parties and the purpose of the arrangement. If we cannot conclude after a qualitative analysis whether an entity is a VIE, we perform a quantitative analysis.

The primary types of VIE entities with which we are involved are securitization trusts guaranteed by us via lender swap and portfolio securitization transactions, limited partnership investments in low-income housing tax credit ("LIHTC") and other housing partnerships, as well as mortgage and asset-backed trusts that were not created by us.

Primary Beneficiary Determination

If an entity is a VIE, we consider whether our variable interest in that entity causes us to be the primary beneficiary. We are deemed to be the primary beneficiary of a VIE when we have both (1) the power to direct the activities of the VIE that most significantly impact the entity's economic performance, and (2) exposure to benefits and/or losses that could potentially be significant to the entity. The primary beneficiary of the VIE is required to consolidate and account for the assets, liabilities, and noncontrolling interests of the VIE in its consolidated financial statements. The assessment of which party has the power to direct the activities of the VIE may require significant management judgment when (1) more than one party has power or (2) more than one party is involved in the design of the VIE but no party has the power to direct the ongoing activities that could be significant.

We continually assess whether we are the primary beneficiary of the VIEs with which we are involved and therefore may consolidate or deconsolidate a VIE through the duration of our involvement. Examples of certain events that may change whether or not we consolidate the VIE include a change in the design of the entity or a change in our ownership in the entity such that we no longer hold substantially all of the certificates issued by a multi-class resecuritization trust.

Measurement of Consolidated Assets and Liabilities

When we are the transferor of assets into a VIE that we consolidate at the time of the transfer, we continue to recognize the assets and liabilities of the VIE at the amounts that they would have been recognized if we had not transferred them, and no gain or loss is recognized. For all other VIEs that we consolidate (that is, those for which we are not the transferor), we recognize the assets and liabilities of the VIE in our consolidated financial statements at fair value, and we recognize a gain or loss for the difference between (1) the fair value of the consideration paid, fair value of noncontrolling interests and the reported amount of any previously held interests, and (2) the net amount of the fair value of the assets and liabilities consolidated. However, for the securitization trusts established under our lender swap program, no gain or loss is recognized if the trust is consolidated at formation as there is no difference in the respective fair value of (1) and (2) above. We record gains or losses that are associated with the consolidation of VIEs as "Investment gains (losses), net" in our consolidated statements of operations and comprehensive income.

If we cease to be deemed the primary beneficiary of a VIE, we deconsolidate the VIE. We use fair value to measure the initial cost basis for any retained interests that are recorded upon the deconsolidation of a VIE. Any difference between the fair value and the previous carrying amount of our investment in the VIE is recorded as "Investment gains (losses), net" in our consolidated statements of operations and comprehensive income.

Purchase/Sale of Fannie Mae Securities

We actively purchase and may subsequently sell guaranteed MBS that have been issued through our lender swap and portfolio securitization transaction programs. The accounting for the purchase and sale of our guaranteed MBS issued by the trusts differs based on the characteristics of the securitization trusts and whether the trusts are consolidated.

Single-Class Securitization Trusts

We create single-class securitization trusts to issue single-class Fannie Mae MBS that evidence an undivided interest in the mortgage loans held in the trust. Investors in single-class Fannie Mae MBS receive principal and interest payments in proportion to their percentage ownership of the MBS issuance. We guarantee to each single-class securitization trust that we will supplement amounts received by the single-class securitization trust as required to permit timely payments of principal and interest on the related Fannie Mae MBS. This guaranty exposes us to credit losses on the loans underlying Fannie Mae MBS.

Single-class securitization trusts are used for both our lender swap and portfolio securitization transaction programs. A lender swap transaction occurs when a mortgage lender delivers a pool of single-family mortgage loans to us, which we immediately deposit into an MBS trust. The MBS are then issued to the lender in exchange for the mortgage loans. A portfolio securitization transaction occurs when we purchase mortgage loans from third-party sellers for cash and later

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deposit these loans into an MBS trust. The securities issued through a portfolio securitization are then sold to investors for cash. We consolidate single-class securitization trusts that are issued under these programs when our role as guarantor and master servicer provides us with the power to direct matters, such as the servicing of the mortgage loans, that impact the credit risk to which we are exposed. In contrast, we do not consolidate single-class securitization trusts when other organizations have the power to direct these activities (e.g., when the loan collateral is subject to a Federal Housing Administration guaranty and related Servicing Guide).

When we purchase single-class Fannie Mae MBS issued from a consolidated trust, we account for the transaction as an extinguishment of the related debt in our consolidated financial statements. We record a gain or loss on the extinguishment of such debt to the extent that the purchase price of the MBS does not equal the carrying value of the related consolidated debt reported in our consolidated balance sheets (including unamortized premiums, discounts or the other cost basis adjustments) at the time of purchase. We account for the sale of an MBS from Fannie Mae's portfolio that was issued from a consolidated trust as the issuance of debt in our consolidated financial statements. We amortize the related premiums, discounts and other cost basis adjustments into income over time.

To determine the order in which consolidated debt is extinguished, we have elected to use a daily convention in the application of the last-issued first-extinguished method. Under this method, we record the net daily change in each MBS holding as either the issuance of debt if there has been an increase in the position that is held by third parties, or the extinguishment of the most recently issued related debt if there has been a decrease in the position held by third parties. The impact of this method is that we record the net daily activity for an MBS as if it were a single buy or sell trade, which results in a change in our beginning debt balance if the total unpaid principal balance purchased does not match the total unpaid principal balance sold.

If a single-class securitization trust is not consolidated, we account for the purchase and subsequent sale of such securities as the transfer of an investment security in accordance with the accounting guidance for transfers of financial assets.

Single-Class Resecuritization Trusts

Single-class resecuritization trusts (Fannie Megas®) are created by depositing Fannie Mae MBS into a new securitization trust for the purpose of aggregating multiple MBS into a single larger security. The cash flows from the new security represent an aggregation of the cash flows from the underlying MBS. We guarantee to each single-class resecuritization trust that we will supplement amounts received by the trust as required to permit timely payments of principal and interest on the related Fannie Mae securities. However, we assume no additional credit risk in such a resecuritization transaction, because the underlying assets are MBS for which we have already provided a guaranty. Additionally, our involvement with these trusts does not provide any incremental rights or power that would enable Fannie Mae to direct any activities of the trusts. As a result, we have concluded that we are not the primary beneficiaries of, and therefore do not consolidate, our single-class resecuritization trusts.

As our single-class resecuritization securities pass through all of the cash flows of the underlying MBS directly to the holders of the securities, they are deemed to be substantially the same as the underlying MBS. Therefore, we account for purchases of our single-class resecuritization securities as an extinguishment of the underlying MBS debt and the sale of these securities as an issuance of the underlying MBS debt.

Multi-Class Resecuritization Trusts

Multi-class resecuritization trusts are trusts we create to issue multi-class Fannie Mae securities, including Real Estate Mortgage Investment Conduit ("REMIC") and interest-only and principal-only strip securities, in which the cash flows of the underlying mortgage assets are divided, creating several classes of securities, each of which represents a beneficial ownership interest in a separate portion of cash flows. We guarantee to each multi-class resecuritization trust that we will supplement amounts received by the trusts as required to permit timely payments of principal and interest, as applicable, on the related Fannie Mae securities. However, we assume no additional credit risk in such a resecuritization transaction because the underlying assets are Fannie Mae MBS for which we have already provided a guaranty. Although we may be exposed to prepayment risk via our ownership of the securities issued by these trusts, we do not have the ability via our involvement with a multi-class resecuritization trust to impact the economic risk to which we are exposed. Therefore, we do not consolidate such a multi-class resecuritization trust until we hold a substantial portion of the outstanding beneficial interests that have been issued by the trust and are therefore considered the primary beneficiary of the trust.

In contrast to our single-class resecuritization trust, the cash flows from the underlying MBS are divided between the debt securities issued by the multi-class resecuritization trust, and therefore, the debt issued by a multi-class resecuritization trust

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is not substantially the same as the consolidated MBS debt. As a result, if a multi-class resecuritization trust is not consolidated, we account for the purchase and sale of such securities as the transfer of an investment security in accordance with the accounting guidance for the transfers of financial assets rather than the issuance or extinguishment of the related multi-class debt. However, if a multi-class resecuritization trust is consolidated, we account for the purchase of the securities issued by consolidated multi-class resecuritization trusts as an extinguishment of the debt issued by these trusts and the subsequent sale of such securities as the issuance of multi-class debt.

When we do not consolidate a multi-class resecuritization trust, we recognize in our consolidated financial statements both our investment in the trust and the mortgage loans of the Fannie Mae MBS trusts that we consolidate that underlie the multi-class resecuritization trust. Additionally, we recognize the unsecured corporate debt issued to third parties to fund the purchase of our investments in the multi-class resecuritization trusts and the debt issued to third parties of the MBS trusts we consolidate that underlie the multi-class resecuritization trusts. This results in the recognition of interest income from investments in multi-class resecuritization trusts and interest expense from the unsecured debt issued to third parties to fund the purchase of the investments in multi-class resecuritization trusts, as well as interest income from the mortgage loans and interest expense from the debt issued to third parties from the MBS trusts we consolidate that underlie the multi-class resecuritization trusts.

Transfers of Financial Assets

We evaluate a transfer of financial assets to determine whether the transfer qualifies as a sale. If the transfer does not meet the criteria for sale treatment, the transferred assets remain in our consolidated balance sheets and we record a liability to the extent of any proceeds received in connection with such a transfer. Transfers of financial assets for which we surrender control of the transferred assets are recorded as sales.

When a transfer that qualifies as a sale is completed, we derecognize all assets transferred and recognize all assets obtained and liabilities incurred at fair value. The difference between the carrying basis of the assets transferred and the fair value of the proceeds from the sale is recorded as a component of "Investment gains (losses), net" in our consolidated statements of operations and comprehensive income. Retained interests are primarily derived from transfers associated with our portfolio securitizations in the form of Fannie Mae MBS, REMIC certificates, guaranty assets and master servicing assets ("MSAs"). We separately describe the subsequent accounting, as well as how we determine fair value, for our retained interests in the Fannie Mae MBS included in the "Investments in Securities" section of this note.

We enter into dollar roll transactions, which involve contemporaneous purchase and sale trades of agency securities, traded on a "to-be-announced" basis. When we enter into such agreements, we first account for our forward commitments to buy and sell the agency securities as derivatives in our financial statements at the trade date for both the purchase and sales trades. For certain dollar roll transactions, we may fully or partially settle the forward purchase or sale subsequent to the trade date, but prior to the contractual settlement date such that all or a portion of the securities will not be delivered according to the terms of the original trade. When such a settlement occurs, the contemporaneous purchase and sale trades no longer meet the "substantially the same" criteria as necessary for secured financing treatment, and the remaining transfers are accounted for as purchases or sales of securities. Purchased securities are initially recognized at fair value and accounted for as described in the "Investments in Securities" section of this note.

For those commitments that are not settled prior to the contractual settlement date for the first trade, we assess whether both the purchase and sale trades have the same primary obligor, form and type, maturity, interest rate, collateral and unpaid principal balance, and thus meet all of the criteria to be considered substantially the same. If the "substantially the same" criteria are met as of the settlement date for the first trade, we will account for the transaction as a secured financing and extinguish both the purchase and sale commitments as of that date. Dollar roll transactions involving transfers of securities issued by consolidated MBS trusts are accounted for as issuances or extinguishments of the related consolidated MBS debt in our consolidated financial statements.

We also enter into other repurchase agreements that involve contemporaneous trades to purchase and sell securities. These transactions are accounted for as secured financings since the transferor has not relinquished control over the transferred assets. These transactions are reported as securities purchased under agreements to resell and securities sold under agreements to repurchase in our consolidated balance sheets except for securities purchased under agreements to resell on an overnight basis, which are included in cash and cash equivalents in our consolidated balance sheets.

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Cash and Cash Equivalents and Statements of Cash Flows

Short-term investments that have a maturity at the date of acquisition of three months or less and are readily convertible to known amounts of cash are generally considered cash equivalents. We also include securities purchased under agreements to resell on an overnight basis in cash and cash equivalents in our consolidated balance sheets. We may pledge as collateral certain short-term investments classified as cash equivalents.

In the presentation of our consolidated statements of cash flows, we present cash flows from derivatives that do not contain financing elements and mortgage loans held for sale as operating activities. We present cash flows from federal funds sold and securities purchased under agreements to resell or similar arrangements as investing activities and cash flows from federal funds purchased and securities sold under agreements to repurchase as financing activities. We classify cash flows related to dollar roll transactions that do not meet the requirements to be accounted for as secured borrowings as purchases and sales of securities in investing activities. We classify cash flows from trading securities based on their nature and purpose. Effective January 1, 2014, we classify all cash flows from trading securities (U.S. Treasury securities and mortgage-related securities purchased subsequent to December 31, 2013) as operating activities as we do not intend to hold the securities for investment. We classify cash flows from mortgage-related trading securities purchased prior to January 1, 2014 that we intend to hold for investment as investing activities.

For consolidated trusts, we classify cash flows related to mortgage loans held by our consolidated trusts as either investing activities (for principal repayments) or operating activities (for interest received from borrowers included as a component of our net income). Cash flows related to debt securities issued by consolidated trusts are classified as either financing activities (for repayments of principal to certificateholders) or operating activities (for interest payments to certificateholders included as a component of our net income). We distinguish between the payments and proceeds related to the debt of Fannie Mae and the debt of consolidated trusts, as applicable. We present our non-cash activities in the consolidated statements of cash flows at the associated unpaid principal balance.

Restricted Cash

We and our servicers advance payments on delinquent loans to consolidated Fannie Mae MBS trusts. We recognize the cash advanced as “Restricted cash” in our consolidated balance sheets to the extent such amounts are due to, but have not yet been remitted to, the MBS certificateholders. In addition, when we or our servicers collect and hold cash that is due to certain Fannie Mae MBS trusts in advance of our requirement to remit these amounts to the trusts, we recognize the collected cash amounts as “Restricted cash.”

We also recognize “Restricted cash” as a result of restrictions related to certain consolidated partnership funds as well as for certain collateral arrangements for which we do not have the right to use the cash.

Investments in Securities

Securities Classified as Available-for-Sale or Trading

We classify and account for our securities as either available-for-sale (“AFS”) or trading. We measure AFS securities at fair value in our consolidated balance sheets, with unrealized gains and losses included in “Accumulated other comprehensive income” (“AOCI”), net of income taxes. We recognize realized gains and losses on AFS securities when securities are sold. We calculate the gains and losses using the specific identification method and record them in “Investment gains (losses), net” in our consolidated statements of operations and comprehensive income. We measure trading securities at fair value in our consolidated balance sheets with unrealized and realized gains and losses included as a component of “Fair value (losses) gains, net” in our consolidated statements of operations and comprehensive income. We include interest and dividends on securities in our consolidated statements of operations and comprehensive income. Interest income includes the amortization of cost basis adjustments, including premiums and discounts, recognized as a yield adjustment using the interest method over the contractual term of the security. When we receive multiple deliveries of securities on the same day that are backed by the same pools of loans, we calculate the specific cost of each security as the average price of the trades that delivered those securities. As of December 31, 2014, we do not have any securities classified as held-to-maturity, although we may elect to do so in the future.

Fannie Mae MBS included in “Investments in securities”

When we own Fannie Mae MBS issued by unconsolidated trusts, we do not derecognize any components of the guaranty assets, guaranty obligations, or any other outstanding recorded amounts associated with the guaranty transaction because our contractual obligation to the MBS trust remains in force until the trust is liquidated. We determine the fair value of Fannie

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Mae MBS based on observable market prices because most Fannie Mae MBS are actively traded. Fannie Mae MBS receive high credit quality ratings primarily because of our guaranty. The fair value of the guaranty obligation, net of deferred profit, associated with Fannie Mae MBS included in "Investments in securities" approximates the fair value of the credit risk that exists on these Fannie Mae MBS absent our guaranty. We disclose the aggregate amount of Fannie Mae MBS held as "Investments in securities" in our consolidated balance sheets. The unamortized obligation to stand ready to perform over the term of our guaranty and any incurred credit losses that relate to Fannie Mae MBS held as "Investments in securities" is included in "Other liabilities." Upon subsequent sale of a Fannie Mae MBS, we continue to account for any outstanding recorded amounts associated with the guaranty transaction on the same basis of accounting as prior to the sale of Fannie Mae MBS, as no new assets were retained and no new liabilities have been assumed upon the subsequent sale. The fair value of our guaranty obligations associated with the Fannie Mae MBS included in "Investments in securities" was $797 million and $1.1 billion as of December 31, 2014 and 2013, respectively. These Fannie Mae MBS consist primarily of private-label wraps where our guaranty arrangement is with an unconsolidated MBS trust.

Other-Than-Temporary Impairment of Debt Securities

We evaluate available-for-sale securities for other-than-temporary impairment on a quarterly basis. An other-than-temporary impairment is considered to have occurred when the fair value of a debt security is below its amortized cost basis and we intend to sell or it is more likely than not that we will be required to sell the security before recovery. In such cases, we recognize in "Investment gains (losses), net" in our consolidated statements of operations and comprehensive income the entire difference between the amortized cost basis of the security and its fair value. An other-than-temporary impairment is also considered to have occurred if we do not expect to recover the entire amortized cost basis of a debt security even if we do not intend to sell the security or it is not more likely than not we will be required to sell the security before recovery. We separate the difference between the amortized cost basis of the security and its fair value into the amount representing the credit loss, which we recognize in "Investment gains (losses), net" in our consolidated statements of operations and comprehensive income, and the amount related to all other factors, which we recognize in "Other comprehensive income," net of taxes.

We consider guarantees, insurance contracts or other credit enhancements (such as collateral) in determining our best estimate of cash flows expected to be collected only if (1) such guarantees, insurance contracts or other credit enhancements provide for payments to be made solely to reimburse us for failure of the issuer to satisfy its required payment obligations; (2) such guarantees, insurance contracts or other credit enhancements are contractually attached to the security; and (3) collection of the amounts receivable under these agreements is deemed probable. Guarantees, insurance contracts or other credit enhancements are considered contractually attached if they are part of and trade with the security upon transfer of the security to a third party.

In periods after we recognize an other-than-temporary impairment of debt securities, we use the prospective interest method to recognize interest income. Under the prospective interest method, we calculate a new effective yield for subsequent recognition of interest income and measurement of impairment when we determine that there has been a significant increase in expected or actual cash flows. We consider a significant increase in cash flows to be at least a 10% increase over two consecutive quarters of the expected or actual cash flows. We calculate the new effective yield by using the new cost basis and the significantly increased actual or expected cash flows.

Mortgage Loans

Loans Held for Sale

When we acquire mortgage loans that we intend to sell or securitize via trusts that will not be consolidated, we classify the loans as held for sale ("HFS"). We report HFS loans at the lower of cost or fair value. Any excess of an HFS loan's cost over its fair value is recognized as a valuation allowance, with changes in the valuation allowance recognized as "Investment gains (losses), net" in our consolidated statements of operations and comprehensive income. We recognize interest income on HFS loans on an accrual basis, unless we determine that the ultimate collection of contractual principal or interest payments in full is not reasonably assured. Purchased premiums, discounts and other cost basis adjustments on HFS loans are deferred upon loan acquisition, included in the cost basis of the loan, and not amortized. We determine any lower of cost or fair value adjustment on HFS loans on a pool basis by aggregating those loans based on similar risks and characteristics, such as product types and interest rates.

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In the event that we reclassify HFS loans to loans held for investment ("HFI"), we record the loans at lower of cost or fair value on the date of reclassification. We recognize any lower of cost or fair value adjustment recognized upon reclassification as a basis adjustment to the HFI loan.

Loans Held for Investment

When we acquire mortgage loans that we have the ability and the intent to hold for the foreseeable future or until maturity, we classify the loans as HFI. When we consolidate a trust, we recognize the loans underlying the trust in our consolidated balance sheets. The trusts do not have the ability to sell mortgage loans and the use of such loans is limited exclusively to the settlement of obligations of the trusts. Therefore, mortgages acquired when we have the intent to securitize via trusts that are consolidated will generally be classified as HFI in our consolidated balance sheets both prior to and subsequent to their securitization.

We report HFI loans at the unpaid principal balance, net of unamortized premiums and discounts, other cost basis adjustments, and allowance for loan losses. We recognize interest income on HFI loans on an accrual basis using the interest method over the contractual life of the loan, including the amortization of any deferred cost basis adjustments, such as the premium or discount at acquisition, unless we determine that the ultimate collection of contractual principal or interest payments in full is not reasonably assured.

Nonaccrual Loans

We discontinue accruing interest on loans when we believe collectibility of principal or interest is not reasonably assured, which for single-family loans we have determined, based on our historical experience, to be when the loan becomes two months or more past due according to its contractual terms. We generally place multifamily loans on nonaccrual status when the loan is deemed to be individually impaired, unless the loan is well secured such that collectibility of principal and accrued interest is reasonably assured.

When a loan is placed on nonaccrual status, interest previously accrued but not collected becomes part of our recorded investment in the loan and is reviewed for impairment in connection with our allowance for loan losses process. For single-family loans, we recognize interest income for loans on nonaccrual status when cash is received. For multifamily loans on nonaccrual status, we apply any payment received on a cost recovery basis to reduce principal on the mortgage loan.

We return a single-family loan to accrual status at the point that the borrower has made sufficient payments to reduce their delinquency below our nonaccrual threshold. For modified single-family loans, the loan is not returned to accrual status until the borrower successfully makes all required payments during the trial period (generally three to four months) and the modification is made permanent. We generally return a multifamily loan to accrual status when the borrower cures the delinquency of the loan or we otherwise determine that the loan is well secured such that collectibility is reasonably assured.

Restructured Loans

A modification to the contractual terms of a loan that results in granting a concession to a borrower experiencing financial difficulties is considered a troubled debt restructuring ("TDR"). Our loss mitigation programs primarily include modifications that result in the capitalization of past due amounts in combination with interest rate reductions below market and/or the extension of the loan's maturity date. Such restructurings are granted to borrowers in financial difficulty on either a permanent or contingent basis, as in the case of modifications with a trial period. We consider these types of loan restructurings to be TDRs.

We do not include principal or past due interest forgiveness as part of our loss mitigation programs, and as a result, we do not charge off any outstanding principal or accrued interest amounts at the time of loan modification. We believe that the loan underwriting activities we perform as a part of our loan modification process coupled with the borrower's successful performance during any required trial period provide us reasonable assurance regarding the collectibility of the principal and interest due in accordance with the loan's modified terms, which include any past due interest amounts that are capitalized as principal at the time of modification. As such, the loan is returned to accrual status when the loan modification is completed (*i.e.*, at the end of the trial period), and we accrue interest thereafter in accordance with our interest accrual policy. If the loan was on nonaccrual status prior to entering the trial period, it remains on nonaccrual status until the borrower demonstrates performance via the trial period and the modification is finalized.

In addition to these loan modifications, we also engage in other loss mitigation activities with troubled borrowers, which include repayment plans, forbearance arrangements, and the capitalization only of past due amounts. Repayment plans and forbearance arrangements are informal agreements with the borrower that do not result in the legal modification of the loan. For all of these activities, we consider the deferral or capitalization of three or fewer missed payments to represent only an

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insignificant delay, and thus not a TDR. If we defer or capitalize more than three missed payments, the delay is no longer considered insignificant, and the restructuring is accounted for as a TDR.

We measure impairment of a loan restructured in a TDR individually based on the excess of the recorded investment in the loan over the present value of the expected future cash inflows discounted at the loan's original effective interest rate. Costs incurred to complete a TDR are expensed as incurred. However, when foreclosure is probable on an individually impaired loan, we measure impairment based on the difference between our recorded investment in the loan and the fair value of the underlying property, adjusted for the estimated costs to sell the property and estimated insurance or other proceeds we expect to receive.

Allowance for Loan Losses and Reserve for Guaranty Losses

Our allowance for loan losses is a valuation allowance that reflects an estimate of incurred credit losses related to our recorded investment in both single-family and multifamily HFI loans. This population includes both HFI loans held by Fannie Mae and by consolidated Fannie Mae MBS trusts. When calculating our allowance for loan losses, we consider only our net recorded investment in the loan at the balance sheet date, which includes the loan's unpaid principal balance and accrued interest recognized while the loan was on accrual status and any applicable cost basis adjustments. We record charge-offs as a reduction to the allowance for loan losses when losses are confirmed through the receipt of assets in satisfaction of a loan, such as the underlying collateral upon foreclosure or cash upon completion of a short sale. We recognize incurred losses by recording a charge to the provision for loan losses, which is a component of "Benefit for credit losses" in our consolidated statements of operations and comprehensive income.

The reserve for guaranty losses is a liability account which is a component of "Other liabilities" in our consolidated balance sheets that reflects an estimate of incurred credit losses related to our guaranty to each unconsolidated Fannie Mae MBS trust that we will supplement amounts received by the Fannie Mae MBS trust as required to permit timely payments of principal and interest on the related Fannie Mae MBS and our agreements to purchase credit-impaired loans from lenders under the terms of our long-term standby commitments. As a result, the reserve for guaranty losses considers not only the principal and interest due on the loan at the current balance sheet date, but also any additional interest payments due to the trust from the current balance sheet date until the point of loan acquisition or foreclosure. The reserve for guaranty losses was $1.2 billion and $1.4 billion as of December 31, 2014 and 2013, respectively.

We recognize incurred losses by recording a charge to the provision for guaranty losses, which is a component of "Benefit for credit losses," in our consolidated statements of operations and comprehensive income.

Single-Family Loans

We recognize credit losses related to groups of similar single-family HFI loans that are not individually impaired when (1) available information as of each balance sheet date indicates that it is probable a loss has occurred and (2) the amount of the loss can be reasonably estimated. We aggregate such loans, based on similar risk characteristics, for purposes of estimating incurred credit losses and establish a collective single-family loss reserve using an econometric model that derives an overall loss reserve estimate. The estimate takes into account multiple factors which include but are not limited to origination year, loan product type, mark-to-market LTV ratio, and delinquency status. Once loans are aggregated, there typically is not a single, distinct event that would result in an individual loan or pool of loans being impaired. In determining our collective reserve, we base our allowance methodology on historical events and trends, such as loss severity (in event of default), default rates, and recoveries from mortgage insurance contracts and other credit enhancements that provide loan level loss coverage and are either contractually attached to a loan or that were entered into contemporaneously with and in contemplation of a guaranty or loan purchase transaction. We use recent regional historical sales and appraisal information, including the sales of our own foreclosed properties, to develop our loss severity estimates for all loan categories. Our allowance calculation also incorporates a loss confirmation period (the anticipated time lag between a credit loss event and the confirmation of the credit loss resulting from that event) to ensure our allowance estimate captures credit losses that have been incurred as of the balance sheet date but have not been confirmed. In addition, management performs a review of the observable data used in its estimate to ensure it is representative of prevailing economic conditions and other events existing as of the balance sheet date.

We record charge-offs as a reduction to the allowance for loan losses or reserve for guaranty losses when losses are confirmed through the receipt of assets in full satisfaction of a loan, such as the underlying collateral upon foreclosure or cash upon completion of a short sale. The excess of a loan's unpaid principal balance, accrued interest, and any applicable cost basis adjustments ("our total exposure") over the fair value of the assets received is treated as a charge-off loss that is

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deducted from the allowance for loan losses or reserve for guaranty losses. The amount charged off also considers estimated proceeds from primary mortgage insurance or other credit enhancements that are either contractually attached to a loan or that were entered into contemporaneously with and in contemplation of a guaranty or loan purchase transaction as a recovery of our total exposure, up to the amount of loss recognized as a charge-off. We record additional proceeds from primary mortgage insurance and credit enhancements in excess of our total exposure as a recovery of any forgone contractually past due interest, and then as an offset to the expenses recorded in "Foreclosed property expense (income)" in our consolidated statements of operations and comprehensive income when received.

Individually Impaired Single-Family Loans

Individually impaired single-family loans currently include those restructured in a TDR and acquired credit-impaired loans. We consider a loan to be impaired when, based on current information, it is probable that we will not receive all amounts due, including interest, in accordance with the contractual terms of the loan agreement. When making our assessment as to whether a loan is impaired, we also take into account more than insignificant delays in payment and shortfalls in amounts received. Determination of whether a delay in payment or shortfall in amount is more than insignificant requires management's judgment as to the facts and circumstances surrounding the loan.

Our measurement of impairment on an individually impaired loan follows the method that is most consistent with our expectations of recovery of our recorded investment in the loan. When a loan has been restructured, we measure impairment using a cash flow analysis discounted at the loan's original effective interest rate. If we expect to recover our recorded investment in an individually impaired loan through probable foreclosure of the underlying collateral, we measure impairment based on the fair value of the collateral, reduced by estimated disposal costs on a discounted basis and adjusted for estimated proceeds from mortgage, flood, or hazard insurance or similar sources. For individually impaired loans that we believe are probable of foreclosure, we take into consideration the sales prices of foreclosed properties in determining the value of the underlying real estate collateral.

We use internal models to project cash flows used to assess impairment of individually impaired loans, and generally update the market and loan characteristic inputs we use in these models monthly, using month-end data. Market inputs include information such as interest rates, volatility and spreads, while loan characteristic inputs include information such as mark-to-market LTV ratios and delinquency status. The loan characteristic inputs are key factors that affect the predicted rate of default for loans evaluated for impairment through our internal cash flow models. For example, loans with an unsuccessful trial modification, which are often accompanied by high delinquency rates, have much higher predicted default rates compared to performing loans with completed modifications, particularly those with a significant payment reduction in the borrower's required monthly payment. We evaluate the reasonableness of our models by comparing the results with actual performance and our assessment of current market conditions. In addition, we review our models at least annually for reasonableness and predictive ability in accordance with our corporate model review policy. Accordingly, we believe the projected cash flows generated by our models that we use to assess impairment appropriately reflect the expected future performance of the loans.

Multifamily Loans

We identify multifamily loans for evaluation for impairment through a credit risk assessment process. If we determine that a multifamily loan is individually impaired, we generally measure impairment on that loan based on the fair value of the underlying collateral less estimated costs to sell the property. We establish a collective multifamily loss reserve for all loans in our multifamily guaranty book of business that are not individually impaired using an internal model that applies loss factors to loans in similar risk categories.

We categorize loan credit risk based on relevant observable data about a borrower's ability to pay, including multifamily market economic fundamentals, review of available current borrower financial information, operating statements on the underlying collateral, current debt service coverage ratios, historical payment experience, estimates of the current collateral values and other related credit documentation. For each risk category, certain observed default probability and loss severity (in event of default) factors, based on historical performance of loans in the same risk category, are applied against our recorded investment in the loans, including recorded accrued interest associated with such loans, to determine an appropriate allowance. Such performance data reflect historical delinquencies and charge-offs, as well as loan size. In addition, we consider any credit enhancements such as letters of credit or loss sharing arrangements with our lenders.

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Advances to Lenders

Advances to lenders represent our payments of cash in exchange for the receipt of mortgage loans from lenders in a transfer that is accounted for as a secured lending arrangement. These transfers primarily occur when we provide early funding to lenders for loans that they will subsequently either sell to us or securitize into a Fannie Mae MBS that they will deliver to us. We individually negotiate early lender funding advances with our lender customers. Early lender funding advances have terms up to 60 days and earn a short-term market rate of interest.

We report cash outflows from advances to lenders as an investing activity in our consolidated statements of cash flows. Settlements of the advances to lenders, other than through lender repurchases of loans, are not collected in cash, but rather in the receipt of either loans or Fannie Mae MBS. Accordingly, this activity is reflected as a non-cash transfer in our consolidated statements of cash flows in the line item entitled "Transfers from advances to lenders to loans held for investment of consolidated trusts."

Acquired Property, Net

We recognize foreclosed property (*i.e.*, "Acquired property, net") upon the earlier of the loan foreclosure event or when we take physical possession of the property (*i.e.*, through a deed-in-lieu of foreclosure transaction). We initially measure foreclosed property at its fair value less its estimated costs to sell. We treat any excess of our recorded investment in the loan over the fair value less estimated costs to sell the property as a charge-off to the "Allowance for loan losses." Any excess of the fair value less estimated costs to sell the property over our recorded investment in the loan is recognized first to recover any forgone, contractually due interest, then to "Foreclosed property expense (income)" in our consolidated statements of operations and comprehensive income.

We classify foreclosed properties as held for sale when we intend to sell the property and the following conditions are met at either acquisition or within a relatively short period thereafter: we are actively marketing the property and it is available for immediate sale in its current condition such that the sale is reasonably expected to take place within one year. We report these properties at the lower of their carrying amount or fair value less estimated selling costs. We do not depreciate these properties.

We recognize a loss for any subsequent write-down of the property to its fair value less its estimated costs to sell through a valuation allowance with an offsetting charge to "Foreclosed property expense (income)" in our consolidated statements of operations and comprehensive income. We recognize a recovery for any subsequent increase in fair value less estimated costs to sell up to the cumulative loss previously recognized through the valuation allowance. We recognize gains or losses on sales of foreclosed property through "Foreclosed property expense (income)" in our consolidated statements of operations and comprehensive income.

Properties that do not meet the criteria to be classified as held for sale are classified as held for use and are recorded in "Other assets" in our consolidated balance sheets. These properties are depreciated and are evaluated for impairment when circumstances indicate that the carrying amount of the property is no longer recoverable.

Commitments to Purchase and Sell Mortgage Loans and Securities

We enter into commitments to purchase and sell mortgage-backed securities and to purchase single-family and multifamily mortgage loans. Certain commitments to purchase or sell mortgage-backed securities and to purchase single-family mortgage loans are generally accounted for as derivatives. Our commitments to purchase multifamily loans are not accounted for as derivatives because they do not meet the criteria for net settlement.

When derivative purchase commitments settle, we include the fair value on the settlement date in the cost basis of the loan or unconsolidated security we purchase. When derivative commitments to sell securities settle, we include the fair value of the commitment on the settlement date in the cost basis of the security we sell. Purchases and sales of securities issued by our consolidated MBS trusts are treated as extinguishment or issuance of debt, respectively. For commitments to purchase and sell securities issued by our consolidated MBS trusts, we recognize the fair value of the commitment on the settlement date as a component of debt extinguishment gains and losses or in the cost basis of the debt issued, respectively.

Regular-way securities trades provide for delivery of securities within the time generally established by regulations or conventions in the market in which the trade occurs and are exempt from application of the derivative accounting literature.

Commitments to purchase or sell securities that we account for on a trade-date basis are also exempt from the derivative accounting requirements. We record the purchase and sale of an existing security on its trade date when the commitment to

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purchase or sell the existing security settles within the period of time that is customary in the market in which those trades take place.

Additionally, contracts for the forward purchase or sale of when-issued and to-be-announced ("TBA") securities are exempt from the derivative accounting requirements if there is no other way to purchase or sell that security, delivery of that security and settlement will occur within the shortest period possible for that type of security, and it is probable at inception and throughout the term of the individual contract that physical delivery of the security will occur. Since our commitments for the purchase of when-issued and TBA securities can be net settled and we do not document that physical settlement is probable, we account for all such commitments as derivatives.

Derivative Instruments

We recognize all derivatives as either assets or liabilities in our consolidated balance sheets at their fair value on a trade date basis. We report derivatives in a gain position after offsetting by counterparty in "Other assets" and derivatives in a loss position after offsetting by counterparty in "Other liabilities" in our consolidated balance sheets.

We offset the carrying amounts of certain derivatives that are in gain positions and loss positions with the same counterparty as well as cash collateral receivables and payables associated with derivative positions under master netting arrangements. We offset these amounts only when we have the legal right to offset under the contract and we have met all of the offsetting conditions.

We evaluate financial instruments that we purchase or issue and other financial and non-financial contracts for embedded derivatives. To identify embedded derivatives that we must account for separately, we determine if: (1) the economic characteristics of the embedded derivative are not clearly and closely related to the economic characteristics of the financial instrument or other contract (*i.e.*, the hybrid contract); (2) the financial instrument or other contract itself is not already measured at fair value with changes in fair value included in earnings; and (3) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative. If the embedded derivative meets all three of these conditions we elect to carry the hybrid contract in its entirety at fair value with changes in fair value recorded in earnings.

Collateral

We enter into various transactions where we pledge and accept collateral, the most common of which are our derivative transactions. Required collateral levels vary depending on the credit rating and type of counterparty. We also pledge and receive collateral under our repurchase and reverse repurchase agreements. In order to reduce potential exposure to repurchase counterparties, a third-party custodian typically maintains the collateral and any margin. We monitor the fair value of the collateral received from our counterparties, and we may require additional collateral from those counterparties, as we deem appropriate.

Cash Collateral

We record cash collateral accepted from a counterparty that we have the right to use as "Cash and cash equivalents" and cash collateral accepted from a counterparty that we do not have the right to use as "Restricted cash" in our consolidated balance sheets. We net our obligation to return cash collateral pledged to us against the fair value of derivatives in a gain position recorded in "Other assets" in our consolidated balance sheets as part of our counterparty netting calculation.

For derivative positions with the same counterparty under master netting arrangements where we pledge cash collateral, we remove it from "Cash and cash equivalents" and net the right to receive it against the fair value of derivatives in a loss position recorded in "Other liabilities" in our consolidated balance sheets as a part of our counterparty netting calculation.

Non-Cash Collateral

We classify securities pledged to counterparties as either "Investments in securities" or "Cash and cash equivalents" in our consolidated balance sheets. Securities pledged to counterparties that have been consolidated with the underlying assets recognized as loans are included as "Mortgage loans" in our consolidated balance sheets.

Our liability to third party holders of Fannie Mae MBS that arises as the result of a consolidation of a securitization trust is collateralized by the underlying loans and/or mortgage-related securities.

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Debt

Our consolidated balance sheets contain debt of Fannie Mae as well as debt of consolidated trusts. We report debt issued by us as "Debt of Fannie Mae" and by consolidated trusts as "Debt of consolidated trusts." Debt issued by us represents debt that we issue to third parties to fund our general business activities. The debt of consolidated trusts represents the amount of Fannie Mae MBS issued from such trusts which is held by third-party certificateholders and prepayable without penalty at any time. We report deferred items, including premiums, discounts and other cost basis adjustments, as adjustments to the related debt balances in our consolidated balance sheets. We remeasure the carrying amount, accrued interest and basis adjustments of debt denominated in a foreign currency into U.S. dollars using foreign exchange spot rates as of the balance sheet dates and report any associated gains or losses as a component of "Fair value (losses) gains, net" in our consolidated statements of operations and comprehensive income.

We classify interest expense as either short-term or long-term based on the contractual maturity of the related debt. We recognize the amortization of premiums, discounts and other cost basis adjustments through interest expense using the effective interest method usually over the contractual term of the debt. Amortization of premiums, discounts and other cost basis adjustments begins at the time of debt issuance. We remeasure interest expense for debt denominated in a foreign currency into U.S. dollars using the daily spot rates. The difference in rates arising from the month-end spot exchange rate used to calculate the interest accruals and the daily spot rates used to record the interest expense is a foreign currency transaction gain or loss for the period and is recognized as a component of "Fair value (losses) gains, net" in our consolidated statements of operations and comprehensive income.

When we purchase a Fannie Mae MBS issued from a consolidated single-class securitization trust, we extinguish the related debt of the consolidated trust as the MBS debt is no longer owed to a third-party. We record debt extinguishment gains or losses related to debt of consolidated trusts to the extent that the purchase price of the MBS does not equal the carrying value of the related consolidated MBS debt reported in our consolidated balance sheets (including unamortized premiums, discounts and other cost basis adjustments) at the time of purchase.

Income Taxes

We recognize deferred tax assets and liabilities based on the differences in the book and tax bases of assets and liabilities. We measure deferred tax assets and liabilities using enacted tax rates that are applicable to the period(s) that the differences are expected to reverse. We adjust deferred tax assets and liabilities for the effects of changes in tax laws and rates in the period of enactment. We recognize investment and other tax credits through our effective tax rate calculation assuming that we will be able to realize the full benefit of the credits. We reduce our deferred tax assets by an allowance if, based on the weight of available positive and negative evidence, it is more likely than not (a probability of greater than 50%) that we will not realize some portion, or all, of the deferred tax asset.

We account for uncertain tax positions using a two-step approach whereby we recognize an income tax benefit if, based on the technical merits of a tax position, it is more likely than not that the tax position would be sustained upon examination by the taxing authority, which includes all related appeals and litigation. We then measure the recognized tax benefit based on the largest amount of tax benefit that is greater than 50% likely to be realized upon settlement with the taxing authority, considering all information available at the reporting date. We recognize interest expense and penalties on unrecognized tax benefits as "Other expenses" in our consolidated statements of operations and comprehensive income.

(Loss) Earnings per Share

(Loss) earnings per share ("EPS") is presented for both basic EPS and diluted EPS. We compute basic EPS by dividing net (loss) income available to common stockholders by the weighted-average number of shares of common stock outstanding during the period. In addition to common shares outstanding, the computation of basic EPS includes instruments for which the holder has (or is deemed to have) the present rights as of the end of the reporting period to share in current period (loss) earnings with common stockholders (*i.e.,* participating securities and common shares that are currently issuable for little or no cost to the holder). We include in the denominator of our basic EPS computation the weighted-average number of shares of common stock that would be issued upon the full exercise of the warrant issued to Treasury. Diluted EPS includes all the components of basic EPS, plus the dilutive effect of common stock equivalents such as convertible securities and stock options, but excludes those common stock equivalents from the calculation of diluted EPS when the effect of inclusion, assessed individually, would be anti-dilutive. The calculation of income available to common stockholders and earnings per share is based on the underlying premise that all income after payment of dividends on preferred shares is available to and will be distributed to the common stockholders. However, as a result of our conservatorship status and the terms of the senior

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preferred stock purchase agreement with Treasury, no amounts are available to distribute as dividends to common or preferred stockholders (other than to Treasury as holder of the senior preferred stock).

Compensatory Fees

We charge our primary servicers a compensatory fee for servicing delays within their control when they fail to comply with established loss mitigation and foreclosure timelines per our Servicing Guide, which sets forth our policies and procedures related to servicing our single-family mortgages. Compensatory fees are intended to compensate us for damages attributed to such servicing delays and to emphasize the importance of servicer performance.

We recognize a compensatory fee receivable when the amounts are chargeable per our Servicing Guide and are considered reasonably assured of collection. We subsequently establish a valuation allowance for any amounts we estimate to be uncollectible. If such fees are not reasonably assured of collection, we recognize them on a cash basis when received. The income associated with these fees is recognized as a component of "Foreclosed property expense (income)" in our consolidated statements of operations and comprehensive income.

Fee and Other Income

Fee and other income includes transaction fees, technology fees, multifamily fees and other miscellaneous income. During the year ended December 31, 2014, we recognized $4.8 billion in "Fee and other income" in our consolidated statement of operations and comprehensive income resulting from settlement agreements resolving certain lawsuits relating to private-label mortgage-related securities ("PLS") sold to us.

New Accounting Guidance

In January 2014, the Financial Accounting Standards Board ("FASB") issued guidance clarifying when a creditor is considered to have received physical possession of residential real estate property collateralized by a consumer mortgage loan in order to reduce diversity in practice for when a creditor derecognizes the loan receivable and recognizes the real estate property. The guidance also requires interim and annual disclosure of the amount of foreclosed residential real estate property held by the creditor and the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. The new guidance is effective for us on January 1, 2015. We have evaluated this guidance and determined it will not have a material impact on our consolidated financial statements.

In May 2014, the FASB issued guidance on revenue from contracts with customers. The standard outlines a single model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The following contracts with customers are excluded from the scope of the new standard and will continue to be accounted for under existing guidance: leases, insurance, financial instruments (e.g., receivables, investments, liabilities, debt and derivatives) and guarantees. The new guidance is effective for us on January 1, 2017. We have evaluated this guidance and determined it will not have a material impact on our consolidated financial statements.

In June 2014, the FASB issued guidance to amend the accounting for repurchase-to-maturity transactions and repurchase agreements executed as repurchase financings. The guidance requires repurchase-to-maturity transactions to be accounted for as secured borrowings. In addition, the guidance removes the requirement to determine whether a repurchase financing and the initial transfer of a financial asset are linked for purposes of assessing whether sale accounting is appropriate. Under the amended guidance, repurchase financing transactions will be evaluated in the same manner as other repurchase transactions. The guidance also requires additional disclosures on transfers accounted for as sales transactions and collateral pledged in repurchase agreements accounted for as secured borrowings. The new guidance is effective on January 1, 2015, except for disclosures related to repurchase transactions accounted for as secured borrowings, which are effective April 1, 2015. We have evaluated this guidance and determined it will not have a material impact on our consolidated financial statements.

In August 2014, the FASB issued guidance on the classification of certain government guaranteed mortgage loans upon foreclosure. The guidance requires that a government guaranteed mortgage loan be derecognized and that a separate other receivable be recognized upon foreclosure if certain conditions are met. Upon foreclosure, the separate other receivable should be measured based on the amount of the loan balance (principal and interest) expected to be recovered from the guarantor. The new guidance is effective for us on January 1, 2015. We have evaluated this guidance and determined it will not have a material impact on our consolidated financial statements.

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2. Consolidations and Transfers of Financial Assets

We have interests in various entities that are considered to be VIEs. The primary types of entities are securitization trusts guaranteed by us via lender swap and portfolio securitization transactions and mortgage-backed trusts that were not created by us, as well as housing partnerships that are established to finance the acquisition, construction, development or rehabilitation of affordable multifamily and single-family housing. These interests include investments in securities issued by VIEs, such as Fannie Mae MBS created pursuant to our securitization transactions and our guaranty to the entity. We consolidate the substantial majority of our single-class securitization trusts because our role as guarantor and master servicer provides us with the power to direct matters (primarily the servicing of mortgage loans) that impact the credit risk to which we are exposed. In contrast, we do not consolidate single-class securitization trusts when other organizations have the power to direct these activities.

Types of VIEs

Securitization Trusts

Under our lender swap and portfolio securitization transactions, mortgage loans are transferred to a trust specifically for the purpose of issuing a single class of guaranteed securities that are collateralized by the underlying mortgage loans. The trust's permitted activities include receiving the transferred assets, issuing beneficial interests, establishing the guaranty and servicing the underlying mortgage loans. In our capacity as issuer, master servicer, trustee and guarantor, we earn fees for our obligations to each trust. Additionally, we may retain or purchase a portion of the securities issued by each trust. We have securitized mortgage loans since 1981.

In our structured securitization transactions, we earn fees for assisting lenders and dealers with the design and issuance of structured mortgage-related securities. The trusts created in these transactions have permitted activities that are similar to those for our lender swap and portfolio securitization transactions. The assets of these trusts may include mortgage-related securities and/or mortgage loans. The trusts created for Fannie Megas issue single-class securities while the trusts created for REMIC, grantor trust and stripped mortgage-backed securities ("SMBS") issue single-class and multi-class securities, the latter of which separate the cash flows from underlying assets into separately tradable interests. Our obligations and continued involvement in these trusts are similar to those described for lender swap and portfolio securitization transactions. We have securitized mortgage assets in structured transactions since 1986.

We also invest in mortgage-backed securities that have been issued via private-label trusts. These trusts are structured to provide investors with a beneficial interest in a pool of receivables or other financial assets, typically mortgage loans. The trusts act as vehicles to allow loan originators to securitize assets. Securities are structured from the underlying pool of assets to provide for varying degrees of risk. The originators of the financial assets or the underwriters of the transaction create the trusts and typically own the residual interest in the trusts' assets. Our involvement in these entities is typically limited to our recorded investment in the beneficial interests that we have purchased. We have invested in these vehicles since 1987.

Limited Partnerships

We have historically made equity investments in various limited partnerships that sponsor affordable housing projects utilizing the low-income housing tax credit pursuant to Section 42 of the Internal Revenue Code. The purpose of these investments is to increase the supply of affordable housing in the United States and to serve communities in need. In addition, our investments in LIHTC partnerships generate both tax credits and net operating losses that may reduce our federal income tax liability. Our LIHTC investments primarily represent limited partnership interests in entities that have been organized by a fund manager who acts as the general partner. These fund investments seek out equity investments in LIHTC operating partnerships that have been established to identify, develop and operate multifamily housing that is leased to qualifying residential tenants.

We no longer recognize net operating losses or impairment on our LIHTC partnership investments as the carrying value is zero. We did not make any LIHTC investments in 2014, 2013 or 2012, other than pursuant to existing prior commitments.

Consolidated VIEs

If an entity is a VIE, we consider whether our variable interest in that entity causes us to be the primary beneficiary. The primary beneficiary of the VIE is required to consolidate and account for the assets, liabilities and noncontrolling interests of the VIE in its consolidated financial statements. An enterprise is deemed to be the primary beneficiary when the enterprise has the power to direct the activities of the VIE that most significantly impact the entity's economic performance and exposure to benefits and/or losses could potentially be significant to the entity. In general, the investors in the obligations of

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consolidated VIEs have recourse only to the assets of those VIEs and do not have recourse to us, except where we provide a guaranty to the VIE.

Unconsolidated VIEs

We do not consolidate VIEs when we are not deemed to be the primary beneficiary. Our unconsolidated VIEs include securitization trusts and limited partnerships. The following table displays the carrying amount and classification of our assets and liabilities that relate to our involvement with unconsolidated mortgage-backed trusts, as well as our maximum exposure to loss and the total assets of these unconsolidated mortgage-backed trusts.

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Assets and liabilities recorded in our consolidated balance sheets related to mortgage-backed trusts:		
Assets:		
Trading securities:		
Fannie Mae securities	$ 4,790	$ 5,660
Non-Fannie Mae securities	7,073	8,559
Total trading securities	11,863	14,219
Available-for-sale securities:		
Fannie Mae securities	5,043	5,866
Non-Fannie Mae securities	22,776	27,441
Total available-for-sale securities	27,819	33,307
Other assets	111	119
Other liabilities	(1,440)	(1,668)
Net carrying amount	$ 38,353	$ 45,977
Maximum exposure to loss	$ 45,311	$ 54,148
Total assets of unconsolidated mortgage-backed trusts	$ 253,554	$ 313,202

Our maximum exposure to loss generally represents the greater of our recorded investment in the entity or the unpaid principal balance of the assets covered by our guaranty. However, our securities issued by Fannie Mae multi-class resecuritization trusts that are not consolidated do not give rise to any additional exposure to loss as we already consolidate the underlying collateral.

The total assets of our unconsolidated limited partnership investments were $5.8 billion and $6.8 billion as of December 31, 2014 and 2013, respectively.

Transfers of Financial Assets

We issue Fannie Mae MBS through portfolio securitization transactions by transferring pools of mortgage loans or mortgage-related securities to one or more trusts or special purpose entities. We are considered to be the transferor when we transfer assets from our own retained mortgage portfolio in a portfolio securitization transaction. For the years ended December 31, 2014, 2013 and 2012, the unpaid principal balance of portfolio securitizations was $160.4 billion, $228.5 billion and $225.1 billion, respectively.

We retain interests from the transfer and sale of mortgage-related securities to unconsolidated single-class and multi-class portfolio securitization trusts. As of December 31, 2014, the unpaid principal balance of retained interests was $6.3 billion and its related fair value was $7.6 billion. The unpaid principal balance of retained interests was $7.2 billion and its related fair value was $8.3 billion as of December 31, 2013. For the years ended December 31, 2014, 2013 and 2012, the principal and interest received on retained interests was $1.5 billion, $1.7 billion and $2.4 billion, respectively.

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Managed Loans

Managed loans are on-balance sheet mortgage loans, as well as mortgage loans that we have securitized in unconsolidated portfolio securitization trusts. The unpaid principal balance of securitized loans in unconsolidated portfolio securitization trusts, which are primarily loans that are guaranteed or insured, in whole or in part, by the U.S. government, was $1.8 billion and $2.1 billion as of December 31, 2014 and 2013, respectively. For information on our on-balance sheet mortgage loans, see "Note 3, Mortgage Loans."

3. Mortgage Loans

We own both single-family mortgage loans, which are secured by four or fewer residential dwelling units, and multifamily mortgage loans, which are secured by five or more residential dwelling units. We classify these loans as either HFI or HFS. We report the carrying value of HFI loans at the unpaid principal balance, net of unamortized premiums and discounts, other cost basis adjustments, and an allowance for loan losses. We report the carrying value of HFS loans at the lower of cost or fair value determined on a pooled basis, and record valuation changes in our consolidated statements of operations and comprehensive income. We report the recorded investment of HFI loans at the unpaid principal balance, net of unamortized premiums and discounts, other cost basis adjustments, and accrued interest receivable.

For purposes of the single-family mortgage loan disclosures below, we define "primary" class as mortgage loans that are not included in other loan classes; "government" class as mortgage loans guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies that are not Alt-A; and "other" class as loans with higher-risk characteristics, such as interest-only loans and negative-amortizing loans, that are neither government nor Alt-A.

The following table displays the carrying value of our mortgage loans as of December 31, 2014 and 2013.

	As of December 31,					
	2014			2013		
	Of Fannie Mae	Of Consolidated Trusts	Total	Of Fannie Mae	Of Consolidated Trusts	Total
	(Dollars in millions)					
Single-family	$262,116	$2,569,884	$2,832,000	$276,644	$2,579,024	$2,855,668
Multifamily	23,255	164,045	187,300	37,642	146,249	183,891
Total unpaid principal balance of mortgage loans	285,371	2,733,929	3,019,300	314,286	2,725,273	3,039,559
Cost basis and fair value adjustments, net	(12,705)	48,440	35,735	(13,778)	44,305	30,527
Allowance for loan losses for loans held for investment	(33,117)	(2,424)	(35,541)	(40,521)	(3,325)	(43,846)
Total mortgage loans	$239,549	$2,779,945	$3,019,494	$259,987	$2,766,253	$3,026,240

For the year ended December 31, 2014, we redesignated loans with a carrying value of $285 million from HFS to HFI. For the years ended December 31, 2014, 2013 and 2012, we redesignated loans with a carrying value of $2.2 billion, $1.3 billion and $33 million, respectively, from HFI to HFS. We sold loans with an unpaid principal balance of $1.9 billion and $1.2 billion, respectively, during the years ended December 31, 2014 and 2013.

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Aging Analysis

The following tables display an aging analysis of the total recorded investment in our HFI mortgage loans by portfolio segment and class as of December 31, 2014 and 2013, excluding loans for which we have elected the fair value option.

	As of December 31, 2014							
	30 - 59 Days Delinquent	60 - 89 Days Delinquent	Seriously Delinquent[1]	Total Delinquent	Current	Total	Recorded Investment in Loans 90 Days or More Delinquent and Accruing Interest	Recorded Investment in Nonaccrual Loans
	(Dollars in millions)							
Single-family:								
Primary	$ 29,130	$ 8,396	$ 38,248	$ 75,774	$ 2,580,446	$ 2,656,220	$ 55	$ 46,556
Government[2]	63	26	305	394	44,927	45,321	305	—
Alt-A	4,094	1,414	11,603	17,111	95,650	112,761	8	13,007
Other	1,520	516	3,763	5,799	38,460	44,259	6	4,259
Total single-family	34,807	10,352	53,919	99,078	2,759,483	2,858,561	374	63,822
Multifamily[3]	60	N/A	89	149	189,084	189,233	—	823
Total	$ 34,867	$ 10,352	$ 54,008	$ 99,227	$ 2,948,567	$ 3,047,794	$ 374	$ 64,645

	As of December 31, 2013							
	30 - 59 Days Delinquent	60 - 89 Days Delinquent	Seriously Delinquent[1]	Total Delinquent	Current	Total	Recorded Investment in Loans 90 Days or More Delinquent and Accruing Interest	Recorded Investment in Nonaccrual Loans
	(Dollars in millions)							
Single-family:								
Primary	$ 32,371	$ 9,755	$ 48,345	$ 90,471	$ 2,558,826	$ 2,649,297	$ 81	$ 57,973
Government[2]	66	32	346	444	48,150	48,594	346	—
Alt-A	4,748	1,692	15,425	21,865	105,644	127,509	11	17,102
Other	1,940	659	5,404	8,003	45,288	53,291	22	5,999
Total single-family	39,125	12,138	69,520	120,783	2,757,908	2,878,691	460	81,074
Multifamily[3]	59	N/A	186	245	185,733	185,978	—	2,209
Total	$ 39,184	$ 12,138	$ 69,706	$121,028	$ 2,943,641	$ 3,064,669	$ 460	$ 83,283

(1) Single-family seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. Multifamily seriously delinquent loans are loans that are 60 days or more past due.
(2) Primarily consists of reverse mortgages, which due to their nature, are not aged and are included in the current column.
(3) Multifamily loans 60-89 days delinquent are included in the seriously delinquent column.

Credit Quality Indicators

The following table displays the total recorded investment in our single-family HFI loans by class and credit quality indicator as of December 31, 2014 and 2013, excluding loans for which we have elected the fair value option. The single-family credit quality indicator is based on available data through the end of each period presented.

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	As of December 31,					
	2014[1]			2013[1]		
	Primary	Alt-A	Other	Primary	Alt-A	Other
	(Dollars in millions)					
Estimated mark-to-market LTV ratio:[2]						
Less than or equal to 80%	$2,156,165	$ 60,851	$22,558	$2,073,079	$ 61,670	$24,112
Greater than 80% and less than or equal to 90%	261,709	15,151	6,046	276,011	16,794	6,947
Greater than 90% and less than or equal to 100%	140,778	12,490	5,236	153,474	14,709	6,402
Greater than 100% and less than or equal to 110%	43,014	8,998	3,900	59,630	11,006	5,146
Greater than 110% and less than or equal to 120%	23,439	6,033	2,615	33,954	7,742	3,691
Greater than 120% and less than or equal to 125%	7,529	2,114	904	11,256	2,951	1,406
Greater than 125%	23,586	7,124	3,000	41,893	12,637	5,587
Total	$2,656,220	$112,761	$44,259	$2,649,297	$127,509	$53,291

(1) Excludes $45.3 billion and $48.6 billion as of December 31, 2014 and 2013, respectively, of mortgage loans guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies that are not Alt-A loans. The segment class is primarily reverse mortgages for which we do not calculate an estimated mark-to-market LTV ratio.

(2) The aggregate estimated mark-to-market LTV ratio is based on the unpaid principal balance of the loan as of the end of each reported period divided by the estimated current value of the property, which we calculate using an internal valuation model that estimates periodic changes in home value.

The following table displays the total recorded investment in our multifamily HFI loans by credit quality indicator as of December 31, 2014 and 2013, excluding loans for which we have elected the fair value option. The multifamily credit quality indicator is based on available data through the end of each period presented.

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Credit risk profile by internally assigned grade:[1]		
Pass	$ 182,079	$ 176,528
Special Mention	3,070	2,234
Substandard	3,842	6,758
Doubtful	242	458
Total	$ 189,233	$ 185,978

(1) Pass (loan is current and adequately protected by the current financial strength and debt service capacity of the borrower); special mention (loan with signs of potential weakness); substandard (loan with a well defined weakness that jeopardizes the timely full repayment); and doubtful (loan with a weakness that makes collection or liquidation in full highly questionable and improbable based on existing conditions and values).

Individually Impaired Loans

Individually impaired loans include TDRs, acquired credit-impaired loans and multifamily loans that we have assessed as probable that we will not collect all contractual amounts due, regardless of whether we are currently accruing interest. The following tables display the total unpaid principal balance, recorded investment and related allowance as of December 31, 2014 and 2013, and average recorded investment and interest income recognized for the years ended December 31, 2014, 2013 and 2012 for individually impaired loans.

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	As of December 31,							
	2014				2013			
	Unpaid Principal Balance	Total Recorded Investment	Related Allowance for Loan Losses	Related Allowance for Accrued Interest Receivable	Unpaid Principal Balance	Total Recorded Investment	Related Allowance for Loan Losses	Related Allowance for Accrued Interest Receivable
	(Dollars in millions)							
Individually impaired loans:								
With related allowance recorded:								
Single-family:								
Primary	$125,960	$120,221	$ 20,327	$ 309	$ 130,080	$123,631	$ 24,145	$ 430
Government	281	285	46	12	213	210	35	5
Alt-A	35,492	32,816	7,778	136	37,356	34,479	9,364	187
Other	14,667	13,947	3,049	38	15,789	15,023	3,879	56
Total single-family	176,400	167,269	31,200	495	183,438	173,343	37,423	678
Multifamily	1,230	1,241	175	6	2,257	2,276	306	10
Total individually impaired loans with related allowance recorded	177,630	168,510	31,375	501	185,695	175,619	37,729	688
With no related allowance recorded:[1]								
Single-family:								
Primary	16,704	14,876	—	—	14,076	12,305	—	—
Government	61	57	—	—	120	120	—	—
Alt-A	3,993	3,119	—	—	3,290	2,428	—	—
Other	1,240	1,056	—	—	1,039	868	—	—
Total single-family	21,998	19,108	—	—	18,525	15,721	—	—
Multifamily	565	568	—	—	1,927	1,939	—	—
Total individually impaired loans with no related allowance recorded	22,563	19,676	—	—	20,452	17,660	—	—
Total individually impaired loans[2]	$200,193	$188,186	$ 31,375	$ 501	$ 206,147	$193,279	$ 37,729	$ 688

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	For the Year Ended December 31,								
	2014			2013			2012		
	Average Recorded Investment	Total Interest Income Recognized[3]	Interest Income Recognized on a Cash Basis	Average Recorded Investment	Total Interest Income Recognized[3]	Interest Income Recognized on a Cash Basis	Average Recorded Investment	Total Interest Income Recognized[3]	Interest Income Recognized on a Cash Basis
	(Dollars in millions)								
Individually impaired loans:									
With related allowance recorded:									
Single-family:									
Primary	$121,926	$4,321	$ 494	$ 124,659	$4,351	$ 603	$115,767	$4,077	$ 654
Government	270	13	—	213	11	—	216	11	—
Alt-A	33,676	1,066	100	35,075	1,096	135	32,978	1,048	151
Other	14,490	402	36	15,537	425	52	15,593	444	65
Total single-family	170,362	5,802	630	175,484	5,883	790	164,554	5,580	870
Multifamily	1,699	80	1	2,552	128	1	2,535	125	2
Total individually impaired loans with related allowance recorded	172,061	5,882	631	178,036	6,011	791	167,089	5,705	872
With no related allowance recorded: [1]									
Single-family:									
Primary	13,852	864	215	11,442	1,369	227	8,264	1,075	231
Government	67	5	—	112	8	—	78	7	—
Alt-A	2,799	189	47	2,207	329	45	1,811	253	55
Other	974	56	12	752	117	17	455	95	24
Total single-family	17,692	1,114	274	14,513	1,823	289	10,608	1,430	310
Multifamily	1,472	64	—	1,863	97	3	1,781	56	2
Total individually impaired loans with no related allowance recorded	19,164	1,178	274	16,376	1,920	292	12,389	1,486	312
Total individually impaired loans[2]	$191,225	$7,060	$ 905	$ 194,412	$7,931	$1,083	$179,478	$7,191	$1,184

(1) The discounted cash flows or collateral value equals or exceeds the carrying value of the loan and, as such, no valuation allowance is required.

(2) Includes single-family loans restructured in a TDR with a recorded investment of $185.2 billion, $187.6 billion and $193.4 billion as of December 31, 2014, 2013 and 2012, respectively. Includes multifamily loans restructured in a TDR with a recorded investment of $716 million, $911 million and $1.1 billion as of December 31, 2014, 2013 and 2012, respectively.

(3) Total single-family interest income recognized of $6.9 billion for the year ended December 31, 2014, consists of $5.8 billion of contractual interest and $1.1 billion of effective yield adjustments. Total single-family interest income recognized of $7.7 billion for the year ended December 31, 2013, consists of $5.7 billion of contractual interest and $2.0 billion of effective yield adjustments. Total single-family interest income recognized of $7.0 billion for the year ended December 31, 2012, consists of $5.3 billion of contractual interest and $1.7 billion of effective yield adjustments.

Troubled Debt Restructurings

A modification to the contractual terms of a loan that results in granting a concession to a borrower experiencing financial difficulties is considered a TDR. In addition to formal loan modifications, we also engage in other loss mitigation activities with troubled borrowers, which include repayment plans and forbearance arrangements, both of which represent informal agreements with the borrower that do not result in the legal modification of the loan's contractual terms. We account for these informal restructurings as a TDR if we defer more than three missed payments. We also classify loans to certain borrowers who have received bankruptcy relief as TDRs.

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The substantial majority of the loan modifications we complete result in term extensions, interest rate reductions or a combination of both. During the years ended December 31, 2014 and 2013, the average term extension of a single-family modified loan was 161 months and 154 months, respectively, and the average interest rate reduction was 0.99 and 1.68 percentage points, respectively.

The following table displays the number of loans and recorded investment in loans restructured in a TDR for the years ended December 31, 2014 and 2013.

	For the Year Ended December 31,			
	2014		2013	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(Dollars in millions)			
Single-family:				
Primary	100,956	$ 14,301	126,998	$ 19,016
Government	365	47	312	35
Alt-A	14,715	2,441	21,471	3,794
Other	3,357	686	6,226	1,378
Total single-family	119,393	17,475	155,007	24,223
Multifamily	19	853	33	213
Total troubled debt restructurings	119,412	$ 18,328	155,040	$ 24,436

The following table displays the number of loans and our recorded investment in these loans at the time of payment default for the years ended December 31, 2014 and 2013 for loans that were restructured in a TDR in the twelve months prior to the payment default. For purposes of this disclosure, we define loans that had a payment default as: single-family and multifamily loans with completed TDRs that liquidated during the period, either through foreclosure, deed-in-lieu of foreclosure or a short sale; single-family loans with completed modifications that are two or more months delinquent during the period; or multifamily loans with completed modifications that are one or more months delinquent during the period.

	For the Year Ended December 31,			
	2014		2013	
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment
	(Dollars in millions)			
Single-family:				
Primary	33,853	$ 5,095	45,539	$ 6,978
Government	124	15	130	17
Alt-A	5,392	960	9,601	1,732
Other	1,738	387	3,093	685
Total single-family	41,107	6,457	58,363	9,412
Multifamily	9	42	9	64
Total TDRs that subsequently defaulted	41,116	$ 6,499	58,372	$ 9,476

4. Allowance for Loan Losses

We maintain an allowance for loan losses for HFI loans held by Fannie Mae and loans backing Fannie Mae MBS issued from consolidated trusts. When calculating our allowance for loan losses, we consider our net recorded investment in the loan at the balance sheet date, which includes interest income only while the loan was on accrual status.

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The following table displays changes in single-family, multifamily and total allowance for loan losses for the years ended December 31, 2014, 2013 and 2012.

	For the Year Ended December 31,								
	2014			2013			2012		
	Of Fannie Mae	Of Consolidated Trusts	Total	Of Fannie Mae	Of Consolidated Trusts	Total	Of Fannie Mae	Of Consolidated Trusts	Total
	(Dollars in millions)								
Single-family allowance for loan losses:									
Beginning balance, January 1	$40,202	$ 3,105	$43,307	$49,848	$ 7,839	$57,687	$56,294	$ 14,339	$70,633
(Benefit) provision for loan losses[1]	(4,334)	553	(3,781)	(6,751)	(2,145)	(8,896)	(1,482)	465	(1,017)
Charge-offs[2]	(6,168)	(225)	(6,393)	(8,458)	(256)	(8,714)	(14,055)	(823)	(14,878)
Recoveries	1,190	250	1,440	2,115	511	2,626	1,632	152	1,784
Transfers[3]	1,513	(1,513)	—	2,932	(2,932)	—	6,437	(6,437)	—
Other[4]	553	51	604	516	88	604	1,022	143	1,165
Ending balance, December 31	$32,956	$ 2,221	$35,177	$40,202	$ 3,105	$43,307	$49,848	$ 7,839	$57,687
Multifamily allowance for loan losses:									
Beginning balance, January 1	$ 319	$ 220	$ 539	$ 671	$ 437	$ 1,108	$ 1,015	$ 508	$ 1,523
Benefit for loan losses[1]	(91)	(13)	(104)	(233)	(187)	(420)	(131)	(43)	(174)
Charge-offs	(76)	—	(76)	(153)	—	(153)	(261)	—	(261)
Transfers[3]	4	(4)	—	30	(30)	—	29	(29)	—
Other[4]	5	—	5	4	—	4	19	1	20
Ending balance, December 31	$ 161	$ 203	$ 364	$ 319	$ 220	$ 539	$ 671	$ 437	$ 1,108
Total allowance for loan losses:									
Beginning balance, January 1	$40,521	$ 3,325	$43,846	$50,519	$ 8,276	$58,795	$57,309	$ 14,847	$72,156
(Benefit) provision for loan losses[1]	(4,425)	540	(3,885)	(6,984)	(2,332)	(9,316)	(1,613)	422	(1,191)
Charge-offs[2]	(6,244)	(225)	(6,469)	(8,611)	(256)	(8,867)	(14,316)	(823)	(15,139)
Recoveries	1,190	250	1,440	2,115	511	2,626	1,632	152	1,784
Transfers[3]	1,517	(1,517)	—	2,962	(2,962)	—	6,466	(6,466)	—
Other[4]	558	51	609	520	88	608	1,041	144	1,185
Ending balance, December 31	$33,117	$ 2,424	$35,541	$40,521	$ 3,325	$43,846	$50,519	$ 8,276	$58,795

(1) (Benefit) provision for loan losses is included in "Benefit for credit losses" in our consolidated statements of operations and comprehensive income.

(2) While we purchase the substantial majority of loans that are four or more months delinquent from our MBS trusts, we do not exercise this option to purchase loans during a forbearance period. Charge-offs of consolidated trusts generally represent loans that remained in our consolidated trusts at the time of default.

(3) Includes transfers from trusts for delinquent loan purchases.

(4) Amounts represent the net activity recorded in our allowances for accrued interest receivable and preforeclosure property taxes and insurance receivable from borrowers. The (benefit) provision for loan losses, charge-offs, recoveries and transfer activity included in this table reflects all changes for both the allowance for loan losses and the valuation allowances for accrued interest and preforeclosure property taxes and insurance receivable that relate to the mortgage loans.

As of December 31, 2014, the allowance for accrued interest receivable for loans of Fannie Mae was $671 million and for loans of consolidated trusts was $52 million. As of December 31, 2013, the allowance for accrued interest receivable for loans of Fannie Mae was $1.1 billion and for loans of consolidated trusts was $104 million.

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The following table displays the allowance for loan losses and recorded investment in our HFI loans, excluding loans for which we have elected the fair value option, by impairment or reserve methodology and portfolio segment as of December 31, 2014 and 2013.

	As of December 31,					
	2014			2013		
	Single-Family	Multifamily	Total	Single-Family	Multifamily	Total
	(Dollars in millions)					
Allowance for loan losses by segment:						
Individually impaired loans[1]	$ 31,200	$ 175	$ 31,375	$ 37,423	$ 306	$ 37,729
Collectively reserved loans	3,977	189	4,166	5,884	233	6,117
Total allowance for loan losses	$ 35,177	$ 364	$ 35,541	$ 43,307	$ 539	$ 43,846
Recorded investment in loans by segment:						
Individually impaired loans[1]	$ 186,377	$ 1,809	$ 188,186	$ 189,064	$ 4,215	$ 193,279
Collectively reserved loans	2,672,184	187,424	2,859,608	2,689,627	181,763	2,871,390
Total recorded investment in loans	$2,858,561	$189,233	$3,047,794	$2,878,691	$185,978	$3,064,669

(1) Includes acquired credit-impaired loans.

5. Investments in Securities

Trading Securities

Trading securities are recorded at fair value with subsequent changes in fair value recorded as "Fair value (losses) gains, net" in our consolidated statements of operations and comprehensive income. The following table displays our investments in trading securities as of December 31, 2014 and 2013.

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Mortgage-related securities:		
Fannie Mae	$ 4,940	$ 5,870
Freddie Mac	1,369	1,839
Ginnie Mae	166	407
Alt-A private-label securities	920	1,516
Subprime private-label securities	1,307	1,448
CMBS	2,515	2,718
Mortgage revenue bonds	722	565
Other mortgage-related securities	99	99
Total mortgage-related securities	12,038	14,462
U.S. Treasury securities	19,466	16,306
Total trading securities	$ 31,504	$ 30,768

The following table displays information about our net trading gains for the years ended December 31, 2014, 2013 and 2012.

For the Year Ended December 31,

	2014	2013	2012
	(Dollars in millions)		
Net trading gains	$ 485	$ 260	$ 1,004
Net trading gains recorded in the period related to securities still held at period end	420	297	1,037

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Available-for-Sale Securities

We record AFS securities at fair value with unrealized gains and losses, recorded net of tax, as a component of "Other comprehensive income" and we recognize realized gains and losses from the sale of AFS securities in "Investment gains (losses), net" in our consolidated statements of operations and comprehensive income.

The following table displays the gross realized gains, losses and proceeds on sales of AFS securities, excluding proceeds from the initial sale of securities from new portfolio securitizations, for the years ended December 31, 2014, 2013 and 2012.

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Gross realized gains	$ 569	$ 1,632	$ 40
Gross realized losses	(5)	(979)	(16)
Total proceeds	3,265	15,157	634

The following tables display the amortized cost, gross unrealized gains and losses and fair value by major security type for AFS securities we held as of December 31, 2014 and 2013.

	As of December 31, 2014				
	Total Amortized Cost[(1)]	Gross Unrealized Gains	Gross Unrealized Losses - OTTI[(2)]	Gross Unrealized Losses - Other[(3)]	Total Fair Value
	(Dollars in millions)				
Fannie Mae	$ 5,330	$ 328	$ —	$ (19)	$ 5,639
Freddie Mac	5,100	428	—	—	5,528
Ginnie Mae	416	60	—	—	476
Alt-A private-label securities	4,638	1,055	(15)	—	5,678
Subprime private-label securities	4,103	1,161	(9)	(15)	5,240
CMBS	1,341	56	—	—	1,397
Mortgage revenue bonds	3,859	177	(8)	(5)	4,023
Other mortgage-related securities	2,626	183	(23)	(113)	2,673
Total	$27,413	$ 3,448	$ (55)	$ (152)	$30,654

	As of December 31, 2013				
	Total Amortized Cost[(1)]	Gross Unrealized Gains	Gross Unrealized Losses - OTTI[(2)]	Gross Unrealized Losses - Other[(3)]	Total Fair Value
	(Dollars in millions)				
Fannie Mae	$ 6,227	$ 390	$ —	$ (44)	$ 6,573
Freddie Mac	6,365	477	—	—	6,842
Ginnie Mae	512	76	—	—	588
Alt-A private-label securities	6,240	1,151	(40)	(2)	7,349
Subprime private-label securities	6,232	991	(102)	(53)	7,068
CMBS	1,526	80	—	—	1,606

Mortgage revenue bonds	5,645	35	(228)	(196)	5,256
Other mortgage-related securities	2,943	164	(15)	(203)	2,889
Total	$ 35,690	$ 3,364	$ (385)	$ (498)	$ 38,171

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(1) Amortized cost consists of unpaid principal balance, unamortized premiums, discounts and other cost basis adjustments as well as net other-than-temporary impairments ("OTTI") recognized in "Investment gains (losses), net" in our consolidated statements of operations and comprehensive income.

(2) Represents the noncredit component of OTTI losses recorded in "Accumulated other comprehensive income" as well as cumulative changes in fair value of securities for which we previously recognized the credit component of OTTI.

(3) Represents the gross unrealized losses on securities for which we have not recognized OTTI.

The following tables display additional information regarding gross unrealized losses and fair value by major security type for AFS securities in an unrealized loss position that we held as of December 31, 2014 and 2013.

	As of December 31, 2014			
	Less Than 12 Consecutive Months		12 Consecutive Months or Longer	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(Dollars in millions)			
Fannie Mae	$ —	$ 113	$ (19)	$ 627
Alt-A private-label securities	(2)	171	(13)	112
Subprime private-label securities	—	—	(24)	460
Mortgage revenue bonds	(2)	47	(11)	155
Other mortgage-related securities	—	8	(136)	1,021
Total	$ (4)	$ 339	$ (203)	$ 2,375

	As of December 31, 2013			
	Less Than 12 Consecutive Months		12 Consecutive Months or Longer	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(Dollars in millions)			
Fannie Mae	$ (40)	$ 975	$ (4)	$ 126
Alt-A private-label securities	(12)	490	(30)	308
Subprime private-label securities	(24)	448	(131)	1,332
Mortgage revenue bonds	(147)	1,662	(277)	970
Other mortgage-related securities	—	5	(218)	1,066
Total	$ (223)	$ 3,580	$ (660)	$ 3,802

Other-Than-Temporary Impairments

For AFS securities, OTTI is considered to have occurred when the fair value of a debt security is below its amortized cost basis and we intend to sell or it is more likely than not that we will be required to sell the security before recovery. Additionally, OTTI is considered to have occurred if we do not expect to recover the entire amortized cost basis of a debt security even if we do not intend to sell the security or it is not more likely than not we will be required to sell the security before recovery.

We recognized $90 million, $64 million and $713 million of OTTI for the years ended December 31, 2014, 2013 and 2012, respectively, which are included in "Investment gains (losses), net" in our consolidated statements of operations and comprehensive income.

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The following table displays the modeled attributes, including default rates and severities, which were used to determine as of December 31, 2014 whether our senior interests in certain non-agency mortgage-related securities (including those we intend to sell) will experience a cash shortfall. An estimate of voluntary prepayment rates is also an input to the present value of expected losses.

	As of December 31, 2014				
		Alt-A			
	Subprime	Option ARM	Fixed Rate	Variable Rate	Hybrid Rate
	(Dollars in millions)				
Vintage Year					
2004 & Prior:					
Unpaid principal balance	$ 110	$ 110	$ 794	$ 121	$ 305
Weighted average collateral default[(1)]	26.4 %	26.4 %	8.3 %	17.2 %	11.7 %
Weighted average collateral severities[(2)]	56.3	54.6	45.9	37.8	36.4
Weighted average voluntary prepayment rates[(3)]	8.2	9.2	14.0	9.4	10.7
Average credit enhancement[(4)]	39.2	3.9	11.3	23.3	9.9
2005:					
Unpaid principal balance	$ 8	$ 451	$ 771	$ 277	$ 1,096
Weighted average collateral default[(1)]	47.0 %	31.5 %	19.9 %	27.1 %	20.7 %
Weighted average collateral severities[(2)]	69.7	53.6	49.0	47.2	41.2
Weighted average voluntary prepayment rates[(3)]	3.9	7.4	10.1	8.3	9.2
Average credit enhancement[(4)]	60.3	7.5	0.6	13.2	3.1
2006:					
Unpaid principal balance	$ 6,718	$ 571	$ 374	$ 873	$ 872
Weighted average collateral default[(1)]	48.1 %	39.1 %	22.5 %	26.8 %	11.9 %
Weighted average collateral severities[(2)]	66.7	46.6	53.1	44.2	40.7
Weighted average voluntary prepayment rates[(3)]	2.3	6.3	8.4	7.4	12.5
Average credit enhancement[(4)]	15.0	1.5	0.1	1.1	—
2007 & After:					
Unpaid principal balance	$ 328	$ —	$ —	$ —	$ 77
Weighted average collateral default[(1)]	46.1 %	N/A	N/A	N/A	20.7 %
Weighted average collateral severities[(2)]	25.5	N/A	N/A	N/A	36.2
Weighted average voluntary prepayment rates[(3)]	1.3	N/A	N/A	N/A	9.8
Average credit enhancement[(4)]	20.6	N/A	N/A	N/A	20.5
Total:					
Unpaid principal balance	$ 7,164	$ 1,132	$ 1,939	$ 1,271	$ 2,350
Weighted average collateral default[(1)]	47.7 %	34.8 %	15.7 %	25.9 %	16.3 %
Weighted average collateral severities[(2)]	64.8	49.7	49.5	44.5	40.4
Weighted average voluntary prepayment rates[(3)]	2.4	7.0	11.4	7.8	10.6
Average credit enhancement[(4)]	15.7	4.1	4.9	5.8	3.4

(1) The expected remaining cumulative default rate of the collateral pool backing the securities, as a percentage of the current collateral unpaid principal balance, weighted by security unpaid principal balance.

(2) The expected remaining loss given default of the collateral pool backing the securities, calculated as the ratio of remaining cumulative loss divided by cumulative defaults, weighted by security unpaid principal balance.

(3) The average monthly voluntary prepayment rate, weighted by security unpaid principal balance.

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(4) The average percent current credit enhancement provided by subordination of other securities. Excludes excess interest projections and monoline bond insurance.

The following table displays activity related to the unrealized credit loss component on debt securities held by us and recognized in our consolidated statements of operations and comprehensive income for the years ended December 31, 2014 and 2013.

	For the Year Ended December 31, 2014	2013
	(Dollars in millions)	
Balance, beginning of period	$ 7,904	$ 9,214
Additions for the credit component on debt securities for which OTTI was not previously recognized	1	20
Additions for the credit component on debt securities for which OTTI was previously recognized	58	10
Reductions for securities no longer in portfolio at period end	(904)	(543)
Reductions for securities which we intend to sell or it is more likely than not that we will be required to sell before recovery of amortized cost basis	(1,453)	(399)
Reductions for amortization resulting from changes in cash flows expected to be collected over the remaining life of the securities	(346)	(398)
Balance, end of period	$ 5,260	$ 7,904

Maturity Information

The following table displays the amortized cost and fair value of our AFS securities by major security type and remaining contractual maturity, assuming no principal prepayments, as of December 31, 2014. The contractual maturity of mortgage-backed securities is not a reliable indicator of their expected life because borrowers generally have the right to prepay their obligations at any time.

	As of December 31, 2014									
			One Year or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years	
	Total Amortized Cost	Total Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	(Dollars in millions)									
Fannie Mae	$ 5,330	$ 5,639	$ —	$ —	$ 253	$ 266	$ 255	$ 274	$ 4,822	$ 5,099
Freddie Mac	5,100	5,528	—	—	280	295	488	533	4,332	4,700
Ginnie Mae	416	476	—	—	—	—	62	70	354	406
Alt-A private-label securities	4,638	5,678	—	—	—	—	—	—	4,638	5,678
Subprime private-label securities	4,103	5,240	—	—	—	—	—	—	4,103	5,240
CMBS	1,341	1,397	—	—	1,264	1,320	—	—	77	77
Mortgage revenue bonds	3,859	4,023	16	16	168	170	340	343	3,335	3,494
Other mortgage-related securities	2,626	2,673	—	—	—	2	36	38	2,590	2,633
Total	$27,413	$30,654	$ 16	$ 16	$ 1,965	$2,053	$1,181	$1,258	$ 24,251	$27,327
Weighted average yield[1]	5.52%		6.72%		4.61%		5.97%		5.58%	

(1) Yields are determined by dividing interest income (including amortization and accretion of premiums, discounts and other cost basis adjustments) by amortized cost balances as of year-end. Yields on tax-exempt obligations have been computed on a tax equivalent basis.

6. Financial Guarantees

We generate revenue by absorbing the credit risk of mortgage loans in unconsolidated trusts in exchange for a guaranty fee. We also provide credit enhancements on taxable or tax-exempt mortgage revenue bonds issued by state and local governmental entities to finance multifamily housing for low- and moderate-income families. Additionally, we issue long-

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term standby commitments that generally require us to purchase loans from lenders if the loans meet certain delinquency criteria.

We recognize a guaranty obligation for our obligation to stand ready to perform on our guarantees to unconsolidated trusts and other guaranty arrangements. These guarantees expose us to credit losses on the mortgage loans or, in the case of mortgage-related securities, the underlying mortgage loans of the related securities. The remaining contractual terms of our guarantees range from 30 days to 38 years; however, the actual term of each guaranty may be significantly less than the contractual term based on the prepayment characteristics of the related mortgage loans.

The following table displays our maximum exposure, guaranty obligation recognized in our consolidated balance sheets and the maximum potential recovery from third parties through available credit enhancements and recourse related to our financial guarantees as of December 31, 2014 and 2013.

	As of December 31,					
	2014			2013		
	Maximum Exposure[1]	Guaranty Obligation	Maximum Recovery[2]	Maximum Exposure[1]	Guaranty Obligation	Maximum Recovery[2]
	(Dollars in millions)					
Non-consolidated Fannie Mae MBS	$ 17,184	$ 214	$ 9,775	$ 19,317	$ 232	$ 10,541
Other guaranty arrangements[3]	18,781	168	4,447	30,598	253	4,525
Total	$ 35,965	$ 382	$ 14,222	$ 49,915	$ 485	$ 15,066

(1) Primarily consists of the unpaid principal balance of the underlying mortgage loans.

(2) Recoverability of such credit enhancements and recourse is subject to, among other factors, our mortgage insurers' and financial guarantors' ability to meet their obligations to us. For information on our mortgage insurers and financial guarantors, see "Note 16, Concentrations of Credit Risk."

(3) Primarily consists of credit enhancements, long-term standby commitments, and our commitment under the TCLF program.

7. Acquired Property, Net

Acquired property, net consists of held-for-sale foreclosed property received in satisfaction of a loan, net of a valuation allowance for declines in the fair value of the properties after initial acquisition. We classify properties as held for sale when we intend to sell the property and are actively marketing it for sale. The following table displays the activity in acquired property, and related valuation allowance, for the years ended December 31, 2014, 2013 and 2012.

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Beginning balance — Acquired property	$ 12,307	$ 11,158	$ 12,401
Additions	13,100	16,092	16,915
Disposals	(13,965)	(14,943)	(18,158)
Ending balance — Acquired property	11,442	12,307	11,158
Beginning balance — Valuation allowance	(686)	(669)	(1,028)
(Increase) decrease in valuation allowance	(138)	(17)	359
Ending balance — Valuation allowance	(824)	(686)	(669)
Ending balance — Acquired property, net	$ 10,618	$ 11,621	$ 10,489

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We classify as held for use those properties that we do not intend to sell or that are not ready for immediate sale in their current condition, which are included in "Other assets" in our consolidated balance sheets. The following table displays the activity and carrying amount of acquired properties held for use for the years ended December 31, 2014, 2013 and 2012.

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Beginning balance, January 1	$ 256	$ 873	$ 835
Transfers in from held for sale, net and additions	333	544	1,173
Transfers to held for sale, net	(367)	(1,027)	(748)
Depreciation, asset write-downs, and other	(87)	(134)	(387)
Ending balance, December 31	$ 135	$ 256	$ 873

8. Short-Term Borrowings and Long-Term Debt

Short-Term Borrowings

The following table displays our outstanding short-term borrowings (borrowings with an original contractual maturity of one year or less) and weighted-average interest rates of these borrowings as of December 31, 2014 and 2013.

	As of December 31,			
	2014		2013	
	Outstanding	Weighted-Average Interest Rate[1]	Outstanding	Weighted-Average Interest Rate[1]
	(Dollars in millions)			
Federal funds purchased and securities sold under agreements to repurchase[2]	$ 50	—%	$ —	—%
Fixed-rate short-term debt:				
Discount notes[3]	$ 105,012	0.11%	$ 71,933	0.12%
Foreign exchange discount notes[4]	—	—	362	1.07
Total short-term debt of Fannie Mae	105,012	0.11	72,295	0.13
Debt of consolidated trusts	1,560	0.09	2,154	0.09
Total short-term debt	$ 106,572	0.11%	$ 74,449	0.13%

(1) Includes the effects of discounts, premiums and other cost basis adjustments.

(2) Represents agreements to repurchase securities for a specified price, with repayment generally occurring on the following day.

(3) Represents unsecured general obligations with maturities ranging from overnight to 360 days from the date of issuance.

(4) Represents foreign exchange discount notes we issue in the Euro commercial paper market with maturities ranging from 5 to 360 days which enable investors to hold short-term investments in different currencies.

Intraday Line of Credit

We periodically use a secured intraday funding line of credit provided by a large financial institution. We post collateral which, in some circumstances, the secured party has the right to repledge to third parties. As this line of credit is an uncommitted intraday loan facility, we may be unable to draw on it if and when needed. We had a secured uncommitted line of credit of $15.0 billion as of December 31, 2014 and had secured uncommitted lines of credit of $20.0 billion as of December 31, 2013. We had no borrowings outstanding from a line of credit as of December 31, 2014.

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Long-Term Debt

Long-term debt represents borrowings with an original contractual maturity of greater than one year. The following table displays our outstanding long-term debt as of December 31, 2014 and 2013.

	As of December 31,					
	2014			2013		
	Maturities	Outstanding	Weighted-Average Interest Rate[1]	Maturities	Outstanding	Weighted-Average Interest Rate[1]
	(Dollars in millions)					
Senior fixed:						
Benchmark notes and bonds	2015 - 2030	$ 173,010	2.41%	2014 - 2030	$ 212,234	2.45%
Medium-term notes[2]	2015 - 2024	114,556	1.42	2014 - 2023	161,445	1.28
Foreign exchange notes and bonds	2021 - 2028	619	5.44	2021 - 2028	682	5.41
Other	2015 - 2038	32,322	4.63	2014 - 2038	38,444 [4]	4.99
Total senior fixed		320,507	2.29		412,805	2.24
Senior floating:						
Medium-term notes[2]	2015 - 2019	24,469	0.15	2014 - 2019	38,441	0.20
Connecticut Avenue Securities[3]	2023 - 2024	6,041	2.97	2023	689	3.81
Other[4]	2020 - 2037	363	8.71	2020 - 2037	266	8.52
Total senior floating		30,873	0.81		39,396	0.32
Subordinated fixed:						
Qualifying subordinated	—	—	—	2014	1,169	5.27
Subordinated debentures	2019	3,849	9.93	2019	3,507	9.92
Total subordinated fixed		3,849	9.93		4,676	8.76
Secured borrowings[5]	2021 - 2022	202	1.90	2021 - 2022	262	1.86
Total long-term debt of Fannie Mae[6]		355,431	2.24		457,139	2.14
Debt of consolidated trusts[4]	2015 - 2054	2,760,152	3.02	2014 - 2053	2,702,935	3.26
Total long-term debt		$ 3,115,583	2.93%		$ 3,160,074	3.10%

(1) Includes the effects of discounts, premiums and other cost basis adjustments.

(2) Includes long-term debt with an original contractual maturity of greater than 1 year and up to 10 years, excluding zero-coupon debt.

(3) Credit risk sharing securities that transfer a portion of the credit risk on specified pools of mortgage loans to the investors in these securities. Connecticut Avenue Securities are reported at fair value.

(4) Includes a portion of structured debt instruments that is reported at fair value.

(5) Represents our remaining liability resulting from the transfer of financial assets from our consolidated balance sheets that did not qualify as a sale under the accounting guidance for the transfer of financial instruments.

(6) Reported amounts include unamortized discounts and premiums, other cost basis adjustments and fair value adjustments of $4.1 billion and $4.8 billion as of December 31, 2014 and 2013, respectively.

Our long-term debt includes a variety of debt types. We issue fixed and floating-rate medium-term notes with maturities greater than one year that are issued through dealer banks. We also offer Benchmark Notes and other bonds in large, regularly-scheduled issuances that provide increased efficiency, liquidity and tradability to the market. Additionally, we have issued notes and bonds denominated in several foreign currencies and are able to issue debt in numerous other currencies. We effectively convert all foreign currency-denominated transactions into U.S. dollars through the use of foreign currency swaps for the purpose of funding our mortgage assets. Our long-term debt also includes Connecticut Avenue Securities ("CAS"), which are credit risk sharing securities that transfer a portion of the credit risk on specified pools of mortgage loans to investors in these securities. See "Note 16, Concentrations of Credit Risk" for additional information regarding CAS.

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Our other long-term debt includes callable and non-callable securities, which include all long-term non-Benchmark securities, such as zero-coupon bonds, fixed rate and other long-term securities, and are generally negotiated underwritings with one or more dealers or dealer banks.

Characteristics of Debt

As of December 31, 2014 and 2013, the face amount of our debt securities of Fannie Mae was $464.6 billion and $534.3 billion, respectively. As of December 31, 2014 and 2013, we had zero-coupon debt with a face amount of $116.7 billion and $86.8 billion, respectively, which had an effective interest rate of 0.77% and 1.29%, respectively.

We issue callable debt instruments to manage the duration and prepayment risk of expected cash flows of the mortgage assets we own. Our outstanding debt as of December 31, 2014 and 2013 included $115.0 billion and $168.4 billion, respectively, of callable debt that could be redeemed in whole or in part at our option any time on or after a specified date.

The following table displays the amount of our long-term debt as of December 31, 2014 by year of maturity for each of the years 2015 through 2019 and thereafter. The first column assumes that we pay off this debt at maturity or on the call date if the call has been announced, while the second column assumes that we redeem our callable debt at the next available call date.

	Long-Term Debt by Year of Maturity	Assuming Callable Debt Redeemed at Next Available Call Date
	(Dollars in millions)	
2015	$ 64,655	$ 173,495
2016	59,124	56,851
2017	79,193	52,598
2018	47,452	23,169
2019	32,564	17,964
Thereafter	72,443	31,354
Total debt of Fannie Mae[1]	355,431	355,431
Debt of consolidated trusts[2]	2,760,152	2,760,152
Total long-term debt[3]	$ 3,115,583	$ 3,115,583

(1) Reported amount includes a net unamortized discount, fair value adjustments and other cost basis adjustments of $4.1 billion.

(2) Contractual maturity of debt of consolidated trusts is not a reliable indicator of expected maturity because borrowers of the underlying loans generally have the right to prepay their obligations at any time.

(3) Includes a portion of structured debt instruments that is reported at fair value.

9. Derivative Instruments

Derivative instruments are an integral part of our strategy in managing interest rate risk. Derivative instruments may be privately-negotiated, bilateral contracts, or they may be listed and traded on an exchange. We refer to our derivative transactions made pursuant to bilateral contracts as our over-the-counter ("OTC") derivative transactions and our derivative transactions accepted for clearing by a derivatives clearing organization as our cleared derivative transactions. We typically do not settle the notional amount of our risk management derivatives; rather, notional amounts provide the basis for calculating actual payments or settlement amounts. The derivatives we use for interest rate risk management purposes consist primarily of interest rate swaps and interest rate options.

- *Interest rate swap contracts.* An interest rate swap is a transaction between two parties in which each party agrees to exchange payments tied to different interest rates or indices for a specified period of time, generally based on a notional amount of principal. The types of interest rate swaps we use include pay-fixed swaps, receive-fixed swaps and basis swaps.
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Interest rate option contracts. These contracts primarily include pay-fixed swaptions, receive-fixed swaptions, cancelable swaps and interest rate caps. A swaption is an option contract that allows us or a counterparty to enter into a pay-fixed or receive-fixed swap at some point in the future.

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We enter into forward purchase and sale commitments that lock in the future delivery of mortgage loans and mortgage-related securities at a fixed price or yield. Certain commitments to purchase mortgage loans and purchase or sell mortgage-related securities meet the criteria of a derivative. We typically settle the notional amount of our mortgage commitments that are accounted for as derivatives.

Notional and Fair Value Position of our Derivatives

The following table displays the notional amount and estimated fair value of our asset and liability derivative instruments as of December 31, 2014 and 2013.

	December 31, 2014				December 31, 2013			
	Asset Derivatives		Liability Derivatives		Asset Derivatives		Liability Derivatives	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
	(Dollars in millions)							
Risk management derivatives:								
Swaps:								
Pay-fixed	$ 41,965	$ 733	$123,557	$ (7,125)	$ 68,637	$ 5,378	$ 93,428	$ (4,759)
Receive-fixed	67,629	4,486	157,272	(1,302)	67,527	3,320	156,250	(3,813)
Basis	5,769	123	7,100	(2)	27,014	36	600	—
Foreign currency	344	144	273	(30)	389	120	653	(38)
Swaptions:								
Pay-fixed	11,100	57	26,525	(175)	33,400	445	48,025	(600)
Receive-fixed	750	96	29,525	(816)	8,000	117	48,025	(484)
Other(1)	1,071	28	12	(1)	769	28	13	(1)
Total gross risk management derivatives	128,628	5,667	344,264	(9,451)	205,736	9,444	346,994	(9,695)
Accrued interest receivable (payable)	—	749	—	(1,013)	—	786	—	(930)
Netting adjustment(2)	—	(5,186)	—	10,194	—	(8,422)	—	9,370
Total net risk management derivatives	$ 128,628	$ 1,230	$344,264	$ (270)	$205,736	$ 1,808	$346,994	$ (1,255)
Mortgage commitment derivatives:								
Mortgage commitments to purchase whole loans	$ 6,157	$ 28	$ 428	$ —	$ 1,138	$ 1	$ 4,353	$ (31)
Forward contracts to purchase mortgage-related securities	43,533	223	6,112	(8)	3,276	4	20,861	(168)
Forward contracts to sell mortgage-related securities	4,886	4	57,910	(336)	35,423	260	7,886	(15)
Total mortgage commitment derivatives	$ 54,576	$ 255	$ 64,450	$ (344)	$ 39,837	$ 265	$ 33,100	$ (214)
Derivatives at fair value	$ 183,204	$ 1,485	$408,714	$ (614)	$245,573	$ 2,073	$380,094	$ (1,469)

(1) Includes interest rate caps, swap credit enhancements and mortgage insurance contracts that we account for as derivatives. The mortgage insurance contracts have payment provisions that are not based on a notional amount.

(2) The netting adjustment represents the effect of the legal right to offset under legally enforceable master netting arrangements to settle with the same counterparty on a net basis, including cash collateral posted and received. Cash collateral posted was $5.3 billion and $2.0 billion as of December 31, 2014 and 2013, respectively. Cash collateral received was $245 million and $1.0 billion as of December 31, 2014 and 2013, respectively.

A majority of our OTC derivative contracts contain provisions that require our senior unsecured debt to maintain a minimum credit rating from S&P and Moody's. If our senior unsecured debt credit ratings were downgraded to established thresholds in these derivative contracts, which range from A+ to BBB+, we could be required to provide additional collateral to or terminate transactions with certain counterparties. The aggregate fair value of all OTC derivatives with credit-risk-related

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contingent features that were in a net liability position was $2.6 billion and $2.1 billion, for which we posted collateral of $2.4 billion and $2.0 billion in the normal course of business as of December 31, 2014 and 2013, respectively. Had all of the credit-risk-related contingency features underlying these agreements been triggered, an additional $269 million and $130 million would have been required to be posted as collateral or to immediately settle our positions based on the individual agreements and our fair value position as of December 31, 2014 and 2013, respectively. A reduction in our credit ratings may also cause derivatives clearing organizations or their members to demand that we post additional collateral for our cleared derivatives contracts.

We record all derivative gains and losses, including accrued interest, in "Fair value (losses) gains, net" in our consolidated statements of operations and comprehensive income. The following table displays, by type of derivative instrument, the fair value gains and losses, net on our derivatives for the years ended December 31, 2014, 2013 and 2012.

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Risk management derivatives:			
Swaps:			
Pay-fixed	$ (7,703)	$ 14,393	$ (2,254)
Receive-fixed	4,229	(10,721)	1,102
Basis	85	(115)	78
Foreign currency	27	(101)	59
Swaptions:			
Pay-fixed	(4)	(238)	132
Receive-fixed	(197)	307	410
Other	1	21	(35)
Accrual of periodic settlements:			
Pay-fixed interest-rate swaps	(3,712)	(4,463)	(4,427)
Received-fixed interest-rate swaps	2,600	3,632	2,950
Other	50	64	47
Total risk management derivatives fair value (losses) gains, net	$ (4,624)	$ 2,779	$ (1,938)
Mortgage commitment derivatives fair value (losses) gains, net	(1,140)	501	(1,688)
Total derivatives fair value (losses) gains, net	$ (5,764)	$ 3,280	$ (3,626)

Derivative Counterparty Credit Exposure

Our derivative counterparty credit exposure relates principally to interest rate derivative contracts. We are exposed to the risk that a counterparty in a derivative transaction will default on payments due to us, which may require us to seek a replacement derivative from a different counterparty. This replacement may be at a higher cost, or we may be unable to find a suitable replacement. We manage our derivative counterparty credit exposure relating to our risk management derivative transactions mainly through enforceable master netting arrangements, which allow us to net derivative assets and liabilities with the same counterparty or clearing organization and clearing member. For our risk management derivative transactions, we require counterparties to post collateral, which may include cash, U.S. Treasury securities, agency debt and agency mortgage-related securities.

See "Note 17, Netting Arrangements" for information on our rights to offset assets and liabilities as of December 31, 2014 and 2013.

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10. Income Taxes

Provision (Benefit) for Income Taxes

We are subject to federal income tax, but we are exempt from state and local income taxes.

The following table displays the components of our provision (benefit) for federal income taxes for the years ended December 31, 2014, 2013 and 2012.

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Current income tax provision	$ 1,879	$ 3,067	$ —
Deferred income tax provision (benefit)[1]	5,062	(48,482)	—
Provision (benefit) for federal income taxes	$ 6,941	$ (45,415)	$ —

[1] Amount excludes the income tax effect of items recognized directly in "Fannie Mae stockholders' equity."

The following table displays the difference between our effective tax rates and the statutory federal tax rates for the years ended December 31, 2014, 2013 and 2012, respectively.

	For the Year Ended December 31,		
	2014	2013	2012
Statutory corporate tax rate	35.0 %	35.0 %	35.0 %
Equity investments in affordable housing projects	(1.8)	(1.5)	(3.9)
Other	1.4	—	(0.5)
Valuation allowance	(1.8)	(151.3)	(30.6)
Effective tax rate	32.8 %	(117.8) %	— %

Our effective tax rate is the provision (benefit) for federal income taxes expressed as a percentage of income or loss before federal income taxes. Our effective tax rate was different from the federal statutory rate of 35% for the year ended December 31, 2014 primarily due to the benefits of our investments in housing projects eligible for low-income housing tax credits. The decrease in our deferred tax valuation allowance reflects the expiration of certain capital loss carryforwards that are included as a component of "Other" in the table above. Our effective tax rate was different from the federal statutory rate of 35% for the year ended December 31, 2013 primarily due to the release of our valuation allowance for our net deferred tax assets that resulted in the recognition of $58.3 billion benefit in our provision (benefit) for income taxes. Our effective tax rate was different from the federal statutory rate of 35% for the year ended December 31, 2012 primarily due to the decrease to our valuation allowance for our net deferred tax assets that resulted in the recognition of $5.3 billion in our benefit for income taxes, fully offset by a corresponding decrease in our deferred tax assets.

Deferred Tax Assets and Liabilities

We recognize deferred tax assets and liabilities for future tax consequences arising from differences between the carrying amounts of existing assets and liabilities under GAAP and their respective tax bases.

We evaluate our deferred tax assets for recoverability using a consistent approach which considers the relative impact of negative and positive evidence, including our historical profitability and projections of future taxable income.

As of March 31, 2013, after weighing all of the evidence, we determined that the positive evidence in favor of releasing the valuation allowance, particularly the evidence that was objectively verifiable, outweighed the negative evidence against releasing the allowance. Therefore, we concluded that it was more likely than not that our deferred tax assets, except the deferred tax assets relating to capital loss carryforwards, would be realized. As a result, we released the valuation allowance on our deferred tax assets as of March 31, 2013, except for amounts that were expected to be released against income before federal income taxes for the remainder of that year.

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As of December 31, 2014, we continued to conclude that the positive evidence in favor of the recoverability of our deferred tax asset outweighed the negative evidence and that it is more likely than not that our deferred tax assets, except the deferred tax assets relating to capital loss carryforwards, will be realized. Our framework for assessing the recoverability of deferred tax assets requires us to weigh all available evidence, including the sustainability of recent profitability required to realize the deferred tax assets; the cumulative net income or losses in our consolidated statements of operations and comprehensive income in recent years; unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels on a continuing basis in future years; the funding available to us under the senior preferred stock purchase agreement; and the carryforward periods for any carryforwards of net operating losses, if any, capital losses and tax credits.

We recognized a benefit for federal income taxes of $58.3 billion in our consolidated statement of operations and comprehensive income for the year ended December 31, 2013 due to the release of the valuation allowance against our deferred tax assets, partially offset by our 2013 provision for federal income taxes, resulting in a net tax benefit of $45.4 billion in 2013.

As of December 31, 2014, we had a valuation allowance of $150 million related to our capital loss carryforwards, which we believe will likely expire unused. We recognized a provision for federal income taxes of $6.9 billion in 2014.

The following table displays our deferred tax assets, deferred tax liabilities and valuation allowance as of December 31, 2014 and 2013.

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Deferred tax assets:		
Allowance for loan losses and basis in acquired property, net	$ 17,435	$ 20,918
Mortgage and mortgage-related assets	16,250	16,350
Debt and derivative instruments	4,254	3,958
Partnership credits	2,918	4,172
Partnership and other equity investments	934	1,255
Other, net	1,699	2,300
Total deferred tax assets	43,490	48,953
Deferred tax liabilities:		
Unrealized gains on AFS securities, net	1,134	868
Total deferred tax liabilities	1,134	868
Valuation allowance	(150)	(525)
Deferred tax assets, net	$ 42,206	$ 47,560

As of December 31, 2014, we had no net operating loss carryforwards. We had $1.0 billion of capital loss carryforwards that expired in 2014 which were written off with a corresponding reduction to valuation allowance. We had a remaining balance of $427 million of capital loss carryforwards that expire in 2015 through 2019, $3.0 billion of partnership tax credit carryforwards that expire in various years through 2034 and $328 million of alternative minimum tax credit carryforwards that have an indefinite carryforward period.

Unrecognized Tax Benefits

We had $213 million, $514 million, and $648 million of unrecognized tax benefits as of December 31, 2014, 2013 and 2012, respectively. There were no unrecognized tax benefits as of December 31, 2014, 2013 or 2012, that would reduce our effective tax rate in future periods.

The IRS is currently concluding the examination of our federal income tax returns related to the 2009 and 2010 tax years. We expect to conclude the audit with the IRS during 2015. As a result of this conclusion, it is reasonably possible that a $213 million reduction of our gross balance of unrecognized tax benefits may occur within the next 12 months.

The following table displays the changes in our unrecognized tax benefits for the years ended December 31, 2014, 2013 and 2012, respectively.

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	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Unrecognized tax benefits as of January 1	$ 514	$ 648	$ 758
Gross decreases—tax positions in prior years	(301)	(134)	(110)
Unrecognized tax benefits as of December 31[1]	$ 213	$ 514	$ 648

(1) Amounts exclude tax credits of $91 million and $220 million as of December 31, 2014 and 2013, respectively, and exclude tax credits and net operating losses of $648 million as of December 31, 2012.

11. (Loss) Earnings Per Share

The following table displays the computation of basic and diluted (loss) earnings per share of common stock for the years ended December 31, 2014, 2013 and 2012.

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars and shares in millions, except per share amounts)		
Net income	$ 14,209	$ 83,982	$ 17,220
Less: Net (income) loss attributable to noncontrolling interest	(1)	(19)	4
Net income attributable to Fannie Mae	14,208	83,963	17,224
Dividends distributed or available for distribution to senior preferred stockholder[1]	(15,323)	(85,419)	(15,827)
Net (loss) income attributable to common stockholders	$ (1,115)	$ (1,456)	$ 1,397
Weighted-average common shares outstanding—Basic[2]	5,762	5,762	5,762
Convertible preferred stock	—	—	131
Weighted-average common shares outstanding—Diluted[2]	5,762	5,762	5,893
(Loss) earnings per share:			
Basic	$ (0.19)	$ (0.25)	$ 0.24
Diluted	$ (0.19)	$ (0.25)	$ 0.24

(1) Dividends available for distribution as of December 31, 2014 and 2013 (relating to the dividend period for the three months ended March 31, 2015 and 2014) were calculated based on our net worth as of December 31, 2014 and 2013, respectively, less the applicable capital reserve. For quarterly dividend periods in 2014 and 2013, dividends distributed were calculated based on our net worth as of the end of the immediately preceding fiscal quarter less the applicable capital reserve. During the year ended December 31, 2012, an annual dividend rate of 10% on the aggregate liquidation preference was used to calculate the dividend.

(2) Includes 4.6 billion for the years ended December 31, 2014 and 2013, and 4.7 billion for the year ended December 31, 2012, of weighted-average shares of common stock that would be issued upon the full exercise of the warrant issued to Treasury from the date the warrant was issued through December 31, 2014, 2013 and 2012, respectively.

12. Employee Retirement Benefits

We sponsor defined benefit plans and defined contribution plans for our employees. Net periodic benefit costs for our defined benefit plans, which are determined on an actuarial basis, and expenses for our defined contribution plans, are included in "Salaries and employee benefits" in our consolidated statements of operations and comprehensive income. For the years ended December 31, 2014, 2013 and 2012, we recognized net periodic benefit costs for our defined benefit and healthcare plans and expenses for our defined contribution plans of $114 million, $94 million and $133 million, respectively.

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Our defined benefit pension plans include qualified and nonqualified noncontributory plans. Our qualified defined benefit pension plan is the Fannie Mae Retirement Plan (referred to as our "qualified pension plan"). Our nonqualified defined benefit pension plans include the Executive Pension Plan, Supplemental Pension Plan and the Supplemental Pension Plan of 2003. These plans cover certain employees and supplement the benefits payable under the qualified pension plan.

In October 2013, pursuant to a directive from our conservator, our Board of Directors approved an amendment to terminate our qualified pension plan and our nonqualified Supplemental Pension Plan, Supplemental Pension Plan of 2003 and Executive Pension Plan, effective December 31, 2013. We plan to distribute all benefits under the pension plans during 2015.

The following table displays the changes in the pre-tax and after-tax amounts recognized in AOCI that have not been recognized as a component of net periodic benefit cost for the years ended December 31, 2014 and 2013.

	For the Year Ended	
	2014	2013
	(Dollars in millions)	
Actuarial Loss:		
Beginning balance	$ 338	$ 499
Current year actuarial gain	(16)	(236)
Actuarial gain due to curtailment	—	(135)
Actuarial loss due to plan amendment[1]	—	226
Amortization	(6)	(16)
Ending balance recorded in AOCI (Pre-tax)	$ 316	$ 338
After-tax balance recorded in AOCI	$ 391	$ 406

(1) Primarily includes the incremental costs incurred due to risk premiums required by insurance carriers to provide annuities and the higher actuarial value of lump sums distributed earlier than previously expected retirement ages.

Upon settlement of the defined benefit pension plans, all related amounts in AOCI will be reclassified (gross of taxes) to "Other administrative expenses" in our consolidated statements of operations and comprehensive income. This reclassification will decrease "Net income" and will be offset by an increase in "Other comprehensive income" with no material impact to "Total comprehensive income" in our consolidated statements of operations and comprehensive income.

The projected benefit obligation of our defined benefit pension plans was $1.9 billion and $1.6 billion as of December 31, 2014 and 2013, respectively. As of December 31, 2014 and 2013, the projected benefit obligation of the defined benefit pension plans is equal to the accumulated benefit obligation as a result of the amendment to cease benefit accruals. The fair value of the plan assets held by the defined benefit pension plans was $1.6 billion and $1.3 billion as of December 31, 2014 and 2013, respectively. We expect these assets will be used to fund distributions required upon settlement of the defined benefit pension plans. The projected benefit obligation that is not funded as part of the assets held by the defined benefit pension plans is $320 million and $324 million as of December 31, 2014 and 2013, respectively. This unfunded portion has been accrued and included in "Other Liabilities" in our consolidated balance sheets.

Assumptions

Pension benefit amounts recognized in our consolidated financial statements are determined on an actuarial basis using various assumptions. The critical assumption used to determine our benefit obligation for the defined benefit pension plans is the weighted average discount rate, which was 3.83%, 4.60% and 4.15% for the years ended December 31, 2014, 2013 and 2012, respectively.

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Qualified Pension Plan Assets

Our investment strategy is to invest in a manner intended to meet the liquidity requirements necessary to distribute the pension plan assets during 2015.

The fair value of our qualified plan assets in 2014 that were classified as Level 1 consisted of $767 million invested in a long-term U.S. investment grade corporate bond fund and $784 million in a money market fund. The corporate bond fund's objective is to track the performance of Barclays US Long Credit A/Better index. The fair value of our qualified plan assets also included $1 million of cash equivalents classified as Level 2.

The fair value of our qualified plan assets in 2013 that were classified as Level 1 consisted of $927 million invested in a long-term U.S. investment grade corporate bond fund, $257 million invested in a long-term U.S. government bond fund, and $134 million invested in a long-term U.S. government/credit bond fund. These mutual funds' objective was to track the performance of the Barclays US Long Credit A/Better index, the Barclays U.S. Treasury STRIPS 20-30 Year Equal Par Bond Index, and the Barclays U.S. Long Government/Credit Float Adjusted Index, respectively. The fair value of our qualified plan assets also included $6 million of cash equivalents classified as Level 2.

The fair value of plan assets in Level 1 are determined based on quoted prices of identical assets in active markets as of year end, while the fair value of plan assets in Level 2 are determined based on the net asset value per share of the investments as of year end.

13. Segment Reporting

Our three reportable segments are: Single-Family, Multifamily, and Capital Markets. We use these three segments to generate revenue and manage business risk, and each segment is based on the type of business activities it performs. Under our segment reporting, the sum of the results for our three business segments does not equal our consolidated statements of operations and comprehensive income, as we separate the activity related to our consolidated trusts from the results generated by our three segments. We also include an eliminations/adjustments category to reconcile our business segment financial results and the activity related to our consolidated trusts to net income in our consolidated statements of operations and comprehensive income.

The section below provides a discussion of the three business segments and how each segment's financial information reconciles to our consolidated financial statements.

Single-Family

The primary source of revenue for our Single-Family business is the guaranty fees the segment receives as compensation for assuming the credit risk on the mortgage loans underlying single-family Fannie Mae MBS, most of which are held within consolidated trusts, and on the single-family mortgage loans held in our retained mortgage portfolio. The primary source of profit for the Single-Family segment is the difference between the guaranty fees earned and the costs of providing the guaranty, including credit-related expense.

Our segment reporting presentation differs from our consolidated balance sheets and statements of operations and comprehensive income in order to reflect the activities and results of the Single-Family segment. The significant differences from the consolidated statements of operations and comprehensive income are as follows:

- *Guaranty fee income*—Guaranty fee income reflects the cash guaranty fees paid by MBS trusts to Single-Family, the amortization of deferred cash fees (both the previously recorded deferred cash fees that were eliminated from our consolidated balance sheets upon adoption of the consolidation accounting guidance on January 1, 2010 and deferred guaranty fees received subsequent to that adoption are currently recognized in our consolidated financial statements through interest income), such as buy-ups, buy-downs, and risk-based pricing adjustments, and the guaranty fees from the Capital Markets group on single-family loans in our retained mortgage portfolio. To reconcile to our consolidated statements of operations and comprehensive income, we eliminate guaranty fees and the amortization of deferred cash fees related to consolidated trusts as they are now reflected as a component of interest income; however, such accounting continues to be reflected for the segment reporting presentation.
- *Net interest income or loss*—Net interest income within the Single-Family segment reflects interest expense to reimburse Capital Markets and consolidated trusts for contractual interest not received on mortgage loans, when

interest income is no longer recognized in accordance with our nonaccrual accounting policy in our consolidated statements of operations and comprehensive income. Net interest income (loss), also includes an allocated cost of

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capital charge among the three segments that is not included in net interest income in the consolidated statement of operations and comprehensive income.

Multifamily

While the Multifamily guaranty business is similar to our Single-Family business, neither the economic return nor the nature of the credit risk is similar to that of Single-Family. The primary sources of revenue for our Multifamily business are guaranty fees the segment receives as compensation for assuming the credit risk on the mortgage loans underlying multifamily Fannie Mae MBS, most of which are held within consolidated trusts, guaranty fees on the multifamily mortgage loans held in our retained mortgage portfolio and other fees associated with multifamily business activities. Partnership investments in rental and for-sale housing generate revenue and losses from operations and the eventual sale of the assets.

Our segment reporting presentation differs from our consolidated balance sheets and statements of operations and comprehensive income in order to reflect the activities and results of the Multifamily segment. The significant differences from the consolidated statements of operations and comprehensive income are as follows:

- *Guaranty fee income*—Guaranty fee income reflects the cash guaranty fees paid by MBS trusts to Multifamily and the guaranty fees from the Capital Markets group on multifamily loans in Fannie Mae's portfolio. To reconcile to our consolidated statements of operations and comprehensive income, we eliminate guaranty fees related to consolidated trusts.
- *Gains or losses from partnership investments*—Gains from partnership investments primarily reflect gains or losses on investments in affordable rental and for-sale housing partnerships measured under the equity method of accounting. To reconcile to our consolidated statements of operations and comprehensive income, we adjust the gains or losses to reflect the consolidation of certain partnership investments.

Capital Markets Group

Our Capital Markets group generates most of its revenue from the difference, or spread, between the interest we earn on the mortgage assets in our retained mortgage portfolio and the interest we pay on the debt we issue to fund these assets. We refer to this spread as our net interest yield. Changes in the fair value of the derivative instruments and trading securities we hold and gains and losses on securitizations and sales of available-for-sale securities from our portfolio impact the net income or loss reported by the Capital Markets group. In addition, a substantial majority of fee and other income for 2013 and 2014 consisted of income resulting from settlement agreements resolving certain lawsuits relating to PLS sold to us.

Our segment reporting presentation differs from our consolidated balance sheets and statements of operations and comprehensive income in order to reflect the activities and results of the Capital Markets group. The significant differences from the consolidated statements of operations and comprehensive income are as follows:

- *Net interest income*—Net interest income reflects the interest income on mortgage loans and securities owned by Fannie Mae and interest expense on funding debt issued by Fannie Mae, including accretion and amortization of any cost basis adjustments. To reconcile to our consolidated statements of operations and comprehensive income, we adjust for the impact of consolidated trusts and intercompany eliminations as follows:
    - *Interest income:* Interest income consists of interest on the segment's interest-earning assets, which differs from interest-earning assets in our consolidated balance sheets. We exclude loans and securities that underlie the consolidated trusts from our Capital Markets group balance sheets. The net interest income reported by the Capital Markets group excludes the interest income earned on assets held by consolidated trusts. As a result, we report interest income and amortization of cost basis adjustments only on securities and loans that are held in our retained mortgage portfolio. For mortgage loans held in our retained mortgage portfolio, when interest income is no longer recognized in accordance with our nonaccrual accounting policy, the Capital Markets group recognizes interest income for reimbursement from Single-Family and Multifamily for the contractual interest due under the terms of our intracompany guaranty arrangement.
    - *Interest expense:* Interest expense consists of contractual interest on the Capital Markets group's interest-bearing liabilities, including the accretion and amortization of any cost basis adjustments. It excludes interest expense on debt issued by consolidated trusts. Therefore, the interest expense recognized on the Capital Markets group income statement is limited to our funding debt, which is reported as "Debt of Fannie Mae" in our consolidated balance

sheets. Net interest expense also includes an allocated cost of capital charge among the three business segments that is not included in net interest income in our consolidated statements of operations and comprehensive income.

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- *Investment gains or losses, net*—Investment gains or losses, net includes the gains and losses on securitizations and sales of available-for-sale securities from our portfolio. To reconcile to our consolidated statements of operations and comprehensive income, we eliminate gains and losses on securities that have been consolidated to loans.
- *Fair value gains or losses, net*—Fair value gains or losses, net for the Capital Markets group includes derivative gains and losses, foreign exchange gains and losses, and the fair value gains and losses on certain debt securities in our portfolio. To reconcile to our consolidated statements of operations and comprehensive income, we eliminate fair value gains or losses on Fannie Mae MBS that have been consolidated to loans.
- *Other expenses, net*—Debt extinguishment gains or losses recorded on the segment statements of operations relate exclusively to our funding debt, which is reported as "Debt of Fannie Mae" in our consolidated balance sheets. To reconcile to our consolidated statements of operations and comprehensive income, we include debt extinguishment gains or losses related to consolidated trusts to arrive at our total recognized debt extinguishment gains or losses.

Segment Allocations and Results

Our business segment financial results include directly attributable revenues and expenses. Additionally, we allocate to each of our segments: (1) capital using FHFA minimum capital requirements adjusted for over- or under-capitalization; (2) indirect administrative costs; and (3) a provision or benefit for federal income taxes. In addition, we allocate intracompany guaranty fee income as a charge from the Single-Family and Multifamily segments to Capital Markets for managing the credit risk on mortgage loans held by the Capital Markets group.

The following tables display our business segment financial results for the years ended December 31, 2014, 2013 and 2012.

	For the Year Ended December 31, 2014					
	Business Segments			Other Activity/Reconciling Items		
	Single-Family	Multifamily	Capital Markets	Consolidated Trusts[1]	Eliminations/ Adjustments[2]	Total Results
	(Dollars in millions)					
Net interest income (loss)	$ 6	$ (79)	$ 7,243	$ 11,722	$ 1,076 [3]	$ 19,968
Benefit for credit losses	3,850	114	—	—	—	3,964
Net interest income after benefit for credit losses	3,856	35	7,243	11,722	1,076	23,932
Guaranty fee income (expense)[4]	11,702	1,297	(955)	(5,895) [5]	(5,974) [5]	175 [5]
Investment (losses) gains, net	(1)	57	6,378	(192)	(5,306) [6]	936
Fair value (losses) gains, net	(19)	—	(5,476)	300	362 [7]	(4,833)
Debt extinguishment gains, net	—	—	35	31	—	66
(Losses) gains from partnership investments[8]	(31)	299	—	—	1	269
Fee and other income (expense)	624	166	4,894	(323)	351	5,712
Administrative expenses	(1,830)	(306)	(641)	—	—	(2,777)
Foreclosed property (expense) income	(225)	83	—	—	—	(142)
TCCA fees[4]	(1,375)	—	—	—	—	(1,375)
Other expenses	(726)	(10)	(77)	—	—	(813)
Income before federal income taxes	11,975	1,621	11,401	5,643	(9,490)	21,150
Provision for federal income taxes	(3,496)	(158)	(3,287)	—	—	(6,941)
Net income	8,479	1,463	8,114	5,643	(9,490)	14,209
Less: Net income attributable to noncontrolling interest	—	—	—	—	(1) [10]	(1)
	$ 8,479	$ 1,463	$ 8,114	$ 5,643	$ (9,491)	$ 14,208

Net income attributable to Fannie Mae						

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	For the Year Ended December 31, 2013					
	Business Segments			Other Activity/Reconciling Items		
	Single-Family	Multifamily	Capital Markets	Consolidated Trusts[1]	Eliminations/ Adjustments[2]	Total Results
	(Dollars in millions)					
Net interest income (loss)	$ 205	$ (74)	$ 9,764	$ 10,939	$ 1,570 [3]	$ 22,404
Benefit for credit losses	8,469	480	—	—	—	8,949
Net interest income after benefit for credit losses	8,674	406	9,764	10,939	1,570	31,353
Guaranty fee income (expense)[4]	10,468	1,217	(1,115)	(5,233) [5]	(5,132) [5]	205 [5]
Investment gains (losses), net	3	21	4,847	(122)	(3,622) [6]	1,127
Fair value (losses) gains, net	(10)	—	3,148	(722)	543 [7]	2,959
Debt extinguishment gains, net	—	—	27	104	—	131
Gains from partnership investments[8]	—	498	—	—	19	517
Fee and other income (expense)	630	182	3,010	(321)	224	3,725
Administrative expenses	(1,706)	(280)	(559)	—	—	(2,545)
Foreclosed property income	2,736	103	—	—	—	2,839
TCCA fees[4]	(1,001)	—	—	—	—	(1,001)
Other (expenses) income	(628)	(2)	20	—	(133)	(743)
Income before federal income taxes	19,166	2,145	19,142	4,645	(6,531)	38,567
Benefit for federal income taxes[9]	29,110	7,924	8,381	—	—	45,415
Net income	48,276	10,069	27,523	4,645	(6,531)	83,982
Less: Net income attributable to noncontrolling interest	—	—	—	—	(19) [10]	(19)
Net income attributable to Fannie Mae	$ 48,276	$ 10,069	$ 27,523	$ 4,645	$ (6,550)	$ 83,963

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	For the Year Ended December 31, 2012					
	Business Segments			Other Activity/Reconciling Items		
	Single-Family	Multifamily	Capital Markets	Consolidated Trusts[1]	Eliminations/ Adjustments[2]	Total Results
	(Dollars in millions)					
Net interest (loss) income	$ (790)	$ (13)	$ 13,241	$ 7,156	$ 1,907 [3]	$ 21,501
Benefit for credit losses	672	180	—	—	—	852
Net interest (loss) income after provision for credit losses	(118)	167	13,241	7,156	1,907	22,353
Guaranty fee income (expense)[4]	8,151	1,040	(1,291)	(4,737) [5]	(2,951) [5]	212 [5]
Investment gains (losses), net	8	37	5,506	(3)	(5,774) [6]	(226)
Fair value losses, net	(8)	—	(3,041)	(313)	385 [7]	(2,977)
Debt extinguishment (losses) gains, net	—	—	(277)	33	—	(244)
Gains from partnership investments[8]	—	123	—	—	(4)	119
Fee and other income (expense)	759	207	717	(395)	(13)	1,275
Administrative expenses	(1,590)	(269)	(508)	—	—	(2,367)
Foreclosed property income	247	7	—	—	—	254
TCCA fees[4]	(238)	—	—	—	—	(238)
Other expenses	(841)	(5)	(22)	—	(73)	(941)
Income before federal income taxes	6,370	1,307	14,325	1,741	(6,523)	17,220
(Provision) benefit for federal income taxes	(80)	204	(124)	—	—	—
Net income	6,290	1,511	14,201	1,741	(6,523)	17,220
Less: Net loss attributable to noncontrolling interest	—	—	—	—	4 [10]	4
Net income attributable to Fannie Mae	$ 6,290	$ 1,511	$ 14,201	$ 1,741	$ (6,519)	$ 17,224

(1) Represents activity related to the assets and liabilities of consolidated trusts in our consolidated balance sheets.

(2) Represents the elimination of intercompany transactions occurring between the three business segments and our consolidated trusts, as well as other adjustments to reconcile to our consolidated results.

(3) Represents the amortization expense of cost basis adjustments on securities in the Capital Markets group's retained mortgage portfolio that on a GAAP basis are eliminated.

(4) Includes the impact of a 10 basis point guaranty fee increase implemented pursuant to the TCCA, the incremental revenue from which must be remitted to Treasury. The resulting revenue is included in guaranty fee income and the expense is recognized as "TCCA fees."

(5) Represents the guaranty fees paid from consolidated trusts to the Single-Family and Multifamily segments. The adjustment to guaranty fee income in the Eliminations/Adjustments column represents the elimination of the amortization of deferred cash fees related to consolidated trusts that were re-established for segment reporting. Total guaranty fee income related to unconsolidated Fannie Mae MBS trusts and other credit enhancement arrangements is included in fee and other income in our consolidated statements of operations and comprehensive income.

(6) Primarily represents the removal of realized gains and losses on sales of Fannie Mae MBS classified as available-for-sale securities that are issued by consolidated trusts and in the Capital Markets group's retained mortgage portfolio. The adjustment also includes the removal of securitization gains (losses) recognized in the Capital Markets segment relating to portfolio securitization transactions that do not qualify for sale accounting under GAAP.

(7) Represents the removal of fair value adjustments on consolidated Fannie Mae MBS classified as trading that are in the Capital Markets group's retained mortgage portfolio.

(8)

Gains from partnership investments are included in other expenses in our consolidated statements of operations and comprehensive income.

(9) Primarily represents the release of the valuation allowance for our deferred tax assets that generally are directly attributable to each segment based on the nature of the item.

(10) Represents the adjustment from equity method accounting to consolidation accounting for partnership investments that are consolidated in our consolidated balance sheets.

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The following table displays total assets by segment as of December 31, 2014, 2013 and 2012.

	As of December 31,		
	2014	2013	2012
	(Dollars in millions)		
Single-Family	$ 43,512	$ 41,206	$ 17,595
Multifamily	9,281	10,848	5,182
Capital Markets	510,848	596,436	723,217
Consolidated trusts	2,827,565	2,812,459	2,749,571
Eliminations/adjustments[1]	(143,030)	(190,841)	(273,143)
Total assets	$3,248,176	$3,270,108	$3,222,422

[1] Includes the elimination of Fannie Mae MBS in the Capital Markets group's retained mortgage portfolio that are issued by consolidated trusts. Also includes the elimination of the allowance for loan losses, allowance for accrued interest receivable and fair value losses previously recognized on acquired credit impaired loans as they are not treated as assets for Single-Family and Multifamily segment reporting purposes because these allowances and losses relate to loan assets that are held by the Capital Markets segment and consolidated trusts.

We operate our business solely in the United States and its territories, and accordingly, we generate no revenue from and have no assets in geographic locations other than the United States and its territories.

14. Equity

Common Stock

Shares of common stock outstanding, net of shares held as treasury stock, totaled 1.2 billion as of December 31, 2014 and 2013.

During the conservatorship, the rights and powers of shareholders are suspended. Accordingly, our common shareholders have no ability to elect directors or to vote on other matters during the conservatorship unless FHFA elects to delegate this authority to them. The senior preferred stock purchase agreement with Treasury prohibits the payment of dividends on common stock without the prior written consent of Treasury. The conservator also has eliminated common stock dividends. In addition, we issued a warrant to Treasury that provides Treasury with the right to purchase for a nominal price shares of our common stock equal to 79.9% of the total number of shares of common stock outstanding on a fully diluted basis on the date of exercise, which would substantially dilute the ownership in Fannie Mae of our common stockholders at the time of exercise. Refer to "Senior Preferred Stock and Common Stock Warrant" section of this note for more information.

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Preferred Stock

The following table displays our senior preferred stock and preferred stock outstanding as of December 31, 2014 and 2013.

Title	Issue Date	Issued and Outstanding as of December 31, 2014 Shares	2014 Amount	2013 Shares	2013 Amount	Stated Value per Share	Annual Dividend Rate as of December 31, 2014	Redeemable on or After
		(Dollars and shares in millions, except per share amounts)						
Senior Preferred Stock								
Series 2008-2	September 8, 2008	1	$ 117,149	1	$ 117,149	$ 117,149 [(1)]	N/A [(2)]	N/A [(3)]
Preferred Stock								
Series D	September 30, 1998	3	$ 150	3	$ 150	$ 50	5.250 %	September 30, 1999
Series E	April 15, 1999	3	150	3	150	50	5.100	April 15, 2004
Series F	March 20, 2000	14	690	14	690	50	0.260 [(4)]	March 31, 2002 [(5)]
Series G	August 8, 2000	6	288	6	288	50	0.400 [(6)]	September 30, 2002 [(5)]
Series H	April 6, 2001	8	400	8	400	50	5.810	April 6, 2006
Series I	October 28, 2002	6	300	6	300	50	5.375	October 28, 2007
Series L	April 29, 2003	7	345	7	345	50	5.125	April 29, 2008
Series M	June 10, 2003	9	460	9	460	50	4.750	June 10, 2008
Series N	September 25, 2003	5	225	5	225	50	5.500	September 25, 2008
Series O	December 30, 2004	50	2,500	50	2,500	50	7.000 [(7)]	December 31, 2007
Convertible Series 2004-I[(8)]	December 30, 2004	—	2,492	—	2,492	100,000	5.375	January 5, 2008
Series P	September 28, 2007	40	1,000	40	1,000	25	4.500 [(9)]	September 30, 2012
Series Q	October 4, 2007	15	375	15	375	25	6.750	September 30, 2010
Series R[(10)]	November 21, 2007	21	530	21	530	25	7.625	November 21, 2012
Series S	December 11, 2007	280	7,000	280	7,000	25	7.750 [(11)]	December 31, 2010 [(12)]
Series T[(13)]	May 19, 2008	89	2,225	89	2,225	25	8.250	May 20, 2013
Total		556	$ 19,130	556	$ 19,130			

(1) Initial stated value per share was $1,000. Based on our draws of funds under the senior preferred stock purchase agreement with Treasury, the stated value per share on December 31, 2014 was $117,149.

(2) For the dividend period ended December 31, 2014, the dividend is calculated based on our net worth as of September 30, 2014, less the applicable capital reserve amount of $2.4 billion. The applicable capital reserve amount is $1.8 billion for each dividend period in 2015. The applicable capital reserve amount will continue to be reduced by $600 million each year until it reaches zero on January 1, 2018. For each dividend period beginning in 2018, the dividend amount will be the entire amount of our net worth, if any, as of the end of the immediately preceding fiscal quarter.

(3) Any liquidation preference of our senior preferred stock in excess of $1.0 billion may be repaid through an issuance of common or preferred stock, which would require the consent of the conservator and Treasury. The initial $1.0 billion liquidation preference may be repaid only in conjunction with termination of the senior preferred stock purchase agreement. The provisions for termination under the senior preferred stock purchase agreement are very restrictive and cannot occur while we are in conservatorship.

(4) Rate effective March 31, 2014. Variable dividend rate resets every two years at a per annum rate equal to the two-year Constant Maturity U.S. Treasury Rate ("CMT") minus 0.16% with a cap of 11% per year.

(5) Represents initial call date. Redeemable every two years thereafter.

(6) Rate effective September 30, 2014. Variable dividend rate resets every two years at a per annum rate equal to the two-year CMT rate minus 0.18% with a cap of 11% per year.

(7) Rate effective December 31, 2014. Variable dividend rate resets quarterly thereafter at a per annum rate equal to the greater of 7.00% or 10-year CMT rate plus 2.375%.

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(8) Issued and outstanding shares were 24,922 as of December 31, 2014 and 2013, respectively.

(9) Rate effective December 31, 2014. Variable dividend rate resets quarterly thereafter at a per annum rate equal to the greater of 4.50% or 3-Month LIBOR plus 0.75%.

(10) On November 21, 2007, we issued 20 million shares of preferred stock in the amount of $500 million. Subsequent to the initial issuance, we issued an additional 1.2 million shares in the amount of $30 million on December 14, 2007 under the same terms as the initial issuance.

(11) Rate effective December 31, 2014. Variable dividend rate resets quarterly thereafter at a per annum rate equal to the greater of 7.75% or 3-Month LIBOR plus 4.23%.

(12) Represents initial call date. Redeemable every five years thereafter.

(13) On May 19, 2008, we issued 80 million shares of preferred stock in the amount of $2.0 billion. Subsequent to the initial issuance, we issued an additional 8 million shares in the amount of $200 million on May 22, 2008 and one million shares in the amount of $25 million on June 4, 2008 under the same terms as the initial issuance.

As described under “Senior Preferred Stock and Common Stock Warrant,” we issued senior preferred stock that ranks senior to all other series of preferred stock as to both dividends and distributions upon dissolution, liquidation or winding up of the company. During the conservatorship, the rights and powers of preferred stockholders (other than holders of senior preferred stock) are suspended. The senior preferred stock purchase agreement with Treasury also prohibits the payment of dividends on preferred stock (other than the senior preferred stock) without the prior written consent of Treasury. The conservator also has eliminated preferred stock dividends, other than dividends on the senior preferred stock.

Each series of our preferred stock has no par value, is non-participating, is non-voting and has a liquidation preference equal to the stated value per share. None of our preferred stock is convertible into or exchangeable for any of our other stock or obligations, with the exception of the Convertible Series 2004-1.

Shares of the Convertible Series 2004-1 Preferred Stock are convertible at any time, at the option of the holders, into shares of Fannie Mae common stock at a conversion price of $94.31 per share of common stock (equivalent to a conversion rate of 1,060.3329 shares of common stock for each share of Series 2004-1 Preferred Stock). The conversion price is adjustable, as necessary, to maintain the stated conversion rate into common stock. Events which may trigger an adjustment to the conversion price include certain changes in our common stock dividend rate, subdivisions of our outstanding common stock into a greater number of shares, combinations of our outstanding common stock into a smaller number of shares and issuances of any shares by reclassification of our common stock. No such events have occurred.

Holders of preferred stock (other than the senior preferred stock) are entitled to receive non-cumulative, quarterly dividends when, and if, declared by our Board of Directors, but have no right to require redemption of any shares of preferred stock. Payment of dividends on preferred stock (other than the senior preferred stock) is not mandatory, but has priority over payment of dividends on common stock, which are also declared by the Board of Directors. If dividends on the preferred stock are not paid or set aside for payment for a given dividend period, dividends may not be paid on our common stock for that period. There were no dividends declared or paid on preferred stock (other than the senior preferred stock) for the years ended December 31, 2014 or 2013.

After a specified period, we have the option to redeem preferred stock (other than the senior preferred stock) at its redemption price plus the dividend (whether or not declared) for the then-current period accrued to, but excluding, the date of redemption. The redemption price is equal to the stated value for all issues of preferred stock except Series O, which has a redemption price of $50 to $52.50 depending on the year of redemption and Convertible Series 2004-1, which has a redemption price of $105,000 per share.

Our preferred stock is traded in the over-the-counter market.

Senior Preferred Stock and Common Stock Warrant

On September 8, 2008, we issued to Treasury one million shares of Variable Liquidation Preference Senior Preferred Stock, Series 2008-2 (“senior preferred stock”), with an aggregate stated value and initial liquidation preference of $1.0 billion. On September 7, 2008, we issued a warrant to purchase common stock to Treasury. The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of common stock outstanding on a fully diluted basis on the date of exercise. The senior preferred stock and the warrant were issued to Treasury as an initial commitment fee in consideration of the commitment from Treasury to provide funds to us under the terms and conditions set forth in the senior preferred stock purchase agreement. We did not receive any cash proceeds as a result of issuing these shares or the warrant. We have assigned a value of $4.5 billion to Treasury's commitment, which has been recorded as a

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reduction to additional paid-in-capital and was partially offset by the aggregate fair value of the warrant. There was no impact to the total balance of stockholders' equity as a result of the issuance.

Variable Liquidation Preference Senior Preferred Stock, Series 2008-2

Shares of the senior preferred stock have no par value and have a stated value and initial liquidation preference equal to $1,000 per share. The liquidation preference of the senior preferred stock is subject to adjustment. To the extent dividends payable in any period are not paid in cash, the dividends will accrue and be added to the liquidation preference of the senior preferred stock. In addition, any amounts Treasury pays to us pursuant to Treasury's funding commitment provided in the senior preferred stock purchase agreement and any quarterly commitment fee payable under the senior preferred stock purchase agreement that is not paid in cash to or waived by Treasury will be added to the liquidation preference of the senior preferred stock. As of December 31, 2014, we have received a total of $116.1 billion under Treasury's funding commitment and the aggregate liquidation preference of the senior preferred stock was $117.1 billion.

Treasury, as holder of the senior preferred stock, is entitled to receive, when, as and if declared, out of legally available funds, cumulative quarterly cash dividends. Dividends declared and paid on our senior preferred stock were $20.6 billion, $82.5 billion and $11.6 billion for the years ended December 31, 2014, 2013 and 2012, respectively. Effective January 1, 2013, the amount of dividends payable on the senior preferred stock for a dividend period is determined based on our net worth as of the end of the immediately preceding fiscal quarter. The new dividend payment provision is referred to as a "net worth sweep" provision. For each dividend period from January 1, 2013 through and including December 31, 2017, the dividend amount will be the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. The capital reserve amount was $3.0 billion, $2.4 billion and $1.8 billion for dividend periods in 2013, 2014 and 2015, respectively, and will continue to be reduced by $600 million each year until it reaches zero on January 1, 2018. For each dividend period beginning in 2018, the dividend amount will be the entire amount of our net worth, if any, as of the end of the immediately preceding fiscal quarter.

As a result of these dividend payment provisions, when we have quarterly earnings that result in a net worth greater than the applicable capital reserve amount, we will be required to pay dividends to Treasury in the next quarter; but if our net worth does not exceed the applicable capital reserve amount as of the end of a quarter, then we will not be required to accrue or pay any dividends in the next quarter.

The senior preferred stock ranks prior to our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. The senior preferred stock provides that we may not declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the senior preferred stock unless (1) full cumulative dividends on the outstanding senior preferred stock (including any unpaid dividends added to the liquidation preference) have been declared and paid in cash, and (2) all amounts required to be paid with the net proceeds of any issuance of capital stock for cash (as described in the following paragraph) have been paid in cash. In addition, as described below under "Senior Preferred Stock Purchase Agreement with Treasury—Covenants," the covenants under the senior preferred stock purchase agreement require that we obtain Treasury's prior written consent before declaring or paying any dividends or other distributions with respect to our equity securities (other than the senior preferred stock or the warrant) and before redeeming, purchasing, retiring or otherwise acquiring any of our equity securities (other than the senior preferred stock or the warrant). Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock.

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment under the senior preferred stock purchase agreement. Moreover, we are not permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock except to the extent of (1) accrued and unpaid dividends previously added to the liquidation preference and not previously paid down; and (2) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition, if we issue any shares of capital stock for cash while the senior preferred stock is outstanding (which requires Treasury's approval), we are required to use the net proceeds of the issuance to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury's funding commitment.

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Following the termination of Treasury's funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part.

Common Stock Warrant

The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise. The warrant may be exercised in whole or in part at any time on or before September 7, 2028, by delivery to Fannie Mae of: (a) a notice of exercise; (b) payment of the exercise price of $0.00001 per share; and (c) the warrant. If the market price of one share of common stock is greater than the exercise price, in lieu of exercising the warrant by payment of the exercise price, Treasury may elect to receive shares equal to the value of the warrant (or portion thereof being canceled) pursuant to the formula specified in the warrant. Upon exercise of the warrant, Treasury may assign the right to receive the shares of common stock issuable upon exercise to any other person. If the warrant is exercised, the stated value of the common stock issued will be reclassified as "Common stock" in our consolidated balance sheets. Treasury has not exercised the warrant.

Senior Preferred Stock Purchase Agreement with Treasury

Funding Commitment

Under the senior preferred stock purchase agreement, Treasury made a commitment to provide funding, under certain conditions, to eliminate deficits in our net worth. We have received a total of $116.1 billion from Treasury pursuant to the senior preferred stock purchase agreement as of December 31, 2014. The aggregate liquidation preference of the senior preferred stock, including the initial aggregate liquidation preference of $1.0 billion, remained at $117.1 billion as of December 31, 2014.

While we had a positive net worth as of December 31, 2014, in some future periods we could have a net worth deficit and, if so, will be required to obtain additional funding from Treasury pursuant to the senior preferred stock purchase agreement. As of December 31, 2014, the remaining amount of funding available to us under the agreement was $117.6 billion.

If we were to draw additional funds from Treasury under the agreement in a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement.

The senior preferred stock purchase agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process. The deficiency amount may be increased above the otherwise applicable amount upon our mutual written agreement with Treasury. In addition, if the Director of FHFA determines that the Director will be mandated by law to appoint a receiver for us unless our capital is increased by receiving funds under the commitment in an amount up to the deficiency amount (subject to the maximum amount that may be funded under the agreement), then FHFA, in its capacity as our conservator, may request that Treasury provide funds to us in such amount. The senior preferred stock purchase agreement also provides that, if we have a deficiency amount as of the date of completion of the liquidation of our assets, we may request funds from Treasury in an amount up to the deficiency amount (subject to the maximum amount that may be funded under the agreement). Any amounts that we draw under the senior preferred stock purchase agreement will be added to the liquidation preference of the senior preferred stock. No additional shares of senior preferred stock are required to be issued under the senior preferred stock purchase agreement.

Commitment Fee

Pursuant to the August 2012 amendment to the senior preferred stock purchase agreement described in "Note 1, Summary of Significant Accounting Policies," effective January 1, 2013, the periodic commitment fee under the agreement will not be set, accrue or be payable, as long as the dividend payment provisions described above remain in effect. Treasury waived the quarterly commitment fee under the senior preferred stock purchase agreement for each quarter of 2012.

Covenants

The senior preferred stock purchase agreement provides that, until the senior preferred stock is repaid or redeemed in full, we may not, without the prior written consent of Treasury:

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Declare or pay any dividend (preferred or otherwise) or make any other distribution with respect to any Fannie Mae equity securities (other than with respect to the senior preferred stock or warrant);

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- Redeem, purchase, retire or otherwise acquire any Fannie Mae equity securities (other than the senior preferred stock or warrant);
- Sell or issue any Fannie Mae equity securities (other than the senior preferred stock, the warrant and the common stock issuable upon exercise of the warrant and other than as required by the terms of any binding agreement in effect on the date of the senior preferred stock purchase agreement);
- Terminate the conservatorship (other than in connection with a receivership);
- Sell, transfer, lease or otherwise dispose of any assets, other than dispositions for fair market value: (a) to a limited life regulated entity (in the context of receivership); (b) of assets and properties in the ordinary course of business, consistent with past practice; (c) of assets and properties having fair market value individually or in aggregate less than $250 million in one transaction or a series of related transactions; (d) in connection with a liquidation of Fannie Mae by a receiver; (e) of cash or cash equivalents for cash or cash equivalents; or (f) to the extent necessary to comply with the covenant described below relating to the reduction of our mortgage assets;
- Incur indebtedness that would result in our aggregate indebtedness exceeding $663.0 billion through December 31, 2014. For every year thereafter, our debt cap will equal 120% of the amount of mortgage assets we are allowed to own under the senior preferred stock purchase agreement on December 31 of the immediately preceding calendar year;
- Issue any subordinated debt;
- Enter into a corporate reorganization, recapitalization, merger, acquisition or similar event; or
- Engage in transactions with affiliates unless the transaction is (a) pursuant to the senior preferred stock purchase agreement, the senior preferred stock or the warrant, (b) upon arm's-length terms or (c) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence on the date of the senior preferred stock purchase agreement.

The agreement, as amended, also provides that we may not own mortgage assets in excess of $469.6 billion as of December 31, 2014. On each December 31 thereafter, we are required to reduce our mortgage assets to 85% of the maximum allowable amount that we were permitted to own as of December 31 of the immediately preceding calendar year, until the amount of our mortgage assets reaches $250 billion. In October 2014, FHFA requested that we revise our portfolio plan to cap the portfolio each year at 90% of the annual limit under our senior preferred stock purchase agreement with Treasury. FHFA's request noted that we may seek FHFA permission to increase this cap up to 95% of the annual limit under our senior preferred stock purchase agreement with Treasury upon written request and with a documented basis for exception, such as changed market conditions.

Under the agreement, the effect of changes in generally accepted accounting principles that occurred subsequent to the date of the agreement and that require us to recognize additional mortgage assets in our consolidated balance sheets are not considered for purposes of evaluating our compliance with the limitation on the amount of mortgage assets we may own. In addition, the definition of indebtedness in the agreement was revised to clarify that it also does not give effect to any change that may be made in respect of the FASB guidance on accounting for transfers of financial assets or any similar accounting guidance.

In addition, the agreement provides that we may not enter into any new compensation arrangements with, or increase amounts or benefits payable under existing compensation arrangements of, any named executive officer or other executive officer (each as defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury. As of December 31, 2014, we were in compliance with the senior preferred stock purchase agreement covenants.

We are required to provide an annual risk management plan to Treasury no later than December 15 of each year we remain in conservatorship, beginning in 2012. Each annual risk management plan is required to set out our strategy for reducing our risk profile and to describe the actions we will take to reduce the financial and operational risks associated with each of our business segments. Each plan must include an assessment of our performance against the planned actions described in the prior year's plan. We submitted our annual risk management plan to Treasury in December 2014.

Termination Provisions

The senior preferred stock purchase agreement provides that Treasury's funding commitment will terminate under any the following circumstances: (1) the completion of our liquidation and fulfillment of Treasury's obligations under its funding commitment at that time, (2) the payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guaranty obligations), or (3) the funding by Treasury of the maximum amount under the

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agreement. In addition, Treasury may terminate its funding commitment and declare the senior preferred stock purchase agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the conservator or otherwise curtails the conservator's powers. Treasury may not terminate its funding commitment solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition.

Waivers and Amendments

The senior preferred stock purchase agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties. No waiver or amendment of the agreement, however, may decrease Treasury's aggregate funding commitment or add conditions to Treasury's funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or guaranteed Fannie Mae MBS.

Third-party Enforcement Rights

If we default on payments with respect to our debt securities or guaranteed Fannie Mae MBS and Treasury fails to perform its obligations under its funding commitment, and if we and/or the conservator are not diligently pursuing remedies in respect of that failure, the holders of these debt securities or Fannie Mae MBS may file a claim for relief in the United States Court of Federal Claims. The relief, if granted, would require Treasury to fund to us the lesser of (1) the amount necessary to cure the payment defaults on our debt and Fannie Mae MBS and (2) the lesser of (a) the deficiency amount and (b) the maximum amount available under the agreement less the aggregate amount of funding previously provided under the commitment. Any payment that Treasury makes under those circumstances would be treated for all purposes as a draw under the senior preferred stock purchase agreement that would increase the liquidation preference of the senior preferred stock.

Accumulated Other Comprehensive Income

The following table displays our accumulated other comprehensive income as of December 31, 2014, 2013 and 2012.

	As of December 31,		
	2014	2013	2012
	(Dollars in millions)		
Net unrealized gains on AFS securities for which we have not recorded OTTI, net of tax	$ 592	$ 365	$ 1,399
Net unrealized gains (losses) on AFS securities for which we have recorded OTTI, net of tax	1,529	1,262	(465)
Prior service cost and actuarial losses, net of amortization, net of tax	(358)	(395)	(505)
Other losses	(30)	(29)	(45)
Accumulated other comprehensive income	$ 1,733	$ 1,203	$ 384

The table below displays changes in accumulated other comprehensive income, net of tax, for the year ended December 31, 2014 and 2013.

	For the Year Ended December 31,					
	2014			2013		
	Available-for-Sale Securities[(1)]	Other[(2)]	Total	Available-for-Sale Securities[(1)]	Other[(2)]	Total
	(Dollars in millions)					
Beginning balance	$ 1,627	$ (424)	$ 1,203	$ 934	$ (550)	$ 384
Other comprehensive income before reclassifications	722	37	759	983	116	1,099
Amounts reclassified from other comprehensive income	(228)	(1)	(229)	(290)	10	(280)
Net other comprehensive income	494	36	530	693	126	819

Ending balance	$ 2,121	$ (388)	$ 1,733	$ 1,627	$ (424)	$ 1,203

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(1) The amounts reclassified from AOCI represent the gain or loss recognized in earnings due to a sale of an available-for-sale security or the recognition of a net impairment in earnings, which are recorded in “Investments gains (losses), net” in our consolidated statements of operations and comprehensive income.

(2) The amounts reclassified from AOCI represents activity from our defined benefit pension plans, which is recorded in “Salaries and employee benefits” in our consolidated statements of operations and comprehensive income.

15. Regulatory Capital Requirements

FHFA has announced that during the conservatorship our existing statutory and FHFA-directed regulatory capital requirements will not be binding and that FHFA will not issue quarterly capital classifications. We submit capital reports to FHFA during the conservatorship and FHFA monitors our capital levels. FHFA has stated that it does not intend to report our critical capital, risk-based capital or subordinated debt levels during the conservatorship. Our regulatory capital classification measures are determined based on guidance from FHFA, in which FHFA (1) directed us, for loans backing Fannie Mae MBS held by third parties, to continue reporting our minimum capital requirements based on 0.45% of the unpaid principal balance and critical capital based on 0.25% of the unpaid principal balance, regardless of whether these loans have been consolidated pursuant to accounting rules, and (2) issued a regulatory interpretation stating that our minimum capital requirements are not automatically affected by the consolidation accounting guidance. Additionally, our regulatory capital classification measures exclude the funds provided to us by Treasury pursuant to the senior preferred stock purchase agreement, as the senior preferred stock does not qualify as core capital due to its cumulative dividend provisions.

Pursuant to the GSE Act, if the Director of FHFA makes a written determination that our total assets are less than our total obligations (a net worth deficit) for a period of 60 days, FHFA is mandated by law to appoint a receiver for Fannie Mae. Treasury’s funding commitment under the senior preferred stock purchase agreement is intended to ensure that we avoid a net worth deficit, in order to avoid this mandatory trigger of receivership. In order to avoid a net worth deficit, our conservator may request funds on our behalf from Treasury under the senior preferred stock purchase agreement.

FHFA has directed us, during the time we are under conservatorship, to focus on managing to a positive net worth. We had a positive net worth of $3.7 billion and $9.6 billion as of December 31, 2014 and 2013, respectively.

The following table displays our regulatory capital classification measures as of December 31, 2014 and 2013.

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Core capital[1]	$ (115,202)	$ (108,811)
Statutory minimum capital requirement[2]	27,044	28,472
Deficit of core capital over statutory minimum capital requirement	$ (142,246)	$ (137,283)

(1) The sum of (a) the stated value of our outstanding common stock (common stock less treasury stock); (b) the stated value of our outstanding non-cumulative perpetual preferred stock; (c) our paid-in capital; and (d) our retained earnings (accumulated deficit). Core capital does not include: (a) accumulated other comprehensive income (loss) or (b) senior preferred stock.

(2) Generally, the sum of (a) 2.50% of on-balance sheet assets, except those underlying Fannie Mae MBS held by third parties; (b) 0.45% of the unpaid principal balance of outstanding Fannie Mae MBS held by third parties; and (c) up to 0.45% of other off-balance sheet obligations, which may be adjusted by the Director of FHFA under certain circumstances.

Our critical capital requirement is generally equal to the sum of: (1) 1.25% of on-balance sheet assets, except those underlying Fannie Mae MBS held by third parties; (2) 0.25% of the unpaid principal balance of outstanding Fannie Mae MBS held by third parties; and (3) 0.25% of other off-balance sheet obligations, which may be adjusted by the Director of FHFA under certain circumstances.

As of December 31, 2014 and 2013, we had a minimum capital deficiency of $142.2 billion and $137.3 billion, respectively. Under the terms of the senior preferred stock purchase agreement with Treasury, beginning January 1, 2013, we are required to pay Treasury each quarter dividends when, as and if declared, equal to the excess of our net worth as of the end of the immediately preceding fiscal quarter over an applicable capital reserve amount. As a result, in periods in which we have net worth, our minimum capital deficiency will decline to the extent of our net worth but the deficiency will increase in the subsequent period as we pay Treasury the corresponding senior preferred stock dividend. See “Note 14, Equity” for more

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information on capital and the terms of our senior preferred stock purchase agreement with Treasury. Set forth below are additional restrictions related to our capital requirements.

Restrictions on Capital Distributions and Dividends

Restrictions Under GSE Act. Under the GSE Act, FHFA has the authority to prohibit capital distributions, including payment of dividends, if we fail to meet our capital requirements. If FHFA classifies us as significantly undercapitalized, we must obtain the approval of the Director of FHFA for any dividend payment. Under the GSE Act, we are not permitted to make a capital distribution if, after making the distribution, we would be undercapitalized. The Director of FHFA, however, may permit us to repurchase shares if the repurchase is made in connection with the issuance of additional shares or obligations in at least an equivalent amount and will reduce our financial obligations or otherwise improve our financial condition.

Restrictions Relating to Conservatorship. Our conservator announced on September 7, 2008 that we would not pay any dividends on the common stock or on any series of preferred stock, other than the senior preferred stock. In addition, FHFA's regulations relating to conservatorship and receivership operations prohibit us from paying any dividends while in conservatorship unless authorized by the Director of FHFA. The Director of FHFA directs us to make dividend payments on the senior preferred stock on a quarterly basis.

Restrictions Under Senior Preferred Stock Purchase Agreement. The senior preferred stock purchase agreement prohibits us from declaring or paying any dividends on Fannie Mae equity securities (other than the senior preferred stock) without the prior written consent of Treasury. In addition, in 2012 the terms of the senior preferred stock purchase agreement and the senior preferred stock were amended to ultimately require the payment of our entire net worth to Treasury. As a result, our net income is not available to common stockholders. For more information on the terms of the senior preferred stock purchase agreement and senior preferred stock, see "Note 14, Equity."

Additional Restrictions Relating to Preferred Stock. Payment of dividends on our common stock is also subject to the prior payment of dividends on our preferred stock and our senior preferred stock. Payment of dividends on all outstanding preferred stock, other than the senior preferred stock, is also subject to the prior payment of dividends on the senior preferred stock.

16. Concentrations of Credit Risk

Concentrations of credit risk arise when a number of customers and counterparties engage in similar activities or have similar economic characteristics that make them susceptible to similar changes in industry conditions, which could affect their ability to meet their contractual obligations. Based on our assessment of business conditions that could impact our financial results, we have determined that concentrations of credit risk exist among single-family and multifamily borrowers (including geographic concentrations and loans with certain higher-risk characteristics), mortgage sellers and servicers, mortgage insurers, financial guarantors, lenders with risk sharing, derivative counterparties and parties associated with our off-balance sheet transactions. Concentrations for each of these groups are discussed below.

Single-Family Loan Borrowers

Regional economic conditions may affect a borrower's ability to repay his or her mortgage loan and the property value underlying the loan. Geographic concentrations increase the exposure of our portfolio to changes in credit risk. Single-family borrowers are primarily affected by home prices and interest rates. The geographic dispersion of our single-family business has been consistently diversified over the years ended December 31, 2014 and 2013, with our largest exposures in the Western region of the United States, which represented approximately 28% of our single-family conventional guaranty book of business as of December 31, 2014 and 2013. Except for California, where approximately 20% of the gross unpaid principal balance of our single-family conventional mortgage loans held or securitized in Fannie Mae MBS as of December 31, 2014 and 2013, were located, no other significant concentrations existed in any state.

To manage credit risk and comply with legal requirements, we typically require primary mortgage insurance or other credit enhancements if the current LTV ratio (*i.e.*, the ratio of the unpaid principal balance of a loan to the current value of the property that serves as collateral) of a single-family conventional mortgage loan is greater than 80% when the loan is delivered to us.

Multifamily Loan Borrowers

Numerous factors affect a multifamily borrower's ability to repay the loan and the value of the property underlying the loan. The most significant factors affecting credit risk are rental income, capitalization rates for the mortgaged property, and

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general economic conditions. The average unpaid principal balance for multifamily loans is significantly larger than for single-family borrowers and, therefore, individual defaults for multifamily borrowers can result in more significant losses. However, these loans, while individually large, represent a small percentage of our total guaranty book of business. Our multifamily geographic concentrations have been consistently diversified over the years ended December 31, 2014 and 2013, with our largest exposure in the Western region of the United States, which represented 31% of our multifamily guaranty book of business as of December 31, 2014 and 2013. Except for California, Texas and New York, no significant concentrations existed in any states as of December 31, 2014. As of December 31, 2014, 23%, 11% and 11% of the gross unpaid principal balance of multifamily mortgage loans held by us or securitized in Fannie Mae MBS were located in California, Texas and New York, respectively. As of December 31, 2013, 24% and 12% of the gross unpaid principal balance of multifamily mortgage loans held by us or securitized in Fannie Mae MBS were located in California and New York, respectively. No significant concentrations existed in any other states as of December 31, 2013.

As part of our multifamily risk management activities, we perform detailed loan reviews that evaluate borrower and geographic concentrations, lender qualifications, counterparty risk, property performance and contract compliance. We generally require mortgage servicers to submit periodic property operating information and condition reviews, allowing us to monitor the performance of individual loans. We use this information to evaluate the credit quality of our portfolio, identify potential problem loans and initiate appropriate loss mitigation activities.

The following table displays the regional geographic concentration of single-family and multifamily loans in our guaranty book of business as of December 31, 2014 and 2013.

	Geographic Concentration[1]			
	Percentage of Single-Family Conventional Guaranty Book of Business[2]		Percentage of Multifamily Guaranty Book of Business[3]	
	As of December 31,		As of December 31,	
	2014	2013	2014	2013
Midwest	15 %	15 %	9 %	9 %
Northeast	19	19	18	20
Southeast	22	22	22	21
Southwest	16	16	20	19
West	28	28	31	31
Total	100 %	100 %	100 %	100 %

(1) Midwest consists of IL, IN, IA, MI, MN, NE, ND, OH, SD, WI; Northeast consists of CT, DE, ME, MA, NH, NJ, NY, PA, PR, RI, VT, VI; Southeast consists of AL, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA, WV; Southwest consists of AZ, AR, CO, KS, LA, MO, NM, OK, TX, UT; West consists of AK, CA, GU, HI, ID, MT, NV, OR, WA and WY.

(2) Consists of the portion of our single-family conventional guaranty book of business for which we have detailed loan level information, which constituted over 99% of our total single-family conventional guaranty book of business as of December 31, 2014 and 2013.

(3) Consists of the portion of our multifamily guaranty book of business for which we have detailed loan level information, which constituted 99% of our total multifamily guaranty book of business as of December 31, 2014 and 2013.

Risk Characteristics of our Book of Business

We gauge our performance risk under our guaranty based on the delinquency status of the mortgage loans we hold in portfolio, or in the case of mortgage-backed securities, the mortgage loans underlying the related securities.

For single-family loans, management monitors the serious delinquency rate, which is the percentage of single-family loans 90 days or more past due or in the foreclosure process, and loans that have higher risk characteristics, such as high mark-to-market LTV ratios.

For multifamily loans, management monitors the serious delinquency rate, which is the percentage of loans 60 days or more past due, and other loans that have higher risk characteristics, to determine our overall credit quality indicator. Higher risk characteristics include, but are not limited to, current debt service coverage ratio (“DSCR”) below 1.0 and high original estimated LTV ratios. We stratify multifamily loans into different internal risk categories based on the credit risk inherent in each individual loan.

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For single-family and multifamily loans, we use this information, in conjunction with housing market and economic conditions, to structure our pricing and our eligibility and underwriting criteria to reflect the current risk of loans with these higher-risk characteristics, and in some cases we decide to significantly reduce our participation in riskier loan product categories. Management also uses this data together with other credit risk measures to identify key trends that guide the development of our loss mitigation strategies.

The following tables display the delinquency status and serious delinquency rates for specified loan categories of our single-family conventional and total multifamily guaranty book of business as of December 31, 2014 and 2013.

	As of December 31,					
	2014(1)			2013(1)		
	30 Days Delinquent	60 Days Delinquent	Seriously Delinquent(2)	30 Days Delinquent	60 Days Delinquent	Seriously Delinquent(2)
Percentage of single-family conventional guaranty book of business(3)	1.27%	0.38%	1.99%	1.41%	0.44%	2.54%
Percentage of single-family conventional loans(4)	1.47	0.43	1.89	1.64	0.49	2.38

	As of December 31,			
	2014(1)		2013(1)	
	Percentage of Single-Family Conventional Guaranty Book of Business(3)	Seriously Delinquent Rate(2)	Percentage of Single-Family Conventional Guaranty Book of Business(3)	Seriously Delinquent Rate(2)
Estimated mark-to-market loan-to-value ratio:				
Greater than 100%	5%	10.98%	7%	12.22%
Geographical distribution:				
California	20	0.70	20	0.98
Florida	6	4.42	6	6.89
Illinois	4	2.36	4	3.12
New Jersey	4	5.78	4	6.25
New York	5	4.17	5	4.42
All other states	61	1.52	61	1.85
Product distribution:				
Alt-A	4	7.77	5	9.23
Vintages:				
2005	3	6.18	4	7.26
2006	3	9.61	3	11.26
2007	4	10.79	5	12.18
2008	2	6.27	3	6.69
All other vintages	88	0.88	85	1.02

(1) Consists of the portion of our single-family conventional guaranty book of business for which we have detailed loan level information, which constituted approximately 99% of our total single-family conventional guaranty book of business as of December 31, 2014 and 2013.

(2) Consists of single-family conventional loans that were 90 days or more past due or in the foreclosure process as of December 31, 2014 and 2013.

(3)

Calculated based on the aggregate unpaid principal balance of single-family conventional loans for each category divided by the aggregate unpaid principal balance of loans in our single-family conventional guaranty book of business.

(4) Calculated based on the number of single-family conventional loans that were delinquent divided by the total number of loans in our single-family conventional guaranty book of business.

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	As of December 31,			
	2014[(1)(2)]		2013[(1)(2)]	
	30 Days Delinquent	Seriously Delinquent[(3)]	30 Days Delinquent	Seriously Delinquent[(3)]
Percentage of multifamily guaranty book of business	0.04%	0.05%	0.03%	0.10%

	As of December 31,			
	2014[(1)]		2013[(1)]	
	Percentage of Multifamily Guaranty Book of Business[(2)]	Percentage Seriously Delinquent[(3)(4)]	Percentage of Multifamily Guaranty Book of Business[(2)]	Percentage Seriously Delinquent[(3)(4)]
Original LTV ratio:				
Greater than 80%	3%	0.31%	3%	0.23%
Less than or equal to 80%	97	0.04	97	0.10
Current debt service coverage ratio less than 1.0[(5)]	3	0.83	4	1.09

(1) Consists of the portion of our multifamily guaranty book of business for which we have detailed loan level information, which constituted approximately 99% of our total multifamily guaranty book of business as of December 31, 2014 and 2013 excluding loans that have been defeased.

(2) Calculated based on the aggregate unpaid principal balance of multifamily loans for each category divided by the aggregate unpaid principal balance of loans in our multifamily guaranty book of business.

(3) Consists of multifamily loans that were 60 days or more past due as of the dates indicated.

(4) Calculated based on the unpaid principal balance of multifamily loans that were seriously delinquent divided by the aggregate unpaid principal balance of multifamily loans for each category included in our guaranty book of business.

(5) Our estimates of current DSCRs are based on the latest available income information for these properties. Although we use the most recently available results of our multifamily borrowers, there is a lag in reporting, which typically can range from 3 to 6 months, but in some cases may be longer.

Alt-A Loans and Securities

We own and guarantee Alt-A mortgage loans and mortgage-related securities. An Alt-A mortgage loan generally refers to a mortgage loan that has been underwritten with reduced or alternative documentation than that required for a full documentation mortgage loan but may also include other alternative product features. As a result, Alt-A mortgage loans generally have a higher risk of default than non-Alt-A mortgage loans. In reporting our Alt-A exposure, we have classified mortgage loans as Alt-A if and only if the lenders that deliver the mortgage loans to us have classified the loans as Alt-A, based on documentation or other product features. We have classified private-label mortgage-related securities held in our investment portfolio as Alt-A if the securities were labeled as such when issued.

We apply our classification criteria in order to discuss our exposure to Alt-A loans. However, there is no universally accepted definition of Alt-A loans. Our single-family conventional guaranty book of business includes loans with some features that are similar to Alt-A loans that we have not classified as Alt-A because they do not meet our classification criteria. We reduce our risk associated with some of these loans through credit enhancements, as described below under "Mortgage Insurers." We do not rely solely on our classifications of loans as Alt-A to evaluate the credit risk exposure relating to these loans in our single-family conventional guaranty book of business. For more information about the credit risk characteristics of loans in our single-family guaranty book of business, see "Note 3, Mortgage Loans."

The Alt-A mortgage loans and Fannie Mae MBS backed by Alt-A loans of $117.6 billion in unpaid principal balance represented 4% of our single-family mortgage credit book of business as of December 31, 2014, compared with $132.5 billion in unpaid principal balance which represented 5% of our single-family mortgage credit book of business as of December 31, 2013.

Other Concentrations

Mortgage Sellers and Servicers. Mortgage servicers collect mortgage and escrow payments from borrowers, pay taxes and insurance costs from escrow accounts, monitor and report delinquencies, and perform other required activities on our behalf. Our mortgage sellers and servicers are also obligated to repurchase loans or foreclosed properties, reimburse us for losses or

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provide other remedies if the foreclosed property has been sold, under certain circumstances, such as if it is determined that the mortgage loan did not meet our underwriting or eligibility requirements, if loan representations and warranties are violated or if mortgage insurers rescind coverage. However, under our revised representation and warranty framework, we no longer require repurchase for loans that have breaches of certain selling representations and warranties if they have met specified criteria for relief. Our business with mortgage servicers is concentrated. Our five largest single-family mortgage servicers, including their affiliates, serviced approximately 46% of our single-family guaranty book of business as of December 31, 2014, compared with approximately 49% as of December 31, 2013. Our ten largest multifamily mortgage servicers, including their affiliates, serviced approximately 67% of our multifamily guaranty book of business as of December 31, 2014, compared with approximately 65% as of December 31, 2013.

If a significant mortgage seller or servicer counterparty, or a number of mortgage sellers or servicers, fails to meet their obligations to us, it could result in an increase in our credit losses and credit-related expense, and have a material adverse effect on our results of operations, liquidity, financial condition and net worth.

Mortgage Insurers. Mortgage insurance "risk in force" generally represents our maximum potential loss recovery under the applicable mortgage insurance policies. We had total mortgage insurance coverage risk in force of $109.6 billion and $102.5 billion on the single-family mortgage loans in our guaranty book of business as of December 31, 2014 and 2013, respectively, which represented 4% of our single-family guaranty book of business as of both December 31, 2014 and 2013. Our primary mortgage insurance coverage risk in force was $108.7 billion and $101.4 billion as of December 31, 2014 and 2013, respectively. Our pool mortgage insurance coverage risk in force was $852 million and $1.1 billion as of December 31, 2014 and 2013, respectively. Our top four mortgage insurance companies provided 79% and 78% of our mortgage insurance as of December 31, 2014 and 2013, respectively.

Of our largest primary mortgage insurers, PMI Mortgage Insurance Co. ("PMI"), Triad Guaranty Insurance Corporation ("Triad") and Republic Mortgage Insurance Company ("RMIC") are under various forms of supervised control by their state regulators and are in run-off. Entering run-off may close off a source of profits and liquidity that may have otherwise assisted a mortgage insurer in paying claims under insurance policies, and could also cause the quality and speed of its claims processing to deteriorate. These three mortgage insurers provided a combined $12.3 billion, or 11%, of our risk in force mortgage insurance coverage of our single-family guaranty book of business as of December 31, 2014.

PMI and Triad have been paying only a portion of policyholder claims and deferring the remaining portion. PMI is currently paying 67% of claims under its mortgage insurance policies in cash and is deferring the remaining 33%, and Triad is currently paying 75% of claims in cash and deferring the remaining 25%. It is uncertain whether PMI or Triad will be permitted in the future to pay any remaining deferred policyholder claims and/or increase or decrease the amount of cash they pay on claims. RMIC is no longer deferring payments on policyholder claims and has paid us amounts of its previously outstanding deferred payment obligations to bring payment on our claims to 100%; however, RMIC remains in run-off and under the supervisory control of its state regulator. We were not paid interest to compensate us for the amount of time the deferred payment obligations were outstanding.

Although the financial condition of our mortgage insurer counterparties currently approved to write new business continued to improve in 2014, there is still risk that these counterparties may fail to fulfill their obligations to reimburse us for claims under insurance policies. If we determine that it is probable that we will not collect all of our claims from one or more of our mortgage insurer counterparties, it could result in an increase in our loss reserves, which could adversely affect our results of operations, liquidity, financial condition and net worth.

When we estimate the credit losses that are inherent in our mortgage loans and under the terms of our guaranty obligations we also consider the recoveries that we will receive on primary mortgage insurance, as mortgage insurance recoveries would reduce the severity of the loss associated with defaulted loans. We evaluate the financial condition of our mortgage insurer counterparties and adjust the contractually due recovery amounts to ensure that only probable losses as of the balance sheet date are included in our loss reserve estimate. As a result, if our assessment of one or more of our mortgage insurer counterparties' ability to fulfill their respective obligations to us worsens, it could result in an increase in our loss reserves. The following table displays the amount by which our estimated benefit from mortgage insurance reduced our total loss reserves as of these dates.

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	As of December 31,	
	2014	2013
	(Dollars in millions)	
Contractual mortgage insurance benefit	$ 4,409	$ 6,751
Less: Collectibility adjustment[(1)]	290	431
Estimated benefit included in total loss reserves	$ 4,119	$ 6,320

(1) Represents an adjustment that reduces the contractual benefit for our assessment of our mortgage insurer counterparties' inability to fully pay the contractual mortgage insurance claims.

We had outstanding receivables of $1.4 billion recorded in "Other assets" in our consolidated balance sheets as of December 31, 2014 and $2.1 billion as of December 31, 2013 related to amounts claimed on insured, defaulted loans excluding government insured loans. Of this amount, $269 million as of December 31, 2014 and $402 million as of December 31, 2013 was due from our mortgage sellers or servicers. We assessed the total outstanding receivables for collectibility, and they are recorded net of a valuation allowance of $799 million as of December 31, 2014 and $655 million as of December 31, 2013. The valuation allowance reduces our claim receivable to the amount which is considered probable of collection as of December 31, 2014 and 2013.

Financial Guarantors. We are the beneficiary of non-governmental financial guarantees on non-agency securities held in our retained mortgage portfolio and on non-agency securities that have been resecuritized to include a Fannie Mae guaranty and sold to third parties. The following table displays the total unpaid principal balance of guaranteed non-agency securities in our retained mortgage portfolio as of December 31, 2014 and 2013.

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Alt-A private-label securities	$ 325	$ 511
Subprime private-label securities	820	868
Mortgage revenue bonds	3,168	3,911
Other mortgage-related securities	238	264
Total	$ 4,551	$ 5,554

If a financial guarantor fails to meet its obligations to us with respect to the securities for which we have obtained financial guarantees, it could reduce the fair value of our mortgage-related securities and result in financial losses to us, which could have an adverse effect on our earnings, liquidity, financial condition and net worth. With the exception of Ambac Assurance Corporation ("Ambac"), which is operating under a deferred payment obligation, none of our remaining non-governmental financial guarantor counterparties has failed to repay us for claims under guaranty contracts. Effective July 21, 2014, the terms of Ambac's order regarding its deferred payment arrangements changed to increase its cash payments on policyholder claims from 25% to 45% and to provide for payment of sufficient amounts of its outstanding deferred payment obligations to bring payment on those claims to 45%. We are expecting full cash payment from only half of our non-governmental financial guarantor counterparties, and we are uncertain of the level of payments we will ultimately receive from the remaining counterparties. Ambac provided coverage on $2.1 billion, or 45%, of our total non-governmental guarantees as of December 31, 2014. When assessing our securities for impairment, we consider the benefit of non-governmental financial guarantees from those guarantors that we determine are creditworthy, although we continue to seek collection of any amounts due to us from all counterparties.

We are also the beneficiary of financial guarantees included in securities issued by Freddie Mac, the federal government and its agencies that totaled $19.2 billion as of December 31, 2014 and $22.5 billion as of December 31, 2013.

Lenders with Risk Sharing. We enter into risk sharing agreements with lenders pursuant to which the lenders agree to bear all or some portion of the credit losses on the covered loans. Our maximum potential loss recovery from lenders under these risk sharing agreements on single-family loans was $8.9 billion as of December 31, 2014, compared with $10.7 billion as of December 31, 2013. As of December 31, 2014, 47% of our maximum potential loss recovery on single-family loans was from three lenders, compared with 52% as of December 31, 2013. Our maximum potential loss recovery from lenders under

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these risk sharing agreements on both Delegated Underwriting and Servicing (“DUS”) and non-DUS multifamily loans was $41.7 billion as of December 31, 2014, compared with $39.4 billion as of December 31, 2013. As of December 31, 2014 and 2013, 32% of our maximum potential loss recovery on multifamily loans was from three DUS lenders.

Parties Associated with Our Off-Balance Sheet Transactions. We enter into financial instrument transactions that create off-balance sheet credit risk in the normal course of our business. These transactions are designed to meet the financial needs of our customers, and manage our credit, market or liquidity risks.

We have entered into guarantees for which we have not recognized a guaranty obligation in our consolidated balance sheets relating to periods prior to 2003, the effective date of accounting guidance related to guaranty accounting. Our maximum potential exposure under these guarantees was $6.5 billion as of December 31, 2014 and $7.3 billion as of December 31, 2013. If we were required to make payments under these guarantees, we would pursue recovery through our right to the collateral backing the underlying loans, available credit enhancements and recourse with third parties that provided a maximum coverage of $2.7 billion as of December 31, 2014 and $3.1 billion as of December 31, 2013.

Derivatives Counterparties. For information on credit risk associated with our derivative transactions and repurchase agreements refer to “Note 9, Derivative Instruments” and “Note 17, Netting Arrangements.”

Connecticut Avenue Securities

We use risk-sharing transactions to help mitigate our credit risk. We issued $5.8 billion in Connecticut Avenue Securities (“CAS”) during the year ended December 31, 2014, transferring some of the credit risk associated with losses on the underlying mortgage loans to investors in these securities. In a CAS transaction, we create a reference pool consisting of recently acquired single-family mortgage loans included in our single-family guaranty book of business in our consolidated balance sheet. We then create a hypothetical securitization structure with notional credit risk positions, or tranches (e.g., first loss, mezzanine and senior). We receive cash and issue CAS (which relate to the mezzanine loss position) to investors, which we recognize as “Debt of Fannie Mae” in our consolidated balance sheet.

We are obligated to make payments of principal and interest on the CAS, and we recognize the interest paid as “Long-term debt interest expense” in our consolidated statements of operations and comprehensive income. The principal balance of the CAS is reduced as a result of principal liquidations of loans in the reference pool or when certain specified credit events (such as a loan becoming 180 days delinquent) occur on the loans in the reference pool. In turn, these credit events may reduce the total amount of payments we ultimately make on the CAS. However, principal reductions will first occur on the first loss position, which is retained by us, until it is fully reduced before the CAS begin participating in reductions to the principal balances.

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17. Netting Arrangements

We use master netting arrangements, which allow us to offset certain financial instruments and collateral with the same counterparty, to minimize counterparty credit exposure. The table below displays information related to derivatives, securities purchased under agreements to resell or similar arrangements, and securities sold under agreements to repurchase or similar arrangements, which are subject to an enforceable master netting arrangement or similar agreement that are either offset or not offset in our consolidated balance sheets as of December 31, 2014 and 2013.

	As of December 31, 2014					
				Amounts Not Offset in the Consolidated Balance Sheets		
	Gross Amount	Gross Amount Offset[1]	Net Amount Presented in the Consolidated Balance Sheets	Financial Instruments[2]	Collateral[3]	Net Amount
	(Dollars in millions)					
Assets:						
OTC risk management derivatives	$ 5,461	$ (5,428)	$ 33	$ —	$ (33)	$ —
Cleared risk management derivatives[4]	927	242	1,169	—	—	1,169
Mortgage commitment derivatives	255	—	255	(116)	(7)	132
Total derivative assets	6,643	(5,186)	1,457 [5]	(116)	(40)	1,301
Securities purchased under agreements to resell or similar arrangements[6]	47,550	—	47,550	—	(47,550)	—
Total assets	$ 54,193	$ (5,186)	$ 49,007	$ (116)	$ (47,590)	$ 1,301
Liabilities:						
OTC risk management derivatives	$ (7,836)	$ 7,567	$ (269)	$ —	$ —	$ (269)
Cleared risk management derivatives[4]	(2,627)	2,627	—	—	—	—
Mortgage commitment derivatives	(344)	—	(344)	116	—	(228)
Total derivative liabilities	(10,807)	10,194	(613) [5]	116	—	(497)
Securities sold under agreements to repurchase or similar arrangements	(50)	—	(50)	—	50	—
Total liabilities	$ (10,857)	$ 10,194	$ (663)	$ 116	$ 50	$ (497)

	As of December 31, 2013					
				Amounts Not Offset in the Consolidated Balance Sheets		
	Gross Amount	Gross Amount Offset[1]	Net Amount Presented in the Consolidated Balance Sheets	Financial Instruments[2]	Collateral[3]	Net Amount
	(Dollars in millions)					
Assets:						
OTC risk management derivatives	$ 8,491	$ (8,422)	$ 69	$ —	$ (20)	$ 49
Mortgage commitment derivatives	265	—	265	(83)	—	182
Total derivative assets	8,756	(8,422)	334 [5]	(83)	(20)	231
Securities purchased under agreements to resell or similar arrangements[6]	50,565	—	50,565	—	(50,565)	—
Total assets	$ 59,321	$ (8,422)	$ 50,899	$ (83)	$ (50,585)	$ 231
Liabilities:						
OTC risk management derivatives	$ (9,503)	$ 9,370	$ (133)	$ —	$ —	$ (133)

Mortgage commitment derivatives	(214)	—	(214)	83	—	(131)
Total liabilities	$ (9,717)	$ 9,370	$ (347) (5)	$ 83	$ —	$ (264)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

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(1) Represents the effect of the right to offset under legally enforceable master netting arrangements to settle with the same counterparty on a net basis, including cash collateral posted and received and accrued interest.

(2) Mortgage commitment derivative amounts reflect where we have recognized both an asset and a liability with the same counterparty under an enforceable master netting arrangement but we have not elected to offset the related amounts in our consolidated balance sheets.

(3) Represents collateral posted or received that has neither been recognized nor offset in our consolidated balance sheets. Does not include collateral held in excess of our exposure. The fair value of non-cash collateral accepted for OTC risk management derivatives was $51 million and $24 million as of December 31, 2014 and 2013, respectively. The fair value of non-cash collateral accepted for securities purchased under agreements to resell or similar arrangements was $47.6 billion and $50.7 billion, of which $41.9 billion and $39.8 billion could be sold or repledged as of December 31, 2014 and 2013, respectively. None of the underlying collateral was sold or repledged as of December 31, 2014 and 2013. The fair value of non-cash collateral we pledged for securities sold under agreements to repurchase was $50 million as of December 31, 2014, which the counterparty was permitted to sell or repledge. We did not have any securities sold under agreements to repurchase as of December 31, 2013.

(4) Net amounts as of December 31, 2014 reflect netting of cleared derivative assets and liabilities where we have enforceable master netting arrangements.

(5) Excludes derivative assets of $28 million and $1.7 billion and derivative liabilities of $1 million and $1.1 billion recognized in our consolidated balance sheets as of December 31, 2014 and 2013, respectively, that are not subject to enforceable master netting arrangements.

(6) Includes $16.6 billion and $11.6 billion of securities purchased under agreements to resell or similar arrangements classified as “Cash and cash equivalents” in our consolidated balance sheets as of December 31, 2014 and 2013, respectively.

Derivative instruments are recorded at fair value and securities purchased under agreements to resell or similar arrangements are recorded at amortized cost in our consolidated balance sheets.

We determine our rights to offset the assets and liabilities presented above with the same counterparty, including collateral posted or received, based on the contractual arrangements entered into with our individual counterparties and various rules and regulations that would govern the insolvency of a derivative counterparty. The following is a description, under various agreements, of the nature of those rights and their effect or potential effect on our financial position.

The terms of the majority of our contracts for OTC risk management derivatives are governed under master agreements of the International Swaps and Derivatives Association Inc. (“ISDA”). These agreements provide that all transactions entered into under the agreement with the counterparty constitute a single contractual relationship. An event of default by the counterparty allows the early termination of all outstanding transactions under the same ISDA agreement and we may offset all outstanding amounts related to the terminated transactions including collateral posted or received.

The terms of our contracts for cleared derivatives are governed under the rules of the clearing organization and the agreement between us and the clearing member of that clearing organization. In the event of a clearing organization default, all open positions at the clearing organization are closed and a net position (on a clearing member by clearing member basis) is calculated. Unless otherwise transferred, in the event of a clearing member default, all open positions cleared through that clearing member are closed and a net position is calculated.

The terms of our contracts for mortgage commitment derivatives are primarily governed by the Fannie Mae Single-Family Selling Guide (“Guide”), for Fannie Mae-approved lenders, or Master Securities Forward Transaction Agreements (“MSFTA”), for counterparties that are not Fannie Mae-approved lenders. In the event of default by the counterparty, both the Guide and the MSFTA allow us to terminate all outstanding transactions under the applicable agreement and offset all outstanding amounts related to the terminated transactions including collateral posted or received. In addition, under the Guide, upon a lender event of default, we generally may offset any amounts owed to a lender against any amounts a lender may owe us under any other existing agreement, regardless of whether or not such other agreements are in default or payments are immediately due.

The terms of our contracts for securities purchased under agreements to resell and securities sold under agreements to repurchase are governed by Master Repurchase Agreements, which are based on the guidelines prescribed by the Securities Industry and Financial Markets Association. Master Repurchase Agreements provide that all transactions under the agreement constitute a single contractual relationship. An event of default by the counterparty allows the early termination of all outstanding transactions under the same agreement and we may offset all outstanding amounts related to the terminated transactions including collateral posted or received.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

We also have securities purchased under agreements to resell which we transact through the Fixed Income Clearing Corporation ("FICC"). Under the rules of the FICC, all agreements for securities purchased under agreements to resell that are submitted to the FICC for clearing become transactions with the FICC that are subject to FICC clearing rules. In the event of a FICC default, all open positions at the FICC are closed and a net position is calculated.

18. Fair Value

We use fair value measurements for the initial recording of certain assets and liabilities and periodic remeasurement of certain assets and liabilities on a recurring or nonrecurring basis.

Fair Value Measurement

Fair value measurement guidance defines fair value, establishes a framework for measuring fair value and sets forth disclosures around fair value measurements. This guidance applies whenever other accounting guidance requires or permits assets or liabilities to be measured at fair value. The guidance establishes a three-level fair value hierarchy that prioritizes the inputs into the valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority, Level 1, to measurements based on unadjusted quoted prices in active markets for identical assets or liabilities. The next highest priority, Level 2, is given to measurements of assets and liabilities based on limited observable inputs or observable inputs for similar assets and liabilities. The lowest priority, Level 3, is given to measurements based on unobservable inputs.

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Recurring Changes in Fair Value

The following tables display our assets and liabilities measured in our consolidated balance sheets at fair value on a recurring basis subsequent to initial recognition, including instruments for which we have elected the fair value option as of December 31, 2014 and 2013.

	Fair Value Measurements as of December 31, 2014				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment[(1)]	Estimated Fair Value
	(Dollars in millions)				
Recurring fair value measurements:					
Assets:					
Trading securities:					
Mortgage-related securities:					
Fannie Mae	$ —	$ 4,635	$ 305	$ —	$ 4,940
Freddie Mac	—	1,369	—	—	1,369
Ginnie Mae	—	166	—	—	166
Alt-A private-label securities	—	323	597	—	920
Subprime private-label securities	—	—	1,307	—	1,307
CMBS	—	2,515	—	—	2,515
Mortgage revenue bonds	—	—	722	—	722
Other	—	—	99	—	99
Non-mortgage-related securities:					
U.S. Treasury securities	19,466	—	—	—	19,466
Total trading securities	19,466	9,008	3,030	—	31,504
Available-for-sale securities:					
Mortgage-related securities:					
Fannie Mae	—	5,639	—	—	5,639
Freddie Mac	—	5,522	6	—	5,528
Ginnie Mae	—	476	—	—	476
Alt-A private-label securities	—	2,538	3,140	—	5,678
Subprime private-label securities	—	—	5,240	—	5,240
CMBS	—	1,397	—	—	1,397
Mortgage revenue bonds	—	—	4,023	—	4,023
Other	—	2	2,671	—	2,673
Total available-for-sale securities	—	15,574	15,080	—	30,654
Mortgage loans of consolidated trusts	—	13,796	1,833	—	15,629
Other assets:					
Risk management derivatives:					
Swaps	—	6,085	150	—	6,235
Swaptions	—	153	—	—	153
Other	—	—	28	—	28
Netting adjustment	—	—	—	(5,186)	(5,186)

Mortgage commitment derivatives	—	251	4	—	255
Total other assets	—	6,489	182	(5,186)	1,485
Total assets at fair value	$ 19,466	$ 44,867	$ 20,125	$ (5,186)	$ 79,272

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Fair Value Measurements as of December 31, 2014				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment[1]	Estimated Fair Value
	(Dollars in millions)				
Liabilities:					
Long-term debt:					
Of Fannie Mae:					
Senior floating	$ —	$ 6,040	$ 363	$ —	$ 6,403
Total of Fannie Mae	—	6,040	363	—	6,403
Of consolidated trusts	—	18,956	527	—	19,483
Total long-term debt	—	24,996	890	—	25,886
Other liabilities:					
Risk management derivatives:					
Swaps	—	9,339	133	—	9,472
Swaptions	—	991	—	—	991
Other	—	—	1	—	1
Netting adjustment	—	—	—	(10,194)	(10,194)
Mortgage commitment derivatives	—	341	3	—	344
Total other liabilities	—	10,671	137	(10,194)	614
Total liabilities at fair value	$ —	$ 35,667	$ 1,027	$ (10,194)	$ 26,500

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Fair Value Measurements as of December 31, 2013				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment[1]	Estimated Fair Value
	(Dollars in millions)				
Assets:					
Trading securities:					
Mortgage-related securities:					
Fannie Mae	$ —	$ 5,828	$ 42	$ —	$ 5,870
Freddie Mac	—	1,837	2	—	1,839
Ginnie Mae	—	407	—	—	407
Alt-A private-label securities	—	898	618	—	1,516
Subprime private-label securities	—	—	1,448	—	1,448
CMBS	—	2,718	—	—	2,718
Mortgage revenue bonds	—	—	565	—	565
Other	—	—	99	—	99
Non-mortgage-related securities:					
U.S. Treasury securities	16,306	—	—	—	16,306
Total trading securities	16,306	11,688	2,774	—	30,768
Available-for-sale securities:					
Mortgage-related securities:					
Fannie Mae	—	6,566	7	—	6,573
Freddie Mac	—	6,834	8	—	6,842
Ginnie Mae	—	588	—	—	588
Alt-A private-label securities	—	3,558	3,791	—	7,349
Subprime private-label securities	—	—	7,068	—	7,068
CMBS	—	1,606	—	—	1,606
Mortgage revenue bonds	—	3	5,253	—	5,256
Other	—	4	2,885	—	2,889
Total available-for-sale securities	—	19,159	19,012	—	38,171
Mortgage loans of consolidated trusts	—	11,564	2,704	—	14,268
Other assets:					
Risk management derivatives:					
Swaps	—	9,604	36	—	9,640
Swaptions	—	561	1	—	562
Other	—	—	28	—	28
Netting adjustment	—	—	—	(8,422)	(8,422)
Mortgage commitment derivatives	—	265	—	—	265
Total other assets	—	10,430	65	(8,422)	2,073
Total assets at fair value	$ 16,306	$ 52,841	$ 24,555	$ (8,422)	$ 85,280

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Fair Value Measurements as of December 31, 2013				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment[1]	Estimated Fair Value
	(Dollars in millions)				
Liabilities:					
Long-term debt:					
Of Fannie Mae:					
Senior fixed	$ —	$ 353	$ —	$ —	$ 353
Senior floating	—	—	955	—	955
Total of Fannie Mae	—	353	955	—	1,308
Of consolidated trusts	—	14,458	518	—	14,976
Total long-term debt	—	14,811	1,473	—	16,284
Other liabilities:					
Risk management derivatives:					
Swaps	—	9,444	96	—	9,540
Swaptions	—	1,084	—	—	1,084
Other	—	—	1	—	1
Netting adjustment	—	—	—	(9,370)	(9,370)
Mortgage commitment derivatives	—	206	8	—	214
Total other liabilities	—	10,734	105	(9,370)	1,469
Total liabilities at fair value	$ —	$25,545	$ 1,578	$ (9,370)	$17,753

(1) Derivative contracts are reported on a gross basis by level. The netting adjustment represents the effect of the legal right to offset under legally enforceable master netting arrangements to settle with the same counterparty on a net basis, including cash collateral posted and received.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

The following tables display a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended December 31, 2014, 2013 and 2012. The tables also display gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recognized in our consolidated statements of operations and comprehensive income for Level 3 assets and liabilities for the years ended December 31, 2014, 2013 and 2012. When assets and liabilities are transferred between levels, we recognize the transfer as of the end of the period.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

For the Year Ended December 31, 2014

	Balance, December 31, 2013	Total (Losses) or Gains (Realized/Unrealized): Included in Net Income	Included in Other Comprehensive Income(1)	Purchases(2)	Sales(2)	Issues(3)	Settlements(3)	Transfers out of Level 3(4)	Transfers into Level 3(4)	Balance, December 31, 2014	Net Unrealized (Losses) Gains Included in Net Income Related to Assets and Liabilities Still Held as of December 31, 2014(5)
	(Dollars in millions)										
Trading securities:											
Mortgage-related:											
Fannie Mae	$ 42	$ (27)	$ —	$ 6	$ —	$ —	$ (2)	$ (39)	$ 325	$ 305	$ (18)
Freddie Mac	2	—	—	—	—	—	—	(2)	—	—	—
Alt-A private-label securities	618	88	—	—	(58)	—	(81)	(226)	256	597	97
Subprime private-label securities	1,448	270	—	—	(241)	—	(170)	—	—	1,307	234
Mortgage revenue bonds	565	168	—	—	—	—	(11)	—	—	722	160
Other	99	13	—	—	—	—	(13)	—	—	99	13
Total trading securities	$ 2,774	$ 512 (6)(7)	$ —	$ 6	$ (299)	$ —	$ (277)	$ (267)	$ 581	$ 3,030	$ 486 (6)(7)
Available-for-sale securities:											
Mortgage-related:											
Fannie Mae	$ 7	$ —	$ —	$ —	$ —	$ —	$ (1)	$ (8)	$ 2	$ —	$ —
Freddie Mac	8	—	—	—	—	—	(1)	(2)	1	6	—
Alt-A private-label securities	3,791	172	(26)	—	(393)	—	(471)	(1,738)	1,805	3,140	—
Subprime private-label securities	7,068	447	301	—	(1,730)	—	(846)	—	—	5,240	—
Mortgage revenue bonds	5,253	(32)	554	—	(70)	—	(1,682)	—	—	4,023	—
Other	2,885	19	103	—	—	—	(336)	—	—	2,671	—
Total available-for-sale securities	$ 19,012	$ 606 (6)(8)	$ 932	$ —	$(2,193)	$ —	$ (3,337)	$(1,748)	$1,808	$ 15,080	$ —
Mortgage loans of consolidated trusts	$ 2,704	$ 260 (6)(7)	$ —	$ 36	$ —	$ —	$ (344)	$(1,113)	$ 290	$ 1,833	$ 53 (6)(7)
Net derivatives	(40)	103 (7)	—	—	—	—	(21)	(2)	5	45	77 (7)

Long-term debt:											
Of Fannie Mae:											
Senior floating	$ (955)	$ (142)	$ —	$ —	$ —	$(750)	$ 19	$ 1,465	$ —	$ (363)	$ (97)
Of consolidated trusts	(518)	(53)	—	—	—	(1)	62	111	(128)	(527)	(49)
Total long-term debt	$ (1,473)	$ (195) [7]	$ —	$ —	$ —	$(751)	$ 81	$ 1,576	$ (128)	$ (890)	$(146) [7]

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

For the Year Ended December 31, 2013

		Total (Losses) or Gains (Realized/Unrealized)									
	Balance, December 31, 2012	Included in Net Income	Included in Other Comprehensive Income[1]	Purchases[2]	Sales[2]	Issues[3]	Settlements[3]	Transfers out of Level 3[4]	Transfers into Level 3[4]	Balance, December 31, 2013	Net Unrealized (Losses) Gains Included in Net Income Related to Assets and Liabilities Still Held as of December 31, 2013[5]
	(Dollars in millions)										
Trading securities:											
Mortgage-related:											
Fannie Mae	$ 68	$ (9)	$ —	$ —	$ —	$ —	$ (17)	$ —	$ —	$ 42	$ (9)
Freddie Mac	2	—	—	—	—	—	—	—	—	2	—
Ginnie Mae	1	—	—	—	—	—	(1)	(3)	3	—	—
Alt-A private-label securities	104	256	—	—	—	—	(115)	(435)	808	618	223
Subprime private-label securities	1,319	328	—	—	(50)	—	(149)	—	—	1,448	322
Mortgage revenue bonds	675	(101)	—	—	—	—	(9)	—	—	565	(101)
Other	117	(5)	—	—	—	—	(13)	—	—	99	(5)
Total trading securities	$ 2,286	$ 469 (6)(7)	$ —	$ —	$ (50)	$ —	$ (304)	$ (438)	$ 811	$ 2,774	$ 430 (6)(7)
Available-for-sale securities:											
Mortgage-related:											
Fannie Mae	$ 29	$ —	$ (1)	$ —	$ —	$ —	$ (7)	$ (14)	$ —	$ 7	$ —
Freddie Mac	10	—	(1)	—	—	—	(2)	(1)	2	8	—
Ginnie Mae	—	—	—	—	—	—	—	(1)	1	—	—
Alt-A private-label securities	6,564	144	464	—	(2,664)	—	(1,040)	(3,357)	3,680	3,791	—
Subprime private-label securities	7,447	120	1,527	359	(1,317)	—	(1,068)	—	—	7,068	—
Mortgage revenue bonds	7,837	25	(449)	—	(35)	—	(2,125)	—	—	5,253	—
Other	3,147	13	125	—	—	—	(400)	—	—	2,885	—
Total available-for-sale securities	$ 25,034	$ 302 (6)(8)	$ 1,665	$ 359	$(4,016)	$ —	$ (4,642)	$(3,373)	$3,683	$ 19,012	$ —
Mortgage loans of consolidated trusts	$ 2,634	$ 282 (6)(7)	$ —	$ 346	$ (393)	$ —	$ (459)	$ (352)	$ 646	$ 2,704	$ 50 (6)(7)
Net derivatives	14	(165) (7)	—	—	—	—	97	16	(2)	(40)	(51) (7)
Long-term debt:											
Of Fannie Mae:											

Senior floating	$ (400)	$ 76	$ —	$ —	$ —	$(674)	$ 43	$ —	$ —	$ (955)	$ 76
Of consolidated trusts	(1,128)	(250)	—	—	—	(21)	537	434	(90)	(518)	(80)
Total long-term debt	$ (1,528)	$ (174) (7)	$ —	$ —	$ —	$(695)	$ 580	$ 434	$ (90)	$ (1,473)	$ (4) (7)

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)

For the Year Ended December 31, 2012

		Total (Losses) or Gains (Realized/Unrealized)									
	Balance, December 31, 2011	Included in Net Income	Included in Other Comprehensive Income[1]	Purchases[2]	Sales[2]	Issues[3]	Settlements[3]	Transfers out of Level 3[4]	Transfers into Level 3[4]	Balance, December 31, 2012	Net Unrealized (Losses) Gains Included in Net Income Related to Assets and Liabilities Still Held as of December 31, 2012[5]
	(Dollars in millions)										
Trading securities:											
Mortgage-related:											
Fannie Mae	$ 1,737	$ (2)	$ —	$ —	$ (33)	$ —	$ (118)	$(1,581)	$ 65	$ 68	$ (6)
Freddie Mac	—	—	—	—	—	—	—	—	2	2	—
Ginnie Mae	9	—	—	—	—	—	—	(9)	1	1	—
Alt-A private-label securities	345	165	—	—	—	—	(111)	(907)	612	104	39
Subprime private-label securities	1,280	192	—	—	—	—	(153)	—	—	1,319	192
Mortgage revenue bonds	724	(29)	—	—	—	—	(20)	—	—	675	(29)
Other	143	(19)	—	—	—	—	(7)	—	—	117	(19)
Total trading securities	$ 4,238	$ 307 (6)(7)	$ —	$ —	$ (33)	$ —	$ (409)	$(2,497)	$ 680	$ 2,286	$ 177 (6)(7)
Available-for-sale securities:											
Mortgage-related:											
Fannie Mae	$ 946	$ —	$ (8)	$ 43	$ (43)	$ —	$ (24)	$ (895)	$ 10	$ 29	$ —
Freddie Mac	12	—	—	—	—	—	(2)	—	—	10	—
Alt-A private-label securities	7,256	(87)	584	—	—	—	(1,072)	(3,325)	3,208	6,564	—
Subprime private-label securities	7,586	(126)	1,280	—	—	—	(1,293)	—	—	7,447	—
Mortgage revenue bonds	10,247	9	(23)	29	(76)	—	(2,349)	—	—	7,837	—
Other	3,445	12	59	—	—	—	(369)	—	—	3,147	—
Total available-for-sale securities	$ 29,492	$ (192) (6)(8)	$ 1,892	$ 72	$ (119)	$ —	$ (5,109)	$(4,220)	$ 3,218	$ 25,034	$ —
Mortgage loans of consolidated trusts	$ 2,319	$ 235 (6)(7)	$ —	$ 935	$ —	$ —	$ (411)	$ (562)	$ 118	$ 2,634	$ 159 (6)(7)
Net derivatives	65	(23) (7)	—	—	—	(8)	(20)	—	—	14	(9) (7)
Long-term debt:											
Of Fannie Mae:											
Senior floating	$ (406)	$ (21)	$ —	$ —	$ —	$ —	$ 27	$ —	$ —	$ (400)	$ (21)

Of consolidated trusts	(765)	(180)	—	—	—	(523)	233	474	(367)	(1,128)	(158)
Total long-term debt	$ (1,171)	$ (201) [7]	$ —	$ —	$ —	$(523)	$ 260	$ 474	$ (367)	$ (1,528)	$(179) [7]

(1) Gains (losses) included in other comprehensive income are included in "Changes in unrealized gains on AFS, net of reclassification adjustments and taxes" in the consolidated statements of operations and comprehensive income.

(2) Purchases and sales include activity related to the consolidation and deconsolidation of assets of securitization trusts.

(3) Issues and settlements include activity related to the consolidation and deconsolidation of liabilities of securitization trusts.

(4) Transfers out of Level 3 consisted primarily of private-label mortgage-related securities backed by Alt-A loans and credit risk sharing securities issued under our CAS series. Prices for these securities were obtained from multiple third-party vendors or dealers. Transfers out of Level 3 also occurred for mortgage loans of consolidated trusts for which unobservable inputs used in valuations became less significant. Transfers into Level 3 consisted primarily of private-label mortgage-related securities backed by Alt-A loans. Prices for these securities are based on inputs from a single source or inputs that were not readily observable.

(5) Amount represents temporary changes in fair value. Amortization, accretion and OTTI are not considered unrealized and are not included in this amount.

(6) Gains (losses) are included in "Net interest income" in our consolidated statements of operations and comprehensive income.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(7) Gains (losses) are included in "Fair value (losses) gains, net" in our statement of consolidated statements of operations and comprehensive income.

(8) Gains (losses) are included in "Investment gains (losses), net" in our statement of consolidated statements of operations and comprehensive income.

Nonrecurring Changes in Fair Value

The following tables display assets measured in our consolidated balance sheets at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when we evaluate loans for impairment) as of December 31, 2014, and 2013.

	Fair Value Measurements as of December 31, 2014			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Estimated Fair Value
	(Dollars in millions)			
Nonrecurring fair value measurements:				
Assets:				
Mortgage loans held for sale, at lower of cost or fair value	$ —	$ 93	$ 110	$ 203
Single-family mortgage loans held for investment, at amortized cost:(1)				
Of Fannie Mae	—	—	16,654	16,654
Of consolidated trusts	—	—	60	60
Multifamily mortgage loans held for investment, at amortized cost	—	—	625	625
Acquired property, net:				
Single-family	—	—	4,782	4,782
Multifamily	—	—	140	140
Other assets	—	—	45	45
Total nonrecurring fair value measurements	$ —	$ 93	$ 22,416	$ 22,509

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	Fair Value Measurements as of December 31, 2013			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Estimated Fair Value
	(Dollars in millions)			
Assets:				
Mortgage loans held for sale, at lower of cost or fair value	$ —	$ 101	$ 132	$ 233
Single-family mortgage loans held for investment, at amortized cost:[1]				
Of Fannie Mae	—	—	19,966	19,966
Of consolidated trusts	—	—	79	79
Multifamily mortgage loans held for investment, at amortized cost	—	—	1,533	1,533
Acquired property, net:				
Single-family	—	—	4,041	4,041
Multifamily	—	—	98	98
Other assets	—	—	121	121
Total nonrecurring fair value measurements	$ —	$ 101	$ 25,970	$ 26,071

(1) Excludes estimated recoveries from mortgage insurance proceeds.

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The following table displays valuation techniques and the range and the weighted average of significant unobservable inputs for our Level 3 assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and 2013.

	Fair Value Measurements as of December 31, 2014				
	Fair Value	Significant Valuation Techniques	Significant Unobservable Inputs(1)	Range(1)	Weighted - Average(1)
			(Dollars in millions)		
Recurring fair value measurements:					
Trading securities:					
Mortgage-related securities:					
Agency(2)(3)	$ 153	Single Vendor	Prepayment Speed (%)	100.0	100.0
			Spreads (bps)	256.5 - 350.8	293.4
	130	Consensus	Prepayment Speed (%)	100.0	100.0
			Spreads (bps)	184.6 - 219.5	197.5
	22	Other			
Total Agency	305				
Alt-A private-label securities(4)	290	Single Vendor	Default Rate (%)	8.3 - 9.1	8.5
			Prepayment Speed (%)	2.9 - 3.2	3.1
			Severity (%)	79.5 - 95.0	90.4
			Spreads (bps)	267.2 - 308.2	279.4
	66	Consensus	Default Rate (%)	5.4	5.4
			Prepayment Speed (%)	7.0	7.0
			Severity (%)	48.8	48.8
			Spreads (bps)	264.8	264.8
	151	Consensus			
	90	Other			
Total Alt-A private-label securities	597				
Subprime private-label securities(4)	422	Consensus	Default Rate (%)	3.5 - 11.8	7.2
			Prepayment Speed (%)	1.4 - 5.2	2.8
			Severity (%)	72.1 - 95.0	85.9
			Spreads (bps)	265.0	265.0
	549	Consensus			
	290	Discounted Cash Flow	Default Rate (%)	4.3 - 6.2	5.2
			Prepayment Speed (%)	2.3 - 4.2	3.3
			Severity (%)	62.2 - 95.0	73.8
			Spreads (bps)	265.0 - 382.1	283.7
	46	Other			
Total subprime private-label securities	1,307				
Mortgage revenue bonds	161	Dealer Mark	Spreads (bps)	288.1	288.1
	540	Discounted Cash Flow	Spreads (bps)	6.0 - 318.0	263.0
	21	Other			
Total mortgage revenue bonds	722				

Other	99	Dealer Mark
Total trading securities	$ 3,030	

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Fair Value Measurements as of December 31, 2014				
	Fair Value	Significant Valuation Techniques	Significant Unobservable Inputs[1]	Range[1]	Weighted - Average[1]
			(Dollars in millions)		
Available-for-sale securities:					
Mortgage-related securities:					
Agency[3]	$ 6	Other			
Alt-A private-label securities[4]	322	Single Vendor	Default Rate (%)	0.2 - 13.1	4.6
			Prepayment Speed (%)	0.2 - 20.5	8.2
			Severity (%)	27.8 - 89.7	61.0
			Spreads (bps)	190.0 - 315.0	264.9
	493	Single Vendor			
	1,187	Consensus	Default Rate (%)	0.4 - 31.2	5.1
			Prepayment Speed (%)	0.1 - 48.9	11.0
			Severity (%)	0.2 - 95.0	59.6
			Spreads (bps)	183.8 - 240.0	236.7
	691	Consensus			
	403	Discounted Cash Flow	Default Rate (%)	5.0 - 11.5	7.0
			Prepayment Speed (%)	0.5 - 8.4	3.4
			Severity (%)	35.1 - 92.4	54.2
			Spreads (bps)	188.0 - 340.0	243.4
	44	Other			
Total Alt-A private-label securities	3,140				
Subprime private-label securities[4]	383	Single Vendor	Default Rate (%)	2.1 - 8.3	5.5
			Prepayment Speed (%)	1.5 - 3.3	2.1
			Severity (%)	65.4 - 95.0	78.5
			Spreads (bps)	215.0 - 262.0	230.0
	2,722	Consensus	Default Rate (%)	1.5 - 37.4	6.3
			Prepayment Speed (%)	0.1 - 17.7	2.6
			Severity (%)	1.5 - 95.0	84.4
			Spreads (bps)	155.0 - 265.0	220.0
	1,755	Consensus			
	317	Discounted Cash Flow	Default Rate (%)	3.0 - 12.3	7.0
			Prepayment Speed (%)	1.1 - 9.0	4.1
			Severity (%)	28.9 - 91.8	81.2
			Spreads (bps)	155.0 - 895.0	250.5
	63	Other			
Total subprime private-label securities	5,240				
Mortgage revenue bonds	1,504	Single Vendor	Spreads (bps)	(11.5) - 361.5	52.7
	418	Single Vendor			
	510	Dealer Mark	Spreads (bps)	222.8 - 322.1	265.9

	1,581	Discounted Cash Flow	Spreads (bps)	(11.5) - 620.2	251.4
	10	Other			
Total mortgage revenue bonds	4,023				
Other	337	Single Vendor	Default Rate (%)	1.7 - 5.0	4.4
			Prepayment Speed (%)	3.0 - 9.3	3.8
			Severity (%)	4.0 - 94.6	69.6
			Spreads (bps)	263.1 - 427.2	291.5
	720	Consensus	Default Rate (%)	0.1 - 6.6	3.9
			Prepayment Speed (%)	3.0 - 30.4	4.8
			Severity (%)	0.4 - 95.0	62.4
			Spreads (bps)	215.0 - 481.4	320.6
	1,215	Dealer Mark			
	399	Other			
Total other	2,671				
Total available-for-sale securities	$15,080				

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

	Fair Value Measurements as of December 31, 2014				
	Fair Value	Significant Valuation Techniques	Significant Unobservable Inputs[1]	Range[1]	Weighted - Average[1]
	(Dollars in millions)				
Mortgage loans of consolidated trusts:					
Single-family	$ 934	Build-Up	Default Rate (%)	0.0 - 99.0	14.9
			Prepayment Speed (%)	3.6 - 99.8	16.3
			Severity (%)	3.4 - 100.0	23.7
	279	Consensus			
	402	Discounted Cash Flow	Default Rate (%)	2.7 - 13.1	5.5
			Prepayment Speed (%)	0.1 - 13.5	7.5
			Severity (%)	35.5 - 95.0	61.3
			Spreads (bps)	155.0 - 665.0	227.4
	39	Other			
Total single-family	1,654				
Multifamily	179	Build-Up	Spreads (bps)	59.0 - 323.4	137.3
Total mortgage loans of consolidated trusts	$ 1,833				
Net derivatives	$ (107)	Internal Model			
	150	Dealer Mark			
	2	Other			
Total net derivatives	$ 45				
Long-term debt:					
Of Fannie Mae:					
Senior floating	$ (363)	Discounted Cash Flow			
Of consolidated trusts[2]	(219)	Consensus			
	(205)	Discounted Cash Flow	Default Rate (%)	2.7 - 11.9	4.0
			Prepayment Speed (%)	0.1 - 100.0	33.4
			Severity (%)	35.5 - 95.0	54.6
			Spreads (bps)	88.0 - 665.0	249.4
	(103)	Other			
Total of consolidated trusts	(527)				
Total long-term debt	$ (890)				

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	Fair Value Measurements as of December 31, 2013				
	Fair Value	Significant Valuation Techniques	Significant Unobservable Inputs[1]	Range[1]	Weighted - Average[1]
	(Dollars in millions)				
Recurring fair value measurements:					
Trading securities:					
Mortgage-related securities:					
Agency[3]	$ 44	Other			
Alt-A private-label securities[4]	60	Single Vendor	Default Rate (%)	6.0 - 10.8	8.7
			Prepayment Speed (%)	4.1 - 5.4	4.6
			Severity (%)	76.1 - 92.7	83.1
			Spreads (bps)	414.3 - 421.7	417.5
	325	Consensus	Default Rate (%)	6.9 - 10.4	8.9
			Prepayment Speed (%)	1.9 - 2.5	2.2
			Severity (%)	77.3 - 97.8	88.7
			Spreads (bps)	298.3 - 420.2	366.3
	85	Consensus			
	148	Discounted Cash Flow	Default Rate (%)	4.0 - 6.9	6.5
			Prepayment Speed (%)	1.9 - 3.4	2.2
			Severity (%)	42.7 - 77.3	67.6
			Spreads (bps)	325.4 - 439.4	418.6
Total Alt-A private-label securities	618				
Subprime private-label securities[4]	113	Single Vendor	Default Rate (%)	3.1 - 7.5	3.9
			Prepayment Speed (%)	1.8 - 2.5	2.0
			Severity (%)	75.0 - 87.2	75.8
			Spreads (bps)	325.0	325.0
	77	Single Vendor			
	400	Consensus	Default Rate (%)	3.0 - 9.2	6.4
			Prepayment Speed (%)	1.4 - 2.2	1.9
			Severity (%)	50.4 - 87.2	74.4
			Spreads (bps)	325.0 - 425.0	353.0
	808	Consensus			
	50	Discounted Cash Flow	Default Rate (%)	6.9	6.9
			Prepayment Speed (%)	0.1	0.1
			Severity (%)	75.0	75.0
			Spreads (bps)	325.0	325.0
Total subprime private-label securities	1,448				
Mortgage revenue bonds	539	Discounted Cash Flow	Spreads (bps)	35.0 - 440.0	340.6
	26	Other			
Total mortgage revenue bonds	565				
Other	99	Discounted Cash Flow	Spreads (bps)	525.0	525.0
Total trading securities	$ 2,774				

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	Fair Value Measurements as of December 31, 2013				
	Fair Value	Significant Valuation Techniques	Significant Unobservable Inputs[1]	Range[1]	Weighted - Average[1]
	(Dollars in millions)				
Available-for-sale securities:					
Mortgage-related securities:					
Agency[3]	$ 15	Other			
Alt-A private-label securities[4]	139	Single Vendor	Default Rate (%)	0.9 - 6.4	3.9
			Prepayment Speed (%)	9.3 - 11.9	11.3
			Severity (%)	53.7 - 82.6	68.8
			Spreads (bps)	300.0 - 400.0	349.3
	435	Single Vendor			
	1,948	Consensus	Default Rate (%)	0.1 - 10.3	3.5
			Prepayment Speed (%)	0.1 - 32.9	9.9
			Severity (%)	7.2 - 100.0	62.3
			Spreads (bps)	210.6 - 404.2	336.7
	740	Consensus			
	420	Discounted Cash Flow	Default Rate (%)	2.3 - 10.1	5.1
			Prepayment Speed (%)	1.2 - 7.0	3.4
			Severity (%)	45.2 - 79.5	60.5
			Spreads (bps)	220.2 - 500.0	381.3
	109	Other			
Total Alt-A private-label securities	3,791				
Subprime private-label securities[4]	442	Single Vendor	Default Rate (%)	1.8 - 11.0	7.4
			Prepayment Speed (%)	1.0 - 9.4	2.0
			Severity (%)	65.0 - 100.0	82.2
			Spreads (bps)	275.0 - 375.0	315.2
	322	Single Vendor			
	2,981	Consensus	Default Rate (%)	0.0 - 36.8	7.4
			Prepayment Speed (%)	0.3 - 9.7	2.3
			Severity (%)	36.8 - 100.0	81.7
			Spreads (bps)	175.0 - 375.0	319.9
	2,442	Consensus			
	816	Discounted Cash Flow	Default Rate (%)	0.7 - 7.6	5.1
			Prepayment Speed (%)	0.2 - 12.5	4.1
			Severity (%)	43.8 - 98.0	79.5
			Spreads (bps)	175.0 - 375.0	292.4
	65	Other			
Total subprime private-label securities	7,068				
Mortgage revenue bonds	1,937	Single Vendor	Spreads (bps)	0.0 - 463.2	112.1
	1,386	Single Vendor			
	1,899	Discounted Cash Flow	Spreads (bps)	5.5 - 490.0	310.0

	31	Other			
Total mortgage revenue bonds	5,253				
Other	122	Single Vendor			
	483	Consensus	Default Rate (%)	0.1 - 5.0	5.0
			Prepayment Speed (%)	3.0 - 11.4	3.0
			Severity (%)	65.0 - 85.0	84.6
			Spreads (bps)	275.0 - 925.0	526.4
	625	Consensus			
	610	Discounted Cash Flow	Default Rate (%)	5.0	5.0
			Prepayment Speed (%)	10.0	10.0
			Severity (%)	55.0	55.0
			Spreads (bps)	300.0 - 511.0	469.5
	1,045	Other			
Total other	2,885				
Total available-for-sale securities	$19,012				

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	Fair Value Measurements as of December 31, 2013				
	Fair Value	**Significant Valuation Techniques**	**Significant Unobservable Inputs[(1)]**	**Range[(1)]**	**Weighted - Average[(1)]**
	(Dollars in millions)				
Mortgage loans of consolidated trusts:					
Single-family	$ 1,828	Build-Up	Default Rate (%)	0.1 - 95.6	15.7
			Prepayment Speed (%)	2.3 - 37.6	14.1
			Severity (%)	0.0 - 100.0	26.6
	219	Consensus			
	112	Consensus	Default Rate (%)	1.1 - 4.7	3.2
			Prepayment Speed (%)	0.2 - 16.7	15.2
			Severity (%)	63.9 - 89.5	85.6
			Spreads (bps)	175.0 - 950.0	293.9
	310	Discounted Cash Flow	Default Rate (%)	1.2 - 15.7	7.0
			Prepayment Speed (%)	1.9 - 16.7	7.0
			Severity (%)	58.8 - 97.7	75.5
			Spreads (bps)	175.0 - 360.6	252.1
	60	Other			
Total single-family	2,529				
Multifamily	175	Build-Up	Spreads (bps)	62.0 - 243.4	114.3
Total mortgage loans of consolidated trusts	$ 2,704				
Net derivatives	$ (64)	Internal Model			
	32	Dealer Mark			
	(8)	Other			
Total net derivatives	$ (40)				
Long-term debt:					
Of Fannie Mae:					
Senior floating	$ (266)	Discounted Cash Flow			
	(689)	Consensus	Default Rate (%)	0.2	0.2
			Prepayment Speed (%)	8.4	8.4
			Spreads (bps)	171.0 - 438.0	306.2
Total of Fannie Mae	(955)				
Of consolidated trusts	(227)	Consensus			
	(116)	Consensus	Default Rate (%)	1.1 - 4.7	3.2
			Prepayment Speed (%)	0.2 - 16.7	15.2
			Severity (%)	63.9 - 89.5	85.6
			Spreads (bps)	175.0 - 950.0	295.1
	(80)	Single Vendor			
	(95)	Other			
Total of consolidated trusts	(518)				
Total long-term debt	$ (1,473)				

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(1) Valuation techniques for which no unobservable inputs are disclosed generally reflect the use of third-party pricing services or dealers, and the range of unobservable inputs applied by these sources is not readily available or cannot be reasonably estimated. Where we have disclosed unobservable inputs for consensus and single vendor techniques, those inputs are based on our validations performed at the security level using discounted cash flows.

(2) Includes instruments for which the prepayment speed as disclosed represents the estimated annualized rate of prepayment after all prepayment penalty provisions have expired and also instruments for which prepayment speed as disclosed represents the estimated rate of prepayment over the remaining life of the instrument.

(3) Includes Fannie Mae and Freddie Mac securities.

(4) Default Rate as disclosed represents the estimated beginning annualized rate of default and is used as a basis to forecast the future default rates that serve as an input for valuation.

The following table displays valuation techniques for our Level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2014 and 2013. The significant unobservable inputs related to these techniques primarily relate to collateral

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dependent valuations. The related ranges and weighted averages are not meaningful when aggregated as they vary significantly from property to property.

	Significant Valuation Techniques	Fair Value Measurements as of December 31, 2014	2013
		(Dollars in millions)	
Nonrecurring fair value measurements:			
Mortgage loans held for sale, at lower of cost or fair value	Consensus	$ 110	$ 132
Single-family mortgage loans held for investment, at amortized cost:			
Of Fannie Mae	Internal Model	16,654	19,966
Of consolidated trusts	Other	60	79
Total single-family mortgage loans held for investment, at amortized cost		16,714	20,045
Multifamily mortgage loans held for investment, at amortized cost	Broker Price Opinions	45	248
	Asset Manager Estimate	580	1,230
	Other	—	55
Total multifamily mortgage loans held for investment, at amortized cost		625	1,533
Acquired property, net:			
Single-family	Accepted Offers	864	691
	Appraisals	1,509	1,077
	Walk Forwards	1,173	1,106
	Internal Model	1,045	1,049
	Other	191	118
Total single-family		4,782	4,041
Multifamily	Broker Price Opinions	127	9
	Other	13	89
Total multifamily		140	98
Other assets	Other	45	121
Total nonrecurring assets at fair value		$ 22,416	$ 25,970

We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation techniques we use for fair value measurement and disclosure as well as our basis for classifying these measurements as Level 1, Level 2 or Level 3 of the valuation hierarchy in more specific situations.

Trading Securities and Available-for-Sale Securities

These securities are recorded in our consolidated balance sheets at fair value on a recurring basis. Fair value is measured using quoted market prices in active markets for identical assets, when available.

We classify securities whose values are based on quoted market prices in active markets for identical assets as Level 1 of the valuation hierarchy. We classify securities in active markets as Level 2 of the valuation hierarchy if quoted market prices in active markets for identical assets are not available. For all valuation techniques used for securities where there is limited activity or less transparency around these inputs to the valuation, these securities are classified as Level 3 of the valuation hierarchy.

A description of our securities valuation techniques is as follows:

Single Vendor: This valuation technique utilizes one vendor price to estimate fair value. We generally validate these observations of fair value through the use of a discounted cash flow technique whose unobservable inputs (for example, default rates) are disclosed in the table above.

Dealer Mark: This valuation technique utilizes one dealer price to estimate fair value. We generally validate these observations of fair value through the use of a discounted cash flow technique whose unobservable inputs (for example, default rates) are disclosed in the table above.

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Consensus: This technique utilizes an average of two or more vendor prices for similar securities. We generally validate these observations of fair value through the use of a discounted cash flow technique whose unobservable inputs (for example, default rates) are disclosed in the table above.

Discounted Cash Flow: In the absence of prices provided by third-party pricing services supported by observable market data, we estimate the fair value of a portion of our securities using a discounted cash flow technique that uses inputs such as default rates, prepayment speeds, loss severity and spreads based on market assumptions where available.

For private-label securities, an increase in unobservable prepayment speeds in isolation would generally result in an increase in fair value, and an increase in unobservable spreads, severity rates or default rates in isolation would generally result in a decrease in fair value. For mortgage revenue bonds classified as Level 3 of the valuation hierarchy, an increase in unobservable spreads would result in a decrease in fair value. Although the sensitivities of the fair value of our recurring Level 3 securities of the valuation hierarchy to various unobservable inputs are discussed above in isolation, interrelationships exist among these inputs such that a change in one unobservable input typically results in a change to one or more of the other inputs.

Mortgage Loans Held for Investment

The majority of HFI loans are reported in our consolidated balance sheets at the principal amount outstanding, net of cost basis adjustments and an allowance for loan losses. We estimate the fair value of HFI loans using the build-up and consensus valuation techniques, as discussed below, for periodic disclosure of financial instruments as required by GAAP. For our remaining loans, which include those containing embedded derivatives that would otherwise require bifurcation and consolidated loans of senior-subordinated trust structures, we elected the fair value option and therefore, we record these loans at fair value in our consolidated balance sheets. We measure these loans on a recurring basis using the build-up, consensus, discounted cash flow and single vendor price techniques. Certain impaired loans are measured at fair value on a nonrecurring basis by using the fair value of their underlying collateral. Specific techniques used include internal models, broker price opinions and appraisals.

A description of our loan valuation techniques is as follows:

Build-up: We derive the fair value of mortgage loans using a build-up valuation technique. In the build-up valuation technique we start with the base value for our Fannie Mae MBS and then add or subtract the fair value of the associated guaranty asset, guaranty obligation ("GO") and master servicing arrangement. We use observable market values of Fannie Mae MBS with similar characteristics, either on a pool or loan level, determined primarily from third party pricing services, quoted market prices in active markets for similar securities, and other observable market data as a base value. We set the GO equal to the estimated fair value we would receive if we were to issue our guaranty to an unrelated party in a stand-alone arm's length transaction at the measurement date. We estimate the fair value of the GO using our internal valuation models, which calculate the present value of expected cash flows based on management's best estimate of certain key assumptions such as current mark-to-market LTV ratios, future house prices, default rates, severity rates and required rate of return. We also estimate the fair value of the GO using our current guaranty pricing and adjust that pricing, as appropriate, for the seasoning of the collateral when such transactions reflect credit characteristics of loans held in our portfolio. As a result, the fair value of our mortgage loans will change when the pricing for our credit guaranty changes in the GSE securitization market.

Our performing loans are generally classified as Level 2 of the valuation hierarchy to the extent that significant inputs are observable. To the extent that unobservable inputs are significant, the loans are classified as Level 3 of the valuation hierarchy.

Consensus: The fair value of single-family nonperforming loans represents an estimate of the prices we would receive if we were to sell these loans in the whole-loan market. These nonperforming loans are either two or more months delinquent, in an open modification period, or in a closed modification state (both performing and nonperforming in accordance with the loan's modified terms). We calculate the fair value of nonperforming loans based on certain key factors, including collateral value, cash flow characteristics and mortgage insurance repayment. Collateral value is derived from the current estimated mark-to-market LTV ratio of the individual loan and, where appropriate, a state-level distressed property sales discount. Cash flow characteristics include attributes such as the weighted average coupon rate and loan payment history. The fair value of mortgage insurance is estimated by taking the loan level coverage and adjusting it by the expected claims paying ability of the associated mortgage insurer. The expected claims paying abilities used for estimating the fair value of mortgage insurance are consistent with our credit loss forecast. Fair value is estimated from the extrapolation of indicative sample bids obtained

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from multiple active market participants plus the estimated value of any applicable mortgage insurance. These loans are classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

We estimate the fair value for a portion of our senior-subordinated trust structures using the average of two or more vendor prices at the security level as a proxy for estimating loan fair value. These loans are classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

Discounted Cash Flow: We estimate the fair value of a portion of our senior-subordinated trust structures using discounted cash flow at the security level as a proxy for estimating loan fair value. This valuation technique uses unobservable inputs such as prepayment speeds, default rates, spreads, and loss severities to estimate the fair value of our securities. These inputs are weighted in a model that calculates the expected cash flow of the security which is used as the basis of fair value. These loans are classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

Single Vendor: We estimate the fair value of a portion of our senior-subordinated trust structures using the single vendor valuation technique at the security level as a proxy for estimating loan fair value. We also estimate the fair value of our reverse mortgages using the single vendor valuation technique. These loans are classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

Internal Model: For loans whose value it has been determined should be based on collateral value, we use an internal proprietary distressed home price model. The internal model used in this process takes one of two approaches when valuing the collateral.

The first approach relies on comparable foreclosed property sales to estimate the value of the target collateral. The comparable foreclosed property sales approach uses various factors such as geographic distance, transaction time and the value difference. The second approach referred to as the median Metropolitan Statistical Area ("MSA") is based on the median of all the foreclosure sales of REOs in a specific MSA. Using this sales price, MSA level discount is computed and applied to the estimated non distressed value to derive an estimated fair value. If there are not enough REO sales in a specific MSA, a median state level foreclosure discount is used to estimate the fair value.

The majority of the internal model valuations come from the comparable sales approach. The determination of whether the internal model valuations in a particular geographic area should use the comparable sales approach or median MSA is based on historical accuracy. These loans are classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

Appraisals: For a portion of our multifamily loans, we use appraisals to estimate the fair value of the loan. There are three approaches used to estimate fair value of a specific property: (1) cost, (2) income capitalization and (3) sales comparison. The cost approach uses the insurable value as a basis. The unobservable inputs used in this model include the estimated cost to construct or replace multifamily properties in the closest localities available. The income capitalization approach estimates the fair value using the present value of the future cash flow expectations by applying an appropriate overall capitalization rate to the forecasted net operating income. The significant unobservable inputs used in this calculation include rental income, fees associated with rental income, expenses associated with the property including taxes, payroll, insurance and other items, and capitalization rates, which are determined through market extraction and the debt service coverage ratio. The sales comparison approach compares the prices paid for similar properties, the prices asked by owners and offers made. The unobservable inputs to this methodology include ratios of sales prices to annual gross income, price paid per unit and adjustments made based on financing, conditions of sale and physical characteristics of the property. These loans are classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

Broker Price Opinion ("BPO"): For a portion of our multifamily loans, we use BPO to estimate the fair value of the loan. This technique uses both current property value and the property value adjusted for stabilization and market conditions. These approaches compute net operating income based on current rents and expenses and use a range of market capitalization rates to estimate property value. The unobservable inputs used in this technique are property net operating income and market capitalization rates to estimate property value. These loans are classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

Asset Manager Estimate ("AME"): For a portion of our multifamily loans, AME is used to estimate the fair value of the loan. This technique uses the net operating income and tax assessments of the specific property as well as MSA-specific market capitalization rates and average per unit sales values to estimate property fair value. These loans are classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

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An increase in prepayment speeds in isolation would generally result in an increase in the fair value of our mortgage loans classified as Level 3 of the valuation hierarchy, and an increase in severity rates, default rates or spreads in isolation would generally result in a decrease in fair value. Although the sensitivities of the fair value of mortgage loans classified as Level 3 of the valuation hierarchy to various unobservable inputs are discussed above in isolation, interrelationships exist among these inputs such that a change in one unobservable input typically results in a change to one or more of the other inputs.

Acquired Property, Net and Other Assets

Acquired property, net represents foreclosed property received in full satisfaction of a loan net of a valuation allowance. Acquired property is initially recorded in our consolidated balance sheets at its fair value less its estimated cost to sell. The initial fair value of foreclosed properties is determined using a hierarchy based on the reliability of available information. The hierarchy for single-family acquired property includes accepted offers, appraisals, broker price opinions and proprietary home price model values. The hierarchy for multifamily acquired property includes accepted offers, appraisals and broker price opinions. We consider an accepted offer on a specific foreclosed property to be the best estimate of its fair value. If we have not accepted an offer on the property we use the next highest priority valuation methodology available, as described in our valuation hierarchy to determine fair value. While accepted offers represent an agreement in principle to transact, a significant portion of these agreements do not get executed for various reasons, and are therefore classified as Level 3 of the valuation hierarchy.

Third-party valuations can be obtained from either an appraisal or a broker price opinion. These valuations are kept current using a monthly walk forward process that updates them for any change in the value of the property. When accepted offers or third-party valuations are not available, we generally utilize the home price values determined using an internal model.

Subsequent to initial measurement, the foreclosed properties that we intend to sell are reported at the lower of the carrying amount or fair value less estimated costs to sell. Foreclosed properties classified as held for use, included in “Other Assets” in our consolidated balance sheets, are depreciated and impaired when circumstances indicate that the carrying amount of the property is no longer recoverable. The fair values of our single-family foreclosed properties subsequent to initial measurement are determined using the same information hierarchy used for the initial fair value measurement.

The most commonly used techniques in our valuation of acquired property are proprietary home price model and appraisals (both current and walk forward). Based on the number of properties measured as of December 31, 2014, these methodologies comprised approximately 77% of our valuations, while accepted offers comprised approximately 19% of our valuations. Based on the number of properties measured as of December 31, 2013, these methodologies comprised approximately 81% of our valuations, while accepted offers comprised approximately 16% of our valuations.

Acquired property is classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

A description of our acquired property significant valuation techniques is as follows:

Single-family acquired property valuation techniques

Appraisal: An appraisal is an estimate of the value of a specific property by a certified or licensed appraiser, in accordance with the Uniform Standards of Professional Appraisal Practice. Data most commonly used is from the local Multiple Listing Service and includes properties currently listed for sale, properties under contract, and closed transactions. The appraiser performs an analysis that starts with these data points and then adjusts for differences between the comparable properties and the property being appraised, to arrive at an estimated value for the specific property. Adjustments are made for differences between comparable properties for unobservable inputs such as square footage, location, and condition of the property. The appraiser typically uses recent historical data for the estimate of value.

Broker Price Opinion: This technique provides an estimate of what the property is worth based upon a real estate broker’s knowledge. The broker uses research of pertinent data in the appropriate market, and a sales comparison approach that is similar to the appraisal process. The broker typically has insight into local market trends, such as the number of and terms of offers, lack of offers, increasing supply, shortage of inventory and overall interest in buying a home. This information, all of which is unobservable, is used along with recent and pending sales and current listings of similar properties to arrive at an estimate of value.

We review the appraisals and broker price opinions received to determine if they have been performed in accordance with applicable standards and if the results are consistent with our observed transactions on similar properties. We make necessary adjustments as required.

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Appraisal and Broker Price Opinion Walk Forwards ("Walk Forwards"): We use these techniques to adjust appraisal and broker price opinion valuations for changing market conditions by applying a walk forward factor based on local price movements since the time the third-party value was obtained. The majority of third-party values are updated by comparing the difference in our internal home price model from the month of the original appraisal/broker price opinion to the current period and by applying the resulting percentage change to the original value. If a price is not determinable through our internal home price model, we use our zip code level home price index to update the valuations.

Internal Model: We use an internal model to estimate fair value for distressed properties. The valuation methodology and inputs used are described under "Mortgage Loans Held for Investment."

Multifamily acquired property valuation techniques

Appraisals: We use this method to estimate property values for distressed properties. The valuation methodology and inputs used are described under "Mortgage Loans Held for Investment."

Broker Price Opinions: We use this method to estimate property values for distressed properties. The valuation methodology and inputs used are described under "Mortgage Loans Held for Investment."

Derivatives Assets and Liabilities (collectively "Derivatives")

Derivatives are recorded in our consolidated balance sheets at fair value on a recurring basis. The valuation process for the majority of our risk management derivatives uses observable market data provided by third-party sources, resulting in Level 2 classification of the valuation hierarchy.

A description of our derivatives valuation techniques is as follows:

Internal Model: We use internal models to value interest rate swaps which are valued by referencing yield curves derived from observable interest rates and spreads to project and discount swap cash flows to present value. Option-based derivatives use an internal model that projects the probability of various levels of interest rates by referencing swaption volatilities provided by market makers/dealers. The projected cash flows of the underlying swaps of these option-based derivatives are discounted to present value using yield curves derived from observable interest rates and spreads.

Dealer Mark: Certain highly complex structured swaps primarily use a single dealer mark due to lack of transparency in the market and may be modeled using observable interest rates and volatility levels as well as significant unobservable assumptions, resulting in Level 3 classification of the valuation hierarchy. Mortgage commitment derivatives that use observable market data, quotes and actual transaction price levels adjusted for market movement are typically classified as Level 2 of the valuation hierarchy. To the extent mortgage commitment derivatives include adjustments for market movement that cannot be corroborated by observable market data, we classify them as Level 3 of the valuation hierarchy.

Debt

The majority of debt of Fannie Mae is recorded in our consolidated balance sheets at the principal amount outstanding, net of cost basis adjustments. We elected the fair value option for certain structured Fannie Mae debt instruments and debt of consolidated trusts with embedded derivatives, which are recorded in our consolidated balance sheets at fair value on a recurring basis.

We classify debt instruments that have quoted market prices in active markets for similar liabilities when traded as assets as Level 2 of the valuation hierarchy. For all valuation techniques used for debts instruments where there is limited activity or less transparency around these inputs to the valuation, these debt instruments are classified as Level 3 of the valuation hierarchy.

A description of our debt valuation techniques is as follows:

Consensus: We estimate the fair value of debt of Fannie Mae and our debt of consolidated trusts using an average of two or more vendor prices or dealer marks that represents estimated fair value for similar liabilities when traded as assets.

Single Vendor: We estimate the fair value of debt of Fannie Mae and our debt of consolidated trusts using a single vendor price that represents estimated fair value for these liabilities when traded as assets.

Discounted Cash Flow: In the absence of prices provided by third-party pricing services supported by observable market data, we estimate the fair value of a portion of the debt of Fannie Mae and our debt of consolidated trusts using a discounted cash flow technique that uses spreads based on market assumptions where available.

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The valuation methodology and inputs used in estimating the fair value of MBS assets are described under “Trading Securities and Available-for-Sale Securities.”

Valuation Control Processes

We have control processes that are designed to ensure that our fair value measurements are appropriate and reliable, that they are based on observable inputs wherever possible and that our valuation approaches are consistently applied and the assumptions used are reasonable. Our control processes consist of a framework that provides for a segregation of duties and oversight of our fair value methodologies and valuations, as well as validation procedures.

The Pricing and Verification Group is responsible for the estimation and verification of the fair value for the majority of our financial assets and financial liabilities, including review of material assumptions used when market-based inputs do not exist. The Pricing and Verification Group also provides a quarterly update to the Valuation Oversight Committee (“VOC”) on relevant market information, pricing trends, significant valuation challenges and the resolution of those challenges. The Pricing and Verification Group resides within our Finance Division and is independent of any trading or market related activities. Fair value measurements for acquired property and collateral dependent loans are determined by other valuation groups in the Finance Division.

Our VOC includes senior representation from our Capital Markets segment, our Enterprise Risk Office and our Finance division, and is responsible for providing overall governance for our valuation processes, models and results. The composition of the VOC is determined by the VOC chair, our Chief Financial Officer, with the objective of obtaining appropriate representation from Finance, Enterprise Risk Management and select business units within Fannie Mae. Based on its review of valuation methodologies and fair value results for various financial instruments used for financial reporting, the VOC is responsible for advising the VOC chair, who has the ultimate responsibility over all valuation processes and results. The VOC also reviews trend analysis for various financial assets and liabilities on a quarterly basis.

We use third-party vendor prices and dealer quotes to estimate fair value of some of our financial assets and liabilities. Third-party vendor prices are primarily used to estimate fair value for trading securities, available-for-sale securities, debt of Fannie Mae and consolidated MBS debt. Our Pricing and Verification Group performs various review and validation procedures prior to utilizing these prices in our fair value estimation process. We verify selected prices, using a variety of methods, including corroborating the prices by reference to other independent market data, such as non-binding broker or dealer quotations, relevant benchmark indices and prices of similar instruments. We also review prices for reasonableness based on variations from prices provided in previous periods, comparing prices to internally estimated prices, using primarily a discounted cash flow approach, and conducting relative value comparisons based on specific characteristics of securities.

We have discussions with the pricing vendors as part of our due diligence process in order to maintain a current understanding of the valuation processes and related assumptions and inputs that these vendors use in developing prices. The prices provided to us by third-party pricing services reflect the existence of market reliance upon credit enhancements, if any, and the current lack of liquidity in the marketplace. If we determine that a price provided to us is outside established parameters, we will further examine the price, including having follow-up discussions with the pricing service or dealer. If we conclude that a price is not valid, we will adjust the price for various factors, such as liquidity, bid-ask spreads and credit considerations. All of these procedures are executed before we use the prices in preparing our financial statements.

We have an internal property valuation function that utilizes an internal model to compare the values received on a property and assign a risk rating based on several factors including the deviation between the various values. Property valuations with risk ratings above a specified threshold are reviewed for reasonableness by a team of property valuation experts. The internal model that is used to assign a risk rating and the threshold specified is subject to oversight from the Model Risk Management Group, which is responsible for establishing risk management controls and for reviewing models used in the determination of fair value measurements for financial reporting. In addition, our Quality Control Group reviews the overall work performed and inspects a portion of the properties in major markets, for which the third-party valuations are obtained, in order to assess the quality of the valuations.

We calibrate the performance of our proprietary distressed home price model using actual offers in recently observed transactions. The model’s performance is reviewed on a monthly basis by the REO valuation team and compared quarterly to specific model performance thresholds. The results of the validation are regularly reviewed with the VOC.

Our Property Valuation Review Group reviews appraisals and broker price opinions to determine the most appropriate value by comparing data within these products with current comparable properties and market data. We conduct regular

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performance reviews of the counterparties that provide products and services for this process. In addition, valuation results and trend analyses are reviewed regularly by management responsible for valuing and disposing of real estate.

Fair Value of Financial Instruments

The following table displays the carrying value and estimated fair value of our financial instruments as of December 31, 2014 and 2013. The fair value of financial instruments we disclose includes commitments to purchase multifamily and single-family mortgage loans that we do not record in our consolidated balance sheets. The fair values of these commitments are included as "Mortgage loans held for investment, net of allowance for loan losses." The disclosure excludes certain financial instruments, such as plan obligations for pension and postretirement health care benefits, employee stock option and stock purchase plans, and also excludes all non-financial instruments. As a result, the fair value of our financial assets and liabilities does not represent the underlying fair value of our total consolidated assets and liabilities.

	As of December 31, 2014					
	Carrying Value	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment	Estimated Fair Value
	(Dollars in millions)					
Financial assets:						
Cash and cash equivalents and restricted cash	$ 54,565	$ 37,965	$ 16,600	$ —	$ —	$ 54,565
Federal funds sold and securities purchased under agreements to resell or similar arrangements	30,950	—	30,950	—	—	30,950
Trading securities	31,504	19,466	9,008	3,030	—	31,504
Available-for-sale securities	30,654	—	15,574	15,080	—	30,654
Mortgage loans held for sale	331	—	169	169	—	338
Mortgage loans held for investment, net of allowance for loan losses:						
Of Fannie Mae	239,243	—	29,896	217,064	—	246,960
Of consolidated trusts	2,779,920	—	2,657,863	183,263	—	2,841,126
Mortgage loans held for investment	3,019,163	—	2,687,759	400,327	—	3,088,086
Advances to lenders	5,559	—	5,079	470	—	5,549
Derivative assets at fair value	1,485	—	6,489	182	(5,186)	1,485
Guaranty assets and buy-ups	210	—	—	616	—	616
Total financial assets	$ 3,174,421	$ 57,431	$ 2,771,628	$ 419,874	$ (5,186)	$ 3,243,747
Financial liabilities:						
Federal funds purchased and securities sold under agreements to repurchase	$ 50	$ —	$ 50	$ —	$ —	$ 50
Short-term debt:						
Of Fannie Mae	105,012	—	105,022	—	—	105,022
Of consolidated trusts	1,560	—	—	1,560	—	1,560
Long-term debt:						
Of Fannie Mae	355,431	—	367,703	982	—	368,685
Of consolidated trusts	2,760,152	—	2,815,843	19,334	—	2,835,177

Derivative liabilities at fair value	614	—	10,671	137	(10,194)	614
Guaranty obligations	382	—	—	1,579	—	1,579
Total financial liabilities	$ 3,223,201	$ —	$ 3,299,289	$ 23,592	$ (10,194)	$ 3,312,687

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	As of December 31, 2013					
	Carrying Value	Quoted Price in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Netting Adjustment	Estimated Fair Value
	(Dollars in millions)					
Financial assets:						
Cash and cash equivalents and restricted cash	$ 48,223	$ 36,633	$ 11,590	$ —	$ —	$ 48,223
Federal funds sold and securities purchased under agreements to resell or similar arrangements	38,975	—	38,975	—	—	38,975
Trading securities	30,768	16,306	11,688	2,774	—	30,768
Available-for-sale securities	38,171	—	19,159	19,012	—	38,171
Mortgage loans held for sale	380	—	185	195	—	380
Mortgage loans held for investment, net of allowance for loan losses:						
Of Fannie Mae	259,638	—	29,920	215,960	—	245,880
Of consolidated trusts	2,766,222	—	2,569,747	176,395	—	2,746,142
Mortgage loans held for investment	3,025,860	—	2,599,667	392,355	—	2,992,022
Advances to lenders	3,727	—	3,165	523	—	3,688
Derivative assets at fair value	2,073	—	10,430	65	(8,422)	2,073
Guaranty assets and buy-ups	267	—	—	706	—	706
Total financial assets	$ 3,188,444	$ 52,939	$ 2,694,859	$ 415,630	$ (8,422)	$ 3,155,006
Financial liabilities:						
Short-term debt:						
Of Fannie Mae	$ 72,295	$ —	$ 72,304	$ —	$ —	$ 72,304
Of consolidated trusts	2,154	—	—	2,154	—	2,154
Long-term debt:						
Of Fannie Mae	457,139	—	463,991	1,557	—	465,548
Of consolidated trusts	2,702,935	—	2,684,224	13,362	—	2,697,586
Derivative liabilities at fair value	1,469	—	10,734	105	(9,370)	1,469
Guaranty obligations	485	—	—	2,433	—	2,433
Total financial liabilities	$ 3,236,477	$ —	$ 3,231,253	$ 19,611	$ (9,370)	$ 3,241,494

Financial Instruments for which fair value approximates carrying value—We hold certain financial instruments that are not carried at fair value but for which the carrying value approximates fair value due to the short-term nature and negligible credit risk inherent in them. These financial instruments include cash and cash equivalents, the majority of advances to lenders, and federal funds and securities sold/purchased under agreements to repurchase/resell.

Federal funds and securities sold/purchased under agreements to repurchase/resell—The carrying value for the majority of these specific instruments approximates the fair value due to the short-term nature and the negligible inherent credit risk, as they involve the exchange of collateral that is easily traded. Were we to calculate the fair value of these instruments we would use observable inputs resulting in Level 2 classification.

Mortgage Loans Held for Sale—Loans are reported at the lower of cost or fair value in our consolidated balance sheets. The valuation methodology and inputs used in estimating the fair value of HFS loans are the same as for our HFI loans and are described under "Fair Value Measurement—Mortgage Loans Held for Investment." These loans are classified as Level 2 of

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the valuation hierarchy to the extent that significant inputs are observable. To the extent that significant inputs are unobservable, the loans are classified within Level 3 of the valuation hierarchy.

HARP Loans—We measure the fair value of loans that are delivered under the Home Affordable Refinance Program ("HARP") using a modified build-up approach while the loan is performing. Under this modified approach, we set the credit component of the consolidated loans (that is, the guaranty obligation) equal to the compensation we would currently receive for a loan delivered to us under the program because the total compensation for these loans is equal to their current exit price in the GSE securitization market. For a description of the build-up valuation methodology, refer to "Fair Value Measurement—Mortgage Loans Held for Investment." We will continue to use this pricing methodology as long as the HARP program is available to market participants. If, subsequent to delivery, the refinanced loan becomes past due or is modified as a part of a troubled debt restructuring, the fair value of the guaranty obligation is then measured consistent with other loans that have similar characteristics.

The total compensation that we receive for the delivery of a HARP loan reflects the pricing that we are willing to offer because HARP is a part of a broader government program intended to provide assistance to homeowners and prevent foreclosures. If these benefits were not reflected in the pricing for these loans (that is, if the loans were valued using our standard build-up approach), the fair value disclosed in the table above would be lower by $3.3 billion as of December 31, 2014 and $11.5 billion as of December 31, 2013. The total fair value of our mortgage loans that have been refinanced under HARP as presented in the table above was $314.0 billion and $306.9 billion as of December 31, 2014 and 2013, respectively.

Advances to Lenders—The carrying value for the majority of our advances to lenders approximates fair value due to the short-term nature and the negligible inherent credit risk. If we were to recalculate the fair value of these instruments we would use discounted cash flow models that use observable inputs such as spreads based on market assumptions, resulting in Level 2 classification.

Advances to lenders also include loans for which the carrying value does not approximate fair value. These loans do not qualify for Fannie Mae MBS securitization and are valued using market-based techniques including credit spreads, severities and prepayment speeds for similar loans, through third-party pricing services or through a model approach incorporating both interest rate and credit risk simulating a loan sale via a synthetic structure. We classify these valuations as Level 3 given that significant inputs are not observable or are determined by extrapolation of observable inputs.

Guaranty Assets and Buy-ups—Guaranty assets related to our portfolio securitizations are recorded in our consolidated balance sheets at fair value on a recurring basis and are classified as Level 3. Guaranty assets in lender swap transactions are recorded in our consolidated balance sheets at the lower of cost or fair value. These assets, which are measured at fair value on a nonrecurring basis, are also classified as Level 3.

We estimate the fair value of guaranty assets based on the present value of expected future cash flows of the underlying mortgage assets using management's best estimate of certain key assumptions, which include prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved. These cash flows are projected using proprietary prepayment, interest rate and credit risk models. Because guaranty assets are like an interest-only income stream, the projected cash flows from our guaranty assets are discounted using one-month LIBOR plus an option-adjusted spread that is calibrated using a representative sample of interest-only swaps that reference Fannie Mae MBS. We believe the remitted fee income is less liquid than interest-only swaps and more like an excess servicing strip. Therefore, we take a further discount of the present value for these liquidity considerations. This discount is based on market quotes from third-party pricing services.

The fair value of the guaranty assets includes the fair value of any associated buy-ups.

Guaranty Obligations—The fair value of all guaranty obligations, measured subsequent to their initial recognition, is our estimate of a hypothetical transaction price we would receive if we were to issue our guaranty to an unrelated party in a standalone arm's-length transaction at the measurement date. These obligations are classified as Level 3. The valuation methodology and inputs used in estimating the fair value of the guaranty obligations are described under "Fair Value Measurement—Mortgage Loans Held for Investment, Build-up."

Fair Value Option

We elected the fair value option for our credit risk sharing debt securities issued under our CAS series and certain loans of consolidated trusts that contain embedded derivatives that would otherwise require bifurcation. Under the fair value option, we elected to carry these instruments at fair value instead of bifurcating the embedded derivative from the respective loan.

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We elected the fair value option for all long-term structured debt instruments that are issued in response to specific investor demand and have interest rates that are based on a calculated index or formula and are economically hedged with derivatives at the time of issuance. By electing the fair value option for these instruments, we are able to eliminate the volatility in our results of operations that would otherwise result from the accounting asymmetry created by recording these structured debt instruments at cost while recording the related derivatives at fair value.

We elected the fair value option for the financial assets and liabilities of the consolidated senior-subordinate trust structures. By electing the fair value option for these instruments, we are able to eliminate the volatility in our results of operations that would otherwise result from different accounting treatment between loans at cost and debt at cost.

Interest income for the mortgage loans is recorded in “Interest income—Mortgage loans” and interest expense for the debt instruments is recorded in “Interest expense—Long-term debt” in our consolidated statements of operations and comprehensive income.

The following table displays the fair value and unpaid principal balance of the financial instruments for which we have made fair value elections as of December 31, 2014 and 2013.

	As of December 31,					
	2014			2013		
	Loans of Consolidated Trusts[(1)]	Long-Term Debt of Fannie Mae	Long-Term Debt of Consolidated Trusts	Loans of Consolidated Trusts[(1)]	Long-Term Debt of Fannie Mae	Long-Term Debt of Consolidated Trusts
	(Dollars in millions)					
Fair value	$ 15,629	$ 6,403	$ 19,483	$ 14,268	$ 1,308	$ 14,976
Unpaid principal balance	15,001	6,512	17,810	14,440	1,290	13,988

(1) Includes nonaccrual loans with a fair value of $240 million and $196 million as of December 31, 2014 and 2013, respectively. The difference between unpaid principal balance and the fair value of these nonaccrual loans as of December 31, 2014 and 2013 is $75 million and $74 million, respectively. Includes loans that are 90 days or more past due with a fair value of $271 million and $288 million as of December 31, 2014 and 2013, respectively. The difference between unpaid principal balance and the fair value of these 90 or more days past due loans as of December 31, 2014 and 2013 is $78 million and $75 million, respectively.

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Changes in Fair Value under the Fair Value Option Election

The following table displays fair value gains and losses, net, including changes attributable to instrument-specific credit risk, for loans and debt for which the fair value election was made. Amounts are recorded as a component of "Fair value (losses) gains, net" in our consolidated statements of operations and comprehensive income for the years ended December 31, 2014, 2013 and 2012.

	For the Year Ended December 31,								
	2014			2013			2012		
	Loans	Long-Term Debt	Total Gains	Loans	Long-Term Debt	Total (Losses)	Loans	Long-Term Debt	Total (Losses)
	(Dollars in millions)								
Changes in instrument-specific credit risk	$ 60	$ 216	$ 276	$ (142)	$ (31)	$ (173)	$ (25)	$ (13)	$ (38)
Other changes in fair value	670	(505)	165	(730)	346	(384)	(124)	(76)	(200)
Fair value (losses) gains, net	$ 730	$ (289)	$ 441	$ (872)	$ 315	$ (557)	$ (149)	$ (89)	$ (238)

In determining the changes in the instrument-specific credit risk for loans, the changes in the associated credit-related components of these loans, primarily the guaranty obligation, were taken into consideration with the overall change in the fair value of the loans for which we elected the fair value option for financial instruments. In determining the changes in the instrument-specific credit risk for debt, the changes in Fannie Mae debt spreads to LIBOR that occurred during the period were taken into consideration with the overall change in the fair value of the debt for which we elected the fair value option for financial instruments. Specifically, cash flows are evaluated taking into consideration any derivatives through which Fannie Mae has swapped out of the structured features of the notes and thus created a floating-rate LIBOR-based debt instrument. The change in value of these LIBOR-based cash flows based on the Fannie Mae yield curve at the beginning and end of the period represents the instrument-specific risk.

19. Commitments and Contingencies

We are party to various types of legal actions and proceedings, including actions brought on behalf of various classes of claimants. We also are subject to regulatory examinations, inquiries and investigations and other information gathering requests. In some of the matters, indeterminate amounts are sought. Modern pleading practice in the U.S. permits considerable variation in the assertion of monetary damages or other relief. Jurisdictions may permit claimants not to specify the monetary damages sought or may permit claimants to state only that the amount sought is sufficient to invoke the jurisdiction of the trial court. This variability in pleadings, together with our and our counsel's actual experience in litigating or settling claims, leads us to conclude that the monetary relief that may be sought by plaintiffs bears little relevance to the merits or disposition value of claims.

On a quarterly basis, we review relevant information about all pending legal actions and proceedings for the purpose of evaluating and revising our contingencies, reserves and disclosures.

We have substantial and valid defenses to the claims in the proceedings described below and intend to defend these matters vigorously. However, legal actions and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. Accordingly, the outcome of any given matter and the amount or range of potential loss at particular points in time is frequently difficult to ascertain. Uncertainties can include how fact finders will evaluate documentary evidence and the credibility and effectiveness of witness testimony, and how courts will apply the law. Disposition valuations are also subject to the uncertainty of how opposing parties and their counsel may view the evidence and applicable law. Further, FHFA adopted a regulation in 2011, which provides, in part, that while we are in conservatorship, FHFA will not pay claims by our current or former shareholders, unless the Director of FHFA determines it is in the interest of the conservatorship. The presence of this regulation and FHFA's assertion that FHFA will not pay claims asserted in certain cases discussed below while we are in conservatorship creates additional uncertainty in those cases.

We establish a reserve for matters when a loss is probable and we can reasonably estimate the amount of such loss. For legal actions or proceedings where there is only a reasonable possibility that a loss may be incurred, or where we are not currently able to estimate the reasonably possible loss or range of loss, we do not establish a reserve. We are often unable to estimate the possible losses or ranges of losses, particularly for proceedings that are in their early stages of development, where

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plaintiffs seek indeterminate or unspecified damages, where there may be novel or unsettled legal questions relevant to the proceedings, or where settlement negotiations have not occurred or progressed.

Given the uncertainties involved in any action or proceeding, regardless of whether we have established a reserve, the ultimate resolution of certain of these matters may be material to our operating results for a particular period, depending on, among other factors, the size of the loss or liability imposed and the level of our net income or loss for that period.

In addition to the matters specifically described below, we are involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that we do not expect will have a material impact on our business or financial condition. We have also advanced fees and expenses of certain current and former officers and directors in connection with various legal proceedings pursuant to our bylaws and indemnification agreements.

2008 Class Action Lawsuits and Related Proceedings

Fannie Mae is a defendant in two consolidated class actions filed in 2008 and currently pending in the U.S. District Court for the Southern District of New York—*In re Fannie Mae 2008 Securities Litigation* and *In re 2008 Fannie Mae ERISA Litigation*. On February 11, 2009, the Judicial Panel on Multidistrict Litigation ordered that the cases be coordinated for pretrial proceedings. In addition, two individual securities actions involving related facts and circumstances—*Comprehensive Investment Services v. Mudd* and *Smith v. Fannie Mae*—were later filed and ultimately transferred to the same court for coordination with the class actions.

In addition to these proceedings, certain underwriters have notified us that they have been named in various other actions arising out of certain of Fannie Mae's preferred stock offerings and may seek indemnification for any losses arising out of those actions pursuant to the terms of our underwriting agreements with them.

In re Fannie Mae 2008 Securities Litigation

In a consolidated amended complaint filed on June 22, 2009, lead plaintiffs Massachusetts Pension Reserves Investment Management Board and Boston Retirement Board (for common shareholders) and Tennessee Consolidated Retirement System (for preferred shareholders) alleged that we, certain of our former officers, and certain of our underwriters violated Sections 12(a)(2) and 15 of the Securities Act of 1933. Lead plaintiffs also alleged that we, certain of our former officers, and our outside auditor, violated Sections 10(b) (and Rule 10b-5 promulgated thereunder) and 20(a) of the Securities Exchange Act of 1934. Lead plaintiffs sought various forms of relief, including rescission, damages, interest, costs, attorneys' and experts' fees, and other equitable and injunctive relief. On October 13, 2009, the court entered an order allowing FHFA to intervene.

In 2009, the court granted defendants' motion to dismiss the Securities Act claims as to all defendants. In 2010, the court granted in part and denied in part defendants' motions to dismiss the Securities Exchange Act claims. As a result of the partial denial, some of the Securities Exchange Act claims remained pending against us and certain of our former officers. Fannie Mae filed its answer to the consolidated complaint on December 31, 2010.

Plaintiffs filed a second amended joint consolidated class action complaint on March 2, 2012, renewing the remaining claims and adding FHFA as a defendant. On August 30, 2012, the court denied defendants' motions to dismiss the second amended complaint, allowing plaintiffs' Securities Exchange Act claims premised on Fannie Mae's subprime and Alt-A disclosures to proceed along with plaintiffs' claims premised on Fannie Mae's risk management disclosures. Fannie Mae filed its answer to the second amended complaint on October 29, 2012.

On July 15, 2014, the parties reached an agreement in principle to settle the litigation. The proposed settlement amount did not materially impact our results of operations or financial condition. On November 12, 2014, the court granted preliminary approval of the settlement. On January 16, 2015, lead plaintiffs filed a motion for final approval of the settlement and plan of allocation, as well as a motion for attorneys' fees.

In re 2008 Fannie Mae ERISA Litigation

In a consolidated complaint filed in 2009, plaintiffs allege that certain of our current and former officers and directors, including members of Fannie Mae's Benefit Plans Committee and the Compensation Committee of Fannie Mae's Board of Directors during the relevant time periods, as fiduciaries of Fannie Mae's Employee Stock Ownership Plan ("ESOP"), breached their duties to ESOP participants and beneficiaries by investing ESOP funds in Fannie Mae common stock when it was no longer prudent to continue to do so. Plaintiffs purport to represent a class of participants and beneficiaries of the ESOP whose accounts invested in Fannie Mae common stock beginning April 17, 2007. Plaintiffs seek unspecified damages,

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attorneys' fees and other fees and costs, and injunctive and other equitable relief. Plaintiffs filed an amended complaint on March 2, 2012 adding two current Board members and then-CEO Michael J. Williams as defendants. On October 22, 2012, the court granted in part and denied in part defendants' motions to dismiss. The court dismissed with prejudice claims against seven former and current directors and officers who joined the Board of Directors or Benefit Plans Committee after Fannie Mae was placed into conservatorship. The court allowed plaintiffs' breach of fiduciary duty and failure to monitor claims to go forward, but dismissed plaintiffs' conflict of interest claim.

On October 31, 2014, we reached an agreement in principle with plaintiffs that would resolve this matter on behalf of all parties. The proposed settlement amount did not impact our results of operations or financial condition.

Comprehensive Investment Services v. Mudd

This individual securities action was originally filed on May 13, 2009, by plaintiff Comprehensive Investment Services, Inc. against certain of our former officers and directors, and certain of our underwriters in the U.S. District Court for the Southern District of Texas. On July 7, 2009, this case was transferred to the Southern District of New York for coordination with *In re Fannie Mae 2008 Securities Litigation* and *In re 2008 Fannie Mae ERISA Litigation*. Plaintiff filed an amended complaint on May 11, 2011 against us, certain of our former officers, and certain of our underwriters. The amended complaint alleges violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder; violations of Section 20(a) of the Securities Exchange Act of 1934; and violations of the Texas Business and Commerce Code, common law fraud, and negligent misrepresentation in connection with Fannie Mae's May 2008 $2.0 billion offering of 8.25% non-cumulative preferred Series T stock. Plaintiff seeks relief in the form of rescission, actual damages, punitive damages, interest, costs, attorneys' and experts' fees, and other equitable and injunctive relief. Plaintiff filed a second amended complaint on March 2, 2012. On August 30, 2012, the court denied defendants' motions to dismiss the second amended complaint, allowing plaintiff's Securities Exchange Act claims premised on Fannie Mae's subprime and Alt-A disclosures and risk management disclosures to proceed. The court granted defendants' motions to dismiss the state law claims, as well as the federal claims based on alleged violations of GAAP, and also dismissed two of our former officers from the action. Fannie Mae filed its answer to the second amended complaint on October 29, 2012.

We do not expect that the reasonably possible loss or range of loss arising from this litigation will have a material impact on our results of operations or financial condition.

Smith v. Fannie Mae

This individual securities action was originally filed on February 25, 2010, by plaintiff Edward Smith against us, certain of our former officers, and certain of our underwriters, in the U.S. District Court for the Central District of California. On April 12, 2010, this case was transferred to the Southern District of New York for coordination with *In re Fannie Mae 2008 Securities Litigation* and *In re 2008 Fannie Mae ERISA Litigation*. Plaintiff filed an amended complaint on April 19, 2011, which alleges violations of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 promulgated thereunder; violations of Section 20(a) of the Securities Exchange Act of 1934; common law fraud and negligence claims; and California state law claims for misrepresentation in connection with Fannie Mae's December 2007 $7.0 billion offering of 7.75% fixed-to-floating rate non-cumulative preferred Series S stock. Plaintiff seeks relief in the form of rescission, actual damages (including interest), and exemplary and punitive damages. Plaintiff filed a second amended complaint on March 2, 2012. On August 30, 2012, the court denied defendants' motion to dismiss the second amended complaint, allowing plaintiff's Securities Exchange Act claims premised on Fannie Mae's subprime and Alt-A disclosures and risk management disclosures to proceed, but granted defendants' motions to dismiss the state law claims. Fannie Mae filed its answer to the second amended complaint on October 29, 2012.

On December 9, 2014, Fannie Mae and plaintiff reached an agreement in principle to settle the litigation, subject to necessary approvals. The proposed settlement amount did not materially impact our results of operations or financial condition.

Senior Preferred Stock Purchase Agreements Litigation

A number of putative class action lawsuits were filed in the U.S. District Court for the District of Columbia against us, FHFA as our conservator, Treasury and Freddie Mac from July through September 2013 by shareholders of Fannie Mae and/or Freddie Mac challenging the August 2012 amendment to each company's senior preferred stock purchase agreement with Treasury. These lawsuits were consolidated and, on December 3, 2013, plaintiffs (preferred and common shareholders of Fannie Mae and/or Freddie Mac) filed a consolidated class action complaint in the U.S. District Court for the District of Columbia against us, FHFA as our conservator, Treasury and Freddie Mac ("*In re Fannie Mae/Freddie Mac Senior Preferred*

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Stock Purchase Agreement Class Action Litigations”). The preferred shareholder plaintiffs allege that the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendments to the senior preferred stock purchase agreements nullified certain of the shareholders’ rights, particularly the right to receive dividends. The common shareholder plaintiffs allege that the August 2012 amendments constituted a taking of their property by requiring that all future profits of Fannie Mae and Freddie Mac be paid to Treasury. Plaintiffs allege claims for breach of contract and breach of the implied covenant of good faith and fair dealing against us, FHFA and Freddie Mac, a takings claim against FHFA and Treasury, and a breach of fiduciary duty claim derivatively on our and Freddie Mac’s behalf against FHFA and Treasury. Plaintiffs seek to represent several classes of preferred and/or common shareholders of Fannie Mae and/or Freddie Mac who held stock as of the public announcement of the August 2012 amendments. Plaintiffs seek unspecified damages, equitable and injunctive relief, and costs and expenses, including attorneys’ fees.

A non-class action suit, *Arrowood Indemnity Company v. Fannie Mae*, was filed in the U.S. District Court for the District of Columbia on September 20, 2013 by preferred shareholders against us, FHFA as our conservator, the Director of FHFA (in his official capacity), Treasury, the Secretary of the Treasury (in his official capacity) and Freddie Mac. Plaintiffs bring claims for breach of contract and breach of the implied covenant of good faith and fair dealing against us, FHFA and Freddie Mac, and claims for violation of the Administrative Procedure Act against the FHFA and Treasury defendants, alleging that the net worth sweep provisions nullified certain rights of the preferred shareholders, particularly the right to receive dividends. Plaintiffs seek damages, equitable and injunctive relief, and costs and expenses, including attorneys’ fees.

On September 30, 2014, the court dismissed both lawsuits and plaintiffs in both suits filed timely notices of appeal. On October 27, 2014, the U.S. Court of Appeals for the D.C. Circuit consolidated these appeals with appeals in two other cases involving the same subject matter, but to which we are not a party.

Given the stage of these lawsuits, the substantial and novel legal questions that remain, and our substantial defenses, we are currently unable to estimate the reasonably possible loss or range of loss arising from this litigation.

Unconditional Purchase and Lease Commitments

We have unconditional commitments related to the purchase of loans and mortgage-related securities. These include both on- and off-balance sheet commitments. A portion of these have been recorded as derivatives in our consolidated balance sheets.

We lease certain premises and equipment under agreements that expire at various dates through 2029. Some of these leases provide for payment by the lessee of property taxes, insurance premiums, cost of maintenance and other costs. Rental expenses for operating leases were $43 million, $41 million and $41 million for the years ended December 31, 2014, 2013 and 2012, respectively.

The following table summarizes by remaining maturity, non cancelable future commitments related to loan and mortgage purchases, operating leases and other agreements as of December 31, 2014.

	As of December 31, 2014		
	Loans and Mortgage-Related Securities[1]	Operating Leases	Other[2]
	(Dollars in millions)		
2015	$ 56,333	$ 39	$ 209
2016	—	32	166
2017	—	27	59
2018	—	8	22
2019	—	—	14
Thereafter	—	3	—
Total	$ 56,333	$ 109	$ 470

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(1) Primarily includes $56.2 billion that has been accounted for as mortgage commitment derivatives.

(2) Includes purchase commitments for certain telecom services, computer software and services, and other agreements and commitments.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

20. Selected Quarterly Financial Information (Unaudited)

The consolidated statements of operations for the quarterly periods in 2014 and 2013 are unaudited and in the opinion of management include all adjustments, consisting of normal recurring adjustments, necessary for a fair presentation of our consolidated statements of operations. Certain prior period amounts have been reclassified to conform to the current period presentation. The operating results for the interim periods are not necessarily indicative of the operating results to be expected for a full year or for other interim periods.

	For the 2014 Quarter Ended			
	March 31	June 30	September 30	December 31
	(Dollars and shares in millions, except per share amounts)			
Interest income:				
Trading securities	$ 127	$ 143	$ 151	$ 132
Available-for-sale securities	440	414	395	373
Mortgage loans	28,588	28,165	27,779	27,588
Other	24	24	29	33
Total interest income	29,179	28,746	28,354	28,126
Interest expense:				
Short-term debt	20	21	26	27
Long-term debt	24,421	23,821	23,144	22,957
Total interest expense	24,441	23,842	23,170	22,984
Net interest income	4,738	4,904	5,184	5,142
Benefit for credit losses	774	1,639	1,085	466
Net interest income after benefit for credit losses	5,512	6,543	6,269	5,608
Investment gains, net	95	483	171	187
Fair value losses, net	(1,190)	(934)	(207)	(2,502)
Debt extinguishment gains, net	—	38	11	17
Fee and other income	4,355	383	826	323
Non-interest income (loss)	3,260	(30)	801	(1,975)
Administrative expenses:				
Salaries and employee benefits	325	319	337	340
Professional services	242	275	263	296
Occupancy expenses	50	47	47	59
Other administrative expenses	55	56	59	7
Total administrative expenses	672	697	706	702
Foreclosed property (income) expense	(262)	(214)	249	369
TCCA fees	322	335	351	367
Other expenses, net	131	276	72	65
Total expenses	863	1,094	1,378	1,503
Income before federal income taxes	7,909	5,419	5,692	2,130
Provision for federal income taxes	(2,584)	(1,752)	(1,787)	(818)
Net income	5,325	3,667	3,905	1,312
Less: Net income attributable to noncontrolling interest	—	(1)	—	—
Net income attributable to Fannie Mae	5,325	3,666	3,905	1,312

Dividends distributed or available for distribution to senior preferred stockholder	(5,692)	(3,712)	(3,999)	(1,920)
Net (loss) income attributable to common stockholders (Note 11)	$ (367)	$ (46)	$ (94)	$ (608)
(Loss) per share:				
Basic and Diluted	$ (0.06)	$ (0.01)	$ (0.02)	$ (0.11)
Weighted-average common shares outstanding:				
Basic and Diluted	5,762	5,762	5,762	5,762

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	For the 2013 Quarter Ended			
	March 31	June 30	September 30	December 31
	(Dollars and shares in millions, except per share amounts)			
Interest income:				
Trading securities	$ 226	$ 222	$ 185	$ 146
Available-for-sale securities	673	651	546	487
Mortgage loans	29,224	28,056	28,299	28,659
Other	57	49	37	32
Total interest income	30,180	28,978	29,067	29,324
Interest expense:				
Short-term debt	43	37	29	22
Long-term debt	23,833	23,274	23,456	24,451
Total interest expense	23,876	23,311	23,485	24,473
Net interest income	6,304	5,667	5,582	4,851
Benefit for credit losses	957	5,383	2,609	—
Net interest income after benefit for credit losses	7,261	11,050	8,191	4,851
Investment gains, net	109	284	621	113
Fair value gains, net	834	829	335	961
Debt extinguishment (losses) gains, net	(23)	27	92	35
Fee and other income	568	485	741	2,136
Non-interest income	1,488	1,625	1,789	3,245
Administrative expenses:				
Salaries and employee benefits	317	304	307	290
Professional services	223	219	236	232
Occupancy expenses	46	47	48	48
Other administrative expenses	55	56	55	62
Total administrative expenses	641	626	646	632
Foreclosed property income	(260)	(332)	(1,165)	(1,082)
TCCA fees	186	233	276	306
Other expenses (income), net	68	68	124	(34)
Total expenses (income)	635	595	(119)	(178)
Income before federal income taxes	8,114	12,080	10,099	8,274
Benefit (provision) for federal income taxes	50,571	(1,985)	(1,355)	(1,816)
Net income	58,685	10,095	8,744	6,458
Less: Net income attributable to noncontrolling interest	—	(11)	(7)	(1)
Net income attributable to Fannie Mae	58,685	10,084	8,737	6,457
Dividends distributed or available for distribution to senior preferred stockholder	(59,368)	(10,243)	(8,617)	(7,191)
Net (loss) income attributable to common stockholders (Note 11)	$ (683)	$ (159)	$ 120	$ (734)
(Loss) earnings per share:				
Basic	$ (0.12)	$ (0.03)	$ 0.02	$ (0.13)
Diluted	(0.12)	(0.03)	0.02	(0.13)
Weighted-average common shares outstanding:				

Basic	5,762	5,762	5,762	5,762
Diluted	5,762	5,762	5,893	5,762

FannieMae®

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Exhibit 5

FEDERAL HOUSING FINANCE AGENCY

FACT SHEET

Contact: Corinne Russell (202) 414-6921
Stefanie Mullin (202) 414-6376

******EMBARGOED UNTIL 11AM******

QUESTIONS AND ANSWERS ON CONSERVATORSHIP

Q: What is a conservatorship?

A: A conservatorship is the legal process in which a person or entity is appointed to establish control and oversight of a Company to put it in a sound and solvent condition. In a conservatorship, the powers of the Company's directors, officers, and shareholders are transferred to the designated Conservator.

Q: What is a Conservator?

A: A Conservator is the person or entity appointed to oversee the affairs of a Company for the purpose of bringing the Company back to financial health.

In this instance, the Federal Housing Finance Agency ("FHFA") has been appointed by its Director to be the Conservator of the Company in accordance with the Federal Housing Finance Regulatory Reform Act of 2008 (Public Law 110-289) and the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (12 U.S.C. 4501, et seq., as amended) to keep the Company in a safe and solvent financial condition.

Q: How is a Conservator appointed?

A: By statute, the FHFA is appointed Conservator by its Director after the Director determines, in his discretion, that the Company is in need of reorganization or rehabilitation of its affairs.

Q: What are the goals of this conservatorship?

A: The purpose of appointing the Conservator is to preserve and conserve the Company's assets and property and to put the Company in a sound and solvent condition. The goals of the conservatorship are to help restore confidence in the Company, enhance its capacity to fulfill its mission, and mitigate the systemic risk that has contributed directly to the instability in the current market.

There is no reason for concern regarding the ongoing operations of the Company. The Company's operation will not be impaired and business will continue without interruption.

Q: When will the conservatorship period end?

A: Upon the Director's determination that the Conservator's plan to restore the Company to a safe and solvent condition has been completed successfully, the Director will issue an order terminating the conservatorship. At present, there is no exact time frame that can be given as to when this conservatorship may end.

Q: What are the powers of the Conservator?

A: The FHFA, as Conservator, may take all actions necessary and appropriate to (1) put the Company in a sound and solvent condition and (2) carry on the Company's business and preserve and conserve the assets and property of the Company.

Q: What happens upon appointment of a Conservator?

A: Once an "Order Appointing a Conservator" is signed by the Director of FHFA, the Conservator immediately succeeds to the (1) rights, titles, powers, and privileges of the Company, and any stockholder, officer, or director of such the Company with respect to the Company and its assets, and (2) title to all books, records and assets of the Company held by any other custodian or third-party. The Conservator is then charged with the duty to operate the Company.

Q: What does the Conservator do during a conservatorship?

A: The Conservator controls and directs the operations of the Company. The Conservator may (1) take over the assets of and operate the Company with all the powers of the shareholders, the directors, and the officers of the Company and conduct all business of the Company; (2) collect all obligations and money due to the Company; (3) perform all functions of the Company which are consistent with the Conservator's appointment; (4) preserve and conserve the assets and property of the Company; and (5) contract for assistance in fulfilling any function, activity, action or duty of the Conservator.

Q: How will the Company run during the conservatorship?

A: The Company will continue to run as usual during the conservatorship. The Conservator will delegate authorities to the Company's management to move forward with the business operations. The Conservator encourages all Company employees to continue to perform their job functions without interruption.

Q: Will the Company continue to pays its obligations during the conservatorship?

A: Yes, the Company's obligations will be paid in the normal course of business during the Conservatorship. The Treasury Department, through a secured lending credit facility and a Senior Preferred Stock Purchase Agreement, has significantly enhanced the ability of the Company to meet its obligations. The Conservator does not anticipate that there will be any disruption in the Company's pattern of payments or ongoing business operations.

Q: What happens to the Company's stock during the conservatorship?

A: During the conservatorship, the Company's stock will continue to trade. However, by statute, the powers of the stockholders are suspended until the conservatorship is terminated. Stockholders will continue to retain all rights in the stock's financial worth; as such worth is determined by the market.

Q: Is the Company able to buy and sell investments and complete financial transactions during the conservatorship?

A: Yes, the Company's operations continue subject to the oversight of the Conservator.

Q: What happens if the Company is liquidated?

A: Under a conservatorship, the Company is not liquidated.

Q: Can the Conservator determine to liquidate the Company?

A: The Conservator cannot make a determination to liquidate the Company, although, short of that, the Conservator has the authority to run the company in whatever way will best achieve the Conservator's goals (discussed above). However, assuming a statutory ground exists and the Director of FHFA determines that the financial condition of the company requires it, the Director does have the discretion to place any regulated entity, including the Company, into receivership. Receivership is a statutory process for the liquidation of a regulated entity. There are no plans to liquidate the Company.

Q: Can the Company be dissolved?

A: Although the company can be liquidated as explained above, by statute the charter of the Company must be transferred to a new entity and can only be dissolved by an Act of Congress.

Exhibit 6

EXECUTION VERSION

AMENDED AND RESTATED SENIOR PREFERRED STOCK PURCHASE AGREEMENT

AMENDED AND RESTATED SENIOR PREFERRED STOCK PURCHASE AGREEMENT (this "Agreement") dated as of September 26, 2008, between the UNITED STATES DEPARTMENT OF THE TREASURY ("Purchaser") and FEDERAL NATIONAL MORTGAGE ASSOCIATION ("Seller"), acting through the Federal Housing Finance Agency (the "Agency") as its duly appointed conservator (the Agency in such capacity, "Conservator"). Reference is made to Article 1 below for the meaning of capitalized terms used herein without definition.

Background

A. The Agency has been duly appointed as Conservator for Seller pursuant to Section 1367(a) of the Federal Housing Enterprises Financial Safety and Soundness Act of 1992 (as amended, the "FHE Act"). Conservator has determined that entry into this Agreement is (i) necessary to put Seller in a sound and solvent condition; (ii) appropriate to carry on the business of Seller and preserve and conserve the assets and property of Seller; and (iii) otherwise consistent with its powers, authorities and responsibilities.

B. Purchaser is authorized to purchase obligations and other securities issued by Seller pursuant to Section 304(g) of the Federal National Mortgage Association Charter Act, as amended (the "Charter Act"). The Secretary of the Treasury has determined, after taking into consideration the matters set forth in Section 304(g)(1)(C) of the Charter Act, that the purchases contemplated herein are necessary to (i) provide stability to the financial markets; (ii) prevent disruptions in the availability of mortgage finance; and (iii) protect the taxpayer.

C. Purchaser and Seller executed and delivered the Senior Preferred Stock Purchase Agreement dated as of September 7, 2008 (the "Original Agreement"), and the parties thereto desire to amend and restate the Original Agreement in its entirety as set forth herein.

THEREFORE, the parties hereto agree as follows:

Terms and Conditions

1. DEFINITIONS

As used in this Agreement, the following terms shall have the meanings set forth below:

"*Affiliate*" means, when used with respect to a specified Person (i) any direct or indirect holder or group (as defined in Sections 13(d) and 14(d) of the Exchange Act) of holders of 10.0% or more of any class of capital stock of such Person and (ii) any current or former director or officer of such Person, or any other current or former employee of such Person that currently exercises or formerly exercised a material degree of Control over such Person, including without limitation each current or former Named Executive Officer of such Person.

"*Available Amount*" means, as of any date of determination, the lesser of (a) the Deficiency Amount as of such date and (b) the Maximum Amount as of such date.

"*Business Day*" means any day other than a Saturday, Sunday or other day on which commercial banks are authorized to close under United States federal law and the law of the State of New York.

"*Capital Lease Obligations*" of any Person shall mean the obligations of such Person to pay rent or other amounts under any lease of (or other similar arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP and, for purposes hereof, the amount of such obligations at any time shall be the capitalized amount thereof at such time determined in accordance with GAAP.

"*Control*" shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ownership of voting securities, by contract or otherwise.

"*Deficiency Amount*" means, as of any date of determination, the amount, if any, by which (a) the total liabilities of Seller exceed (b) the total assets of Seller (such assets excluding the Commitment and any unfunded amounts thereof), in each case as reflected on the balance sheet of Seller as of the applicable date set forth in this Agreement, prepared in accordance with GAAP; provided, however, that:

(i) for the avoidance of doubt, in measuring the Deficiency Amount liabilities shall exclude any obligation in respect of any capital stock of Seller, including the Senior Preferred Stock contemplated herein;

(ii) in the event that Seller becomes subject to receivership or other liquidation process or proceeding, "Deficiency Amount" shall mean, as of any date of determination, the amount, if any, by which (a) the total allowed claims against the receivership or other applicable estate (excluding any liabilities of or transferred to any LLRE (as defined in Section 5.4(a)) created by a receiver) exceed (b) the total assets of such receivership or other estate (excluding the Commitment, any unfunded amounts thereof and any assets of or transferred to any LLRE, but including the value of the receiver's interest in any LLRE);

(iii) to the extent Conservator or a receiver of Seller, or any statute, rule, regulation or court of competent jurisdiction, specifies or determines that a liability of Seller (including without limitation a claim against Seller arising from rescission of a purchase or sale of a security issued by Seller (or guaranteed by Seller or with respect to which Seller is otherwise liable) or for damages arising from the purchase, sale or retention of such a security) shall be subordinated (other than pursuant to a contract providing for such subordination) to all other liabilities of Seller or shall be treated on par with any class of equity of Seller, then such liability shall be excluded in the calculation of Deficiency Amount; and

(iv) the Deficiency Amount may be increased above the otherwise applicable amount by the mutual written agreement of Purchaser and Seller, each acting in its sole discretion.

"*Designated Representative*" means Conservator or (a) if Conservator has been superseded by a receiver pursuant to Section 1367(a) of the FHE Act, such receiver, or (b) if Seller is not in conservatorship or receivership pursuant to Section 1367(a) of the FHE Act, Seller's chief financial officer.

"*Director*" shall mean the Director of the Agency.

"*Effective Date*" means the date on which this Agreement shall have been executed and delivered by both of the parties hereto.

"*Equity Interests*" of any Person shall mean any and all shares, interests, rights to purchase or otherwise acquire, warrants, options, participations or other equivalents of or interests in (however designated) equity, ownership or profits of such Person, including any preferred stock, any limited or general partnership interest and any limited liability company membership interest, and any securities or other rights or interests convertible into or exchangeable for any of the foregoing.

"*Exchange Act*" means the Securities Exchange Act of 1934, as amended, and the rules and regulations of the SEC promulgated thereunder.

"*GAAP*" means generally accepted accounting principles in effect in the United States as set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board from time to time.

"*Indebtedness*" of any Person means, for purposes of Section 5.5 only, without duplication, (a) all obligations of such Person for money borrowed by such Person, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property or assets purchased by such Person, (d) all obligations of such Person issued or assumed as the deferred purchase price of property or services, other than trade accounts payable, (e) all Capital Lease Obligations of such Person, (f) obligations, whether contingent or liquidated, in respect of letters of credit (including standby and commercial), bankers' acceptances and similar instruments and (g) any obligation of such Person, contingent or otherwise, guaranteeing or having the economic effect of guaranteeing any Indebtedness of the types set forth in clauses (a) through (f) payable by another Person other than Mortgage Guarantee Obligations.

"*Liquidation End Date*" means the date of completion of the liquidation of Seller's assets.

"*Maximum Amount*" means, as of any date of determination, $100,000,000,000 (one hundred billion dollars), less the aggregate amount of funding under the Commitment prior to such date.

"*Mortgage Assets*" of any Person means assets of such Person consisting of mortgages, mortgage loans, mortgage-related securities, participation certificates, mortgage-backed commercial paper, obligations of real estate mortgage investment conduits and similar assets, in each case to the extent such assets would appear on the balance sheet of such Person in accordance with GAAP as in effect as of the date hereof (and, for the avoidance of doubt, without giving effect to any change that may be made hereafter in respect of Statement of Financial Accounting Standards No. 140 or any similar accounting standard).

"*Mortgage Guarantee Obligations*" means guarantees, standby commitments, credit enhancements and other similar obligations of Seller, in each case in respect of Mortgage Assets.

"*Named Executive Officer*" has the meaning given to such term in Item 402(a)(3) of Regulation S-K under the Exchange Act, as in effect on the date hereof.

"*Person*" shall mean any individual, corporation, limited liability company, partnership, joint venture, association, joint-stock company, trust, estate, unincorporated organization or government or any agency or political subdivision thereof, or any other entity whatsoever.

"*SEC*" means the Securities and Exchange Commission.

"*Senior Preferred Stock*" means the Variable Liquidation Preference Senior Preferred Stock of Seller, substantially in the form of Exhibit A hereto.

"*Warrant*" means a warrant for the purchase of common stock of Seller representing 79.9% of the common stock of Seller on a fully-diluted basis, substantially in the form of Exhibit B hereto.

2. COMMITMENT

2.1. *Commitment.* Purchaser hereby commits to provide to Seller, on the terms and conditions set forth herein, immediately available funds in an amount up to but not in excess of the Available Amount, as determined from time to time (the "Commitment"); provided, that in no event shall the aggregate amount funded under the Commitment exceed $100,000,000,000 (one hundred billion dollars). The liquidation preference of the Senior Preferred Stock shall increase in connection with draws on the Commitment, as set forth in Section 3.3 below.

2.2. *Quarterly Draws on Commitment*. Within fifteen (15) Business Days following the determination of the Deficiency Amount, if any, as of the end of each fiscal quarter of Seller which ends on or before the Liquidation End Date, the Designated Representative may, on behalf of Seller, request that Purchaser provide immediately available funds to Seller in an amount up to but not in excess of the Available Amount as of the end of such quarter. Any such request shall be valid only if it is in writing, is timely made, specifies the account of Seller to which such funds are to be transferred, and contains a certification of the Designated Representative that the requested amount does not exceed the Available Amount as of the end of the applicable quarter. Purchaser shall provide such funds within sixty (60) days of its receipt of such request or, following any determination by the Director that the Director will be mandated by law to appoint a receiver for Seller if such funds are not received sooner, such shorter period as may be necessary to avoid such mandatory appointment of a receiver if reasonably practicable taking into consideration Purchaser's access to funds.

2.3. *Accelerated Draws on Commitment.* Immediately following any determination by the Director that the Director will be mandated by law to appoint a receiver for Seller prior to the Liquidation End Date unless Seller's capital is increased by an amount (the "Special Amount") up to but not in excess of the then current Available Amount (computed based on a balance sheet of Seller prepared in accordance with GAAP that differs from the most recent balance sheet of Seller delivered in accordance with Section 5.9(a) or (b)) on a date that is prior to the date that funds will be available to Seller pursuant to Section 2.2, Conservator may, on behalf of Seller, request that Purchaser provide to Seller the Special Amount in immediately available funds. Any such request shall be valid only if it is in writing, is timely made, specifies the account of Seller to which such funds are to be transferred, and contains certifications of Conservator that (i) the requested amount does not exceed the Available Amount (including computations in reasonable detail and satisfactory to Purchaser of the then existing Deficiency Amount) and (ii) the requested amount is required to avoid the imminent mandatory appointment of a receiver for Seller. Purchaser shall provide such funds within thirty (30) days of its receipt of such request or, if reasonably practicable taking into consideration Purchaser's access to funds, any shorter period as may be necessary to avoid mandatory appointment of a receiver.

2.4. *Final Draw on Commitment*. Within fifteen (15) Business Days following the determination of the Deficiency Amount, if any, as of the Liquidation End Date (computed based on a balance sheet of Seller as of the Liquidation End Date prepared in accordance with GAAP), the Designated Representative may, on behalf of Seller, request that Purchaser provide immediately available funds to Seller in an amount up to but not in excess of the Available Amount as of the Liquidation End Date. Any such request shall be valid only if it is in writing, is timely made, specifies the account of Seller to which such funds are to be transferred, and contains a certification of the Designated Representative that the requested amount does not exceed the Available Amount (including computations in reasonable detail and satisfactory to Purchaser of the Deficiency Amount as of the Liquidation End Date). Purchaser shall provide such funds within sixty (60) days of its receipt of such request.

2.5. *Termination of Purchaser's Obligations*. Subject to earlier termination pursuant to Section 6.7, all of Purchaser's obligations under and in respect of the Commitment shall terminate upon the earliest of: (a) if the Liquidation End Date shall have occurred, (i) the payment in full of Purchaser's obligations with respect to any valid request for funds pursuant to Section 2.4 or (ii) if there is no Deficiency Amount on the Liquidation End Date or if no such request pursuant to Section 2.4 has been made, the close of business on the 15th Business Day following the determination of the Deficiency Amount, if any, as of the Liquidation End Date; (b) the payment in full of, defeasance of or other reasonable provision for all liabilities of Seller, whether or not contingent, including payment of any amounts that may become payable on, or expiry of or other provision for, all Mortgage Guarantee Obligations and provision for unmatured debts; and (c) the funding by Purchaser under the Commitment of an aggregate of $100,000,000,000 (one hundred billion dollars). For the avoidance of doubt, the Commitment shall *not* be terminable by Purchaser solely by reason of (i) the conservatorship, receivership or other insolvency proceeding of Seller or (ii) the Seller's financial condition or any adverse change in Seller's financial condition.

3. PURCHASE OF SENIOR PREFERRED STOCK AND WARRANT; FEES

3.1. *Initial Commitment Fee*. In consideration of the Commitment, and for no additional consideration, on the Effective Date (or as soon thereafter as is practicable) Seller shall sell and issue to Purchaser, and Purchaser shall purchase from Seller, (a) one million (1,000,000) shares of Senior Preferred Stock, with an initial liquidation preference equal to $1,000 per share ($1,000,000,000 (one billion dollars) liquidation preference in the aggregate), and (b) the Warrant.

3.2. *Periodic Commitment Fee*. (a) Commencing March 31, 2010, Seller shall pay to Purchaser quarterly, on the last day of March, June, September and December of each calendar year (each a "Periodic Fee Date"), a periodic commitment fee (the "Periodic Commitment Fee"). The Periodic Commitment Fee shall accrue from January 1, 2010.

(b) The Periodic Commitment Fee is intended to fully compensate Purchaser for the support provided by the ongoing Commitment following December 31, 2009. The amount of the Periodic Commitment Fee shall be set not later than December 31, 2009 with respect to the ensuing five-year period, shall be reset every five years thereafter and shall be determined with reference to the market value of the Commitment as then in effect. The amount of the Periodic Commitment Fee shall be mutually agreed by Purchaser and Seller, subject to their reasonable discretion and in consultation with the Chairman of the Federal Reserve; provided, that Purchaser may waive the Periodic Commitment Fee for up to one year at a time, in its sole discretion, based on adverse conditions in the United States mortgage market.

(c) At the election of Seller, the Periodic Commitment Fee may be paid in cash or by adding the amount thereof ratably to the liquidation preference of each outstanding share of Senior Preferred Stock so that the aggregate liquidation preference of all such outstanding shares of Senior Preferred Stock is increased by an amount equal to the Periodic Commitment Fee. Seller shall deliver notice of such election not later than three (3) Business Days prior to each Periodic Fee Date. If the Periodic Commitment Fee is not paid in cash by 12:00 pm (New York time) on the applicable Periodic Fee Date (irrespective of Seller's election pursuant to this subsection), Seller shall be deemed to have elected to pay the Periodic Commitment Fee by adding the amount thereof to the liquidation preference of the Senior Preferred Stock, and the aggregate liquidation preference of the outstanding shares of Senior Preferred Stock shall thereupon be automatically increased, in the manner contemplated by the first sentence of this section, by an aggregate amount equal to the Periodic Commitment Fee then due.

3.3. *Increases of Senior Preferred Stock Liquidation Preference as a Result of Funding under the Commitment.* The aggregate liquidation preference of the outstanding shares of Senior Preferred Stock shall be automatically increased by an amount equal to the amount of each draw on the Commitment pursuant to Article 2 that is funded by Purchaser to Seller, such increase to occur simultaneously with such funding and ratably with respect to each share of Senior Preferred Stock.

3.4. *Notation of Increase in Liquidation Preference*. Seller shall duly mark its records to reflect each increase in the liquidation preference of the Senior Preferred Stock contemplated herein (but, for the avoidance of doubt, such increase shall be effective regardless of whether Seller has properly marked its records).

4. REPRESENTATIONS

Seller represents and warrants as of the Effective Date, and shall be deemed to have represented and warranted as of the date of each request for and funding of an advance under the Commitment pursuant to Article 2, as follows:

4.1. *Organization and Good Standing*. Seller is a corporation, chartered by the Congress of the United States, duly organized, validly existing and in good standing under the laws of the United States and has all corporate power and authority to carry on its business as now conducted and as proposed to be conducted.

4.2. *Organizational Documents*. Seller has made available to Purchaser a complete and correct copy of its charter and bylaws, each as amended to date (the "Organizational Documents"). The Organizational Documents are in full force and effect. Seller is not in violation of any provision of its Organizational Documents.

4.3. *Authorization and Enforceability*. All corporate or other action on the part of Seller or Conservator necessary for the authorization, execution, delivery and performance of this Agreement by Seller and for the authorization, issuance and delivery of the Senior Preferred Stock and the Warrant being purchased under this Agreement, has been taken. This Agreement has been duly and validly executed and delivered by Seller and (assuming due authorization, execution and delivery by the Purchaser) shall constitute the valid and legally binding obligation of Seller, enforceable against Seller in accordance with its terms, except to the extent the enforceability thereof may be limited by bankruptcy laws, insolvency laws, reorganization laws, moratorium laws or other laws of general applicability affecting creditors' rights generally or by general equitable principles (regardless of whether enforcement is sought in a proceeding in equity or at law). The Agency is acting as conservator for Seller under Section 1367 of the FHE Act. The Board of Directors of Seller, by valid action at a duly called meeting of the Board of Directors on September 6, 2008, consented to the appointment of the Agency as conservator for purposes of Section 1367(a)(3)(I) of the FHE Act, and the Director of the Agency has appointed the Agency as Conservator for Seller pursuant to Section 1367(a)(1) of the FHE Act, and each such action has not been rescinded, revoked or modified in any respect.

4.4. *Valid Issuance*. When issued in accordance with the terms of this Agreement, the Senior Preferred Stock and the Warrant will be duly authorized, validly issued, fully paid and nonassessable, free and clear of all liens and preemptive rights. The shares of common stock to which the holder of the Warrant is entitled have been duly and validly reserved for issuance. When issued and delivered in accordance with the terms of this Agreement and the Warrant, such shares will be duly authorized, validly issued, fully paid and nonassessable, free and clear of all liens and preemptive rights.

4.5. *Non-Contravention*.

(a) The execution, delivery or performance by Seller of this Agreement and the consummation by Seller of the transactions contemplated hereby do not and will not (i) conflict with or violate any provision of the Organizational Documents of Seller; (ii) conflict with or violate any law, decree or regulation applicable to Seller or by which any property or asset of Seller is bound or affected, or (iii) result in any breach of, or constitute a default (with or without notice or lapse of time, or both) under, or give to others any right of termination, amendment, acceleration or cancellation of, or result in the creation of a lien upon any of the properties or assets of Seller, pursuant to any note, bond, mortgage, indenture or credit agreement, or any other contract, agreement, lease, license, permit, franchise or other instrument or obligation to which Seller is a party or by which Seller is bound or affected, other than, in the case of clause (iii), any such breach, default, termination, amendment, acceleration, cancellation or lien that would not have and would not reasonably be expected to have, individually or in the aggregate, a material adverse effect on the business, property, operations or condition of the Seller, the authority of the Conservator or the validity or enforceability of this Agreement (a "Material Adverse Effect").

(b) The execution and delivery of this Agreement by Seller does not, and the consummation by Seller of the transactions contemplated by this Agreement will not, require any consent, approval, authorization, waiver or permit of, or filing with or notification to, any governmental authority or any other person, except for such as have already been obtained.

5. COVENANTS

From the Effective Date until such time as the Senior Preferred Stock shall have been repaid or redeemed in full in accordance with its terms:

5.1. *Restricted Payments*. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, declare or pay any dividend (preferred or otherwise) or make any other distribution (by reduction of capital or otherwise), whether in cash, property, securities or a combination thereof, with respect to any of Seller's Equity Interests (other than with respect to the Senior Preferred Stock or the Warrant) or directly or indirectly redeem, purchase, retire or otherwise acquire for value any of Seller's Equity Interests (other than the Senior Preferred Stock or the Warrant), or set aside any amount for any such purpose.

5.2. *Issuance of Capital Stock*. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, sell or issue Equity Interests of Seller or any of its subsidiaries of any kind or nature, in any amount, other than the sale and issuance of the Senior Preferred Stock and Warrant on the Effective Date and the common stock subject to the Warrant upon exercise thereof, and other than as required by (and pursuant to) the terms of any binding agreement as in effect on the date hereof.

5.3. *Conservatorship*. Seller shall not (and Conservator, by its signature below, agrees that it shall not), without the prior written consent of Purchaser, terminate, seek termination of or permit to be terminated the conservatorship of Seller pursuant to Section 1367 of the FHE Act, other than in connection with a receivership pursuant to Section 1367 of the FHE Act.

5.4. *Transfer of Assets*. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, sell, transfer, lease or otherwise dispose of (in one transaction or a series of related transactions) all or any portion of its assets (including Equity Interests in other persons, including subsidiaries), whether now owned or hereafter acquired (any such sale, transfer, lease or disposition, a "Disposition"), other than Dispositions for fair market value:

(a) to a limited life regulated entity ("LLRE") pursuant to Section 1367(i) of the FHE Act;

(b) of assets and properties in the ordinary course of business, consistent with past practice;

(c) in connection with a liquidation of Seller by a receiver appointed pursuant to Section 1367(a) of the FHE Act;

(d) of cash or cash equivalents for cash or cash equivalents; or

(e) to the extent necessary to comply with the covenant set forth in Section 5.7 below.

5.5. *Indebtedness*. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, incur, assume or otherwise become liable for (a) any Indebtedness if, after giving effect to the incurrence thereof, the aggregate Indebtedness of Seller and its subsidiaries on a consolidated basis would exceed 110.0% of the aggregate Indebtedness of Seller and its subsidiaries on a consolidated basis as of June 30, 2008 or (b) any Indebtedness if such Indebtedness is subordinated by its terms to any other Indebtedness of Seller or the applicable subsidiary. For purposes of this covenant the acquisition of a subsidiary with Indebtedness will be deemed to be the incurrence of such Indebtedness at the time of such acquisition.

5.6. *Fundamental Changes*. Seller shall not, and shall not permit any of its subsidiaries to, in each case without the prior written consent of Purchaser, (i) merge into or consolidate or amalgamate with any other Person, or permit any other Person to merge into or consolidate or amalgamate with it, (ii) effect a reorganization or recapitalization involving the common stock of Seller, a reclassification of the common stock of Seller or similar corporate transaction or event or (iii) purchase, lease or otherwise acquire (in one transaction or a series of transactions) all or substantially all of the assets of any other Person or any division, unit or business of any Person.

5.7. *Mortgage Assets*. Seller shall not own, as of any applicable date, Mortgage Assets in excess of (i) on December 31, 2009, $850 billion, or (ii) on December 31 of each year thereafter, 90.0% of the aggregate amount of Mortgage Assets of Seller as of December 31 of the immediately preceding calendar year; provided, that in no event shall Seller be required under this Section 5.7 to own less than $250 billion in Mortgage Assets.

5.8. *Transactions with Affiliates.* Seller shall not, and shall not permit any of its subsidiaries to, without the prior written consent of Purchaser, engage in any transaction of any kind or nature with an Affiliate of Seller unless such transaction is (i) pursuant to this Agreement, the Senior Preferred Stock or the Warrant, (ii) upon terms no less favorable to Seller than would be obtained in a comparable arm's-length transaction with a Person that is not an Affiliate of Seller or (iii) a transaction undertaken in the ordinary course or pursuant to a contractual obligation or customary employment arrangement in existence as of the date hereof.

5.9. *Reporting*. Seller shall provide to Purchaser:

(a) not later than the time period specified in the SEC's rules and regulations with respect to issuers as to which Section 13 and 15(d) of the Exchange Act apply, annual reports on Form 10-K (or any successor or comparable form) containing the information required to be contained therein (or required in such successor or comparable form);

(b) not later than the time period specified in the SEC's rules and regulations with respect to issuers as to which Section 13 and 15(d) of the Exchange Act apply, reports on Form 10-Q (or any successor or comparable form) containing the information required to be contained therein (or required in such successor or comparable form);

(c) promptly from time to time after the occurrence of an event required to be therein reported (and in any event within the time period specified in the SEC's rules and regulations), such other reports on Form 8-K (or any successor or comparable form);

(d) concurrently with any delivery of financial statements under paragraphs (a) or (b) above, a certificate of the Designated Representative, (i) certifying that Seller is (and since the last such certificate has at all times been) in compliance with each of the covenants contained herein and that no representation made by Seller herein or in any document delivered pursuant hereto or in connection herewith was false or misleading in any material respect when made, or, if the foregoing is not true, specifying the nature and extent of the breach of covenant and/or representation and any corrective action taken or proposed to be taken with respect thereto, and (ii) setting forth computations in reasonable detail and satisfactory to the Purchaser of the Deficiency Amount, if any;

(e) promptly, from time to time, such other information regarding the operations, business affairs, plans, projections and financial condition of Seller, or compliance with the terms of this Agreement, as Purchaser may reasonably request; and

(f) as promptly as reasonably practicable, written notice of the following:

(i) the occurrence of the Liquidation End Date;

(ii) the filing or commencement of, or any written threat or notice of intention of any Person to file or commence, any action, suit or proceeding, whether at law or in equity or by or before any governmental authority or in arbitration, against Conservator, Seller or any other Person which, if adversely determined, would reasonably be expected to have a Material Adverse Effect;

(iii) any other development that is not a matter of general public knowledge and that has had, or would reasonably be expected to have, a Material Adverse Effect.

5.10. *Executive Compensation*. Seller shall not, without the consent of the Director, in consultation with the Secretary of the Treasury, enter into any new compensation arrangements with, or increase amounts or benefits payable under existing compensation arrangements of, any Named Executive Officer of Seller.

6. MISCELLANEOUS

6.1. *No Third-Party Beneficiaries*. Until the termination of the Commitment, at any time during the existence and continuance of a payment default with respect to debt securities issued by Seller and/or a default by Seller with respect to any Mortgage Guarantee Obligations, any holder of such defaulted debt securities or beneficiary of such Mortgage Guarantee Obligations (collectively, the "Holders") may (a) deliver notice to the Seller and the Designated Representative requesting exercise of all rights available to them under this Agreement to draw on the Commitment up to the lesser of the amount necessary to cure the outstanding payment defaults and the Available Amount as of the last day of the immediately preceding fiscal quarter (the "Demand Amount"), (b) if Seller and the Designated Representative fail to act as requested within thirty (30) days of such notice, seek judicial relief for failure of the Seller to draw on the Commitment, and (c) if Purchaser shall fail to perform its obligations in respect of any draw on the Commitment, and Seller and/or the Designated Representative shall not be diligently pursuing remedies in respect of such failure, file a claim in the United States Court of Federal Claims for relief requiring Purchaser to pay Seller the Demand Amount in the form of liquidated damages. Any payment of liquidated damages to Seller under the previous sentence shall be treated for all purposes, including the provisions of the Senior Preferred Stock and Section 3.3 of this Agreement, as a draw and funding of the Commitment pursuant to Article 2. The Holders shall have no other rights under or in respect of this Agreement, and the Commitment shall not otherwise be enforceable by any creditor of Seller or by any other Person other than the parties hereto, and no such creditor or other Person is intended to be, or shall be, a third party beneficiary of any provision of this Agreement.

6.2. *Non-Transferable; Successors*. The Commitment is solely for the benefit of Seller and shall not inure to the benefit of any other Person (other than the Holders to the extent set forth in Section 6.1), including any entity to which the charter of Seller may be transferred, to any LLRE or to any other successor to the assets, liabilities or operations of Seller. The Commitment may not be assigned or otherwise transferred, in whole or in part, to any Person (including, for the avoidance of doubt, any LLRE to which a receiver has assigned all or a portion of Seller's assets) without the prior written consent of Purchaser (which may be withheld in its sole discretion). In no event shall any successor to Seller (including such an LLRE) be entitled to the benefit of the Commitment without the prior written consent of Purchaser. Seller and Conservator, for themselves and on behalf of their permitted successors, covenant and agree not to transfer or purport to transfer the Commitment in contravention of the terms hereof, and any such attempted transfer shall be null and void *ab initio*. It is the expectation of the parties that, in the event Seller were placed into receivership and an LLRE formed to purchase certain of its assets and assume certain of its liabilities, the Commitment would remain with Seller for the benefit of the holders of the debt of Seller not assumed by the LLRE.

6.3. *Amendments; Waivers.* This Agreement may be waived or amended solely by a writing executed by both of the parties hereto, and, with respect to amendments to or waivers of the provisions of Sections 5.3, 6.2 and 6.11, the Conservator; provided, however, that no such waiver or amendment shall decrease the aggregate Commitment or add conditions to funding the amounts required to be funded by Purchaser under the Commitment if such waiver or amendment would, in the reasonable opinion of Seller, adversely affect in any material respect the holders of debt securities of Seller and/or the beneficiaries of Mortgage Guarantee Obligations, in each case in their capacities as such, after taking into account any alternative arrangements that may be implemented concurrently with such waiver or amendment. In no event shall any rights granted hereunder prevent the parties hereto from waiving or amending in any manner whatsoever the covenants of Seller hereunder.

6.4. *Governing Law; Jurisdiction; Venue*. This Agreement and the Warrant shall be governed by, and construed in accordance with, the federal law of the United States of America if and to the extent such federal law is applicable, and otherwise in accordance with the laws of the State of New York. The Senior Preferred Stock shall be governed as set forth in the terms thereof. Except as provided in section 6.1 and as otherwise required by law, the United States District Court for the District of Columbia shall have exclusive jurisdiction over all civil actions arising out of this Agreement, the Commitment, the Senior Preferred Stock and the Warrant, and venue for any such civil action shall lie exclusively in the United States District Court for the District of Columbia.

6.5. *Notices*. Any notices delivered pursuant to or in connection with this Agreement shall be delivered to the applicable parties at the addresses set forth below:

If to Seller:

Federal National Mortgage Association
c/o Federal Housing Finance Authority
1700 G Street, NW
4th Floor
Washington, DC 20552
Attention: General Counsel

If to Purchaser:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington DC 20220
Attention: Under Secretary for Domestic Finance

with a copy to:

United States Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington DC 20220
Attention: General Counsel

If to Conservator:

Federal Housing Finance Authority
1700 G Street, NW
4th Floor
Washington, DC 20552
Attention: General Counsel

All notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail. All notices hereunder shall be effective upon receipt.

6.6. *Disclaimer of Guarantee*. This Agreement and the Commitment are not intended to and shall not be deemed to constitute a guarantee by Purchaser or any other agency or instrumentality of the United States of the payment or performance of any debt security or any other obligation, indebtedness or liability of Seller of any kind or character whatsoever.

6.7. *Effect of Order; Injunction; Decree*. If any order, injunction or decree is issued by any court of competent jurisdiction that vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of Conservator as conservator of Seller or otherwise curtails Conservator's powers as such conservator (except in each case any order converting the conservatorship to a receivership under Section 1367(a) of the FHE Act), Purchaser may by written notice to Conservator and Seller declare this Agreement null and void, whereupon all transfers hereunder (including the issuance of the Senior Preferred Stock and the Warrant and any funding of the Commitment) shall be rescinded and unwound and all obligations of the parties (other than to effectuate such rescission and unwind) shall immediately and automatically terminate.

6.8. *Business Day*. To the extent that any deadline or date of performance of any right or obligation set forth herein shall fall on a day other than a Business Day, then such deadline or date of performance shall automatically be extended to the next succeeding Business Day.

6.9. *Entire Agreement*. This Agreement, together with the Senior Preferred Stock and Warrant, contains the entire agreement between the parties hereto with respect to the transactions contemplated hereby and supersedes and cancels all prior agreements, including, but not limited to, all proposals, term sheets, statements, letters of intent or representations, written or oral, with respect thereto.

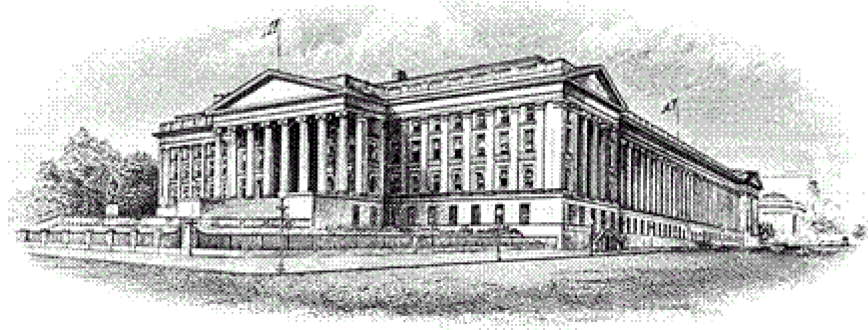
6.10. *Remedies*. In the event of a breach by Seller of any covenant or representation of Seller set forth herein, Purchaser shall be entitled to specific performance (in the case of a breach of covenant), damages and such other remedies as may be available at law or in equity; provided, that Purchaser shall not have the right to terminate the Commitment solely as a result of any such breach, and compliance with the covenants and the accuracy of the representations set forth in this Agreement shall not be conditions to funding the Commitment.

6.11. *Tax Reporting*. Neither Seller nor Conservator shall take, or shall permit any of their respective successors or assigns to take, a position for any tax, accounting or other purpose that is inconsistent with Internal Revenue Service Notice 2008-76 (or the regulations to be issued pursuant to such Notice) regarding the application of Section 382 of the Internal Revenue Code of 1986, as amended, a copy of which Notice has been provided to Seller in connection with the execution of this Agreement.

6.12. *Non-Severability*. Each of the provisions of this Agreement is integrated with and integral to the whole and shall not be severable from the remainder of the Agreement. In the event that any provision of this Agreement, the Senior Preferred Stock or the Warrant is determined to be illegal or unenforceable, then Purchaser may, in its sole discretion, by written notice to Conservator and Seller, declare this Agreement null and void, whereupon all transfers hereunder (including the issuance of the Senior Preferred Stock and the Warrant and any funding of the Commitment) shall be rescinded and unwound and all obligations of the parties (other than to effectuate such rescission and unwind) shall immediately and automatically terminate.

[Signature Page Follows]

Exhibit 7



U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL 11 a.m. (EDT), September 7, 2008
CONTACT Brookly McLaughlin, (202) 622-2920

FACT SHEET:
TREASURY SENIOR PREFERRED STOCK PURCHASE AGREEMENT

Fannie Mae and Freddie Mac debt and mortgage backed securities outstanding today amount to about $5 trillion, and are held by central banks and investors around the world. Investors have purchased securities of these government sponsored enterprises in part because the ambiguities in their Congressional charters created a perception of government backing. These ambiguities fostered enormous growth in GSE debt outstanding, and the breadth of these holdings pose a systemic risk to our financial system. Because the U.S. government created these ambiguities, we have a responsibility to both avert and ultimately address the systemic risk now posed by the scale and breadth of the holdings of GSE debt and mortgage backed securities.

To address our responsibility to support GSE debt and mortgage backed securities holders, Treasury entered into a Senior Preferred Stock Purchase Agreement with each GSE which ensures that each enterprise maintains a positive net worth. This measure adds to market stability by providing additional security to GSE debt holders – senior and subordinated-- and adds to mortgage affordability by providing additional confidence to investors in GSE mortgage-backed securities. This commitment also eliminates any mandatory triggering of receivership.

These agreements are the most effective means of averting systemic risk and contain terms and conditions to protect the taxpayer. They are more efficient than a one-time equity injection, in that Treasury will use them only as needed and on terms that the Treasury deems appropriate.

These agreements provide significant protections for the taxpayer, in the form of senior preferred stock with a liquidation preference, an upfront $1 billion issuance of senior preferred stock with a 10% coupon from each GSE, quarterly dividend payments, warrants representing an ownership stake of 79.9% in each GSE going forward, and a quarterly fee starting in 2010.

Terms of the Agreements:

- The agreements are contracts between the Department of the Treasury and each GSE. They are indefinite in duration and have a capacity of $100 billion each, an amount chosen to demonstrate a strong commitment to the GSEs' creditors and mortgage backed security holders. This number is unrelated to the Treasury's analysis of the current financial conditions of the GSEs.

- If the Federal Housing Finance Agency determines that a GSE's liabilities have exceeded its assets under generally accepted accounting principles, Treasury will contribute cash capital to the GSE in an amount equal to the difference between liabilities and assets. An amount equal to each such contribution will be added to the senior preferred stock held by Treasury, which will be senior to all other preferred stock, common stock or other capital stock to be issued by the GSE. These agreements will protect the senior and subordinated debt and the mortgage backed securities of the GSEs. The GSE's common stock and existing preferred shareholders will bear any losses ahead of the government.

- In exchange for entering into these agreements with the GSEs, Treasury will immediately receive the following compensation:
  - $1 billion of senior preferred stock in each GSE
  - Warrants for the purchase of common stock of each GSE representing 79.9% of the common stock of each GSE on a fully-diluted basis at a nominal price

- The senior preferred stock shall accrue dividends at 10% per year. The rate shall increase to 12% if, in any quarter, the dividends are not paid in cash, until all accrued dividends have been paid in cash.

- The senior preferred stock shall not be entitled to voting rights. In a conservatorship, voting rights of all stockholders are vested in the Conservator.

- Beginning March 31, 2010, the GSEs shall pay the Treasury on a quarterly basis a periodic commitment fee that will compensate the Treasury for the explicit support provided by the agreement. The Secretary of the Treasury and the Conservator shall determine the periodic commitment fee in consultation with the Chairman of the Federal Reserve. This fee may be paid in cash or may be added to the senior preferred stock.

- The following covenants apply to the GSEs as part of the agreements.
  - Without the prior consent of the Treasury, the GSEs shall not:
    - Make any payment to purchase or redeem its capital stock, or pay any dividends, including preferred dividends (other than dividends on the senior preferred stock)
    - Issue capital stock of any kind
    - Enter into any new or adjust any existing compensation agreements with "named executive officers" without consulting with Treasury
    - Terminate conservatorship other than in connection with receivership
    - Sell, convey or transfer any of its assets outside the ordinary course of business except as necessary to meet their obligation under the agreements to reduce their portfolio of retained mortgages and mortgage backed securities
    - Increase its debt to more than 110% of its debt as of June 30, 2008
    - Acquire or consolidate with, or merge into, another entity.

- Each GSE's retained mortgage and mortgage backed securities portfolio shall not exceed $850 billion as of December 31, 2009, and shall decline by 10% per year until it reaches $250 billion.

Exhibit 8

Federal Housing Finance Agency
Office of Inspector General

FHFA's Oversight of the Servicing Alignment Initiative

Evaluation Report • EVL–2014–003 • February 12, 2014

FEDERAL HOUSING FINANCE AGENCY
FHFA OIG
OFFICE OF INSPECTOR GENERAL

Synopsis

February 12, 2014

FHFA's Oversight of the Servicing Alignment Initiative

Why OIG Did This Report

During the financial crisis which started in 2007, delinquencies on mortgage loans owned or guaranteed by Fannie Mae and Freddie Mac (the Enterprises) increased rapidly. Many mortgage servicers – private companies contracted by the Enterprises to service their mortgages – did not respond effectively to the surge in delinquencies. For example, servicers often failed to assist financially distressed borrowers to secure Enterprise-sponsored loan modifications that would create more affordable mortgage payments. Consequently, many such borrowers ultimately lost their homes through foreclosure. Moreover, the Enterprises themselves likely incurred additional losses due to their servicers' failure to execute consistently their contractual responsibilities with respect to delinquent borrowers.

As the Enterprises' conservator, the Federal Housing Finance Agency (FHFA or Agency) established the Servicing Alignment Initiative (SAI) in April 2011 to improve the servicers' performance and thereby limit the Enterprises' financial losses.

SAI consists of a series of FHFA directives that set forth contractual requirements that the Enterprises must incorporate into their servicing guidelines. Servicers must comply with these guidelines when managing the accounts of financially distressed borrowers. For example, servicers are required to respond to borrowers' requests for assistance within specified timeframes, and conduct loan modifications and foreclosures pursuant to procedures and deadlines prescribed by FHFA.

We commenced this evaluation to assess FHFA's oversight of SAI since the establishment of the program in 2011. Specifically, we assessed FHFA's monitoring of the Enterprises' servicers' compliance with SAI guidelines.

What OIG Found

FHFA's Monitoring of Enterprise Servicers' Compliance with SAI is Limited

FHFA's Division of Housing Mission and Goals (DHMG), which established SAI, has primary responsibility within the Agency for overseeing SAI and servicer compliance with its requirements. Therefore, DHMG staff reviewed the Enterprises' servicing guidelines prior to their publication in 2011 to ensure that they incorporated FHFA's SAI-related directives. DHMG also periodically communicates with other FHFA divisions and units with respect to the implementation of the SAI program.

However, DHMG's SAI oversight has significant limitations. Specifically, since establishing the program in 2011, DHMG has neither reviewed nor evaluated the servicers' overall compliance with SAI's numerous requirements. Moreover, DHMG does not require the Enterprises to submit for its routine review and assessment their critical reports on servicer compliance with SAI's requirements. Consequently, DHMG has not determined whether the servicers are complying with SAI or if the initiative is achieving its intended purpose.

FEDERAL HOUSING FINANCE AGENCY
FHFA OIG
OFFICE OF INSPECTOR GENERAL

Synopsis

February 12, 2014

We analyzed the reports by which the Enterprises monitor their servicers' compliance with SAI. The reports identified servicer compliance deficiencies in key SAI areas such as responding to borrower requests for assistance and executing loan modifications. DHMG has not received these reports on a regular basis. Consequently, DHMG has missed opportunities to learn about servicer compliance deficiencies that could undermine SAI's effectiveness. It has also compromised FHFA's ability to oversee the Enterprises' efforts to correct their servicers' SAI compliance deficiencies.

What OIG Recommends

We recommend that DHMG's Deputy Director:

1. Establish an ongoing process to evaluate servicers' SAI compliance and the effectiveness of the Enterprises' remediation efforts;
2. Direct the Enterprises to provide routinely their internal reports and reviews for DHMG's assessment; and
3. Regularly review SAI-related guidelines for enhancements or revisions, as necessary, based on servicers' actual versus expected performance.

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ABBREVIATIONS

BRP	Borrower Response Package
DER	FHFA Division of Enterprise Regulation
DHMG	FHFA Division of Housing Mission and Goals
Enterprises	Fannie Mae and Freddie Mac
Fannie Mae	Federal National Mortgage Association
FHFA or Agency	Federal Housing Finance Agency
Freddie Mac	Federal Home Loan Mortgage Corporation
GPRMA	Government Performance and Results Modernization Act of 2010
OIG	Federal Housing Finance Agency Office of Inspector General
QRPC	Quality Right Party Contact
SAI	Servicing Alignment Initiative

PREFACE

The Enterprises support the secondary market by purchasing mortgages that meet their underwriting standards from originators such as banks or thrifts. Traditionally, the Enterprises hold these mortgages in their retained portfolios or package them into mortgage-backed securities that they sell to investors.

The Enterprises' servicers perform a variety of contractual functions on behalf of the Enterprises, including the management of accounts of borrowers who become delinquent on their mortgage obligations. In this regard, servicers are expected to assist such borrowers in obtaining foreclosure alternatives,[1] such as loan modifications[2] or short sales.[3] If a borrower cannot repay the mortgage and a foreclosure alternative cannot be completed, then the servicer is required to liquidate the mortgage through foreclosure.

Beginning in 2007, the U.S. financial crisis caused mortgage delinquencies to increase significantly in a relatively short period of time. However, many servicers did not respond in a timely way to financially distressed borrowers who requested assistance. In some cases, they failed to process loan modifications and foreclosures effectively. They also engaged in abusive practices that harmed borrowers; and the servicers' poor performance likely caused the Enterprises to incur financial losses.

In 2011, FHFA established SAI to improve mortgage servicing and limit Enterprise financial losses. It consisted of a series of contractual provisions that the Enterprises were required to incorporate into their servicing guidelines. For their part, servicers must comply with these guidelines in managing the accounts of financially distressed borrowers. For example, servicers are required to respond to borrowers' requests for assistance within specified timeframes, and conduct loan modifications and foreclosures pursuant to procedures and deadlines prescribed by FHFA. SAI also established a system of financial rewards and penalties to encourage servicer compliance with its terms.

Given SAI's importance to the matter of servicer performance, we initiated this evaluation to assess FHFA's oversight of it. Specifically, we assessed FHFA's monitoring of the Enterprises' servicers' compliance with SAI's requirements.

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[1] Foreclosure alternatives include a payment plan, forbearance plan, loan modification, short sale, or deed-in-lieu of foreclosure.

[2] In a loan modification, the terms of a mortgage are modified to create a more affordable monthly payment for the borrower. Upon completion of the modification, the mortgage is brought to a current status.

[3] In a short sale, the borrower is permitted to avoid a completed foreclosure by selling the property for less than the payoff balance of the mortgage.

This evaluation was led by Christine Eldarrat, Senior Policy Advisor, with assistance from Brian Harris, Investigative Counsel; Desiree I-Ping Yang, Financial Analyst; and Irene Porter, Supervisory Auditor. We appreciate the cooperation of everyone who contributed to this evaluation. It has been distributed to Congress, the Office of Management and Budget, and others and will be posted on OIG's website, www.fhfaoig.gov.

Richard Parker
Deputy Inspector General for Evaluations

CONTEXT

Servicers Are Required to Manage Enterprise Mortgages in Compliance with the Enterprises' Servicing Guidelines

The Enterprises contract with servicers to manage the mortgages they own or guarantee. Upon origination a mortgage is transferred to a servicer. The servicer is often an affiliate of the lender that originated the mortgage.[4] Figure 1 contains a list of the largest mortgage servicers.

Each Enterprise's servicing guidelines contains a list of duties that its servicers must carry out in order to fulfill their contractual obligations to the Enterprise. Figure 2, below, depicts the servicers' contractual relationship with the Enterprises.[6]

FIGURE 1. TOP TEN ENTERPRISE MORTGAGE SERVICERS

Top Ten Enterprise Servicers as of October 2013 (alphabetical order)[5]
1. Bank of America
2. CitiMortgage
3. Green Tree
4. JP Morgan Chase
5. Nationstar
6. Ocwen
7. PHH Mortgage
8. PNC Bank
9. US Bank
10. Wells Fargo

When a mortgage is performing, i.e., the borrower is making timely payments, then the servicing guidelines specify that the job of the servicer is to collect principal and interest payments from the borrower and remit them to the Enterprise. As compensation, the servicer retains a small percentage of the payment received from the borrower as a servicing fee.

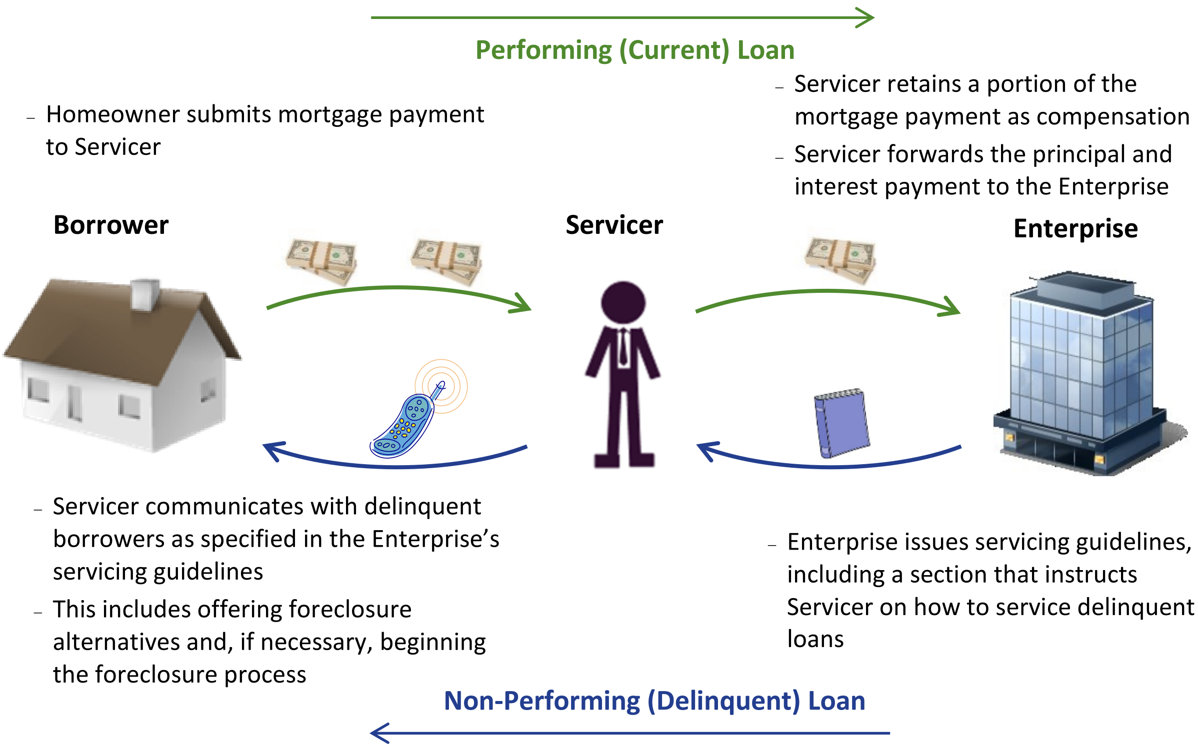
The Enterprises' servicing guidelines also contain extensive instructions on the management of non-performing mortgages, i.e., those that are delinquent. These instructions cover activities such as contacting the borrower, managing bankruptcy cases, implementing foreclosure alternatives, and pursuing foreclosures.

[4] However, not all servicers are affiliated with a lender. Some servicers purchase the mortgage servicing rights from lenders or other servicers and then service the underlying loans on behalf of the Enterprises.

[5] Source: Internal Enterprise reports based on the number of mortgages serviced.

[6] Fannie Mae's servicing guidelines (Fannie Mae Servicing Guide) can be found at https://www.fanniemae.com/singlefamily/servicing; Freddie Mac's servicing guidelines (Freddie Mac Single-Family Seller/Servicer Guide) can be found at http://www.freddiemac.com/singlefamily/service/.

FIGURE 2. MORTGAGE SERVICING



Many of the Enterprises' Servicers Failed to Properly Manage Delinquent Borrower Accounts During the Financial Crisis

During the financial crisis, which started in 2007, there was a surge in the number of borrowers who became delinquent on mortgages owned or guaranteed by the Enterprises. In particular, the Enterprises' serious delinquency rates increased from a low of 0.92% (277,000 mortgages) in January 2008, to a peak of 4.93% (1,501,000 mortgages) in March 2010.[7]

In many cases, servicers failed to properly manage the surge in delinquencies. Specifically, servicers:

- Often did not timely respond to financially distressed borrowers' requests for assistance;

[7] Source: FHFA's Foreclosure Prevention Reports. The serious delinquency rate measures the percent of mortgages in the Enterprises' portfolios that are three or more payments late, including those mortgages that are in foreclosure and subject to disposition pursuant to bankruptcy proceedings.

- Failed to properly administer loan modifications such as Treasury's Home Affordable Modification Program (HAMP);[8]
- Engaged in "dual-tracking," which is the simultaneous pursuit of both a foreclosure alternative, such as a loan modification, and foreclosure for the same borrower;
- Lost critical borrower documents such as applications for foreclosure alternatives; and
- Did not meet the various legal requirements within the foreclosure process, which gave rise to abusive practices such as "robo-signing."[9]

This poor servicer performance had an adverse financial impact on the Enterprises. According to FHFA and the Enterprises, foreclosing upon a mortgage generally results in a greater credit loss than does sustaining a mortgage through a foreclosure alternative.[10] Thus, the servicers' failure to properly manage delinquent mortgages likely resulted in foreclosures in cases in which foreclosure alternatives would have served better the interest of the Enterprises and, by extension, the taxpayer. Conversely, in situations in which borrowers are unable to meet their obligations despite consideration of foreclosure alternatives, it is generally in the Enterprises' best financial interests for servicers to pursue foreclosure actions on a timely basis. Thus, the servicers' failure to pursue foreclosures pursuant to established timelines likely increased the Enterprises' related losses.[11]

FHFA Established SAI to Address Enterprise Servicer Deficiencies in the Management of Delinquent Mortgages

In April 2011, FHFA established SAI to improve the servicers' management of delinquent mortgages and limit the Enterprises' associated losses. SAI contains uniform servicing requirements, compliance with which may be encouraged by monetary incentives and

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[8] HAMP is Treasury's modification program under the Making Home Affordable Initiative that was announced by President Obama in February 2009. Both Enterprises offer HAMP and non-HAMP modifications. In all delinquency cases, the Enterprises must evaluate the borrower for a HAMP modification first.

[9] "Robo-signing" refers to a variety of practices, including: signing documents without verifying the information in them; forging an authorized signature on a document, e.g., the signature of a bank executive; misrepresenting the title of an authorized signer; and failing to comply with notary procedures as required by the relevant jurisdiction.

[10] When foreclosure occurs, the Enterprise seizes control of the property securing the mortgage and resells it to recover some of its credit and other related losses. While in the Enterprise's inventory, the foreclosed property may further increase the Enterprise's credit losses by, for example, further declining in value, and incurring maintenance, tax, and other expenses.

[11] When foreclosure becomes unavoidable, it is generally in the Enterprise's financial interest for it to be conducted as quickly as permitted by state laws and regulations. For example, a property that is not maintained properly during a lengthy foreclosure process may suffer a decline in value and bring a lower resale price.

penalties.[12] DHMG[13] is primarily responsible for the oversight of SAI and the Enterprises' efforts to ensure that their servicers comply with its provisions.

FHFA's Initial SAI Directive

In 2011 FHFA directed the Enterprises to update their servicing guidelines by adding new standards and timelines by which servicers were to manage delinquent mortgages. The changes affected the following key areas, known as SAI work streams:

- **Borrower Contact and Delinquency Management** – Changes in this area aligned servicer requirements for: (1) contacting borrowers – including rules regarding collection calls, written communications, and quality right party contacts (QRPC);[14] (2) responding to borrower response packages (BRP);[15] (3) referring mortgages to foreclosure; and (4) reviewing and responding to borrower inquiries and complaints. In addition, they established incentives and penalties related to the receipt of completed BRPs.
- **Property Inspections** – Changes in this area aligned servicer requirements for ordering property inspections. Servicers are required to identify and pay particular attention to vacant, tenant-occupied, and abandoned properties.
- **Foreclosure Timelines** – Changes in this area aligned state-level timelines for the processing of foreclosures from the date of referral to the attorney/trustee through the date of the foreclosure sale. They also established compensatory fees for servicer non-compliance.
- **Standard Loan Modifications** – Changes in this area aligned requirements for a standard loan modification (a non-HAMP modification), including eligibility and documentation criteria, along with approval terms and conditions. The changes established incentives for servicers to complete standard modifications.

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[12] Additional remedies are available to the Enterprises when a servicer fails to meet its contractual obligations, including requiring the servicer to indemnify the Enterprise for losses or imposing a suspension. Whether and when the Enterprises impose penalties or pursue remedies is outside the scope of this evaluation.

[13] DHMG is responsible for policy development and analysis, oversight of housing and regulatory policy, oversight of the mission and goals of the Enterprises, and the housing finance and community and economic development mission of the Federal Home Loan Banks.

[14] A QRPC occurs when a servicer identifies and discusses with a borrower, co-borrower, or trusted party, such as a housing counselor, the most appropriate options for resolving the delinquency. During a QRPC the servicer: establishes rapport with the borrower; determines the reason for delinquency, the occupancy status of, or intent to vacate, the mortgaged property; educates the borrower on alternatives to foreclosure; and obtains the borrower's commitment on the next steps.

[15] When a borrower seeks to avoid foreclosure and requests assistance, the servicer will require the borrower to submit a BRP. Generally, a BRP includes a completed and signed *Uniform Borrower Assistance Form* (Fannie Mae/Freddie Mac Form 710) and documentation of the hardship, employment, and income.

The Enterprises revised their servicing guidelines to reflect these changes.

FHFA's Subsequent SAI Directives

Beginning in January 2012, FHFA released four additional SAI directives over a period of 14 months. Each directive was focused on a specific SAI work stream, and the Enterprises modified their servicing guidelines accordingly.

- **Unemployment Forbearance** – This program allows a borrower to pay less than the payment required by the mortgage note for a defined period of time not to exceed six months. Upon completion of the plan, the borrower is required to bring the account current.
- **Short Sales** – This program allows a borrower to sell the property for less than the payoff balance of the mortgage to avoid a completed foreclosure.[16]
- **Deed-in-Lieu** – This program allows a borrower to convey the property to the mortgage holder to satisfy the mortgage and avoid foreclosure.
- **Streamlined Modification** – This program modifies the terms of the mortgage to create a more affordable payment for the borrower.

FHFA's Servicer Performance Goals

FHFA's directives also established specific servicer performance goals to ensure improvements within the various SAI work streams.[17] For example, FHFA's initial directive contained at least 35 mandatory servicer activities and established a variety of performance goals by which the Enterprises could measure servicers' progress in achieving them. Figure 3 provides examples of some of those activities and goals.

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[16] The payoff balance is the sum of the following: unpaid principal, accrued but unpaid interest, balance of tax and insurance escrows, and default-related expenses, e.g., attorney fees and costs, title costs, and property inspection fees.

[17] FHFA's establishment of such performance goals appears consistent with the Government Performance and Results Modernization Act of 2010 (GPRMA). GPRMA establishes the importance of setting performance goals that are objective, quantifiable, and measurable for significant federal agency activities. Furthermore, it establishes the importance of setting performance indicators to measure progress toward those goals and to assess actual results against expected performance. Finally, GPRMA identifies program evaluation as a means for assessing, through objective measurement and systematic analysis, the manner and extent to which federal programs achieve their intended objectives.

FIGURE 3. EXAMPLES OF SERVICER PERFORMANCE GOALS

Activity	Servicer Performance Goals
Call Center Benchmarks	– Servicer should ensure that no more than 5% of incoming borrower calls are abandoned.[18] – Servicer should answer borrower calls within 60 seconds. – Servicer should answer borrower emails within 48 hours.
QRPC	– Servicer should establish a QRPC on at least 60% of the loans in the 120-day delinquent portfolio.
BRP	– Within 30 days of receipt of a BRP, servicer should send the Evaluation Notice of foreclosure alternative options to the borrower.
Foreclosure Referral Timeframe	– No later than 120 days from the due date of the last paid installment, servicer should refer the delinquent account to an attorney to initiate foreclosure proceedings.

FHFA's Examination of the Enterprises' Implementation of SAI

In mid-2013, FHFA's Division of Enterprise Regulation (DER) completed targeted examinations of the Enterprises' implementation of SAI.[19] DER examiners reviewed the various controls that the Enterprises established to ensure that their servicers comply with SAI's requirements. DER found that, as a general matter, the Enterprises' controls were adequate.

Although DER examined the Enterprises' controls over their servicers, its examiners did not assess the servicers' compliance with SAI's various requirements. As discussed in the Findings below, assessing the servicers' compliance with SAI is DHMG's responsibility.

[18] An abandoned call is one that is made to a call center but ends before a conversation occurs, i.e., the caller hangs up before contact is made. When an inbound call is abandoned, it is often because the caller is frustrated with the amount of time spent on hold or his/her inability to speak with a human being.

[19] DER is responsible for ensuring the safety and soundness of Enterprise operations and compliance with laws and regulations. It conducts examinations and other activities based on its annual assessments of the highest risks facing the Enterprises as well as their management of such risks.

FINDINGS

1. DHMG's SAI and Servicer Oversight Program is Limited

According to DHMG's Deputy Director, the division is primarily responsible for overseeing SAI and servicer's compliance with the program's requirements and performance goals. Therefore, in 2011 DHMG reviewed the SAI-related changes to their servicing guidelines made by the Enterprises. DHMG has also communicated with other FHFA divisions regarding SAI's implementation.

However, DHMG's SAI and servicer compliance oversight program has significant limitations. In particular, DHMG has neither reviewed nor evaluated the servicers' overall compliance with numerous SAI-related guidelines and performance goals even though they have been in place since 2011.[20] As a result, DHMG is not in a position to determine whether SAI is achieving the intended objectives: improving the servicers' management of delinquent accounts and limiting the Enterprises' losses. Neither is DHMG in a position to assess the overall effectiveness of the Enterprises' initiatives to ensure that servicers correct identified SAI compliance deficiencies.

Moreover, DHMG does not require the Enterprises to submit critical internal reports and reviews on servicers' SAI compliance that would be of benefit to the division's oversight program.[21] Although DHMG periodically reviews some Enterprise reports on servicer performance, these reports are of limited utility. For example, some provide aggregated Enterprise financial information, but do not provide a sufficient understanding of servicers' SAI compliance and progress in achieving their numerous performance goals.

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[20] In August 2012, the Enterprises briefed DHMG on SAI's first year of operations. Based upon this presentation, DHMG concluded that SAI was a success because "all major delinquency categories were reduced with the implementation of SAI." However, DHMG's conclusion was not well-founded.

We reviewed the PowerPoint presentation provided to DHMG by the Enterprises in August 2012. It does not contain evidence establishing a causal relationship between SAI and the decrease in defaults. We also reviewed the Enterprise reports set forth in note 23, *infra*. They do not provide a basis from which to conclude that SAI caused the decline in defaults, nor do they indicate that there has been consistent servicer compliance with SAI.

[21] We believe that FHFA's failure to review and assess the information in these reports is inconsistent with its responsibility under GPRMA to evaluate whether, and how well, SAI is meeting its intended objectives. *See* footnote 17, *supra*.

2. Enterprise Reports Indicate Considerable Servicer Non-Compliance with SAI's Requirements

We reviewed reports that the Enterprises use to monitor[22] servicer compliance with SAI-related guidelines,[23] most of which are not provided routinely to DHMG. We identified the following potentially significant SAI compliance deficiencies:[24,25]

- In October 2013, an Enterprise reported on the servicer quality reviews conducted that month for 18 of its servicers. Based upon these reviews, the Enterprise made 63 SAI non-compliance findings in multiple areas, including: untimely referrals to foreclosure and completed foreclosures; failure to solicit borrowers to consider foreclosure alternatives, and failure to respond timely to requests for foreclosure alternatives; and failure to complete loan modifications timely and document modifications sufficiently.
- In August 2012, an Enterprise's servicer performance scorecard[26] rated 34 of the top 35 servicers on components measured by the SAI servicer quality review. Twenty-five servicers received a rating of "satisfactory," while nine servicers received a rating of "needs significant improvement." In October 2013, 19 of the top 30 servicers were rated. Ten servicers received a rating of "satisfactory," four servicers received a rating of "needs improvement," and five servicers received a rating of "needs significant improvement" on their overall servicer quality review rating.

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[22] The Enterprises conduct SAI-related servicer quality reviews of individual servicers. They include sampling loan-level data and documents from servicers. The results of a review allow the Enterprises to make a finding when there is evidence that the servicer failed to comply with one of the SAI guidelines. However, as detailed in our Findings, the Agency does not actively monitor the Enterprises' oversight of their servicers' compliance with SAI.

[23] We obtained the following reports from the Enterprises for our review:

Fannie Mae: Borrower Response Package Report; Compensatory Fee Reports; Lender Assessment of Risk and Controls Report; NSO Monthly Fact Book; NSO Performance Scorecard; Property Inspection Exception Report; SAI Call Center Metrics Report; Servicer Quality and Risk Review Report; SQR Remediation Reports; SQR Servicing Alignment Initiative Findings; and the STAR Program Performance Scorecard Report.

Freddie Mac: Borrower Response Package Monthly Progress Report; Operational Review; Program Compliance Review; Prudent Servicing Review; Servicer Performance Grid – Larger and Specialty Servicers Report; Servicing Account Plan Report; Servicing Quality Assurance Monthly Management Report; Single Family Servicing and REO – Monthly Performance Report and Financial Drivers Analysis; SPP Executive Summary Report; and the SPP Servicer Success Program Scorecard.

[24] We note, as discussed earlier, that the DER exams indicated the Enterprises were producing reports that allowed them to monitor servicers' performance and SAI compliance.

[25] Our observations of continued deficiencies in mortgage servicing are consistent with the Consumer Financial Protection Board's observations as identified in its September 2013 *Supervisory Highlights* report.

[26] The servicer performance scorecard is a high-level report that graphically represents servicers' progress toward achieving Enterprise targets or goals over time. A scorecard allows for performance monitoring and identification of less than acceptable performance.

DHMG's Deputy Director, who was appointed in March 2013, acknowledged in discussions with us that the division's past SAI oversight efforts have been limited. She emphasized that servicers' compliance with SAI and other Agency directives is of critical importance, and that she receives the Enterprises' monthly servicer scorecards. Further, she is seeking to strengthen DHMG's communications with other Agency divisions, such as DER, to ensure the successful implementation of FHFA's directives, including SAI.

Our review indicates that the monthly servicer scorecards are high-level summaries that, by themselves, do not present a complete picture of servicer performance. For example, a given servicer's scorecard would not reveal its poor implementation of foreclosure alternatives, such as short sales and loan modifications, or other such conduct; but such information is contained in the reports that the Enterprises compile to monitor their servicers' compliance with SAI's various requirements. DHMG, however, does not routinely receive these reports. Thus, vital information about the servicers' failure to comply with SAI's various requirements may have escaped the Agency's attention.

In any event, DHMG has not determined whether the servicers are complying with SAI or if the initiative is achieving its intended purposes: to improve servicer performance and limit the Enterprises' financial losses. Finally, there is no indication that DHMG sought or obtained information regarding any efforts by the Enterprises to address these issues.

We believe that, in order to ensure the success of its program, the Agency must actively monitor the Enterprises' oversight and enforcement of the provisions of SAI at the servicer level.

CONCLUSION

FHFA's establishment of SAI in 2011 was a proactive effort to address widespread deficiencies in servicer management of delinquent mortgages. However, DHMG did not develop and implement a process to determine whether servicers were complying with the numerous requirements contained in the SAI-related servicing guidelines and meeting related performance goals. Moreover, DHMG does not require the Enterprises to provide certain internal reports and reviews that would likely benefit the division's SAI oversight program.

We believe it is critical that FHFA address this deficiency in its oversight process. Doing so would enable the Agency to identify and understand SAI compliance deficiencies and trends, ensure that corrective action is undertaken, assess the effectiveness of SAI, and make adjustments to the program as needed.

RECOMMENDATIONS

We recommend that DHMG's Deputy Director:

1. Establish an ongoing process to evaluate servicers' SAI compliance and the effectiveness of the Enterprises' remediation efforts;

2. Direct the Enterprises to provide routinely their internal reports and reviews for DHMG's assessment; and

3. Regularly review SAI-related guidelines for enhancements or revisions, as necessary, based on servicers' actual versus expected performance.

OBJECTIVE, SCOPE, AND METHODOLOGY ....

Objective

The objective of this report was to assess FHFA's oversight of SAI.

To achieve this objective we reviewed all publicly available FHFA documents. In addition, we requested SAI-related documents from FHFA and the Enterprises. We interviewed or met with multiple individuals from FHFA, Fannie Mae, and Freddie Mac. Finally, we specifically requested all records maintained pursuant to the SAI charter.

Scope

This survey covers FHFA's implementation and oversight of SAI during the period of January 1, 2011, through October 31, 2013.

General Methodology

We evaluated FHFA's oversight of SAI using the principles detailed in the Government Performance and Results Modernization Act of 2010 (GPRMA) and the SAI charter.

In conducting this evaluation, we also considered:

- FHFA's Strategic Plans, Performance Goals, and Performance Measures
- FHFA's Conservatorship Strategic Plans and Scorecards
- Fannie Mae's SAI-Related Servicer Performance Reports
- Freddie Mac's SAI-Related Servicer Performance Reports

This evaluation was conducted under the authority of the Inspector General Act of 1978, as amended, and in accordance with the *Quality Standards for Inspection and Evaluation*, which were promulgated by the Council of the Inspectors General on Integrity and Efficiency. These standards require OIG to plan and perform an evaluation that obtains evidence sufficient to provide a reasonable basis to support the findings and recommendations made in it. We believe that the finding and recommendations discussed in this report meet these standards.

APPENDIX A ....

FHFA's Comments on OIG's Findings and Recommendations

Federal Housing Finance Agency

MEMORANDUM

DATE: February 11, 2014

TO: Richard Parker, Deputy Inspector General for Evaluations
FHFA Office of Inspector General

FROM: Sandra Thompson, Deputy Director
Division of Housing Mission and Goals

SUBJECT: Evaluation of FHFA's Oversight of the Servicing Alignment Initiative

This memorandum transmits the Federal Housing Finance Agency's (FHFA) management response to the findings and recommendations contained in the above referenced evaluation report (Report). We appreciate the opportunity to clarify FHFA activities related to the Servicing Alignment Initiative (SAI).

The Roles of FHFA, the Division of Housing and Regulatory Policy, the Division of Enterprise Regulation and the Enterprises in SAI Oversight

FHFA and the Enterprises
FHFA serves as the primary regulator for the Enterprises. The legislative authority to oversee the Enterprises does not extend to oversight of the servicers. Consequently, FHFA is not in a position to perform any supervisory activities or directly monitor the servicers. While the Enterprises have negotiated agreements with servicers that allow FHFA's Division of Enterprise Regulation to access some servicer information, this access exists only as an outgrowth of FHFA's regulatory authority over the Enterprises to assure their safe and sound operation.

FHFA, as conservator, has the authority to make decisions affecting the Enterprises. However, the Agency has delegated responsibility for most business decisions back to the Enterprises. Under FHFA's delegation of authority, responsibility for overseeing servicer compliance with Enterprise policies rests with the Enterprises.

The Division of Housing Mission and Goals and the Division of Enterprise Regulation
One of the primary roles of FHFA's Division of Housing Mission and Goals (DHMG), and specifically DHMG's Office of Housing and Regulatory Policy (OHRP), is to maintain an awareness of, review changes to and identify areas for improvement of Enterprise selling and servicing policies. When a need is identified, OHRP works with the Enterprises to develop policy, which is implemented by the Enterprises through changes to their selling and servicing guides.

DHMG's role in policy development is distinctly and intentionally separated from FHFA's supervisory oversight activities. DHMG informs the Division of Enterprise Regulation (DER) of policy changes throughout the policy making process. Based on that information, DER can assess the risks and status of implementation in order to determine the appropriate supervisory approach to the matter at an appropriate future date. This typically results in ongoing monitoring activities to assess the Enterprises' implementation plans and execution, which may then result in onsite examination work. DER followed this process in its oversight of the rollout of SAI.

DER is responsible for supervision of the Enterprises to ensure they operate in a safe and sound manner. As OIG states in its Report, DER reviewed and found that Enterprise controls over SAI requirements were adequate. The servicer deficiencies noted in the OIG Report are all deficiencies that were identified by the Enterprises as part of their existing compliance function.

DHMG has and continues to fulfill its role in directing the Enterprises' policy and programmatic changes and improvements

In addition to monthly servicer scorecards reviewed by DHMG's Deputy Director, OHRP subject matter experts receive and review specific monthly and quarterly reports from the Enterprises. This information, along with feedback from meetings with the Enterprises, stakeholders and other federal regulators, is used as a basis to determine if additional policy work is necessary. A few examples that demonstrate the effectiveness of this process include changes to Short Sale and Deed-in-Lieu policies and creation of the Streamlined Modification Program. These loss mitigation enhancements were made after the original implementation of SAI.

- **Short Sale and Deed-in-Lieu Policies** – After completion of an overhaul of the home retention option, standard modification, it became apparent that the servicer struggled to offer borrowers a suitable liquidation alternative. Across the two Enterprises there were four short sales and two deed-in-lieu offerings, each with their own distinct sets of rules and terms. FHFA applied the general SAI principles of streamlining and simplifying to these programs to make it easier and faster for borrowers to resolve their delinquencies. These changes were made because OHRP has an established process to identify where policy changes are needed.

- **Streamlined Modification Initiative** – Announced on March 27, 2013, this new modification program requires no borrower hardship or financial documentation. FHFA worked with the Enterprises to introduce the new program after conducting continuous assessment of Standard Modification uptake and determining that a uniform approach and a streamlined borrower application with simpler rules was not sufficient to assist all delinquent borrowers. In fact, the borrower challenges associated with compiling the required documentation was the persistent problem that needed to be addressed. Removing the administrative barriers associated with document collection and servicer evaluation enabled significantly more borrowers to access the available options to keep their homes.

OHRP and the Enterprises continued SAI policy discussions throughout 2013, which culminated in changes to Enterprise servicing guides to adapt relevant parts of SAI guidance to new Consumer Finance Protection Bureau (CFPB) regulations.

OIG Report Footnotes

We appreciate that, in Footnote 17, OIG refers to the GPRA Modernization Act of 2010 (GPRAMA). The actual performance goals (2.1.2 and 2.1.3) and means to assess them related to foreclosure prevention and loan modification activities (SAI) are contained on pages 17 and 18 of FHFA's Annual Performance Plan for 2014. DHMG reports on these goals on a quarterly basis as required by GPRAMA.

In Footnote 20 the Report infers that DHMG determined SAI was a success based solely on delinquency data provided by the Enterprises when, in fact, DHMG was noting that the data was one indicator perceived to show SAI was successful. DHMG's actual response to the question of whether it considered SAI a success, in full stated: "Yes. In August 2013, both Enterprises provided FHFA with one year statistics. The data demonstrated that for both Enterprises all major delinquency categories were reduced with the implementation of SAI. FHFA continues to meet with the Enterprises on a weekly basis to review and improve upon the SAI policies. Another perceived success measure is that both the upcoming CFPB Regulation X servicing rules and the AG settlement rules are aligned with existing SAI policy."

Report Recommendations and FHFA Responses

OIG recommends that DHMG's Deputy Director:

1. Establish an ongoing process to evaluate servicers' SAI compliance and the effectiveness of the Enterprises' remediation efforts.

   FHFA Response: FHFA partially agrees with this recommendation. DHMG, through its OHRP servicing team, will continue current practices which include periodic review of reports and dialogue with the Enterprises, stakeholders, other regulatory agencies and DER to determine if and when additional changes to servicing policies are necessary. DER will continue to monitor the Enterprises' controls over servicer compliance with their guides either as part of its overall examination plan or through targeted monitoring. FHFA will provide to OIG copies of SAI steering committee meeting notes by February 15, 2015.

2. Direct the Enterprises to provide routinely their internal reports and reviews for DHMG's assessment.
   FHFA Response: FHFA partially agrees with this recommendation. As stated above, DHMG management and subject matter experts review certain reports relevant to servicing activity, many of which are contained in a larger set of reports the Enterprises submit to DER. DHMG will continue its practice of reviewing reports in combination

with other activities related to servicing policy. FHFA will provide to OIG an updated list of the reports DHMG reviews by February 15, 2015.

3. Regularly review SAI related guidelines for enhancements or revisions, as necessary, based on servicers' actual versus expected performance.

FHFA Response: FHFA partially agrees with this recommendation. The fact that a servicer does not comply with a guideline does not mean the guideline is problematic. DHMG will continue to engage in policy review as necessary and consider implications of servicer performance when reviews are completed by the Enterprises. FHFA will provide to OIG copies of SAI steering committee meeting notes by February 15, 2015.

APPENDIX B..

OIG's Response to FHFA's Comments

Although FHFA states that it "partially agrees" with our three recommendations, we believe the response indicates that the Agency does not plan to alter substantively its limited oversight of SAI. FHFA claims that it lacks authority to assess servicer compliance with SAI – a program that it established in order to improve servicer performance and thereby limit the Enterprises' financial losses. We find FHFA's arguments for maintaining its current approach to be unpersuasive as described below.

OIG's Response to FHFA Comments on its Lack of Regulatory Authority Over Servicers

FHFA's position is that it does not directly regulate the Enterprises' servicers, and that it has delegated to the Enterprises the responsibility to ensure that their servicers comply with SAI.

We understand that FHFA does not directly regulate servicers, but that fact is irrelevant to the oversight deficiencies we identify in this report. FHFA established SAI and prescribed the standards that servicers must meet in fulfilling their contracts with the Enterprises. FHFA's delegation of day-to-day SAI implementation responsibilities to the Enterprises does not absolve FHFA of its responsibility to determine whether SAI is having the desired impact on servicer performance.

OIG's Response to FHFA's Comments on DHMG's and DER's Roles in SAI Oversight

FHFA has narrowly defined the roles of DHMG and DER with respect to SAI. According to FHFA, DHMG's role was to develop SAI, the implementation of which was left to the Enterprises, while DER's role is limited to reviewing the Enterprises' controls over SAI. Thus, no unit within FHFA is monitoring the servicers' compliance with SAI and determining whether it is having the desired impact on servicer performance.

OIG's Response to FHFA's Planned Actions on the Draft Report's Recommendations

Recommendation 1: FHFA's response indicates that it plans to continue its current oversight approach with regard to SAI.

OIG Response: As described in the report, we believe FHFA's ongoing activities are insufficient. For example, the Agency has not compared servicer performance against the SAI work stream goals, even though SAI has been in effect for nearly three years. Moreover, FHFA has offered no plan for assessing the effectiveness and success of SAI.

Recommendation 2: The Agency states that it receives certain Enterprise reports relevant to servicing activity and will continue to review them; it appears unwilling to review the additional reports we have identified.

OIG Response: As we stated, the reports to which FHFA confines its oversight are insufficient to the task. The additional reports we identified are important; for example, they highlight significant servicer compliance deficiencies, such as failing to respond timely to requests for foreclosure alternatives. We believe FHFA should obtain these reports so that it may effectively evaluate servicers' SAI compliance and, by extension, the impact of SAI.

Recommendation 3: FHFA stated that the fact a servicer does not comply with a guideline does not mean the guideline itself is problematic.

OIG Response: We agree that a servicer's failure to comply with a guideline does not necessarily mean that the guideline is problematic. However, we believe that by reviewing the guidelines and servicer compliance FHFA may be better able to determine whether any enhancements to the guidelines are necessary.

ADDITIONAL INFORMATION AND COPIES..............................

For additional copies of this report:

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  400 Seventh Street, S.W.
  Washington, DC 20024

Exhibit 9

FEDERAL HOUSING FINANCE AGENCY
OFFICE OF INSPECTOR GENERAL

FHFA's Supervision of Freddie Mac's Controls over Mortgage Servicing Contractors

Audit Report: AUD-2012-001 **Dated: March 7, 2012**

EXPLANATION OF REDACTIONS IN THIS REPORT

This report includes redactions requested by the Federal Housing Finance Agency and/or the Federal Home Loan Mortgage Corporation. According to them, the redactions are intended to protect from disclosure material that they consider to be confidential financial, proprietary business, and/or trade secret information. They claim further that the redacted information would not ordinarily be publicly disclosed, and, if disclosed, could place the Federal Home Loan Mortgage Corporation at a competitive disadvantage.

FEDERAL HOUSING FINANCE AGENCY
OFFICE OF INSPECTOR GENERAL
AT A GLANCE

FHFA's Supervision of Freddie Mac's Controls over Mortgage Servicing Contractors

Why FHFA-OIG Did This Audit

The Federal Housing Finance Agency (FHFA or Agency) was created by the Housing and Economic Recovery Act of 2008 (HERA) to assess the financial safety and soundness and overall risk management practices of the Federal National Mortgage Association (Fannie Mae) and the Federal Home Loan Mortgage Corporation (Freddie Mac) (collectively, the Enterprises). The Enterprises routinely purchase mortgages from mortgage originators in order to provide liquidity for continued lending in support of the nation's housing finance system. With respect to the mortgages that they purchase, the Enterprises enter into contracts with mortgage servicers to collect mortgage payments, set aside taxes and insurance premiums in escrow, forward interest and principal payments to the contractually designated party, and respond to payment defaults. As of June 30, 2011, Freddie Mac had a mortgage servicing portfolio containing nearly 12 million mortgages with an unpaid principal balance (UPB) of nearly $1.8 trillion.

Troubled loans have increased substantially since 2008. Mortgage servicers have had to respond to increased defaults by expending extra effort including loan modifications and foreclosure processing. In late 2010, the federal agencies that regulate and supervise banks conducted an interagency review of foreclosure processing at 14 large mortgage servicers. The agencies found critical weaknesses in the mortgage servicers' foreclosure governance processes, foreclosure document preparation procedures, and oversight and monitoring of third-party vendors, including foreclosure attorneys.

In light of these findings, the FHFA Office of Inspector General (FHFA-OIG) initiated a performance audit to assess whether FHFA has an effective supervisory control structure and sufficient examination coverage and oversight activities to adequately and timely identify and mitigate risks involving mortgage servicing contractors. The audit covered FHFA's supervision of Freddie Mac.

What FHFA-OIG Recommends

FHFA-OIG recommends that the Agency: (1) establish and implement regulations or guidance concerning mortgage servicing oversight and risk management; (2) direct Freddie Mac to take the necessary steps to implement servicer performance metrics for a larger cross-section of servicers, to achieve additional credit loss savings; and (3) improve existing procedures for coordination with other federal agencies that oversee mortgage servicers. The Agency provided comments that are addressed in the report.

Although this audit focused on FHFA's supervision of Freddie Mac, the first and third recommendations generally are applicable to both Enterprises.

What FHFA-OIG Found

FHFA and Freddie Mac have taken action to improve their oversight of mortgage servicing, but FHFA-OIG noted some areas in which FHFA could further enhance its supervision of the Enterprises' controls over mortgage servicing contractors.

FHFA has not clearly defined its role regarding oversight of servicers, sufficiently coordinated with other federal banking agencies about risks and supervisory concerns with individual servicers, or timely addressed emerging risks presented by mortgage servicing contractors. Moreover, FHFA has not established comprehensive regulations and guidance that provide for servicer management and oversight, and does not adequately monitor servicing performance.

As early as 2008, FHFA had information indicating that mortgage servicing represented a heightened risk to the Enterprises, but FHFA did not begin to devote added attention to servicing issues until August 2010. These emerging risk indicators included the increasing number and dollar value of mortgage payment defaults, the concentration of servicing risk among a limited number of large servicers, the surge in bank failures, and the escalation of enforcement actions against problem banks, many of which were counterparties performing mortgage servicing for Freddie Mac. Further, when FHFA commenced its examination coverage beginning in 2010, it did not adequately assess the operational risks posed by Freddie Mac's servicing contractors, and it did not consider the primary federal regulators' reports of examination and enforcement actions, nor did it consider servicer reviews conducted by other federal agencies.

In light of these control deficiencies, FHFA is not assured that the risk associated with Freddie Mac's servicing operations is being sufficiently managed. In addition, Freddie Mac has implemented a more robust servicer performance management program that it estimates could yield lifetime credit loss savings of up to [redacted], if it were applied across its servicer network. However, Freddie Mac currently does not plan to implement its program for all servicers. FHFA-OIG accordingly believes that FHFA may be able to generate additional funds to be put to better use, beyond what Freddie Mac is currently targeting, by directing the Enterprise to implement its servicer performance management program across a larger cross-section of its servicers.

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ABBREVIATIONS

DER	Division of Enterprise Regulation
Fannie Mae	Federal National Mortgage Association
FDIC	Federal Deposit Insurance Corporation
FHFA or Agency	Federal Housing Finance Agency
FHFA-OIG	Federal Housing Finance Agency Office of Inspector General
Freddie Mac	Federal Home Loan Mortgage Corporation
FRS	Federal Reserve System
GSE	Government-Sponsored Enterprise
HERA	Housing and Economic Recovery Act of 2008
HUD	U.S. Department of Housing and Urban Development
MBS	Mortgage Backed Securities
MOU	Memorandum of Understanding
OCC	Office of the Comptroller of the Currency
OCR	Office of Credit Risk
OFHEO	Office of Federal Housing Enterprise Oversight
OTS	Office of Thrift Supervision
PFR	Primary Federal Regulator
REO	Real Estate Owned
TBW	Taylor, Bean &Whitaker Mortgage Corp.
Treasury	U.S. Department of the Treasury
UPB	Unpaid Principal Balance

Federal Housing Finance Agency

Office of Inspector General

Washington, DC

PREFACE

FHFA-OIG was established by HERA,[1] which amended the Inspector General Act of 1978.[2] FHFA-OIG is authorized to conduct audits, investigations, and other activities of the programs and operations of FHFA; to recommend policies that promote economy and efficiency in the administration of such programs and operations; and to prevent and detect fraud and abuse in them.

The objective of this performance audit was to assess whether FHFA has an effective supervisory control structure and sufficient examination coverage and oversight activities to adequately and timely identify and mitigate risks related to Freddie Mac's controls over mortgage servicing contractors.

The audit noted opportunities for further improving FHFA's supervision of the Enterprises' controls over mortgage servicing contractors. Specifically, FHFA needs to continue to (a) identify opportunities to enhance its regulations or guidance to the Enterprises regarding counterparty contracting for mortgage servicing, including a contract provision authorizing FHFA's access to servicer information; and (b) consider additional efforts to enhance FHFA's supervision of Freddie Mac's oversight of its mortgage servicing contractors.

FHFA-OIG believes that the recommendations in this report will help the Agency develop and adopt more economical, effective, and efficient operations. FHFA-OIG appreciates the assistance of all those who contributed to the audit.

This audit was led by Heath Wolfe, Audit Director, who was assisted by Menjie Medina, Audit Manager.

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[1] Public Law No. 110-289.

[2] Public Law No. 95-452.

This report has been distributed to Congress, the Office of Management and Budget, and others and will be posted on FHFA-OIG's website, http://www.fhfaoig.gov.

Russell A. Rau
Deputy Inspector General for Audits

BACKGROUND

About the Enterprises and FHFA

On July 30, 2008, HERA was enacted and it made FHFA the regulator of the housing-related government-sponsored enterprises (GSEs): Fannie Mae, Freddie Mac, and the Federal Home Loan Banks. FHFA's mission is to promote the GSEs' safety and soundness, support housing finance and affordable housing goals, and facilitate a stable and liquid mortgage market. HERA also expanded the authority of the U.S. Department of the Treasury (Treasury) to provide financial support to the Enterprises.

On September 6, 2008, FHFA became conservator of Fannie Mae and Freddie Mac, and at the same time Treasury began providing the Enterprises with substantial financial support.[3] As conservator, FHFA preserves and conserves the assets of the Enterprises, ensures that they focus on their housing mission, and facilitates their financial stability and emergence from conservatorships.

On October 12, 2010, FHFA's first Inspector General, Steve A. Linick, was sworn in and FHFA-OIG commenced operations. This audit followed and covers the time period from January 1, 2010, through May 31, 2011 (the period was expanded as necessary).[4]

Mortgages Owned or Guaranteed by Freddie Mac

Freddie Mac (along with Fannie Mae) is in the business of supporting the secondary residential mortgage market by purchasing millions of home mortgages originated by banks and other financial institutions. Mortgage sellers may use the sales proceeds received from the Enterprises to fund additional loans to borrowers. The Enterprises pool most of these mortgages into mortgage backed securities (MBS) for sale to investors, and provide credit guarantees on the MBS. They also hold mortgages in their investment portfolios.

As of June 30, 2011, Freddie Mac owned or guaranteed 11,954,353 single-family mortgages, with a combined UPB of nearly $1.8 trillion. Although 92% of these mortgages are fixed rate

[3] Treasury provides financial support to the Enterprises by purchasing their preferred stock pursuant to Senior Preferred Stock Purchase Agreements. As of the third quarter of 2011, Treasury had provided approximately $183 billion to the Enterprises.

[4] Because FHFA's policies, procedures, and controls for supervising Fannie Mae's mortgage servicing contractors are the same as those applicable to Freddie Mac, the audit issues identified in this report can generally apply to both of the Enterprises.

mortgage loan products, 32% of them are non-traditional loans.[5] The majority of Freddie Mac's non-traditional loans in its portfolio were originated and purchased during the 2004 – 2007 housing boom. Those loans have a higher risk than traditional fixed rate mortgages and, with the end of the housing boom and continuing fragility in the housing market, have a greater propensity to default. Such defaults have caused billions of dollars of credit losses to date to the Enterprises and will continue to pose a credit risk for them. Whether these loans default is critical to the Enterprises' ongoing operations, and the rate of default is influenced by the quality of loan servicing.

Overview of Mortgage Servicing

What is Mortgage Servicing?

With respect to the loans that the Enterprises guarantee or hold in their portfolios, they enter into contracts with mortgage servicing companies to manage the day-to-day servicing of the loans.[6] These mortgage servicers perform a variety of duties for the Enterprises, including:

- Collecting mortgage payments and processing late payments;
- Sending periodic statements to borrowers;
- Maintaining escrow accounts to pay property taxes and insurance;
- Forwarding payments to mortgage owners; and
- Handling default proceedings and foreclosures.[7]

The mortgage servicers are typically compensated on the basis of a percentage of the UPB of the mortgage loans that they manage.

Both Enterprises have developed their own mortgage servicer guides, which outline the servicers' duties and responsibilities.[8] These servicer guides are incorporated by reference in the

[5] Non-traditional mortgage products include interest-only, Alt-A, and option adjustable rate mortgages, and loan categories are not mutually exclusive.

[6] Mortgage servicing companies are also called servicers, mortgage servicers, or mortgage servicing contractors. Further, servicers can be insured depository institutions, such as banks, or non-banking institutions, such as mortgage companies.

[7] Mortgage servicers fall into one of two groups: servicers or seller/servicers. Mortgage servicers that do not originate loans but service loans for the Enterprises often are called servicers. Mortgage servicers that sell and service loans for the Enterprises frequently are called seller/servicers.

[8] The Enterprises' requirements for selling and servicing mortgages are incorporated in the same documents. For purposes of this report, only the servicing requirements are relevant.

Enterprises' servicing contracts. The Enterprises' respective mortgage servicer guides generally contain similar topical areas, but their specific requirements vary. For example, prior to the implementation of FHFA's Servicing Alignment Initiative,[9] Freddie Mac and Fannie Mae required significantly different procedures for servicing delinquent mortgages.[10] Fannie Mae's and Freddie Mac's foreclosure timelines differed both in the terms of unit of measurement (*i.e.*, months vs. days) and actual goals (*e.g.*, Fannie Mae's goal for Kansas was 4 months and Freddie Mac's goal was 180 days). Foreclosure timelines have been unified with the implementation of the Servicing Alignment Initiative.

Due to the sheer volume of approved servicers, the Enterprises largely accept in good faith that the servicers are managing loans in accordance with the Enterprises' servicing guides. However, if the Enterprises suffer a credit related loss and they discover that the servicers did not follow one or more of their requirements, then they may seek a remedy to mitigate their losses. These remedies may include requiring a servicer to purchase a loan at its current UPB or make an Enterprise whole for any credit losses realized with respect to a loan.

Concentration of Mortgage Servicers

As of June 30, 2011, Freddie Mac had 1,457 mortgage servicers.[11] For the same time period, Fannie Mae had 1,498 mortgage servicers and a loan portfolio of $2.7 trillion.

In contrast to the large number of servicers it employs, the majority of Freddie Mac's loan portfolio is serviced by a select few servicers. As of June 30, 2011, the market share of Freddie

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[9] On April 28, 2011, FHFA introduced the Servicing Alignment Initiative, which seeks to establish consistent, transparent standards for servicing delinquent mortgage loans that the Enterprises own or guarantee. *See* FHFA, *Fannie Mae and Freddie Mac to Align Guidelines for Servicing Delinquent Mortgages* (Apr. 28, 2011), available at www fhfa.gov/webfiles/21190/SAI42811Final.pdf. The new directive includes cash incentives for exemplary performance, as well as monetary penalties for underperformance. It addresses four aspects of delinquent loan servicing: borrower contact, delinquency management practices, loan modifications, and foreclosure timelines. With respect to loan modifications, the servicers are required to conform their performance to guidelines previously published by the Enterprises. *See, e.g.*, Fannie Mae, *Servicing Guide Announcement SVC 2011-03: Updates to Fannie Mae's Mortgage Modification Requirements* (Apr. 4, 2011). Fannie Mae's guidelines provide standards for evaluating borrowers for modifications, permissible lengths for modification trial periods, documentation requirements, and credit bureau reporting. According to FHFA, the Servicing Alignment Initiative is intended to provide superior service to borrowers with clearer and more consistent borrower communications, efficient processing of loan modifications, a fair foreclosure process, increased servicer accountability, and, ultimately, reduced taxpayer losses through improved loan servicing.

[10] An inter-agency effort among the federal regulators – the Office of the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation, FHFA, and the Bureau of Consumer Financial Protection – is under way to create a comprehensive set of national servicing standards for the industry, but the implementation date of this initiative is yet to be determined as of February 2012.

[11] Using Freddie Mac's servicer account numbers, the total number of servicers is 1,457. However, numerous servicers have affiliates or subsidiaries that perform servicing duties, and when these affiliated entities are grouped together the number of distinct servicer "families" totals 1,215.

Mac's four largest mortgage servicers (*i.e.*, Wells Fargo, Bank of America, JPMorgan Chase, and Citigroup) was 60% (*i.e.*, $1.07 trillion of the nearly $1.8 trillion in UPB).[12] Moreover, the 10 largest servicers manage 80% of Freddie Mac's and 76% of Fannie Mae's loan portfolio, respectively. Additionally, Freddie Mac and Fannie Mae do business with many of the same servicers. According to the Enterprises' records, approximately 333 servicers work for both of the Enterprises. These servicers manage 84% (*i.e.*, $1.5 trillion) of Freddie Mac's and 81% (*i.e.*, $2.2 trillion) of Fannie Mae's loan portfolios, respectively. The significant amount of servicing business concentrated among so few servicers poses a safety and soundness concern to the Enterprises. If one or more of the largest servicers were to cease servicing operations, or if the Enterprises were to transfer servicing rights, they could find it difficult to obtain alternative servicers capable of handling a large amount of business. Moreover, servicers with a heightened degree of supervisory concern (*i.e.*, a CAMELS rating of "3" or above)[13] manage 30% of Freddie Mac's loan portfolio (*i.e.*, $541 billion of the nearly $1.8 trillion in UPB).

Why Is Mortgage Servicer Performance Important?

From the onset of the Enterprises' conservatorships in September 2008 to the third quarter of 2011, Treasury has invested $183 billion in them.[14] This financial support is needed to prevent their insolvency and offset their losses, which have been historically high in the past three years. Figure 1 on the next page shows the Enterprises' annual revenues, credit-related losses, and withdrawals of funds from Treasury during the conservatorships.

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[12] Fannie Mae's experience was nearly identical in terms of its largest servicers (*i.e.*, Bank of America, Wells Fargo, JPMorgan Chase, and Citigroup) and their market share (*i.e.*, 61%: $1.643 trillion of the $2.703 trillion in UPB).

[13] The federal banking regulators conduct examinations of the banking institutions under their purview and assign CAMELS ratings to them based on the results of their examinations. The components of CAMELS ratings are: **C**apital adequacy, **A**sset quality, **M**anagement, **E**arnings, **L**iquidity, and **S**ensitivity to market risk. CAMELS ratings range from 1 to 5 with 1 being the strongest and 5 being the weakest. A rating of 3 or higher denotes institutions with a heightened degree of supervisory concern.

[14] FHFA projects that Treasury's investment in the Enterprises will increase to between $220 billion and $311 billion through the close of calendar year 2014. The Federal Reserve also took steps to support the Enterprises, such as purchasing up to $1.14 trillion of their securities as of December 31, 2011.

Figure 1: Single-Family Credit Guarantee Segment Results and Treasury Withdrawals (in billions)[15]

	Freddie Mac					Fannie Mae					Combined
	2008	2009	2010	YTD 3Q11	Total	2008	2009	2010	YTD 3Q11	Total	2008-3Q11
Revenue	$5	$4	$5	$3	$18	$9	$9	$2	$4	$24	$42
Credit-related Expenses[16]	($17)	($29)	($19)	($10)	($76)	($28)	($51)	($26)	($22)	($127)	($203)
Net Income (loss)	($20)	($27)	($16)	($8)	($71)	($27)	($64)	($27)	($19)	($137)	($209)
Amount of Funds Requested from Treasury[17]	$45	$6	$13	$7	$71	$15	$60	$15	$22	$112	$183

From 2008 through the third quarter of 2011, Freddie Mac reported a total of $76 billion in credit-related expenses, one of the primary elements of its net operating losses. These credit expenses are directly attributable to the collapse of the housing market and the rise in delinquencies and resulting foreclosures.[18]

Starting in 2008, troubled loans increased precipitously. For instance, from the first quarter of 2008 through the fourth quarter of 2010, the number of seriously delinquent loans owned by Freddie Mac increased from 95,000 to 453,000, or 376% as shown in Figure 2 on the next page.

[15] Source: FHFA 3rd Quarter of 2011 Conservator's Report, and Treasury and Federal Reserve data as of January 2, 2012. The totals cited in Figure 1 above may not add together due to rounding.

[16] Credit related expenses are provisions for credit losses plus foreclosed property expenses.

[17] Excludes $1 billion liquidation preferences obtained by Treasury from each Enterprise upon initiation of the Senior Preferred Stock Purchase Agreements. The initial $2 billion are not draws on the Treasury's commitment under the agreements, and, thus, are not included in the $183 billion figure.

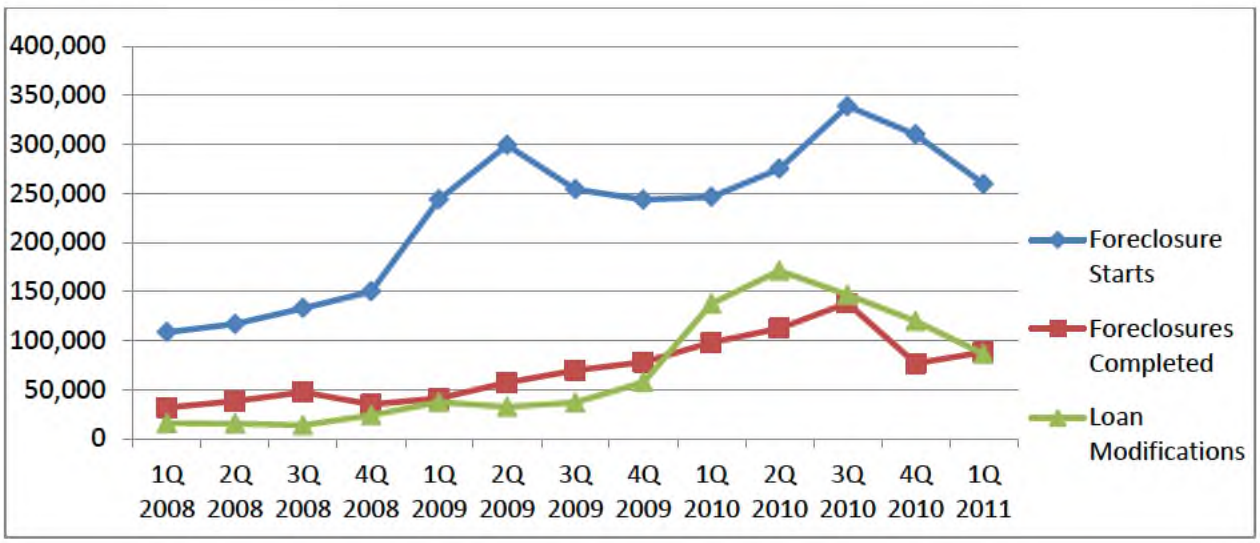
[18] In addition, poor servicer performance may contribute to the Enterprises' credit losses or, put another way, good servicer performance may reduce credit losses.

Figure 2: Freddie Mac's Mortgage Performance (in thousands)[19]

Description	1Q08	2Q08	3Q08	4Q08	1Q09	2Q09	3Q09	4Q09	1Q10	2Q10	3Q10	4Q10
Loans Serviced	12,397	12,418	12,458	12,316	12,222	12,191	12,269	12,225	12,220	12,156	11,950	11,784
Seriously Delinquent Loans[20]	95	115	152	212	295	352	421	487	505	481	454	453
Percent of Seriously Delinquent Loans	0.77%	0.93%	1.22%	1.72%	2.41%	2.89%	3.43%	3.98%	4.13%	3.96%	3.80%	3.84%

As a result of deteriorating market conditions and increasing delinquencies, mortgage servicers began to process more loan modifications and initiate more foreclosure proceedings than had been the norm in the past.[21] As shown in Figure 3 below, loan modifications and foreclosures substantially increased from the first quarter of 2008 to the third quarter of 2010.

Figure 3: Loan Modifications and Foreclosure Data for the Enterprises[22]



[19] Source: FHFA's Foreclosure and Prevention and Refinance Report, First Quarter of 2011.

[20] All loans in process of foreclosure and loans that are three or more payments delinquent (includes loans in process of bankruptcy).

[21] Loan modifications are common forms of loss mitigation, and involve a negotiated amendment to an existing mortgage. Typical modifications include extending the mortgage's maturity date, adding past-due payments to the end of the mortgage, and making both permanent and temporary interest rate reductions. In most cases, when appropriately applied, these measures will lower the borrower's re-amortized monthly mortgage payment to a more affordable level.

[22] Source: FHFA's Foreclosure and Prevention and Refinance Report, First Quarter of 2011.

Given these trends, mortgage servicing is critically important to the financial health of the Enterprises. And, as discussed below, Freddie Mac has concluded that modest improvements in servicing, such as increasing the percentage of delinquent loans that are successfully modified and avoiding foreclosure, can reduce credit losses.

What Is Freddie Mac Doing to Oversee Servicing?

Servicer Oversight and Performance Rating

Prior to 2011, servicing oversight-related functions were dispersed throughout Freddie Mac's various business operations. In the third quarter of 2010, Freddie Mac created the Single Family Portfolio Management Division as well as several new units to manage the performance of its servicing portfolio and to oversee the management of its servicers. This was done to implement a more holistic servicing approach, one that is capable of managing all aspects of the Enterprise's servicing portfolio including performing loans, non-performing loans, and real estate owned (REO).

In July 2011, Freddie Mac also implemented its enhanced Servicer Success Scorecard, which redefines Freddie Mac's expectations of quality and responsible servicing. The Servicer Success Scorecard replaced its Servicer Performance Tier rating in order to better measure servicer performance in the current servicing environment. According to Freddie Mac's Servicing Success Program publication, dated August 2011, all servicers receive monthly scorecards, which measure their performance against the established performance criteria. Additionally, for servicers with large servicing books and high volume, their scorecard includes an additional component of individualized objectives and goals as well as Freddie Mac's Servicer Success Account Plan.[23] A servicer's performance is considered to be unacceptable if the servicer ranks in the bottom 25% of all ranked servicers (after taking into account other factors such as portfolio composition, concentration of high-risk mortgages, trends in performance, adequacy of staffing, audit results, and compliance with the purchase documents).[24] In contrast with the Servicer Performance Tier rating, servicers are not ranked against other servicers; instead, scores in their respective performance rating categories are aggregated to arrive at their tier ratings.

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[23] Through account plans, Freddie Mac currently monitors servicers' performance toward accomplishment of Freddie Mac's loan modification goals set out in its 2011 Business Plan (*see* below). However, to the extent that a servicer has not been placed on an account plan, it is unclear if Freddie Mac is assessing servicers' performance against their target, and if so, according to what standard.

[24] Freddie Mac Bulletin Number 2011-13, dated July 25, 2011.

Freddie Mac has historically rated mortgage servicer performance using a four-tier methodology: Tier 1 (Superior), Tier 2 (Good), Tier 3 (Below Standard), and Tier 4 (Unacceptable). According to its recent servicer performance profile record, Freddie Mac rated the overall performance of its [redacted] servicers as below standard or unacceptable between January 2009 and December 2010. FHFA has not taken specific actions to address the performance ratings of Freddie Mac's [redacted] servicers, but the Enterprise has addressed the servicers' performance shortcomings through account plans executed in March 2011. Account plans establish the specific actions to be taken by each servicer and the metrics used to assess success in accomplishing those actions.

While the distressed housing market undoubtedly influenced servicers' performance, documentation provided by Freddie Mac strongly suggests that weak servicer oversight and risk management played a significant role in the unsatisfactory performance. An FHFA review corroborates this conclusion. FHFA noted that numerous GSE executives have indicated that servicer performance would be much improved if the Enterprises were to take a more aggressive approach with respect to their servicers.

Servicing Initiative to Minimize Credit Losses

In January 2011, Freddie Mac implemented procedures to improve servicers' operational performance and compliance with the Enterprise's servicing guidelines. To that end, Freddie Mac developed a servicing Business Plan, and projected that the plan will achieve lifetime credit loss savings of up to [redacted] through foreclosure alternatives such as loan modifications and short sales by all of its servicers.

The Business Plan proposes to improve servicer performance and reduce credit losses by enhancing Freddie Mac's engagement with its largest servicers,[25] improving its internal operations, and promoting foreclosure alternatives. The latter objective – namely, encouraging expanded use of loan modifications and short sales – is expected to generate most of the credit loss savings. As of September 30, 2011, Freddie Mac suffered an average credit loss on each foreclosed loan of approximately 50% of the loan's UPB.[26] Thus, avoiding foreclosure through a

[25] Freddie Mac plans to provide its servicers with tactical action plans and tools designed to improve loss mitigation processes.

[26] The 50% average credit loss on a foreclosed loan (*i.e.*, severity rate) represents the "all in" costs, which include the amount by which the UPB of the loans exceeds the amount of sales proceeds from disposition of the properties, as well as interest and capitalized expenses, and other expenses such as property maintenance costs and recoveries from credit enhancements such as mortgage insurance.

loan modification potentially can generate significant credit loss savings and the Business Plan projects [redacted] in credit savings through loan modifications alone.[27]

Freddie Mac estimates that credit losses on its nearly $1.8 trillion portfolio will be [redacted] if no strategic changes are implemented. However, under the 2011 Business Plan, it projects that if its servicers can accomplish [redacted] loan modifications, then credit losses will decrease to [redacted]. Further, if its servicers can generate [redacted] additional loan modifications, then its credit losses will decrease to [redacted]. In other words, Freddie Mac estimates that [redacted] loan modifications undertaken by all of its loan servicers will generate savings of approximately [redacted]. Freddie Mac is in an excellent position to achieve that goal given that its servicers accomplished substantially more loan modifications last year.

To facilitate more loan modifications, Freddie Mac continues to place greater emphasis on all of its servicers increasing their loss mitigation efforts. For example, servicers' performance metrics for loss mitigation accounted for 50% in 2010 and only included one metric. In 2011, loss mitigation accounted for 60% and included multiple metrics.[28]

However, Freddie Mac has not implemented its Business Plan in its entirety, and FHFA-OIG believes that the Enterprise can enhance its results by implementing its loss mitigation goals among all – or at least a greater cross-section – of its servicers.

What Are Other Federal Regulators Doing to Oversee Servicing?

Many mortgage servicers are banks that are overseen by federal banking regulators.[29] During the fourth quarter of 2010, the primary federal regulators (PFRs) of these banks – the Office of the Comptroller of the Currency (OCC), the Federal Reserve System (FRS), the Office of Thrift Supervision (OTS),[30] and the Federal Deposit Insurance Corporation (FDIC) – initiated an interagency review of foreclosure policies and procedures.[31] The PFRs conducted on-site reviews at 14 federally regulated mortgage servicers[32] and found that there were critical

[27] A short sale may involve a credit loss if the sales price is less than the UPB. Freddie Mac's projection of savings of as much as [redacted] also includes [redacted] of savings based upon expected improvement in its average loss rates on loans (the severity rate) through other foreclosure alternatives such as short sales.

[28] The only metric used in 2010 was "Workout to REO Ratio." In 2011, two metrics were added: "Early Collections Roll Rate" and "Late Collections Roll Rates."

[29] Some mortgage servicers are not subject to review by the primary federal regulators.

[30] On July 21, 2011, OTS was dissolved into the OCC.

[31] *Interagency Review of Foreclosure Policies and Practices* (April 2011), available at http://www.occ.gov/news-issuances/news-releases/2011/nr-occ-2011-47a.pdf.

[32] The PFRs conducted foreclosure-processing reviews at Ally Bank/ GMAC, Aurora Bank, Bank of America, Citigroup, EverBank, HSBC, JPMorgan Chase, MetLife, OneWest, PNC, Sovereign Bank, SunTrust, U.S. Bank, and Wells Fargo. Each of these servicers works for Freddie Mac, and 13 of them work for Fannie Mae as well.

weaknesses in the mortgage servicers' foreclosure governance processes, foreclosure document preparation processes, and oversight and monitoring of third-party vendors, including foreclosure attorneys. As a result of these deficiencies, the regulators took formal enforcement actions against each of the mortgage servicers. The enforcement actions required the servicers to improve their foreclosure processes. Further, the mortgage servicers have to conduct a more complete review of certain aspects of foreclosure actions that were pending between January 1, 2009, and December 31, 2010, to identify borrowers that were financially harmed by the deficiencies and to provide remediation to those borrowers where appropriate.

What Is FHFA Doing to Oversee Servicing?

FHFA's Statutory Responsibility for Overseeing the Enterprises

FHFA is responsible for overseeing the prudential operations of the Enterprises and ensuring that they operate in a safe and sound manner, including maintaining adequate capital and internal controls.[33] FHFA uses a risk-based approach to ensure that the Enterprises operate in a safe and sound manner. Each year, FHFA prepares an annual supervisory plan to document:

- The specific areas that the Agency will focus on during the year; and
- The examination activities that will be conducted to ensure that the Enterprises operate in a safe and sound manner.[34]

FHFA developed a Supervision Handbook, a Supervisory Guide, and Reference and Procedures Manuals to describe its processes for supervising the Enterprises. The Supervision Handbook explains the philosophy and methods used by the Agency in carrying out its mission, and the Supervisory Guide provides a more detailed description of FHFA's examination process. The Reference and Procedures Manuals include general procedures for the examiners to follow to determine whether the Enterprises are providing appropriate oversight over third parties, such as mortgage servicers.

Additionally, the Enterprises are subject to regulations promulgated by FHFA and its predecessor agency, the Office of Federal Housing Enterprise Oversight (OFHEO). No existing regulations expressly govern counterparty contracting or third-party relationship risk

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[33] *See* 12 U.S.C. § 4513.

[34] For purposes of this report, the term "supervisory plan" includes the supervisory strategies, examination plans, and related documents that define the objectives, scope, and methodology for examination and monitoring activities to be performed by FHFA at an individual GSE.

management, but in June 2011 FHFA issued a proposed rule outlining requirements for managing credit and counterparty – including servicers – risk.[35]

In September 2008, FHFA placed the Enterprises into conservatorships. As conservator, FHFA has the powers of the Enterprises' management, boards of directors, and shareholders. Although FHFA has very broad authority as conservator, FHFA does not manage every aspect of the Enterprises' operations. Rather, the Enterprises continue to operate as for-profit corporations, continue to make public filings with the Securities and Exchange Commission, and are responsible for their own day-to-day operations. When FHFA placed them into conservatorships, it replaced and reconstituted the Enterprises' boards of directors and charged them with ensuring that normal corporate governance practices and procedures were in place. The new boards are responsible for carrying out board functions, but they are subject to FHFA review and approval of particular matters.

FHFA's Authority over Mortgage Servicers

FHFA lacks express statutory authority to regulate directly the Enterprises' mortgage servicers. However, if a servicer is an "entity-affiliated party,"[36] the Agency can take enforcement action against it, if needed, to protect the interests of the Enterprises, as follows:[37]

> If, in the opinion of the Director, a regulated entity or any entity-affiliated party is engaging or has engaged, or the Director has reasonable cause to believe that the regulated entity or any entity-affiliated party is about to engage in an unsafe or unsound practice in conducting the business of the regulated entity or the Office of Finance, or is violating or has violated, or the Director has reasonable cause to believe is about to violate, a law, rule, regulation, or order, or any condition imposed in writing by the Director in connection with the granting of any application or other request by the regulated entity or the Office of Finance or any written agreement entered into with the

[35] *See* 76 Fed. Reg. 35791 (June 20, 2011), available at http://www.gpo.gov/fdsys/pkg/FR-2011-06-20/pdf/2011-15100.pdf.

[36] The term "entity-affiliated party" is defined to include agents for the Enterprises as well as any person, as determined by the Director (by regulation or on a case-by-case basis) that participates in the conduct of affairs of a regulated entity. *See* 12 U.S.C. § 4502(11).

[37] Although FHFA does not have direct supervisory authority over the servicers, federal and state regulators have authority over some servicers. For example, the federal banking regulators, such as OCC, FRS, and FDIC, have explicit statutory authority over national banks, state member banks, and federally insured non-member state-chartered banks and savings banks, respectively, and these entities service the majority of loans in the Enterprises' portfolios.

Director, the Director may issue and serve upon the regulated entity or entity-affiliated party a notice of charges.[38]

History of FHFA's Supervision of Mortgage Servicing

FHFA is required by statute to establish for each regulated entity standards relating to the management of credit and counterparty risk, including systems to identify concentrations of credit risk and prudential limits to restrict exposure of the regulated entity to a single counterparty or group of related counterparties.[39] OFHEO took steps in that direction by instructing the Enterprises to establish and implement policies and procedures to assess and monitor credit risks.[40] But, as discussed in Finding 1 of this report, neither OFHEO nor FHFA has established sufficiently detailed regulations or guidance governing counterparty risk.

Instead, FHFA has relied on Fannie Mae and Freddie Mac to establish their own minimum servicing requirements, and the Agency has monitored the Enterprises' efforts. Beginning in 2008, FHFA monitored servicing through continuous supervision, which includes passive activities such as offsite reviews of Enterprise-prepared management or board reports and assessments of economic or industry trends and emerging issues. This is in contrast to a targeted examination or special project in which the regulator typically performs onsite examination procedures including verification and testing of data relating to areas of heightened risk. Since August 2010, FHFA has expanded its focus on mortgage servicing through special projects. Between August 2010 and early 2011, FHFA initiated four reviews that touched upon Freddie Mac's oversight and risk management of its servicers.[41] Later, in April 2011, FHFA initiated a continuous supervision activity of Freddie Mac's oversight of its servicers.

Targeted Examinations *are in-depth focused evaluations of a specific risk or risk management system*

Continuous Supervision *is a wide range of ongoing activities designed to monitor and analyze an Enterprise's overall business profile, including any trends or associated emerging risks*

Special Projects *are all other examinations or activities, with the exception of remediation*

[38] *See* 12 U.S.C. § 4631(a)(1).

[39] *See* 12 U.S.C. § 4513b(a)(9).

[40] The applicable requirements are set forth at 12 C.F.R. Part 1720 (Appendix A) and OFHEO Policy Guidance No. PG-00-001.

[41] The projects include: (1) a review of Freddie Mac's network of foreclosure attorneys; (2) a review of operational risk in the Home Affordable Modification Program; (3) a review of Freddie Mac's process for ensuring that servicers maintain proper insurance coverage; and (4) a review of whether the Enterprises assess penalties against servicers that fail to comply with foreclosure deadlines.

Furthermore, in response to the substantial increase in delinquent mortgages, FHFA has taken a number of actions. For example, FHFA worked with the Enterprises and Treasury to implement the Making Home Affordable programs, which were initiated to help millions of homeowners avoid foreclosure. Moreover, FHFA is involved in interagency initiatives intended to create a comprehensive set of uniform mortgage servicing standards. FHFA also directed the Enterprises to: (1) implement a four point policy framework for handling foreclosure process deficiencies; (2) align their guidelines for servicing delinquent mortgages; and (3) work on a joint initiative, in coordination with FHFA and the U.S. Department of Housing and Urban Development (HUD), to consider alternatives for future mortgage servicing compensation structures for single-family mortgage loans.

FINDINGS

FHFA-OIG finds that:

1. FHFA Needs to Strengthen Its Supervision of the Enterprises by Establishing a More Robust Counterparty Oversight and Risk Management Framework

Although it has undertaken affirmative measures, FHFA has not developed sufficient regulations or guidance governing the Enterprises' oversight and risk management of counterparties, such as servicers. The Safety and Soundness Act generally requires FHFA to issue regulations, guidance, and orders that are necessary to carry out its safety and soundness mission.[42] In addition, the Safety and Soundness Act specifically requires that FHFA establish standards relating to the management of credit and counterparty risks.[43]

However, FHFA, unlike federal banking regulators, generally has not issued sufficient regulations or guidance governing the Enterprises' contracting with servicers. Specifically, FHFA has not established and implemented effective Enterprise regulations or guidance controlling:

- Reporting critical servicer information; and
- Establishing baseline requirements for mortgage servicing.

Instead, FHFA relies on the Enterprises individually to monitor counterparty risk as part of their ongoing risk management activities. And, similar to FHFA's reliance on Fannie Mae and Freddie Mac, the Enterprises routinely rely on mortgage servicers to manage the loans in their portfolios. Although reliance on servicers can assist the Enterprises to attain their strategic objectives, it can also present risks if not properly managed.

Contracting with Servicers

Federal banking regulators have established comprehensive regulations or guidance that provide a general framework for servicer oversight and risk management.[44] FHFA has not. FHFA

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[42] *See* 12 U.S.C. § 4526.

[43] *See* 12 U.S.C. § 4513b.

[44] *See, e.g.*, OCC (OCC Bulletin 2001-47, *Third Party Relationships*) and the FDIC (Financial Institutions Letter-44-2008, *Guidance for Managing Third-Party Risk*).

should consider developing a comparable risk management framework to ensure that the Enterprises implement effective risk management strategies.

Additionally, FHFA's ability to supervise the Enterprises' servicer risk may be impaired by its lack of direct access to servicer books and records relating to the Enterprises' approximately $4.5 trillion servicing portfolio.[45] Although FHFA does not have express statutory authority to regulate or supervise the servicers, there is no prohibition against the Agency securing such access through contract.[46] As of September 2011, the Enterprises' contract terms and conditions – which FHFA has effectively had the ability to control since it became conservator in September 2008 – did not provide FHFA with access to servicer information or with the ability to ensure that servicers are complying with their servicing contracts.

FHFA should have access to the books and records of the servicers who contract with the Enterprises for the following reasons:

- <u>To Fulfill FHFA's Responsibility of Overseeing the Prudential Operations of the Enterprises</u>. FHFA recognizes its responsibility to supervise the operations of the Enterprises, which rely on servicers to perform a variety of loan management functions. When the Enterprises turn to servicers to perform their responsibilities, the vendors' activities should be subject to the same risk management monitoring that FHFA would perform if the Enterprises were conducting the contracted activities themselves. In other words, the Enterprises' use of servicers to perform servicing functions on their behalf should not diminish the responsibility of FHFA to ensure that those servicing functions are conducted in a safe and sound manner and in compliance with applicable laws.

- <u>To Support Enforcement Actions</u>. FHFA has the authority to take enforcement actions against the Enterprises' mortgage servicers if it has reasonable cause to believe that a servicer is engaging/has engaged/is about to engage in an unsafe or unsound practice in conducting the business of the Enterprises or if a servicer is violating/has violated/is about to violate a law, rule, or regulation. However, FHFA's

[45] As conservator of the Enterprises, FHFA – through the Enterprises – has access to the servicers' books and records since the Agency has the powers of Enterprise management. However, once the conservatorships are terminated such access through the Enterprises is not assured, and, yet, it is equally important for FHFA to have this access to servicer records in its supervisory/regulator capacity. Accordingly, FHFA needs to secure direct access through contract or other means during the pendency of the conservatorships.

[46] There is precedent for voluntary inclusion of access provisions for FHFA in the Enterprises' contracts with their vendors. The Enterprises have started incorporating an FHFA access provision in several of their REO contracts. Freddie Mac has not included such provision in any of its servicing contracts.

ability to implement this authority may be impaired without direct access to evidence of unsound practices or non-compliance with applicable standards.[47]

- To Fill Oversight Gaps Associated with Servicers' Activities. Not all servicers are financial institutions necessarily supervised by PFRs. Therefore, without oversight by FHFA, such servicers may be unsupervised.

- To Ensure Safety and Soundness of the Enterprises. Although the PFRs, such as the OCC, FRS, and FDIC, conduct examinations of institutions that service loans for the Enterprises, the objectives of the federal bank regulators' and FHFA's examinations will not always align. The PFRs primarily focus on the safety and soundness of financial institutions (*i.e.*, the servicers), whereas FHFA focuses on the safety and soundness of the Enterprises (and, in its conservator capacity, the preservation and conservation of their assets). For example, FHFA may be interested in acquiring information about servicer controls designed to ensure compliance with Enterprise servicing agreements, but other regulators may consider this area of inquiry to be irrelevant to the subject servicer's safety and soundness. Thus, inclusion of an FHFA access provision in the servicing contracts will strengthen FHFA's supervisory control over the Enterprises and lessen FHFA's reliance on the regulatory efforts of other agencies.

Reporting Critical Servicer Information

FHFA also has not issued regulations or guidance requiring the Enterprises to report critical servicer information to FHFA, but the issue is currently under consideration.

Given the Enterprises' significant concentration of risk among a few servicers, FHFA needs to receive timely and relevant information relating to the operation of these servicers. For example, if a servicer is suspended or terminated due to poor performance or noncompliance with guidelines by either Fannie Mae or Freddie Mac, the information should be promptly reported to FHFA. In turn, FHFA should evaluate the report and assess whether the servicer poses a safety and soundness concern and, if so, direct the other Enterprise to take appropriate action.

Reporting this critical information is crucial to FHFA's overall assessment of the Enterprises' risk profiles. As of September 2011, the Enterprises do not share with each other information about servicers even though Fannie Mae and Freddie Mac use more than 300 of the same servicers. Until FHFA requires the Enterprises to share performance and compliance data about

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[47] Although FHFA has authority to subpoena documents, it cannot subpoena servicers directly except in relation to an ongoing proceeding or investigation. *See* 12 U.S.C. § 4641.

their servicers, FHFA is at risk of not being timely informed of critical information that could impact the Enterprises' safety and soundness.

Establishing Mortgage Servicing Baseline Requirements

Unlike OCC and FDIC, FHFA has not implemented comprehensive regulations or guidance that ensure the Enterprises clearly understand the potential risks that can arise from relationships with their servicers and that they develop effective risk management strategies. Although FHFA's proposed rule outlining specific requirements for managing credit and counterparty risk is more specific than procedures previously issued by OFHEO and FHFA, it does not provide to the Enterprises comprehensive guidance concerning the monitoring of third parties. For example, even though there is a requirement in the proposed rule for the Enterprises to have appropriately trained and competent personnel to manage credit and counterparty risks, this requirement alone is not sufficient without a robust framework for managing third-party relationship risks. This framework should include a risk assessment to identify and prioritize counterparty risk; proper due diligence to identify and select third-party providers; written contracts that outline duties, obligations, and responsibilities of the parties involved; and ongoing oversight of the third parties and third-party activities. This type of guidance is provided by other federal regulators, such as the OCC and FDIC.[48]

FHFA has not developed comprehensive guidelines because it believes that the Enterprises have the knowledge and expertise to develop sufficient servicing guides. Thus, FHFA relies on them to establish their own minimum mortgage servicing requirements. In 2011, however, FHFA directed the Enterprises to establish requirements for servicing non-performing loans (also known as the Servicing Alignment Initiative). But, FHFA has not required the Enterprises to establish requirements for other aspects of servicing, such as servicing the larger subset of performing loans.[49]

Because the Enterprises have separately developed their own servicing guides, the Enterprises' servicing requirements significantly differ in a number of respects, such as servicing delinquent mortgages. FHFA's Servicing Alignment Initiative, which aspires to align the servicing of delinquent mortgages, is a step in the right direction, but FHFA should assume a more affirmative role in determining the substance of mortgage servicing standards across the board.

[48] *See, e.g.,* OCC (OCC Bulletin 2001-47, *Third Party Relationships)* and the FDIC (Financial Institutions Letter-44-2008, *Guidance for Managing Third-Party Risk)*.

[49] Activities relating to servicing performing loans include collecting mortgage payments and processing late payments; sending periodic statements to borrowers; maintaining escrow accounts to pay property taxes and insurance; and forwarding payments to mortgage owners.

Relying so heavily upon the Enterprises undermines FHFA's responsibility to ensure their safety and soundness. Additionally, the problems associated with managing the Enterprises' huge loan portfolios are not limited to the servicing of delinquent mortgages.

The Servicing Alignment Initiative pertains solely to the servicing of delinquent mortgages, but FHFA's supervisory efforts would be simplified – and thus its results would likely improve – if the Enterprises' servicing standards were unified generally. According to the Acting Comptroller of the Currency's testimony before Congress, recent mortgage servicing experience highlights the need for uniform standards for mortgage servicing that applies to all facets of servicing loans from closing to payoff.[50] To further this effort, the OCC developed a framework for comprehensive mortgage servicing standards that was shared with the FDIC, FRS, the Bureau of Consumer Financial Protection, and FHFA. Given the Enterprises' expansive foot print in the housing finance system, FHFA should take a more proactive role alongside OCC in pursuing development of comprehensive uniform mortgage servicing standards.

2. Improvements Started in 2011 by Freddie Mac to Address Servicer Performance Should Be Followed Through

To its credit, Freddie Mac developed a 2011 Business Plan to better manage higher-risk loans within its portfolio. The plan aspires to achieve lifetime credit loss savings of up to [redacted] (out of a combined goal of [redacted]) by having *all* servicers modify [redacted] mortgages in an effort to stem foreclosures.[51]

However, only the largest servicers responsible for the substantial majority – [redacted] – of Freddie Mac's loans (based upon UPB) have been targeted for full plan implementation, so far. The estimated net credit savings for the targeted largest servicers is about [redacted]; this is significantly lower than Freddie Mac's estimate of total credit loss savings. FHFA-OIG estimates that by implementing the plan among a larger group of servicers – those responsible for the remaining [redacted] of Freddie Mac's portfolio – the Enterprise may achieve additional lifetime credit loss savings. Because any additional credit loss savings may reduce the need for

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[50] Testimony of John Walsh, OCC's Acting Comptroller, before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate, dated February 17, 2011.

[51] Freddie Mac's [redacted] estimate is an "unaudited" figure and has not been verified by Freddie Mac auditors, FHFA, or FHFA-OIG. The figure represents estimated net credit loss savings as determined by Freddie Mac involving *all* of its servicers. The actual credit loss savings may vary from the projected savings since they are dependent on a number of variables/assumptions, which if not realized could impact the achievement of the anticipated benefits projected in its 2011 Business Plan.

Freddie Mac is well positioned to meet or exceed its loan modification targets for its largest servicers. As of September 30, 2011, the actual number of loan modifications completed by Freddie Mac's servicers was [redacted]. However, FHFA-OIG herein accepts Freddie Mac's goals without exhaustively analyzing their development and validity. FHFA-OIG reserves the right to review the development and validity of the goals in a subsequent review.

as much financial support from Treasury, reductions in that support through additional credit loss savings is considered a potential monetary benefit to the United States government.

Each servicer who does business with Freddie Mac agrees to the terms of the Single-Family Seller/Servicer Guide, which contains Freddie Mac's selling and servicing requirements.[52] For the [redacted] largest servicers who currently service [redacted] of its portfolio, Freddie Mac now uses account plans. A goal of the Freddie Mac Business Plan is to have account plans in place for an additional [redacted] servicers, the next largest servicers, who manage an additional [redacted] of the loan portfolio. However, without account plans, credit loss minimization activities for these [redacted] servicers are largely unstructured and informal and may not achieve optimum results. Further, Freddie Mac has more than [redacted] smaller servicers that manage the remaining [redacted] of its loan portfolio, and the Enterprise does not currently anticipate assigning account plans to these servicers. Although specific account plans for these smaller servicers may not be practical, establishment and communication of performance goals or metrics to increase foreclosure alternative activities together with related performance reporting could augment savings from reduced credit losses.

To maximize the credit loss savings, FHFA should require Freddie Mac to implement its Business Plan for all of its servicers by:

- Requiring Freddie Mac to establish servicer account plans for the [redacted] next-largest servicers that do not have active account plans; and
- Taking steps, to the extent practicable, to maximize the credit loss savings for the more than [redacted] smaller servicers not under consideration for account plans.

3. FHFA's Examination Coverage of Freddie Mac's Oversight and Risk Management of Counterparties Needs Improvement

FHFA needs to improve its supervision of Freddie Mac's oversight and risk management of its servicers. As early as 2008, FHFA had information indicating that mortgage servicing represented a heightened risk to the Enterprises, but it did not take timely or appropriate action to address these indicators. Further, when FHFA commenced its examination coverage beginning in 2010, it did not adequately assess the operational risks posed by Freddie Mac's mortgage servicing contractors, and it did not consider reports of examination, enforcement actions, and servicer reviews conducted by other Federal agencies.

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[52] Available at http://www.freddiemac.com/sell/guide.

FHFA's Delayed Examination Activities

Although FHFA monitored performance of servicers in 2008 and 2009 through continuous supervision activities, FHFA did not devote added attention to the issue, by initiating special projects, until August 2010.

FHFA officials explained that it did not focus examination attention on mortgage servicing prior to 2010 because the Agency faced a number of challenges that led it to focus on other priorities. FHFA focused on the Making Home Affordable programs throughout 2009, and its Division of Enterprise Regulation (DER) staff devoted complementary examination resources to other, high-risk credit issues related to bond guarantees and mortgage insurance. But from 2008 onwards, FHFA was aware of indicators suggesting that mortgage servicing represented an escalating risk to the Enterprises.[53] These indicators included:

- <u>Substantial Increase in Delinquency Rates</u>. Through its off-site monitoring activities, FHFA noted a substantial increase in the number of the Enterprises' delinquent loans starting in 2008.

- <u>Mortgage Servicers' Performance</u>. Through the Office of Credit Risk's (OCR) continuous supervision of Freddie Mac's single-family business line, FHFA became aware of servicers' poor performance as early as the first quarter of 2009. Later, in the fourth quarter of 2009, OCR drafted an analysis memorandum – reflecting the results of its continuous supervision – stating that the majority of Freddie Mac's servicers (including its [redacted] servicers) were performing below expectations.

- <u>Weak Counterparty Risk Management</u>. During OCR's continuous supervision of Freddie Mac's single-family business line, FHFA also determined that counterparty risk management at the Enterprise was weak. Examples of weaknesses noted include: (a) staff with weak analytical skills; (b) counterparty analysis without benchmarking; (c) inaccurate exposure calculations used to determine compliance with counterparty limits; and (d) lack of many basic analyses to support critical decisions. FHFA noted the need to strengthen Freddie Mac's organization structure of counterparty credit risk and overall counterparty credit risk management function to ensure early identification of troubled counterparties and articulation of robust action plans. In Freddie Mac's 2009 Report of Examination, FHFA reported that:

  > Enterprise management continues to struggle with assigning accountability and developing an organizational structure that

[53] FHFA-OIG recognizes that FHFA has a finite staff and has to make judgments about priorities. Nonetheless, FHFA-OIG could not assess the basis for FHFA's decision to defer more focused examinations/special projects of mortgage servicing because the Agency did not document its decision-making process.

> facilitates the effective execution of defined roles and responsibilities of the chief enterprise risk officer.... During 2009, the Board acted on a FHFA recommendation and authorized the creation of a new chief credit officer....[54]

Audit reports issued by Freddie Mac's Internal Audit Department and submitted to FHFA corroborated that there were weaknesses in Freddie Mac's oversight of its counterparties. For example, the Internal Audit Department completed a review of the management of troubled counterparties in response to the Taylor, Bean & Whitaker Mortgage Corp. (TBW) fraud case.[55] In its report, dated May 2010, the Internal Audit Department stated that Freddie Mac needs to:

- Develop and document a more robust comprehensive framework to identify troubled servicers;
- Establish a separate governance and oversight process for troubled counterparties;
- Improve procedures to terminate troubled servicers; and
- Strengthen controls and management over all counterparties.

In sum, FHFA could have done more in response to the foregoing indicators of heightened risk.

FHFA's Assessment of Freddie Mac's Third-Party Risk

Internal Reviews

When FHFA began to devote more resources to servicing in 2010, it did not adequately assess the risk that servicers pose to Freddie Mac. From January 2010 to May 2011, FHFA initiated five reviews (four special projects and one continuous supervision project) that are directly related to the operational aspects of servicing, as follows:

- In August 2010, FHFA initiated a special project to determine if the Enterprises were assessing penalties against servicers that did not comply with foreclosure timelines;
- In April 2011, FHFA started a continuous supervision activity to review Freddie Mac's oversight of its servicers; and

[54] This issue was also discussed in FHFA's 2009 Report to Congress.

[55] The TBW case is among the largest mortgage fraud cases in American history. Freddie Mac reported losses and filed a proof of claim of nearly $1.8 billion in TBW's bankruptcy proceeding.

- In late 2010/early 2011, FHFA initiated three other activities to review Freddie Mac's oversight of its servicers.[56]

Based upon FHFA-OIG's analysis of these five reviews, we concluded that the reviews did not provide a comprehensive and meaningful assessment of the potential risks that could arise from the use of servicers. Further, FHFA-OIG determined that FHFA's procedures were not designed to address Freddie Mac's processes and controls for overseeing, managing, and controlling third-party relationships. Additionally, Agency examiners did not implement the examination procedures outlined in FHFA's Third Party Relationship Management and Reference Procedures Manual.

External Reviews

FHFA also did not consider and use critical financial and non-financial information received from other PFRs when assessing the overall risk profiles of the Enterprises. For example, FHFA did not consider reports of examination and enforcement actions taken against servicers (many of whom service loans for Freddie Mac) by the PFRs, or servicing reviews completed by other federal agencies, as follows:

- Reports of Examination and Enforcement Actions. FHFA has not been proactive in reviewing reports of examination completed by the PFRs or enforcement actions taken by them. Although FHFA has established Memoranda of Understanding (MOUs) with OCC, FDIC, FRS, and OTS that allow them to share reports of examinations and enforcement actions with FHFA, the Agency has not utilized the MOUs in furtherance of its supervisory responsibilities. Indeed, FHFA's senior DER officials advised that they were unaware of the Agency's MOUs with the various federal agencies, except for the MOU with OCC. Thus, they were not aware that external examination reports were available to them. By reviewing these reports, FHFA can identify which financial institutions are performing poorly and pose a risk to the Enterprises.

  FHFA also does not coordinate with the PFRs to ensure that financial institutions address the servicing deficiencies cited in external enforcement actions. For example, OCC, FRS, OTS, and FDIC recently issued enforcement actions against 14 federally regulated servicers as a result of their interagency review of foreclosure policies and practices. Although all of the servicers work for Freddie Mac (13 of the 14 also work

[56] These three activities include: (1) a special project reviewing Freddie Mac's retained attorney network (initiated in October 2010); (2) a special project identifying and evaluating operational risk in the Home Affordable Modification Program (initiated in November 2010); and (3) a special project reviewing Freddie Mac's process for ensuring that servicers maintain proper insurance coverage (initiated April 2011).

for Fannie Mae), FHFA had no plans to play a role in ensuring that the servicers comply with the enforcement actions. According to an FHFA official, because FHFA does not regulate the servicers, the Agency is not responsible for ensuring that the servicers develop sufficient corrective action plans to address the servicing deficiencies cited in the enforcement actions. Given the concentration of risk exposure with these servicers, FHFA should be more involved in ensuring that the servicers correct the deficiencies cited in the enforcement actions.

- Servicing Reviews Performed by Other Federal Agencies. FHFA has not researched or monitored relevant servicing reviews completed by other federal agencies. Although FHFA established MOUs with the Farm Credit Administration, Securities and Exchange Commission, and HUD to facilitate the sharing of information, FHFA has not utilized the MOUs to obtain these agencies' servicing reviews of servicers working for the Enterprises.

CONCLUSION

Mortgage servicing is a critical element of the Enterprises' business operations. Recently, various factors, including the surge in delinquencies and foreclosures in the Enterprises' loan portfolios and the concentration of servicing responsibilities among a few large financial institutions, have converged to raise significant supervisory concerns. To address these concerns, FHFA needs to enhance regulations or guidance regarding counterparty oversight and risk management and to implement more effective monitoring of Freddie Mac's oversight of its mortgage servicers. Although FHFA and Freddie Mac have taken several positive steps to strengthen mortgage servicing, FHFA needs to improve its supervision of Freddie Mac's servicing operations so that risks associated with the servicers' operational activities are sufficiently mitigated and addressed.

Further, Freddie Mac developed a 2011 Business Plan to, among other things, improve mortgage servicing. The plan estimated approximately [redacted] in lifetime credit loss savings by reducing potential credit-related losses through more active servicing. However, Freddie Mac did not fully implement its plan. FHFA is in a position to cause Freddie Mac to achieve additional credit loss savings by implementing its plan among a larger cross-section of its servicer network.

RECOMMENDATIONS

FHFA-OIG recommends that DER:

1. Establish and implement more robust regulations or guidance governing counterparty oversight and risk management for mortgage servicing. The regulations or guidance should include requirements for: (a) contracting with servicers, including a contractual provision authorizing FHFA's access to relevant servicer information; (b) promptly reporting on material poor performance and non-compliance by servicers; and (c) minimum, uniform standards for servicing mortgages owned or guaranteed by the Enterprises.

2. Direct Freddie Mac to take the necessary steps to monitor and track the performance of it servicers to reasonably assure achievement of credit loss savings by: (a) implementing servicer account plans for the servicers without account plans that are under consideration to receive a plan; and (b) taking action to maximize credit loss savings among the remaining servicers that are not under consideration for account plans.

3. Improve its existing procedures and controls governing coordination with other federal agencies that have oversight jurisdiction with respect to the Enterprises' mortgage servicers.

SCOPE AND METHODOLOGY

The objective of this performance audit was to assess whether FHFA has an effective supervisory control structure and sufficient examination coverage and oversight activities to adequately and timely identify and mitigate risks related to Freddie Mac's mortgage servicing contractors. The audit scope was from January 1, 2010, through May 31, 2011, and was expanded as necessary. FHFA-OIG also reviewed relevant data for the period July 2008 to December 2009 to obtain a historical perspective. While FHFA-OIG focused on FHFA's supervision of Freddie Mac, FHFA-OIG also performed a limited review of Fannie Mae's servicing oversight.

Audit field work was performed from June 2011 through July 2011. The audit was conducted at FHFA's three offices located in Washington, DC. Computer processed data were used for background purposes only and not to support audit conclusions. To achieve its objective, FHFA-OIG conducted the following:

- Reviewed the supervisory controls established by FHFA including guidance and direction to the Enterprises and examination policies and procedures related to mortgage servicing;
- Evaluated Freddie Mac's policies and procedures related to oversight of mortgage servicers;
- Assessed the quality of FHFA's annual and quarterly risk assessment processes;
- Reviewed steps taken by FHFA to mitigate concentration risks among the top four servicers and other risks associated with servicers that had heighten supervisory concerns; and
- Interviewed FHFA and Freddie Mac officials on their views and the extent and level of oversight provided over mortgage servicing contractors.

FHFA-OIG assessed the internal controls related to its audit objective. Internal controls are an integral component of an organization's management that provide reasonable assurance that the following objectives are achieved:

- Effectiveness and efficiency of program operations;
- Reliability of financial reporting; and
- Compliance with applicable laws and regulations.

Internal controls relate to management's plans, methods, and procedures used to meet its mission, goals, and objectives, and include the processes and procedures for planning, organizing, directing, and controlling program operations as well as the systems for measuring, reporting, and monitoring program performance. Based on the work completed on this performance audit, FHFA-OIG considers weaknesses in FHFA's supervision of Freddie Mac's risk management and oversight of mortgage servicing contractors to be a significant deficiency within the context of the audit objective. Additionally, FHFA-OIG identified other less significant matters that came to its attention during the audit. These matters were communicated separately in writing to FHFA in an audit memorandum.

FHFA-OIG conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that audits be planned and performed to obtain sufficient, appropriate evidence to provide a reasonable basis for FHFA-OIG's findings and conclusion based on the audit objective. FHFA-OIG believes that the evidence obtained provides a reasonable basis for the findings and conclusion included herein, based on the audit objective.

APPENDIX A

FHFA's Comments on Findings and Recommendations

Federal Housing Finance Agency

MEMORANDUM

TO: Russell Rau
Deputy Inspector General for Audits

FROM: Jon Greenlee
Deputy Director
Division of Enterprise Regulation

SUBJECT: Inspector General Report on FHFA's Supervision of Freddie Mac's Controls over Mortgage Servicing Contractors, AUD-2011-006

DATE: February 29, 2012

The purpose of this memorandum is to provide you with FHFA's response to your recommendations outlined in the Inspector General Report on FHFA's Supervision of Freddie Mac's Controls over Mortgage Servicing Contractors. FHFA appreciates the opportunity to provide its response and values the feedback the Agency receives from the Inspector General and opportunities to enhance our operations. FHFA agrees that mortgage servicing is a critical area and we have made mortgage servicing a top priority of the agency. FHFA has taken a number of steps both through supervision of the Enterprises and by establishing policies to improve industry practices. Most importantly, FHFA's Servicing Alignment Initiative (SAI) has established an unprecedented level of consistency in mortgage servicing processes at both Enterprises and requires more aggressive foreclosure prevention activities on the part of servicers, a set of policy changes that positively affects homeowners and serves as a model for the broader financial services industry.

FHFA's supervision of Freddie Mac has been proactive and continues to evolve as issues in the housing market continue to develop. For example, the Agency conducted special reviews and targeted exams in this area, and engaged in broad servicing policy work and Interagency discussions related to servicer issues and oversight. In addition, the Agency is expanding the dedicated team of examiners that are onsite at the Enterprises. The team will have experienced staff that will, among other activities, monitor counterparty risk management at both Enterprises and provide for a focused, ongoing understanding of current and emerging risks and the effectiveness of risk management practices. Although FHFA has historically had a clear understanding of the counterparty risk at both Enterprises, FHFA recognized that a dedicated examination staff to monitor and coordinate oversight activities would enhance the Agency's overall efficiency and effectiveness. This enhancement in supervisory approach will also provide third party reviewers such as the OIG with a clearer understanding of how FHFA coordinates supervisory activities in this and other important areas of the Enterprises.

FHFA's response to the OIG recommendations follows:

Recommendation 1: Establish and implement more robust regulations or guidance governing counterparty oversight and risk management for mortgage servicing. The regulations or guidance should include requirements for: (a) contracting with servicers, including a contractual provision authorizing FHFA's access to relevant servicer information; (b) promptly reporting on material poor performance and non-compliance by servicers; (c) minimum, uniform standards for servicing mortgages owned or guaranteed by the Enterprises.

Management Response:

The report outlines three areas that FHFA needs to address to strengthen its supervision of the Enterprises' counterparty risk management. The three areas – contracting with counterparties, reporting critical servicer information, and establish mortgage servicing baseline requirements – are addressed separately below.

1(a) Regulations or guidance on contracting with servicers, including a contractual provision authorizing FHFA's access to relevant servicer information.

FHFA partially agrees with this recommendation. FHFA will evaluate the merits of seeking a legislative change to provide the Agency with the same legal examination authority and rights as the federal banking agencies have with respect to entity affiliated parties. In the meantime, FHFA will take additional steps, when the Enterprises contracts allow for FHFA reviews of third parties, focusing on those key servicers that have not been subject to supervision by a primary federal regulator (PFR). In addition, FHFA will continue to conduct reviews of third parties when appropriate. For example, FHFA is in the process of conducting a review of a key third party provider for one of the Enterprises. FHFA will address the components of this recommendation over the next year and will have a final status update by January 31, 2013.

1(b) Regulations or guidance on promptly reporting on material poor performance and non-compliance by servicers.

FHFA agrees with this recommendation and will establish a framework for sharing critical information reported by one Enterprise with the other to ensure appropriate action is taken. The framework must consider various requirements such as compliance with laws and regulations, consistency with risk based supervision, effectiveness of the Enterprises risk management processes, and operational considerations. The analysis and the establishment of a new policy will be completed by September 30, 2012.

1(c) Regulations or guidance on minimum uniform standards for servicing mortgages owned or guaranteed by the Enterprises.

FHFA agrees with the recommendation that the Agency continues to be proactive and maintains its leadership role in pursuing more uniform mortgage servicing standards, and will develop a status report on on-going initiatives by September 30, 2012, with a final status update by January 31, 2013. As the report notes, FHFA issued a supervisory directive in February 2011 requiring the Enterprises to align their guidelines for servicing delinquent mortgages. FHFA's Servicing Alignment Initiative (SAI) established an unprecedented level of consistency in mortgage servicing processes that requires enhanced foreclosure prevention that would not have been achieved through the issuance of a supervisory policy. In addition, the Agency has been actively providing guidance to the Enterprises through not only the SAI, but through examinations, conservatorship operations, and policy initiatives such as penalty assessment, HAMP, HARP, and servicer compensation.

Recommendation 2: Direct Freddie Mac to take the necessary steps to monitor and track the performance of its servicers to reasonably assure achievement of credit loss savings by: (a) implementing servicer account plans for the servicers without account plans that are under consideration to receive a plan; and (b) taking action to maximize the credit loss savings among the remaining servicers that are not under consideration for account plans.

Management Response:

FHFA agrees with this recommendation. FHFA, through its supervisory and policy making processes, has clearly outlined the Agency's expectations that Freddie Mac take appropriate steps to maximize credit loss savings in a cost effective and prudent manner. Since 2009, FHFA has been engaged with both Enterprises focusing on improving servicing performance, both through the supervision process and by proactively providing servicing standards and related servicing performance guidance to the Enterprise. These efforts have already resulted in a more effective process for overseeing servicer performance, which includes the establishment of scorecards, standards, and key performance indicators that support reasonable achievement of estimated credit loss savings.

As noted above, FHFA has made clear its expectations that Freddie Mac maximize its credit loss savings in a cost effective and prudent manner.

2(a) The establishment of detailed account servicer plans for the servicers without account plans that are under consideration to receive a plan.

Through its ongoing supervisory process, FHFA will continue to make Freddie Mac's oversight of servicers a key priority to determine if risks are being properly managed and that credit loss savings are reasonable achieved, including whether account servicer plans for these servicers is appropriate and cost effective. This will be an ongoing effort of FHFA that will be completed by January 31, 2013.

2(b) Taking action to maximize the credit loss savings among the remaining servicers that are not under consideration for account plans.

As noted above, FHFA has and will continue to make this a top priority throughout 2012. Our supervisory process during 2012 will monitor and assess the Enterprise's processes and effectiveness to assure that credit loss savings are reasonably achieved that will be completed by January 31, 2013.

Recommendation 3: Improve its existing procedures and controls governing coordination with other federal agencies that have oversight jurisdiction with respect to the Enterprises' mortgage servicers.

Management Response:

FHFA agrees to this recommendation and will take additional steps to improve the flow of information as appropriate to support FHFA's supervision of the Enterprises. Going forward, FHFA will evaluate in its supervision of the Enterprises, findings outlined in reports of examination and enforcement actions taken against servicers by the PFRs, or servicing reviews completed by other federal agencies. Furthermore, the report outlines the need for increased awareness among senior staff of the Agency of the existing Memoranda of Understanding (MOUs) with the OCC, FDIC, Federal Reserve, and OTS that allow for examination and enforcement action information to be shared with FHFA. FHFA is an active participant in Interagency discussions and has a sound understanding of the issues at the servicers supervised by the PFRs, but will evaluate how to best establish a framework for obtaining reports of examination and enforcement actions under the existing MOUs with the PFRs, FCA, SEC, and HUD. To improve the flow of information, FHFA will develop and internally distribute a consolidated framework of coordination mechanisms and capabilities available to the agency by September 30, 2012.

APPENDIX B

FHFA-OIG's Response to FHFA's Comments

On December 20, 2011, FHFA-OIG provided a draft of this report to FHFA for comment. FHFA-OIG received a written response, dated February 29, 2012. FHFA-OIG has attached FHFA's full response (*see* Appendix A of this report), which was considered where appropriate in finalizing this report. Appendix C provides a summary of the Agency's response to FHFA-OIG's recommendations and the status of agreed-to corrective actions.

FHFA fully agreed with the recommendations, except for Part (a) of Recommendation 1. Additionally, although the Agency agreed with Part (c) of Recommendation 1, FHFA-OIG considers FHFA's planned corrective actions nonresponsive and, accordingly, Parts (a) and (c) of Recommendation 1 are considered unresolved.

Below, FHFA-OIG summarizes its evaluation of FHFA's comments on Parts (a) and (c) of Recommendation 1.

Recommendation 1(a)

FHFA partially agreed with Part (a) of Recommendation 1. FHFA stated that it will evaluate the merits of seeking a legislative change to give it the same legal examination authority and rights as PFRs with respect to servicers. In the interim, FHFA indicated it will focus on servicers that are not supervised by a PFR if the Enterprises' contracts allow FHFA to review third-parties.

Oversight of servicers that are not otherwise regulated at the federal level is an important step. While seeking a legislative change can give FHFA specific statutory access authority to servicers, FHFA-OIG has found no prohibition against securing FHFA access to servicers for purposes of fulfilling its Enterprise regulatory and supervisory responsibilities through servicing contracts. In particular, as conservator, FHFA can direct the Enterprises to obtain such access. Accordingly, pending legislative changes, FHFA should require that an access provision be included in the Enterprises' servicing contracts.

During the exit conference, FHFA also expressed concern that having access to servicers may intrude on other PFRs' authority. However, the intent of FHFA-OIG's recommendation was that FHFA, like the Enterprises, requires access rights to servicers' books and records in order to fulfill its mission of ensuring the safety and soundness of the Enterprises. This differs in important respects (such as potentially competing financial interests) from the role of the PFRs related to financial institutions that happen also to be servicers for the Enterprises.

FHFA-OIG also noted that FHFA's comments did not address Part (a) of Recommendation 1 related to establishing guidance or regulations for contracting with servicers.

Recommendation 1(c)

Also, although FHFA agreed with Part (c) of Recommendation 1, the Agency's description of the planned actions does not clearly address the recommendation's intent. FHFA indicated that it will be proactive and maintain a leadership role in pursuing more uniform mortgage servicing standards. In addition, FHFA stated that it will develop a status report for ongoing initiatives by September 30, 2012, with a final status update by January 31, 2013. FHFA also noted actions to implement the Servicing Alignment Initiative, which provides consistent requirements for servicing non-performing loans. While commendable, FHFA's response did not provide specific action plans for implementing uniform standards for the Enterprises' servicers on other aspects of servicing as FHFA-OIG recommended.

Consequently, FHFA-OIG considers FHFA's comments to Parts (a) and (c) of Recommendation 1 to be nonresponsive and the recommendations unresolved, and requests the Agency reconsider its position and provide revised comments within 30 calendar days.

APPENDIX C

Summary of Management's Comments on the Recommendations

This table presents management's response to the recommendations in FHFA-OIG's report and the status of the recommendations as of the date of report issuance.

Rec. No.	Corrective Action: Taken or Planned	Expected Completion Date	Monetary Benefits ($ Millions)	Resolved:[a] Yes or No	Open or Closed[b]
1.	a. FHFA will evaluate the merits of seeking a legislative change to provide it with the same legal examination authority and rights as the PFRs. While evaluating the merits, FHFA will take steps to focus on the servicers that are not under the supervision of a PFR provided that the Enterprises' contracts allow FHFA to review third-parties.	a. 1/31/13	$0	No	Open
	b. FHFA will establish a framework for sharing critical information reported by one Enterprise with the other Enterprise and ensure appropriate action is taken.	b. 9/30/12		Yes	Open
	c. FHFA will maintain a leadership role in pursuing more uniform servicing standards and develop a status report of on-going initiatives by 9/30/12, with a final status update by 1/31/13.	c. 1/31/13		No	Open
2.	FHFA will make Freddie Mac's oversight of servicers a key priority to determine if risks are being managed properly and ensure that credit loss savings are	1/31/13	To be determined through further monitoring.[57]	Yes	Open

[57] Recommendations that funds be put to better use are estimates of amounts that could be used more efficiently if an FHFA-OIG recommendation is implemented. These amounts include reductions in outlays, deobligation of funds, withdrawal of interest, costs not incurred by implementing recommended improvements, avoidance of unnecessary expenditures noted in preaward reviews, and any other savings that are specifically identified. In these

	reasonably achieved, to include determining whether it is appropriate and cost effective for the Enterprise to develop account plans for the servicers that currently do not have account plans.				
3.	FHFA will establish a framework for obtaining reports of examination and enforcement actions from the PFRs and other federal agencies and evaluate the findings outlined in their reports and enforcement actions as part of its supervision of the Enterprises.	9/30/12	$0	Yes	Open
Total			**To be determined through further monitoring.**		

a Resolved means – (1) Management concurs with the recommendation, and the planned, ongoing, and completed corrective action is consistent with the recommendation; (2) Management does not concur with the recommendation, but alternative action meets the intent of the recommendation; or (3) Management agrees to the OIG monetary benefits, a different amount, or no ($0) amount. Monetary benefits are considered resolved as long as management provides an amount.

b Once the OIG determines that the agreed-upon corrective actions have been completed and are responsive to the recommendations, the recommendations can be closed.

instances, if FHFA implements an FHFA-OIG recommendation, Freddie Mac will reduce its credit losses associated with mortgage servicing by its servicers. FHFA-OIG will monitor achievement of credit loss savings through its audit follow-up process.

ADDITIONAL INFORMATION AND COPIES

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