FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-K
April 02, 2013

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, 2012
Commission File No.: 0-50231
Federal National Mortgage Association
(Exact name of registrant as specified in its charter)
Fannie Mae

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

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 þ

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 þ 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 þ 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. þ

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 þ	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	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 þ

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, 2012 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $301 million.

As of February 28, 2013, there were 1,158,077,970 shares of common stock of the registrant outstanding.

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MD&A 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. Our public mission is to support liquidity and stability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold, and increase the supply of affordable housing. Our charter does not permit us to originate loans and lend money directly to consumers in the primary mortgage market. However, as the leading source of residential mortgage credit in the secondary market, we indirectly enable families to buy, refinance or rent a home. Our most significant activity is securitizing mortgage loans originated by lenders into Fannie Mae mortgage-backed securities that we guarantee, which we refer to as Fannie Mae MBS. We also purchase mortgage loans and mortgage-related securities. 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.

We have taken a number of actions in conservatorship to strengthen our financial performance, including reducing losses on our legacy book of business, building a profitable new book of business with responsible underwriting standards and pricing for risk. These actions are supporting the housing recovery and strengthening our financial performance. As a result of our actions and continued improvement in the housing market, our financial results improved significantly in 2012, and we expect our annual earnings to remain strong over the next few years. We recorded net income of $17.2 billion for 2012. Our net income reflects our determination not to release the valuation allowance on our deferred tax assets in the fourth quarter of 2012, which we discuss in "Executive Summary—Deferred Tax Asset Valuation Allowance." We paid Treasury senior preferred stock dividends of $4.2 billion for the first quarter of 2013, which reflected the excess of our net worth over a $3.0 billion capital reserve applicable in 2013 under the terms of our senior preferred stock purchase agreement with Treasury.

Like the mortgage finance industry we serve, Fannie Mae is undergoing significant transformation. Since entering into conservatorship in September 2008, our senior management, constituencies, and priorities have changed. More than 80% of our current senior management team, and every member of our management committee, has been hired or promoted into their current role since we entered into conservatorship. More than half of our employees were hired after conservatorship began. Moreover, instead of being run for the benefit of shareholders, our company is managed in the overall interest of taxpayers, which is consistent with the substantial public investment in us. This change in our constituencies is reflected in our corporate priorities, which we discuss below in "Our Business Objectives and Strategy." Ultimately, we help fill the role of enabling families to buy, refinance or rent a home. We have provided approximately $3.3 trillion in liquidity to the housing market since 2009. By keeping liquidity flowing, we support the housing recovery, which strengthens the U.S. economy.

Our conservatorship has no specified termination date, and we do not know when or how the conservatorship will be terminated, whether we will continue to exist following conservatorship, or what changes to our business structure will be made during or following the conservatorship. Our agreements with Treasury that provide for financial support also include covenants that significantly restrict our business activities. We provide additional information on the conservatorship, the

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provisions of our agreements with Treasury, and its impact on our business below under "Conservatorship and Treasury Agreements" and "Risk Factors." We discuss the uncertainty of our future and its impact on us in "Executive Summary—Outlook" and "Risk Factors."

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, 2012 and related notes.

Our Business Objectives and Strategy

We are focused on paying Treasury for taxpayers' investment in Fannie Mae, which can be accomplished by supporting the economic recovery, helping struggling homeowners and laying the foundation for a better housing finance system going forward.

Our actions to accomplish these objectives are having a positive impact:

- Financial Results and Treasury Dividend Payments. We experienced significant improvement in our financial results for 2012 compared with 2011, as we discuss in "Summary of Our Financial Performance for 2012." Significant improvement in our credit results, coupled with growing revenue from our new book of business, led to our reporting net income in 2012 for the first time since 2006. Because loans remain in our book of business for a number of years, the credit quality of and guaranty fee we charge on the loans we acquire in a particular year affect our results for a period of years after we acquire them. Accordingly, we expect improvements in the credit quality of our loan acquisitions since 2009 and increases in our charged guaranty fees on recently acquired loans to benefit our results for years to come. Our net income of $17.2 billion in 2012 is the largest in our history. We were not required to draw funds from Treasury under the senior preferred stock purchase agreement for any quarter of 2012, and, during 2012, we paid Treasury $11.6 billion in senior preferred stock dividends. We paid Treasury additional senior preferred stock dividends of $4.2 billion for the first quarter of 2013.
- Providing Liquidity and Support to the Mortgage Market. We continued to be a leading provider of liquidity to the mortgage market in 2012. As described below under "Contributions to the Housing and Mortgage Markets Since Entering Conservatorship—2012 Acquisitions and Market Share," we remained the largest single issuer of mortgage-related securities in the secondary market during the fourth quarter of 2012 and remained a constant source of liquidity in the multifamily market.
- Strong New Book of Business. Single-family loans we have acquired since the beginning of 2009 constituted 66% of our single-family guaranty book of business as of December 31, 2012, while the single-family loans we acquired prior to 2009 constituted 34% of our single-family book of business. We refer to the single-family loans we have acquired since the beginning of 2009 as our "new single-family book of business" and the single-family loans we acquired prior to 2009 as our "legacy book of business." Our new single-family book of business includes loans that are refinancings of loans that were in our legacy book of business. We provide information regarding the higher loan-to-value ("LTV") ratios of these loans in "Credit Risk Characteristics of Loans Acquired under HARP." As described below in "Our Strong New Book of Business," we expect that our new single-family book of business will be profitable over its lifetime.
- Expected Increases in Guaranty Fee Revenues. As a result of increases in our charged guaranty fee and the larger volume of single-family loans we acquired in 2012, we expect to receive significantly more guaranty fee income on the single-family loans we acquired in 2012, over their lifetime, than on the single-family loans we acquired in 2011. We expect rising guaranty fee revenue we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties will in a number of years become the primary source of our revenues, particularly as we reduce the size of our mortgage portfolio to comply with the terms of the senior preferred stock purchase agreement. Moreover, if current market conditions continue, we expect these revenues will generally offset expected declines in the revenues we generate from the difference between the interest income earned on the assets in our mortgage portfolio and the interest expense associated with the debt funding of those assets. We discuss expected changes in

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our guaranty fee revenue in "Strengthening Our Book of Business—Guaranty Fees on Recently Acquired Single-Family Loans," and in "Outlook—Future Revenues and Profitability."

- Credit Performance. Our single-family serious delinquency rate has steadily declined each quarter since the first quarter of 2010, and was 3.29% as of December 31, 2012 and 3.18% as of January 31, 2013, compared with 3.91% as of December 31, 2011. See "Credit Performance" below for additional information about the credit performance of the mortgage loans in our single-family guaranty book of business.
- Reducing Credit Losses and Helping Homeowners. We continued to execute on our strategies for reducing credit losses on our legacy book of business, which are addressed in "Reducing Credit Losses on Our Legacy Book of Business." As part of our strategy to reduce defaults, we provided more than 275,000 loan workouts to help homeowners stay in their homes or otherwise avoid foreclosure in 2012.
- Helping to Build a New Housing Finance System. We continued our efforts to help build a new housing finance system, including pursuing the strategic goals identified by our conservator: build a new infrastructure for the secondary mortgage market; gradually contract our dominant presence in the marketplace while simplifying and shrinking our operations; and maintain foreclosure prevention activities and credit availability for new and refinanced mortgages. We discuss these goals in "Helping to Build a New Housing Finance System."

To provide context for analyzing our consolidated financial statements and understanding our MD&A, we discuss the following topics in this executive summary:

- Our 2012 financial performance,
- Our work to strengthen our book of business,
- Our efforts to reduce losses on our legacy book of business,
- The credit performance of our single-family book of business,
- Our contributions to the housing and mortgage markets since entering conservatorship,
- Our efforts to help build a new housing finance system,
- Our liquidity position, and
- Our outlook.

Summary of Our Financial Performance for 2012

We experienced significant improvement in our financial results for 2012 compared with 2011. Over the past year, home prices have increased, and we have experienced further improvement in the performance of our book of business, such as lower serious delinquency rates. As a result, our loan loss reserves have decreased, which has corresponded to the recognition of a benefit (rather than a provision) for credit losses in 2012. The significant improvement in our credit results, coupled with growing revenue from our new book of business, led to our reporting $17.2 billion in net income in 2012, the largest in our company's history and our first annual net income since 2006.

Comprehensive Income (Loss)

We recognized comprehensive income of $18.8 billion in 2012, consisting of net income of $17.2 billion and other comprehensive income of $1.6 billion. In comparison, we recognized a comprehensive loss of $16.4 billion in 2011, consisting of a net loss of $16.9 billion and other comprehensive income of $447 million.

The significant improvement in our financial results in 2012 compared with 2011 was primarily due to recognition of a benefit for credit losses of $852 million in 2012 compared with a provision for credit losses of $26.7 billion in 2011. This change was driven by improvement in the profile of our single-family book of business due to continuing positive trends in the housing market and our ongoing efforts to improve the credit quality of our single-family guaranty book of business. Specifically, the profile of our single-family guaranty book improved due to:

- A 4.7% increase in home prices in 2012 compared with a home price decline of 3.7% in 2011. Higher home prices decrease the likelihood that loans will default and reduce the amount of credit loss on loans that do default.
- An increase in sales prices of our REO properties. We received net proceeds from our REO sales equal to 59% of the loans' unpaid principal balance in 2012, compared with 54% in 2011. Sales prices on dispositions of our REO properties improved in 2012 as a result of increased demand compared with 2011 as well as our efforts to improve the sales execution of our REO properties. The increase in sales proceeds reduces the amount of credit loss at foreclosure and, accordingly, results in a lower provision for credit losses.

- A continued reduction in the number of delinquent loans in our single-family guaranty book of business. Our serious delinquency rate declined from 3.91% as of December 31, 2011 to 3.29% as of December 31, 2012 and our "early stage" delinquencies (loans that are 30 to 89 days past due) declined from 2.91% as of December 31, 2011 to 2.62% as of December 31, 2012. The reduction in the delinquency rates is due, in part, to our efforts since 2009 to improve our underwriting standards and the credit quality of our single-family guaranty book of business, which has resulted in a decrease in the number of loans becoming delinquent. A decline in the number of loans becoming delinquent or seriously delinquent reduces our total loss reserves and provision for credit losses.

Due to the large size of our guaranty book of business, even small changes in home prices, economic conditions and other variables, such as foreclosure timelines, may result in significant volatility in the amount of credit-related expenses or income we recognize from period to period.

In addition to the improvement in our credit results, fair value losses declined from $6.6 billion in 2011 to $3.0 billion in 2012. The decrease in fair value losses was primarily due to lower derivative losses as swap rates declined significantly in 2011 compared with a more modest decline in swap rates in 2012. Derivative instruments are an integral part of how we manage interest rate risk and an inherent part of the cost of funding and hedging our mortgage investments. We expect high levels of period-to-period volatility in our results because our derivatives are recorded at fair value in our financial statements while some of the instruments they hedge are not recorded at fair value in our financial statements.

Our net income for 2012 was also affected positively by our resolution agreements on January 6, 2013 with Bank of America, N.A. and other affiliates of Bank of America Corporation related to repurchase requests and compensatory fees. In this report, we may refer to Bank of America Corporation and its affiliates, collectively or individually, as "Bank of America." These agreements led to the recognition of $1.3 billion in pre-tax net income for 2012. See "Note 20, Subsequent Events" for additional information on these agreements and their impact on our financial results and see "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management" for additional information on repurchase requests.

We recognized other comprehensive income of $1.6 billion in 2012 compared with $447 million in 2011. The other comprehensive income recognized in 2012 was driven by a decrease in unrealized losses on non-agency securities primarily due to the narrowing of credit spreads.

See "Consolidated Results of Operations" for more information on our results.

Net Worth

Our net worth of $7.2 billion as of December 31, 2012 reflects our comprehensive income of $18.8 billion offset by our payment to Treasury of $11.6 billion in senior preferred stock dividends during 2012.

As a result of our positive net worth as of December 31, 2012, we are not requesting a draw from Treasury under the senior preferred stock purchase agreement. The aggregate liquidation preference on the senior preferred stock remains at $117.1 billion. As described in "Business—Conservatorship and Treasury Agreements" below, our dividend obligations to Treasury changed as of January 1, 2013. We paid our first quarter 2013 dividend payment of $4.2 billion on March 29, 2013. The first quarter 2013 dividend payment of $4.2 billion is calculated based on our net worth of $7.2 billion as of December 31, 2012 less the applicable capital reserve amount of $3.0 billion. Including our first quarter 2013 dividend payment, we have paid $35.6 billion in dividends to Treasury.

Table 1 below displays our Treasury draws and senior preferred stock dividend payments to Treasury since entering conservatorship on September 6, 2008.

Table 1: Treasury Draws and Senior Preferred Stock Dividend Payments

	2008	2009	2010	2011	2012	Cumulative Total
	(Dollars in billions)					
Treasury draws[1][2]	$(15.2)	$(60.0)	$(15.0)	$(25.9)	$—	$(116.1)
Senior preferred stock dividends[3]	—	2.5	7.7	9.6	11.6	31.4

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(1) Represents the total draws received from Treasury based on our quarterly net worth deficits for the periods presented. Draw requests are funded in the quarter following each quarterly net worth deficit.

(2)

Treasury draws do not include the initial $1.0 billion liquidation preference of the senior preferred stock, for which we did not receive any cash proceeds.

(3) Represents total quarterly cash dividends paid to Treasury during the periods presented.

Total 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, which reflect 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, decreased to $62.6 billion as of December 31, 2012 from $66.9 billion as of September 30, 2012 and $76.9 billion as of December 31, 2011. Our total loss reserve coverage to total nonperforming loans was 25% as of December 31, 2012 compared with 26% as of September 30, 2012 and 31% as of December 31, 2011.

Deferred Tax Asset Valuation Allowance

Each quarter, we evaluate the recoverability of our deferred tax assets, weighing all positive and negative evidence. We 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. We established a valuation allowance against our deferred tax assets in 2008 and have maintained it since then.

As discussed further under “Critical Accounting Policies and Estimates—Deferred Tax Assets” and “Note 10, Income Taxes,” in evaluating the recoverability of our deferred tax assets, as of December 31, 2012, we again determined that the negative evidence outweighed the positive evidence. Therefore we did not release any of our valuation allowance as of December 31, 2012. The valuation allowance as of December 31, 2012 was $58.9 billion.

If and when the valuation allowance is released, it will be included as income and, as a result, we expect to report significant net income for the period in which we release the valuation allowance, with a corresponding increase in our net worth as of the end of that period. Had we released the valuation allowance as of December 31, 2012, our 2012 net income would have increased by approximately $58.3 billion, with a corresponding increase in our net worth as of December 31, 2012. Our dividend obligation to Treasury on our senior preferred stock 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. Accordingly, we also expect to pay Treasury a significant dividend in the quarter following a release of the valuation allowance on our deferred tax assets.

Our determination not to release the valuation allowance on our deferred tax assets as of December 31, 2012 was a complicated decision. As we reported in a Form 12b-25 filed with the SEC on March 14, 2013, we were unable to meet the March 18, 2013 filing deadline for this report because we needed additional time to analyze the issue. Our consideration of the evidence required management to make a number of significant judgments, estimates and assumptions about highly complex and inherently uncertain matters, particularly about our future financial condition and results of operations. Using reasonable but different estimates and assumptions, or assigning weight to various factors in reasonable but differing amounts, could have resulted in a decision to release the valuation allowance as of December 31, 2012.

In our analysis, which we discuss more fully in “Critical Accounting Policies and Estimates—Deferred Tax Assets” and “Note 10, Income Taxes,” the following key factors were positive evidence in favor of releasing the allowance as of December 31, 2012:

- our 2012 profitability and our expectations regarding the sustainability of profits,
- the strong credit profile of the loans we have acquired since 2009,
- our taxable income for 2012 and our expectations regarding the likelihood of future taxable income, and
- the carryforward periods for our net operating losses and tax credits.

The key factors against releasing the allowance as of December 31, 2012 were the following:

- on a cumulative basis, we reported losses in our consolidated statements of operations for the three years ended December 31, 2012;
- the impact of a reduction in funds available to us under the senior preferred stock purchase agreement that would have resulted from releasing the valuation allowance in the fourth quarter of 2012, which we discuss below; and
- we have a limited recent history of profitability and a large number of delinquent loans in our book of business.

In evaluating all the appropriate factors, including but not limited to those mentioned above, we gave more weight to evidence that could be objectively verified than to evidence that could not be objectively verified.

We determined that the factors in favor of releasing the allowance were outweighed by the factors against releasing the valuation allowance as of December 31, 2012.

Under the terms of the senior preferred stock purchase agreement, the amount of funding available to us after December 31, 2012 is adjusted based on our positive net worth as of December 31, 2012 and is not affected by any positive net worth we

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may have on future dates. See “Conservatorship and Treasury Agreements—Treasury Agreements—Senior Preferred Stock Purchase Agreement” for a discussion of this adjustment. Accordingly, the amount of funding available under the senior preferred stock purchase agreement will be reduced only to the extent that we draw funds from Treasury under the agreement in the future. A decision to release the valuation allowance in 2013 will not reduce the funding available to us under the senior preferred stock purchase agreement.

Releasing the valuation allowance in the fourth quarter of 2012 would have decreased our available funding under the senior preferred stock purchase agreement to approximately $84 billion, compared to approximately $118 billion of available funding that resulted from not releasing the valuation allowance in the fourth quarter.

There was significant uncertainty regarding the effects that an approximately $34 billion reduction in the funds available to us under the senior preferred stock purchase agreement would have had on our business and financial results, including regulatory actions that would limit our business operations to ensure safety and soundness of the company, particularly in view of the fact that stability in the housing market and improvements in our financial results are relatively recent. This uncertainty was a significant consideration in our determination not to release the valuation allowance as of December 31, 2012.

We will continue to evaluate the recoverability of our deferred tax assets. Our evaluation in future quarters will be made by reviewing all relevant factors as of the end of those periods, including the factors discussed above to the extent applicable. Releasing all or a portion of the valuation allowance after December 31, 2012 will not reduce the funding available to us under the senior preferred stock purchase agreement, as discussed above. In addition, we expect that, as of the first quarter of 2013, we will no longer be in a three-year cumulative loss position. Accordingly, although we have not completed the analysis, we believe that, after considering all relevant factors, we may release the valuation allowance as early as the first quarter of 2013.

Strengthening Our Book of Business

Credit Risk Profile

We are setting responsible credit standards to protect homeowners and taxpayers, while making it possible for families to purchase a home. Since 2009, we have seen the effect of actions we took, beginning in 2008, to significantly strengthen our underwriting and eligibility standards and change our pricing to promote sustainable homeownership and stability in the housing market. While we do not yet know how the single-family loans we have acquired since January 1, 2009 will ultimately perform, given their strong credit risk profile and based on their performance so far, we expect that in the aggregate these loans, which constitute a growing majority of our single-family guaranty book of business, will be profitable over their lifetime, by which we mean that we expect our fee income on these loans to exceed our credit losses and administrative costs for them. In contrast, we expect that the single-family loans we acquired from 2005 through 2008, in the aggregate, will not be profitable over their lifetime.

Our expectations regarding the ultimate performance of our loans are based on numerous expectations and assumptions, including those relating to expected changes in home prices, borrower behavior, public policy and other macroeconomic factors. If future conditions are more unfavorable than our expectations, our new single-family book of business could become unprofitable. See “Outlook—Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations” and “Risk Factors” for a discussion of factors that could cause our expectations regarding the performance of the loans in our new single-family book of business to change.

Table 2 below displays information regarding the credit characteristics of the loans in our single-family conventional guaranty book of business as of December 31, 2012 by acquisition period, which illustrates the improvement in the credit risk profile of loans we acquired beginning in 2009 compared with loans we acquired in 2005 through 2008.

Table 2: Selected Credit Characteristics of Single-Family Conventional Loans Held, by Acquisition Period

	As of December 31, 2012			
	% of Single-Family Conventional Guaranty Book of Business(1)	Current Estimated Mark-to-Market LTV Ratio	Current Mark-to-Market LTV Ratio >100%(2)	Serious Delinquency Rate(3)
New Single-Family Book of Business	66 %	71 %	6 %	0.35 %
Legacy Book of Business:				
2005-2008	22	98	41	9.92
2004 and prior	12	57	6	3.62
Total Single-Family Book of Business	100 %	75 %	13 %	3.29 %

(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, 2012.

(2) The majority of loans in our new single-family book of business as of December 31, 2012 with mark-to-market LTV ratios over 100% were loans acquired under the Administration's Home Affordable Refinance Program. See "Credit Risk Characteristics of Loans Acquired under HARP" for more information on our recent acquisitions of loans with high LTV ratios.

(3) 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, 2012 serious delinquency rates of loans in our legacy book of business. The serious delinquency rate as of December 31, 2012 for loans we acquired in 2009, the oldest vintage in our new book of business, was 0.97%.

More detailed information on the risk characteristics of loans in our single-family book of business appears in "Table 41: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business."

Guaranty Fees on Recently Acquired Single-Family Loans

Table 3 below displays information regarding our average charged guaranty fee on single-family loans we acquired in each of the last three years, as well as the volume of our single-family Fannie Mae MBS issuances, which is indicative of the volume of single-family loans we acquired.

Table 3: Single-Family Acquisitions Statistics

	For the Year Ended December 31,		
	2012	2011	2010
Single-family average charged guaranty fee on new acquisitions (in basis points)(1)(2)	39.9	28.8	25.7
Single-family Fannie Mae MBS issuances (in millions)(3)	$827,749	$564,606	$603,247

(1) Pursuant to the TCCA, effective April 1, 2012, we increased the guaranty fee on all single-family residential mortgages delivered to us on or after that date for securitization by 10 basis points; and the incremental revenue is remitted to Treasury. The resulting revenue is included in guaranty fee income, and the expense is included in other expenses. This increase in guaranty fee is included in the single-family charged guaranty fee.

(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) Reflects unpaid principal balance of Fannie Mae MBS issued and guaranteed by the Single-Family segment during the period. Includes Housing Finance Agency ("HFA") new issue bond program issuances, none of which occurred in 2012 or 2011. There were HFA new issue bond program issuances of $3.1 billion during 2010.

The guaranty fee income we receive depends on the volume of our single-family acquisitions, the charged guaranty fee at acquisition, and the life of the loans. As a result of increases in the charged guaranty fee and the larger volume of single-family loans we acquired in 2012, we expect to receive significantly more guaranty fee income on the single-family loans we acquired in 2012, over their lifetime, than on the single-family loans we acquired in 2011. The average charged guaranty fee on newly acquired single-family loans increased by approximately 25.2 basis points over the course of 2012, from 27.9 basis points for the month of December 2011 to 53.1 basis points for the month of December 2012. The change was primarily attributable to a 10 basis point increase on April 1, 2012 mandated by the TCCA, an average increase of 10 basis points implemented during the fourth quarter of 2012 and lender-specific contractual fee increases implemented throughout the year. These changes to guaranty fee pricing represent a step toward encouraging greater participation in the mortgage market by private firms, which is one of the goals set forth in FHFA's strategic plan for Fannie Mae's and Freddie Mac's conservatorships. See "Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue" for more information on changes to our guaranty fee pricing.

Credit Risk Characteristics of Loans Acquired under HARP

Since 2009, our acquisitions have included a significant number of loans that are refinancings of existing Fannie Mae loans under the Administration's Home Affordable Refinance Program ("HARP"). HARP is designed to expand refinancing opportunities for borrowers who may otherwise be unable to refinance their mortgage loans due to a decline in home values. Accordingly, HARP loans have LTV ratios at origination in excess of 80%. In addition, a HARP loan cannot (1) be an adjustable-rate mortgage loan, or ARM, 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. We acquire HARP loans under our Refi Plus™ initiative, which provides expanded refinance opportunities for eligible Fannie Mae borrowers. In the fourth quarter of 2012, we revised how we present these loans to reflect all Refi Plus loans 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.

Many of the loans we acquire under HARP have higher LTV ratios than we would otherwise permit, greater than 100% in some cases. Some borrowers under HARP and Refi Plus also have lower FICO credit scores than we would otherwise require. The volume of loans with high LTV ratios that we acquired under HARP increased in 2012 as a result of changes we implemented in the first half of 2012 to make the benefits of HARP available to more borrowers, combined with historically low interest rates in the second half of 2012. Loans we acquired under HARP in the fourth quarter of 2012 constituted 16% of our single-family acquisitions for the period, measured by unpaid principal balance, compared with 7% in the fourth quarter of 2011. As a result of this increase, loans with LTV ratios greater than 100% constituted 8% of our acquisitions in 2012, compared with 2% in 2011, and the weighted average LTV ratio at origination of loans we acquired in 2012 increased to 75% from 69% in 2011. The average original LTV ratio of single-family loans we acquired in 2012, excluding HARP loans, was 68%, compared with 111% for HARP loans.

Loans we acquire under HARP represent refinancings of loans that are already in our guaranty book of business. The credit risk associated with loans we acquire under HARP essentially replaces the credit risk that we already held prior to the refinancing. Loans we acquire under HARP have higher serious delinquency rates and may not perform as well as 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 loans should reduce the borrowers' monthly payments and/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).

We expect that if interest rates remain low we will continue to acquire a high volume of refinancings under HARP for the program's duration or until there is no longer a large population of borrowers with high LTV loans who would benefit from refinancing. We expect to acquire many refinancings with LTV ratios greater than 125% in particular, because borrowers were unable to refinance loans with LTV ratios greater than 125% in large numbers until changes to HARP were fully implemented in the second quarter of 2012. For a description of these changes to HARP, see "MD&A—Risk Management—Credit Risk Management—Single-Family Credit Risk Management—Home Affordable Refinance Program ('HARP') and Refi Plus Loans." HARP is scheduled to end in December 2013, although we will continue to accept deliveries of HARP loans through September 30, 2014 for loans with application dates on or before December 31, 2013.

Loans we acquired under HARP represented 13% of our new single-family book of business as of December 31, 2012 and had a serious delinquency rate of 0.93%, compared with a serious delinquency rate for our new single-family book of business overall of 0.35%. See "Table 42: Selected Credit Characteristics of Single-Family Conventional Loans Acquired under HARP and Refi Plus."

Factors that May Affect the Credit Risk Profile and Performance of Loans We Acquire in the Future

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 and the Federal Housing Administration ("FHA"), the percentage of loan originations representing refinancings, our future objectives, government policy, market and competitive conditions, and the volume and characteristics of loans we acquire under HARP. See “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management” for more detail regarding the credit risk characteristics of our single-family guaranty book of business.

Reducing Credit Losses on Our Legacy Book of Business

To reduce the credit losses we ultimately incur on our legacy book of business, we have been focusing our efforts on the following strategies:

- Helping eligible Fannie Mae borrowers with high LTV loans, including those whose loans are underwater, refinance to more sustainable loans, including loans that significantly reduce their monthly payments, through HARP;
- Reducing defaults by offering borrowers loan modifications that can significantly reduce their monthly payments and other solutions that enable them to stay in their homes (collectively, "home retention solutions");
- Pursuing short sales, which are also known as preforeclosure sales, as well as deeds-in-lieu of foreclosure; these "foreclosure alternatives" help borrowers avoid foreclosure and reduce the overall severity of the losses we incur;
- Efficiently managing timelines for home retention solutions, foreclosure alternatives and foreclosures;
- Improving servicing standards and servicers' execution and consistency;
- Managing our REO inventory to minimize costs and maximize sales proceeds; and
- Pursuing contractual remedies from lenders, servicers and providers of credit enhancement.

As we work to reduce credit losses, we also seek to assist distressed borrowers, help stabilize communities, and support the housing market. For example, in November 2012 we, along with Freddie Mac, put into effect new, streamlined rules for short sales to enable servicers to quickly evaluate a borrower's eligibility for a short sale.

We view foreclosure as a last resort, and we offer alternatives to foreclosure to homeowners in need. These solutions have enabled 1.2 million homeowners to avoid foreclosure since 2009. In dealing with distressed borrowers, we first seek home retention solutions before turning to foreclosure alternatives. When there is no viable home retention solution or foreclosure alternative that can be applied, we seek to move to foreclosure expeditiously; prolonged delinquencies hurt local home values and destabilize communities, as these homes often go into disrepair.

We provide 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.

Credit Performance

Table 4 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 home retention solutions and foreclosure alternatives. The workout information in Table 4 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 4: Credit Statistics, Single-Family Guaranty Book of Business[1]

	2012	2011	2010
	(Dollars in millions)		
As of the end of each period:			
Serious delinquency rate[2]	3.29 %	3.91 %	4.48 %
Seriously delinquent loan count	576,591	690,911	801,640
Nonperforming loans[3]	$247,823	$248,379	$251,631
Foreclosed property inventory:			
Number of properties[4]	105,666	118,528	162,489
Carrying value	$9,505	$9,692	$14,955
Combined loss reserves[5]	$58,809	$71,512	$60,163
Total loss reserves[6]	$61,396	$75,264	$64,469
During the period:			
Foreclosed property (number of properties):			
Acquisitions[4]	174,479	199,696	262,078
Dispositions	(187,341)	(243,657)	(185,744)
Credit-related income (expenses)[7]	$919	$(27,218)	$(26,420)
Credit losses[8]	$14,392	$18,346	$23,133
REO net sales prices to unpaid principal balance[9]	59 %	54 %	56 %
Loan workout activity (number of loans):			
Home retention loan workouts[10]	186,741	248,658	440,276
Short sales and deeds-in-lieu of foreclosure	88,732	79,833	75,391
Total loan workouts	275,473	328,491	515,667
Loan workouts as a percentage of delinquent loans in our guaranty book of business[11]	26.38 %	27.05 %	37.30 %

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(1) Our single-family guaranty book of business consists of (a) single-family mortgage loans held in our mortgage portfolio, (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 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. We include all of the single-family conventional loans that we own and those that back Fannie Mae MBS in the calculation of the single-family serious delinquency rate. As of January 31, 2013, our single-family serious delinquency rate was 3.18%.

(3) Represents the total amount of nonperforming loans including troubled debt restructurings ("TDR"). A TDR is a restructuring of a mortgage loan in which a concession is granted to a borrower experiencing financial difficulty. We generally classify loans as nonperforming when the payment of principal or interest on the loan is 60 days or more past due.

(4) 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.

(5) Consists of the allowance for loan losses for loans recognized in our consolidated balance sheets and the reserve for guaranty losses related to both single-family loans backing Fannie Mae MBS that we do not consolidate in our consolidated balance sheets and single-family loans that we have guaranteed under long-term standby commitments. For additional information on the change in our loss reserves see "Consolidated Results of Operations—Credit-Related (Income) Expenses—Benefit (Provision) for Credit Losses."

(6) Consists of (a) the combined loss reserves, (b) allowance for accrued interest receivable, and (c) allowance for preforeclosure property taxes and insurance receivables.

(7) Consists of (a) the benefit (provision) for credit losses and (b) foreclosed property (income) expense.

(8) Consists of (a) charge-offs, net of recoveries and (b) foreclosed property (income) expense, adjusted to exclude the impact of fair value losses resulting from credit-impaired loans acquired from MBS trusts.

(9) 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/servicers, divided by the aggregate UPB of the related loans at the time of foreclosure. Net sales price represents the contract sale price less selling costs for the property and other charges paid by the seller at closing.

(10) Consists of (a) modifications, which do not include trial modifications or repayment plans or forbearances that have been initiated but not completed and (b) repayment plans and forbearances completed. See "Table 47: 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.

(11) Calculated based on annualized problem loan workouts during the period as a percentage of delinquent loans in our single-family guaranty book of business as of the end of the period.

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, as well as our acquisition of loans with stronger credit profiles since the beginning of 2009.

Although our serious delinquency rate has decreased, our 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. 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 many states. The length of the foreclosure process, the pace of loan modifications and changes in home prices and other macroeconomic conditions all influence serious delinquency rates. We expect the number of single-family loans in our legacy book of business that are seriously delinquent to remain well above pre-2008 levels for years. In addition, we anticipate that it will take a significant amount of time before our REO inventory is reduced to pre-2008 levels.

We provide additional information on our credit-related expenses or income in "Consolidated Results of Operations—Credit-Related (Income) Expenses" and on the credit performance of mortgage loans in our single-family book of business and our loan workouts in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

Contributions to the Housing and Mortgage Markets Since Entering Conservatorship

Liquidity and Support Activities

We have provided approximately $3.3 trillion in liquidity to the housing market since 2009, enabling families to buy, refinance or rent a home. Since we entered into conservatorship in September 2008, we have provided 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. The approximately $3.3 trillion in liquidity we have provided to the mortgage market from 2009 through 2012 through our purchases and guarantees of loans enabled borrowers to complete 9.7 million mortgage refinancings and 2.7 million home purchases and provided financing for 1.7 million units of multifamily housing.
- We strengthened our underwriting and eligibility standards to support sustainable homeownership. As a result, our new single-family book of business has a strong credit risk profile. Our support enables borrowers to have access to a variety of conforming mortgage products, including long-term, fixed-rate mortgages, such as the prepayable 30-year fixed-rate mortgage that protects homeowners from interest rate swings.
- Through our loan workout efforts from 2009 through 2012, which included providing over 879,000 loan modifications, we helped 1.2 million homeowners stay in their homes or otherwise avoid foreclosure. These efforts helped to support neighborhoods, home prices and the housing market.
- We helped borrowers refinance loans. From April 1, 2009, the date we began accepting delivery of loans through our Refi Plus initiative, through December 31, 2012, we acquired approximately 2.8 million Refi Plus loans. Refinancings delivered to us through Refi Plus in the fourth quarter of 2012 reduced borrowers' monthly mortgage payments by an average of $237. Some borrowers' monthly payments increased as they took advantage of the ability to refinance through Refi Plus to reduce the term of their loan, to switch from an adjustable-rate mortgage to a fixed-rate mortgage or to switch from an interest-only mortgage to a fully amortizing mortgage.
- We support affordability in the multifamily rental market. Over 85% of the multifamily units we financed from 2009 through 2012 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 more detail in "Business Segments—Capital Markets."

2012 Acquisitions and Market Share

As the leading provider of residential mortgage credit, we enable families to buy, refinance or rent a home. During 2012, we purchased or guaranteed approximately $918 billion in single-family and multifamily loans, measured by unpaid principal balance, which includes $45.8 billion in delinquent loans we purchased from our single-family MBS trusts. Our 2012 single-family acquisitions exceeded our 2011 acquisitions by more than a million loans, primarily as a result of lower interest rates in 2012 and the implementation of changes to HARP. Our activities enabled our lender customers to finance approximately 3,898,000 single-family conventional loans and loans for approximately 559,000 units in multifamily properties during 2012.

One of FHFA's strategic goals for our conservatorship involves gradually contracting our dominant presence in the marketplace. Despite this goal, our market share remains large and even increased in 2012 as we have continued to meet the needs of the single-family mortgage market in the absence of substantial private capital. We currently estimate that our single-family market share was 43% in 2012, compared with 37% in 2011. 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 2012, with an estimated market share of new single-family mortgage-related securities issuances of 48%, compared with 52% in the third quarter of 2012 and 54% in the fourth quarter of 2011. For all of 2012, we estimate our market share of new single-family mortgage-related securities issuances was 49%, compared with 48% for 2011.

We remained a constant source of liquidity in the multifamily market in 2012. We owned or guaranteed approximately 22% of the outstanding debt on multifamily properties as of December 31, 2012.

Helping to Build a New Housing Finance System

In addition to serving as the leading source of residential mortgage credit in the secondary market, we are committed to doing our part to improve the mortgage finance system. We have devoted significant resources towards helping to build a new housing finance system for the future, primarily through pursuing the strategic goals identified by our conservator. In February 2012, the Acting Director of FHFA sent a letter to Congress in which he provided FHFA's strategic plan for Fannie Mae and Freddie Mac's conservatorships. The plan identified three strategic goals for the conservatorships:

- Build. Build a new infrastructure for the secondary mortgage market;
- Contract. Gradually contract Fannie Mae and Freddie Mac's dominant presence in the marketplace while simplifying and shrinking their operations; and
- Maintain. Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages.

In March 2012, FHFA directed us to implement a set of corporate performance objectives and related targets for 2012, referred to as the 2012 conservatorship scorecard, which provides the implementation roadmap for FHFA's strategic plan for Fannie Mae and Freddie Mac. As described in "Executive Compensation—Compensation Discussion and Analysis—Determination of 2012 Compensation—Assessment of Corporate Performance on 2012 Conservatorship Scorecard," we met substantially all of the 2012 conservatorship scorecard objectives.

Liquidity

During 2012, we issued a variety of non-callable and callable debt securities in a wide range of maturities to achieve cost-efficient funding and to extend our debt maturity profile. We believe that our ready access to debt funding since the beginning of 2009 has been primarily due to the actions taken by the federal government to support us and the financial markets. Accordingly, we believe that continued federal government support of our business and the financial markets, 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 and the financial markets or our status as a GSE could materially and adversely affect our liquidity, financial condition and results of operations, or our ability to continue as a going concern. Demand for our debt securities could decline in the future, as the Administration, Congress and our regulators debate our future. See "MD&A—Liquidity and Capital Management—Liquidity Management" for more information on our debt funding activities and "Risk Factors" for a discussion of the risks to our business posed by our reliance on the issuance of debt securities to fund our operations.

Outlook

Financial Results and Dividend Payments to Treasury. Our financial results improved significantly in 2012, and we expect our annual net income to remain strong over the next few years. As a result of home price increases and improvement in the performance of our book of business, our total loss reserves decreased in 2012, which corresponded to the recognition of a benefit (rather than a provision) for credit losses. Because loans remain in our book of business for a number of years, the credit quality of and guaranty fee we charge on the loans we acquire in a particular year affects our results for a period of years after we acquire them. Accordingly we expect improvements in the credit quality of our loan acquisitions since 2009 and increases in our charged guaranty fees on recently acquired loans to benefit our results for years to come, especially because these loans have relatively low interest rates, making them less likely to be refinanced.

If we release our valuation allowance against our deferred tax assets in a future period, our net income, but not our pre-tax income, will be significantly favorably impacted in that period. Our effective tax rate will change for the years after a release of our valuation allowance, which will reduce any positive net income we record. While we maintain the valuation allowance, our recorded effective tax rate has been at or close to zero because changes in our deferred tax asset balance have been offset by corresponding changes in our valuation allowance. Although we have not completed the analysis, we believe that, after considering all relevant factors, we may release the valuation allowance as early as the first quarter of 2013. We discuss the factors that may lead to a release of our valuation allowance and the tax impact in more detail in "MD&A—Critical Accounting Policies and Estimates—Deferred Tax Assets."

In compliance with our dividend obligation to Treasury, we will retain only a limited amount of any future earnings we have, and we will 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 $3.0 billion for each quarter of 2013 and decreases annually until it reaches zero in 2018.

One of our objectives is to pay taxpayers for their investment in our company. While the senior preferred stock purchase agreement does not permit us to pay down draws we have made under the agreement except in limited circumstances, in 2012 we returned a total of $11.6 billion on taxpayers' investment in us through dividends on the senior preferred stock, and, through March 31, 2013, we have paid a total of $35.6 billion. As of December 31, 2012, we have received a total of $116.1 billion.

Overall Market Conditions. We expect that single-family mortgage loan delinquency and severity rates will continue their downward trend, but that single-family delinquency, default and severity rates will remain high compared to pre-housing crisis levels. Despite multifamily sector improvement at the national level, we expect certain local markets and properties will continue to exhibit weak fundamentals. We expect the level of multifamily foreclosures in 2013 will generally remain commensurate with 2012 levels. Conditions may worsen if the unemployment rate increases on either a national or regional basis.

We forecast that total originations in the U.S. single-family mortgage market in 2013 will decrease from 2012 levels by approximately 15% from an estimated $1.93 trillion to $1.65 trillion, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will decrease from an estimated $1.40 trillion in 2012 to $1.03 trillion in 2013. Refinancings comprised approximately 79% of our single-family business volume in 2012, compared with approximately 76% in 2011.

Home Prices. After declining by an estimated 23.8% from their peak in the third quarter of 2006 to the first quarter of 2012, based on our home price index, we estimate that home prices on a national basis increased by 4.7% in 2012 overall and by 0.5% in the fourth quarter of 2012. Although home price growth may not continue at 2012 rates, we expect that, if current market trends continue, home prices will increase on a national basis overall in 2013. 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 actions the federal government has taken and may take with respect to tax policies, spending cuts, mortgage finance programs and policies, and housing finance reform; the management of the Federal Reserve's MBS holdings; 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 the economic uncertainty in Europe. Because of these uncertainties, the actual home price changes we experience may differ significantly from our expectations. 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. We realize losses on loans, through our charge-offs, when foreclosure sales are completed or when we accept short sales or deeds-in-lieu of foreclosure. We expect our credit losses to remain high in 2013 relative to pre-housing crisis levels. In addition, to the extent the slow pace of foreclosures continues in 2013, our realization of some credit losses will be delayed.

Loss Reserves. We expect the trends of improving home prices and declining single-family serious delinquency rates to continue. As a result of these trends, we believe that our total loss reserves peaked at $76.9 billion as of December 31, 2011. However, we expect our loss reserves will remain significantly elevated relative to historical levels 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.

Future Revenues and Profitability. Historically, we have generated the majority of our net revenues from the difference between the interest income earned on the assets in our mortgage portfolio and the interest expense associated with the debt funding of those assets. As we discuss in “Conservatorship and Treasury Agreements—Treasury Agreements—Covenants under Treasury Agreements,” we are required to reduce the size of our mortgage portfolio each year until we hold no more than $250 billion in mortgage assets by the end of 2018. As we reduce the size of our mortgage portfolio, our revenues generated by our mortgage portfolio assets will also decrease. If current market conditions continue, we expect that these declines in our revenues will generally be offset by rising guaranty fee revenue received for managing the credit risk on loans underlying Fannie Mae MBS held by third parties. We recognize almost all of our guaranty fee revenue in net interest income in our consolidated statements of operations and comprehensive income (loss). We expect that, in a number of years, guaranty fees will become the primary source of our revenues as a result of both the shrinking of our portfolio and the impact of guaranty fee increases in 2011 and 2012. Any future increases in guaranty fees will likely only further increase our guaranty fee revenue. The amount of our guaranty fee revenue in future periods will be impacted by many factors, including adjustments to guaranty fee pricing we may make in the future, which we discuss in "Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue." As our effective guaranty fee revenue increases in future periods, we expect our credit losses will decrease as a result of the higher credit quality of our new book of business, the decrease in our legacy book, and anticipated lower severity at the time of charge-off.

Uncertainty Regarding our Future Status. There is significant uncertainty regarding the future of our company, 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, and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated. We expect this uncertainty to continue.

In 2011, Treasury and the Department of Housing and Urban Development ("HUD") released a report to Congress on reforming America's housing finance market. The report states that the Administration will work with FHFA to determine the best way to responsibly wind down both Fannie Mae and Freddie Mac. The report emphasizes the importance of providing the necessary financial support to Fannie Mae and Freddie Mac during the transition period. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding long-term reform of the GSEs. See "Legislative and Regulatory Developments" for discussions of recent legislative reform of the financial services industry and proposals for GSE reform that could affect our business. See "Risk Factors" for a discussion of the risks to our business relating to the uncertain future of our company.

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, including estimates and expectations regarding our future financial results and profitability, our future dividend payments to Treasury, our future revenues from guaranty fees, the profitability and performance of single-family loans we have acquired, our future acquisitions, our future REO inventory, our future delinquency, default and severity rates, our future credit losses and loss reserves, future housing market conditions, performance and volumes and future home prices. These estimates and expectations are forward-looking statements based on our current assumptions regarding numerous factors, especially future home prices and the future performance of our loans. Our future estimates of our performance, as well as the actual amounts, 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; our future serious delinquency rates; future legislative or regulatory requirements that have a significant impact on our business, such as a requirement that we implement a principal forgiveness program; future updates to our models relating to our loss reserves, including the assumptions used by these models; future changes to accounting policies relating to our loss reserves; 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 loan; 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; changes in the fair value of our assets and liabilities; impairments of our assets; changes in generally accepted accounting principles ("GAAP"); credit availability; natural and other disasters and many 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 December 31, 2012. After increasing every quarter since record keeping began in 1952 until the second quarter of 2008, single-family mortgage debt outstanding has been steadily declining since then. We owned or guaranteed mortgage assets representing approximately 29% of total U.S. residential mortgage debt outstanding as of December 31, 2012.

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

The inflation-adjusted U.S. gross domestic product, or GDP, for 2012 was 2.2% higher than for 2011, according to the Bureau of Economic Analysis second estimate, compared with an increase of 1.8% from 2010 to 2011. According to the U.S. Bureau of Labor Statistics as of March 2013, the economy created 2.3 million non-farm jobs in 2012, compared with 2.1 million non-farm jobs in 2011. At the start of the recession in December 2007, the unemployment rate was 5.0%, based on data from the U.S. Bureau of Labor Statistics, and the unemployment rate peaked at a 26-year high of 10.0% in October 2009. The unemployment rate declined from 8.5% in December 2011 to 7.8% in December 2012. In February 2013, non-farm payrolls increased by 236,000 jobs, and the unemployment rate decreased to 7.7%. We expect the unemployment rate to decline gradually in 2013.

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), was 14.3% in February 2013, substantially lower than the record high of 17.1% in October 2009.

Housing activity improved in 2012 from depressed levels in 2011. Total existing home sales of 4.66 million units in 2012 represent an increase of 9.4% from 2011, following a 1.7% increase in 2011, while mortgage rates reached new lows and home prices remained low. Sales of foreclosed homes and preforeclosure, or “short,” sales (together, “distressed sales”) accounted for 24% of existing home sales in December 2012, compared with 32% in December 2011, according to the National Association of REALTORS®. New home sales increased in 2012 after declining for six consecutive years, rising 19.9%. Homebuilding activity in 2012 improved, as single-family housing starts rose approximately 24%, while multifamily starts rose approximately 38%.

At the end of 2012, the number of months’ supply, or the inventory/sales ratio, of available existing homes and of new homes were each below their historical average. The number of new homes available for sale remained near record lows in December 2012. According to the Bureau of the Census’ January 2013 New Residential Sales Report, the months’ supply was 4.8 months as of December 31, 2012. For existing homes, the months’ supply fell sharply in the fourth quarter of 2012 as a result of rising sales in the quarter and a persistent decline in the number of existing homes available for sale in the second half of 2012. According to data through February 2013 from the National Association of REALTORS®, the months’ supply of existing unsold homes was 4.5 months as of December 31, 2012, compared with a 6.4 months’ supply as of December 31, 2011. The overall mortgage market serious delinquency rate remained historically high at 6.8% as of December 31, 2012, according to the Mortgage Bankers Association National Delinquency Survey, but has declined from its peak of 9.7% as of December 31, 2009 and 7.7% as of December 31, 2011. We provide information about Fannie Mae’s serious delinquency rate, which also decreased during 2012, in “Executive Summary—Credit Performance.”

The table below presents several key indicators related to the total U.S. residential mortgage market.
Table 5: Housing and Mortgage Market Indicators[(1)]

	2012	2011	2010	% Change 2012 vs. 2011	% Change 2011 vs. 2010
Home sales (units in thousands)	5,027	4,566	4,513	10.1 %	1.2 %
New home sales	367	306	323	19.9	(5.3)
Existing home sales	4,660	4,260	4,190	9.4	1.7
Home price change based on Fannie Mae Home Price Index ("HPI")[(2)]	4.7 %	(3.7)%	(4.4)%	—	—
Annual average fixed-rate mortgage interest rate[(3)]	3.7 %	4.5 %	4.7 %	—	—
Single-family mortgage originations (in billions)	$1,925	$1,498	$1,679	28.5	(10.8)
Type of single-family mortgage origination:					
Refinance share	72 %	66 %	68 %	—	—
Adjustable-rate mortgage share	5 %	6 %	5 %	—	—
Total U.S. residential mortgage debt outstanding (in billions)	$10,790	$11,008	$11,259	(2.0)	(2.2)

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(1) The sources of the housing and mortgage market data in this table are the Federal Reserve Board, the Bureau of the Census, 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 January 2013. Single-family mortgage originations, as well as refinance shares, are based on February 2013 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.

After declining by an estimated 23.8% from their peak in the third quarter of 2006 to the first quarter of 2012, home prices increased on a national basis by an estimated 4.7% overall in 2012, with an estimated increase of 0.5% in the fourth quarter. Our home price estimates are based on preliminary data and are subject to change as additional data become available.

We estimate that total single-family mortgage originations in 2012 increased from 2011 levels by 29% to $1.9 trillion, with a purchase share of 28% and a refinance share of 72%.

Since the second quarter of 2008, single-family mortgage debt outstanding has been steadily declining due to a number of factors including declining home sales and prices, rising foreclosures, increased cash sales, and reduced home equity extraction. Total U.S. residential mortgage debt outstanding fell by 2.0% from the fourth quarter of 2011 to the fourth quarter of 2012.

Despite recent improvement in the housing market and declining delinquency rates, approximately one out of nine borrowers was delinquent or in foreclosure during the fourth quarter of 2012, according to the Mortgage Bankers Association National Delinquency Survey. The housing market remains under pressure due to the high level of unemployment, which was a primary driver of the significant number of mortgage delinquencies and defaults in 2012. Many homeowners continue to have "negative equity" in their homes as a result of declines in home prices since 2006, which means their principal mortgage balance exceeds the current market value of their home. This increases the likelihood that borrowers will walk away from 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 fourth quarter of 2012 was approximately 10.4 million, down from its peak of 12.1 million in the fourth quarter of 2011. The percentage of properties with mortgages in a negative equity position in the fourth quarter of 2012 was 21.5%, down from 25.2% in the fourth quarter of 2011 and its peak of 25.7% reached in the fourth quarter of 2009. The elevated, albeit declining, potential supply may be putting downward pressure on home prices.

National multifamily market fundamentals, which include factors such as vacancy rates and rents, remained positive during 2012, but began to show signs of slowing during the fourth quarter. Vacancy levels remained near historic lows, benefiting from sustained rental demand coupled with ongoing job growth and new household formation. Although vacancy rates declined through most of 2012, the national vacancy level for the fourth quarter of 2012 is estimated to have remained at 5.50%, based on third-party data, which is the same level that was estimated for the third quarter of 2012, but down from an estimated 6.25% in the fourth quarter of 2011. While vacancy levels are expected to have remained the same, average asking rents are expected to have increased once again, by an estimated 0.5% on a national basis in the fourth quarter of 2012, continuing a trend over nearly three years. The increase in overall rental demand was also reflected in an estimated increase of approximately 47,000 units in the net number of occupied rental units during the fourth quarter of 2012, according to data from Reis, Inc. That brings the total estimated net absorption for the year (that is, the net change in the number of units occupied over the year) to approximately 140,000 units.

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, followed by a leveling off in the second half of 2012, have helped boost property values in most metropolitan areas in 2012, as well as new construction development. As a result, over-supply may occur over the next 24 months in some localized areas. 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 household formation trends and expected increases in the population of 20- to 34-year olds, which as a group rents multifamily housing at a higher rate than other groups.

MORTGAGE SECURITIZATIONS

We support market liquidity by securitizing mortgage loans, which means we place loans in a trust and Fannie Mae MBS backed by the mortgage loans are then issued. 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 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 that is established for the sole purpose of holding the mortgage loans separate and apart from our 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 the fee for providing our guaranty. 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 mortgage portfolio.

Features of Our MBS Trusts

We serve as trustee for our MBS trusts, each of which is established for the sole purpose of holding mortgage loans separate and apart from our assets. 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 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 2012, we purchased delinquent loans with an unpaid principal balance of approximately $45.8 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 constraints, including the limit on the amount of mortgage assets that we may own pursuant to the senior preferred stock purchase agreement.

For our multifamily MBS trusts, we typically exercise our option to purchase a loan from the trust if the loan is delinquent, in whole or in part, as to four or more consecutive monthly payments.

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 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 expire, cash flows received on the underlying mortgage assets are allocated to the remaining classes in accordance with the terms of the securities' structures. 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 purchases of loans 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 loans through home retention solutions and foreclosure alternatives, through management of 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 mortgage portfolio or in consolidated trusts, which are recorded as a reduction to our interest income Fee and other income: Compensation received for providing lender services	Credit-related expenses: 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, which we expect will increase in future periods, from increases in our guaranty fees required by the TCCA
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 loans through foreclosure alternatives, through management of foreclosures and REO, and through pursuing contractual remedies from lenders, servicers	Guaranty fees: Compensation for assuming and managing the credit risk on our multifamily guaranty book of business Fee and other income: Compensation received for engaging in multifamily transactions and bond credit enhancements	Credit-related expenses: Consists of provision for multifamily loan losses, provision for multifamily guaranty 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

and providers of credit
enhancement

Business Segment	Primary Business Activities	Primary Drivers of Revenue	Primary Drivers of Expense
Capital Markets	Mortgage and other investments: Purchases mortgage assets and makes investments 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	Fair value gains and losses: Primarily consists of fair value gains and losses on derivatives and trading securities Investment gains and losses: Primarily consists of gains and losses on the sale or securitization of mortgage assets Other-than-temporary impairment: Consists of impairment 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

The following table displays the percentage of our total net revenues accounted for by our business segments for each of the last three years. For more information about the financial results and performance of each of our segments, see "MD&A—Business Segment Results" and "Note 13, Segment Reporting."

Business Segment Revenues[(1)]

	For the Year Ended December 31,		
	2012	2011	2010
Single-Family Credit Guaranty	35 %	28 %	12 %
Multifamily[(2)]	5	5	5
Capital Markets	55	63	77

(1) Amounts presented represent the percentage of our total net revenues accounted for by each of our business segments. The sum of net revenues for our three business segments does not equal our consolidated total net revenues because we separate the activity related to our consolidated trusts from the results generated by our three segments.

(2) These amounts do not include the net interest income we earn on our multifamily investments in our mortgage portfolio, which is reflected in the revenues of our Capital Markets segment.

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 purchases of loans. 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 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 Department of Veterans Affairs (“VA”), loans guaranteed by the Rural Development Housing and Community Facilities Program of the 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 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 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. Other factors affecting the amount of Fannie Mae MBS outstanding are the extent to which (1) borrower defaults lead us to purchase loans from our MBS trusts (with the amount of these purchases affected by the rate of borrower defaults on the loans and the extent of loan modification programs in which we engage) and (2) sellers and servicers repurchase loans from us upon our demand based on a breach in the selling representations and warranties provided upon delivery of the loans.

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 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 portfolio, our Single-Family business securitizes loans solely in lender swap transactions, in which lenders deliver to us pools of mortgage loans, which are placed immediately in a trust, in exchange for Fannie Mae MBS backed by these loans. 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 fee prices 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 Repurchases

Servicing

Generally, the servicing of the mortgage loans that are held in our mortgage portfolio or that back our Fannie Mae MBS is performed by mortgage servicers on our behalf. Typically, lenders who sell single-family mortgage loans to us service these loans for 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 prepayment premiums, 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—to prevent empty homes from depressing home values. In cases where the property does not sell, we use alternative methods of disposition, including selling homes to cities, municipalities and other public entities, 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 issue repurchase demands to the seller or other responsible party and seek to collect on our repurchase claims. We discuss changes we are making to our post-purchase loan review process 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."

Multifamily Business

A core part of Fannie Mae's mission is to support the U.S. multifamily housing market to help serve the nation's rental housing needs, focusing on low- to middle-income households and communities. 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. We have also offered debt financing structures that can be used to facilitate construction loans. Our Multifamily business also works with our Capital Markets group to facilitate the purchase and securitization of multifamily mortgage loans and securities for Fannie Mae's portfolio, as well as to facilitate portfolio securitization and resecuritization activities. Our multifamily guaranty book of business consists of multifamily mortgage loans underlying Fannie Mae MBS and multifamily loans and securities held in our mortgage portfolio. Our Multifamily business has primary responsibility for pricing the credit risk on our multifamily guaranty book of business and for managing the credit risk on multifamily loans and Fannie Mae MBS backed by multifamily loans that are held in our mortgage portfolio.

Revenues for our Multifamily business are derived from a variety of sources, including: (1) guaranty fees received as compensation for assuming the credit risk on the mortgage loans underlying multifamily Fannie Mae MBS and on the multifamily mortgage loans held in our portfolio and on other mortgage-related securities; (2) transaction fees associated with the multifamily business and (3) other bond credit enhancement related fees. Additionally, our Capital Markets group earns revenue that is related to our multifamily mortgage loans and securities held in our portfolio.

We describe the credit risk management process employed by our Multifamily business, along with 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."

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.
- Number of lenders; lender relationships: During 2012, we executed multifamily transactions with 33 lenders. Of these, 24 lenders delivered loans to us under our Delegated Underwriting and Servicing, or DUS®, product line. In determining whether to do business 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 $5 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.
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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 purchase.
- Underwriting process: Multifamily loans require detailed underwriting similar in many respects to that required for loans for an operating business. 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: Multifamily Fannie Mae loans and MBS trade in a market in which investors expect commercial investment terms, particularly limitations on prepayments of loans and the imposition of prepayment premiums.

Multifamily Mortgage Securitizations and Acquisitions

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 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.

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.

We believe our DUS model aligns the interests of the borrower, 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

As with the servicing of single-family mortgages, 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 all our servicing relationships and enforce our right to approve all 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, from those at the lower end of the income range up through middle-income households. 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, 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, 2012, they represented 66% of our multifamily guaranty book of business by loan count and 15% 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 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, 2012, this type of financing represented approximately 14% of our multifamily guaranty book of business, based on unpaid principal balance, including $15.7 billion in bond credit enhancements.

Capital Markets

Our Capital Markets group manages our investment activity in mortgage-related assets and other interest-earning non-mortgage investments. We fund our investments 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 more on making short-term use of our balance sheet 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 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 investment 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. Our Capital Markets group earns transaction fees for creating structured Fannie Mae MBS for third parties. 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 a wide variety of mortgage assets, including non-standard mortgage loan products; segregating customer portfolios to obtain optimal pricing for their mortgage loans; and assisting customers with hedging their mortgage business. These activities provide a significant flow of assets for our mortgage portfolio, help to create a broader market for our customers and enhance liquidity in the secondary mortgage market.

Mortgage Asset Portfolio

Although our Capital Markets group's business activities are focused on short-term financing and investing, 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 mortgage asset portfolio. Over time, we expect these revenues to decrease as the maximum allowable amount of mortgage assets we may own decreases each year to 85% of the amount we were permitted to own the previous year under our senior preferred stock purchase agreement with Treasury. 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."

Investment and Financing Activities

Our Capital Markets group seeks to increase the liquidity of the mortgage market by maintaining a presence as an active investor in mortgage loans and mortgage-related securities and, in particular, supports the liquidity and value of Fannie Mae MBS in a variety of market conditions.

Our Capital Markets group funds its investments 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 investment and financing activities are affected by market conditions and the target rates of return that we expect to earn on the equity capital underlying our investments. Our investment activities also are subject to contractual limitations, including the provisions of the senior preferred stock purchase agreement with Treasury, capital requirements (although our regulator has announced that these are not binding on us during conservatorship) and other 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 its authority under 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 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. 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 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, 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 instructions, increasing the number of matters that require conservator approval before we may take action. Management must consult with and obtain the written approval of the conservator before taking action in any of the areas specified in "Directors, Executive Officers and Corporate Governance—Corporate Governance—Conservatorship and Delegation of Authority to Board of Directors." 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 do not have any 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 addition, the conservator directed the Board to consult with and obtain the approval of the conservator before taking action in specified areas, as described in "Directors, Executive Officers and Corporate Governance—Corporate Governance—Conservatorship and Delegation of Authority to Board of Directors."

Because we are in conservatorship, our common shareholders 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 business strategy and the goals of the conservatorship, see "Executive Summary—Our Business Objectives and Strategy" and "—Helping to Build a New Housing Finance System."

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. As of April 2, 2013, FHFA has not exercised its power to transfer or sell our assets or liabilities. 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—Regulation and Oversight of Our Activities—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

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other reasons, including conditions that FHFA has already asserted existed at the time the Director of FHFA placed us into conservatorship. Placement into receivership would 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 subsequently amended on September 26, 2008, 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.

August 2012 Amendment to Senior Preferred Stock Purchase Agreement with Treasury

The August 2012 amendment revised the terms of the senior preferred stock purchase agreement and the related senior preferred stock in the following ways:

- Dividends. The method for calculating the amount of dividends we are required to pay Treasury on the senior preferred stock was changed, as described more fully below in "Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant—Senior Preferred Stock."
- Periodic Commitment Fee. A periodic commitment fee provided for under the agreement was suspended, as long as the changes to the dividend payment provisions referenced above remain in effect.
- Transfer-of-Assets Covenant. The transfer-of-assets covenant contained in the agreement was amended to allow the company to dispose of assets and properties at fair market value, in one transaction or a series of related transactions, without requiring the prior written consent of Treasury, if such assets have a fair market value individually or in the aggregate of less than $250 million, regardless of whether or not the transaction is in the ordinary course of business.
- Mortgage Assets Covenant. The mortgage assets covenant contained in the agreement was amended to accelerate the reduction of our mortgage asset portfolio, decreasing our mortgage asset cap to $250 billion by 2018, rather than by 2022. Limits on the amount of mortgage assets we may own are described in "Covenants under Treasury Agreements—Mortgage Asset Limit."
- Annual Risk Management Plan Covenant. A new covenant was added requiring that we provide an annual risk management plan to Treasury not later than December 15 of each year we remain in conservatorship, as described more fully below. We submitted our risk management plan to Treasury in December 2012.

In its August 17, 2012 announcement regarding the modifications to the senior preferred stock purchase agreement, Treasury stated that the modifications will help achieve several important objectives, including:

- making sure that every dollar of earnings that Fannie Mae and Freddie Mac generate will be used to benefit taxpayers for their investment in those firms;
- ending the circular practice of Treasury advancing funds to the GSEs simply to pay dividends back to Treasury;
- acting upon the commitment made in the Administration's 2011 White Paper that the GSEs will be wound down and will not be allowed to retain profits, rebuild capital, and return to the market in their prior form;
- supporting the continued flow of mortgage credit by providing borrowers, market participants and taxpayers with additional confidence in the ability of the GSEs to meet their commitments while operating under conservatorship; and
- providing greater market certainty regarding the financial strength of the GSEs.

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 generally 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").

In December 2009, the maximum amount of Treasury's funding commitment to us under the senior preferred stock purchase agreement was increased pursuant to an amendment to the agreement. The amendment provided that the $200 billion maximum amount of the commitment from Treasury would increase as necessary to accommodate any net worth deficiencies attributable to periods during 2010, 2011 and 2012. The amendment further provided that to the extent we had a positive net worth as of December 31, 2012, the maximum amount of funding available to us after 2012 would depend on the size of that positive net worth relative to our cumulative draws for net worth deficiencies attributable to periods during 2010, 2011 and 2012, as follows:

- If our positive net worth as of December 31, 2012 was less than the cumulative draws for net worth deficiencies attributable to periods during 2010, 2011 and 2012, then the amount of available funding would have been $124.8 billion less our positive net worth as of December 31, 2012.
- If our positive net worth as of December 31, 2012 was greater than the cumulative draws for net worth deficiencies attributable to periods during 2010, 2011 and 2012, then the amount of available funding would have been $124.8 billion less the cumulative draws attributable to periods during 2010, 2011 and 2012.

Because our $7.2 billion positive net worth as of December 31, 2012 was less than our $40.9 billion in cumulative draws attributable to periods during 2010, 2011 and 2012, the amount of remaining available funding under the senior preferred stock purchase agreement is $117.6 billion.

In announcing the December 24, 2009 amendments to the senior preferred stock purchase agreement and to Treasury's preferred stock purchase agreement with Freddie Mac, Treasury noted that the amendments "should leave no uncertainty about the Treasury's commitment to support [Fannie Mae and Freddie Mac] as they continue to play a vital role in the housing market during this current crisis." 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.

We were scheduled to begin paying a quarterly commitment fee to Treasury under the senior preferred stock purchase agreement on March 31, 2011; however, Treasury waived the quarterly commitment fee for each quarter of 2012 and 2011. Effective January 1, 2013, the periodic commitment fee provided for under the agreement was suspended, as long as the changes to the dividend payment provisions added to the senior preferred stock purchase agreement in August 2012 remain in effect.

The senior preferred stock purchase agreement provides that the 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, 2012.

Treasury, as holder of the senior preferred stock, is entitled to receive, when, as and if declared by our Board of Directors, out of legally available funds, cumulative quarterly cash dividends. 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. 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 will be $3.0 billion during 2013 and will 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 the transaction is in the ordinary course of business and consistent with past practice or 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; and
- 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 rules of the Securities and Exchange Commission (the “SEC”)) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury.

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, 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. The maximum allowable amount was reduced to $650 billion on December 31, 2012. In the absence of the August 2012 amendment to the senior preferred stock purchase agreement, the amount would have been reduced to $656.1 billion. Based on the senior preferred stock purchase agreement’s definition of mortgage asset, our mortgage assets on December 31, 2012 were $633.1 billion. 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 (rather than 90% as provided by the agreement prior to its August 2012 amendment), until the amount of our mortgage assets reaches $250 billion. Accordingly, the maximum allowable amount of mortgage assets we may own on December 31, 2013 is $552.5 billion. 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. 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.
- Debt Limit. We are subject to a limit on the amount of our indebtedness. Our debt limit in 2012 was $874.8 billion and in 2013 is $780.0 billion. For every year thereafter, our debt cap will equal 120% of the amount of mortgage assets we are allowed to own 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, 2012 was $621.8 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.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

GSE Reform

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, calls for enactment of meaningful structural reforms of Fannie Mae and Freddie Mac. The Dodd-Frank Act also required the Treasury Secretary to submit a report to Congress with recommendations for ending the conservatorships of Fannie Mae and Freddie Mac. In February 2011, the Administration released a white paper 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's and Freddie Mac's role in the market and ultimately wind down both institutions.

The report identifies a number of policy steps that could be used to wind down Fannie Mae and Freddie Mac, reduce the government's role in housing finance and help bring private capital back to the mortgage market. These steps include (1) increasing guaranty fees, (2) gradually increasing the level of required down payments so that any mortgages insured by Fannie Mae or Freddie Mac eventually have at least a 10% down payment, (3) reducing conforming loan limits to those established in the Federal Housing Finance Regulatory Reform Act of 2008 (the "2008 Reform Act"), (4) encouraging Fannie Mae and Freddie Mac to pursue additional credit loss protection and (5) reducing Fannie Mae's and Freddie Mac's portfolios, consistent with Treasury's senior preferred stock purchase agreements with the companies. 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. The first option would privatize housing finance almost entirely. The second option would add a government guaranty mechanism that could scale up during times of crisis. The third option would involve the government offering catastrophic reinsurance behind private mortgage guarantors.

In early 2012, Treasury Secretary Geithner stated that the Administration intended to release new details around approaches to housing finance reform, including a transition plan for Fannie Mae and Freddie Mac, and to work with congressional leaders to explore options for legislation. As of the date of this filing, no further details have been released.

Also in early 2012, the Acting Director of FHFA provided a strategic plan for Fannie Mae and Freddie Mac's conservatorships. On March 4, 2013, the Acting Director of FHFA released the 2013 Conservatorship Scorecard for Fannie Mae and Freddie Mac, which details specific priorities that build upon the goals in the strategic plan. At that time, FHFA announced that, to further the goal of building a common securitization platform that would be able to function like a market utility, a new business entity will be established by Fannie Mae and Freddie Mac that will be separate from the two companies. The new business entity will be designed to operate as a replacement for some of Fannie Mae and Freddie Mac's legacy infrastructure. The scorecard also established priorities relating to the goal that we contract our dominant presence in the marketplace. In support of this goal, FHFA set as goals that we (1) demonstrate the viability of multiple types of risk transfer transactions involving single-family mortgages with at least $30 billion of unpaid principal balances in 2013 and (2) reduce the unpaid principal balance of new multifamily business relative to 2012 by at least 10% by tightening underwriting, adjusting pricing and limiting product offerings, while not increasing the proportion of our retained risk.

During the last congressional session, several bills were introduced in the House of Representatives and the Senate to reform the housing finance system. These bills would have placed the GSEs into receivership after a period of time and either granted federal charters to new entities to engage in activities similar to those currently engaged in by the GSEs or left secondary mortgage market activities to entities in the private sector.

In addition, numerous bills were referred to the Committee on Financial Services of the House of Representatives on discrete topics related to the activities and operations of the enterprises. Of these bills, only legislation that would have placed GSE employees on a government pay scale was approved by the full Committee.

Congress passed two bills that were signed into law relating to GSE operations or activities. These bills increased the guaranty fees of the GSEs in order to offset the cost of a two month extension of the payroll tax cut in 2012 and prohibited the payment of bonuses to senior executives at the GSEs during conservatorship. In addition, the House, but not the Senate, passed legislation that would have placed GSE obligations on the federal budget and made them subject to the debt ceiling, as well as required receipts and disbursements of the GSEs to be counted in the federal budget. For legislation to be considered in the congressional session that convened in January 2013 and runs through 2014, the legislation must be reintroduced and begin the legislation process again.

We expect Congress to continue consideration of housing finance reform in the current congressional session, including hearings on GSE reform and the consideration of legislation that may alter the housing finance reform system or the activities or operations of the GSEs.

In sum, there continues to be 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. 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.

Financial Regulatory Reform Legislation: The Dodd-Frank Act

The Dodd-Frank Act is significantly changing the regulation of the financial services industry, resulting in 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 affected and will continue to directly affect our business through new and expanded regulatory oversight and standards that apply or will apply to us. We may also be 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. Extensive regulatory guidance is still needed to implement and clarify many of the provisions of the Dodd-Frank Act and regulators have not completed many of the required administrative processes, which has created uncertainty for industry participants in some areas. It is therefore difficult to assess fully the impact of this legislation on our business and industry at this time. 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 legislation, as well as some rules that have been proposed by various government agencies to implement provisions of the Dodd-Frank Act. We are currently evaluating these proposed rules and how they may impact our business and the housing finance industry.

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 whose failure could pose a threat to the financial stability of the United States—not just banks—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 certain bank holding companies and to FSOC-designated systemically important nonbank financial companies. The Federal Reserve must establish standards related to risk-based capital, leverage limits, liquidity, credit concentrations, resolution plans, reporting credit exposures and other risk management measures. On December 20, 2011, the Board of Governors of the Federal Reserve System issued proposed rules addressing a number of these enhanced prudential standards. The Federal Reserve may also impose other standards related to contingent capital, enhanced public disclosure, short-term debt limits and other requirements as appropriate.

In April 2012, the FSOC adopted a three-step analysis process to determine whether a non-bank financial institution should be designated as a systemically important financial institution and thereby subject to Federal Reserve supervision. The process includes an opportunity for a company that could be designated as a systemically important financial institution to submit written materials to the FSOC related to its potential designation. In making its determinations, factors the FSOC may consider include: company size, leverage, interconnectedness, liquidity risk, maturity mismatch, importance to the economic system and the extent to which a company is already regulated.

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.

In addition to changes that directly result from the Dodd-Frank Act, the capital and liquidity regimes for the banking industry are also undergoing changes as a result of actions by international bank regulators. The Basel Committee on Banking Supervision issued a set of revisions (known as Basel III) to the international capital requirements in December 2010. Whereas the existing Basel II standards revised the risk-weighting process for assets, Basel III, which complements Basel II, generally narrowed the definition of capital that can be used to meet risk-based standards and raised the amount of capital that must be held. Basel III also introduced international liquidity requirements for the first time. The international Basel standards require adoption by the domestic bank regulatory authorities before they become operative in the United States. Typically U.S. bank regulatory authorities adopt Basel standards with adjustments that take into account U.S. banking law and other relevant considerations.

Minimum Capital and Margin Requirements; Swap Transactions. The Commodity Futures Trading Commission (the "CFTC") and the SEC issued a joint final rule in May 2012 that, among other items, established the definitions of "swap dealer," "security-based swap dealer," "major swap participant" and "major security-based swap participant" under the Dodd-Frank Act. Institutions that meet one of these definitions are required to register with either the CFTC or the SEC, as applicable, and are subject to significant additional regulations. In addition, in August 2012, the CFTC and SEC issued a joint final rule that, among other items, defines "swap" and "security-based swap."

We have reviewed these rules and determined that we are not a swap dealer, security-based swap dealer, major swap participant or major security-based swap participant for purposes of the Dodd-Frank Act. Accordingly, we do not need to register with the CFTC or the SEC. Nevertheless, 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, the Federal Reserve Board, the Federal Deposit Insurance Corporation (the "FDIC"), FHFA, the Farm Credit Administration and the Office of the Comptroller of the Currency have 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.

Ability to Repay. The Dodd-Frank Act requires creditors to determine that borrowers have a "reasonable ability to repay" mortgage loans prior to making such loans. On January 10, 2013, the Consumer Financial Protection Bureau (the "CFPB") issued a final rule pursuant to the Dodd-Frank Act that, among others things, requires creditors to determine a borrower's "ability to repay" a mortgage loan under Regulation Z, which implements the Truth in Lending Act. If a creditor fails to comply, a borrower may be able to offset amounts 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 with special protection from liability. While Fannie Mae and Freddie Mac remain in conservatorship or, if earlier, until January 10, 2021, a loan will generally 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 loan conforms to the standards set forth in Fannie Mae's or Freddie Mac's single-family selling guides or is determined to be eligible for purchase by Fannie Mae's or Freddie Mac's automated underwriting system. There are comparable provisions for loans insured or guaranteed by FHA, the VA or the Department of Agriculture. A loan that is not eligible for sale to a GSE pursuant to its selling guide or automated underwriting system can still be a qualified mortgage if it meets the other criteria listed above, the debt-to-income ratio on the loan does not exceed 43% using the maximum interest rate applicable in the first five years of the loan, taking into account all-mortgage related obligations, and the borrower's income and assets are verified in accordance with the method prescribed in the rule. The rule is scheduled to become effective January 10, 2014. However, there is some uncertainty regarding the timing and final provisions of the rule as a result of legal challenges to the appointment of the CFPB's director. We are currently evaluating the potential impact of the rule and the uncertainty surrounding its adoption on our business.

Risk Retention. The Dodd-Frank Act requires financial regulators to jointly prescribe regulations requiring securitizers and/or originators to maintain a portion of the credit risk in assets transferred, sold or conveyed through the issuance of asset-backed securities, with certain exceptions. On March 29, 2011, the Office of the Comptroller of the Currency, the Federal Reserve System, the FDIC, the SEC, FHFA and HUD issued a joint proposed rule implementing these risk retention requirements. Under the proposed rule, securitizers would be required to retain at least 5% of the credit risk with respect to the assets they securitize. The proposed rule offers several options for compliance by parties with assets to securitize, one of which is to have either Fannie Mae or Freddie Mac securitize the assets. As long as Fannie Mae or Freddie Mac (1) fully guarantees the assets, thereby taking on 100% of their credit risk, and (2) is in conservatorship or receivership at the time the assets are securitized, no further retention of credit risk is required. Certain mortgage loans meeting the definition of a "Qualified Residential Mortgage" are exempt from the requirements of the rule. Only mortgage loans that are first-lien mortgages on primary residences with loan-to-value ratios not exceeding 80% (75% for refinancings and 70% for cash-out refinancings) and that meet certain other underwriting requirements, would meet the definition of "Qualified Residential Mortgage" under the

proposal.
Changes to Our Single-Family Guaranty Fee Pricing and Revenue
At the direction of FHFA, effective April 1, 2012, we increased the guaranty fee on all single-family residential mortgages delivered to us by 10 basis points. This fee increase was required by the TCCA and 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 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. As of December 31, 2012, we paid $104 million to Treasury for our obligations through September 30, 2012 under the TCCA.

In August 2012, FHFA directed us and Freddie Mac to increase our single-family guaranty fee prices by an average of 10 basis points. This increase was effective on November 1, 2012 for whole loan commitments and on December 1, 2012 for loans exchanged for Fannie Mae MBS. These changes to guaranty fee pricing represent a step toward encouraging greater participation in the mortgage market by private firms, which is one of the goals set forth in FHFA's strategic plan for Fannie Mae's and Freddie Mac's conservatorships. This increase also reduced the cross subsidy that existed between certain higher-risk and lower-risk mortgage types by increasing guaranty fees on loans with maturities longer than 15 years by more than guaranty fees were increased on shorter-maturity loans.

In addition to the fee increase described above, in September 2012, FHFA published a notice presenting an approach to adjust the guaranty fees that we and Freddie Mac charge on single-family mortgages in states where costs related to foreclosure practices are significantly higher than the national average. The approach outlined in FHFA's notice would be to charge a one-time upfront payment of between 15 and 30 basis points on each loan acquired in the following five states that have significantly higher default-related costs than the national average: Connecticut, Florida, Illinois, New Jersey and New York. FHFA's notice requests public input on this approach and potential future approaches to setting and adjusting state-level guaranty fees. FHFA is currently in the process of evaluating comment letters received from the public and has not made a final determination on this rule.

We expect our future guaranty fees will incorporate private sector pricing considerations such as pricing indicative of higher required minimum capital levels, and more significant pricing differentiation between higher-risk and lower-risk loans. These changes would be in addition to the other increases discussed above, although we do not know the timing, form or extent of all of these changes.

New Servicer Requirements for Default-Related Legal Services In Lieu of Retained Attorney Network

In November 2012, we announced new servicer requirements with respect to default-related legal services for our loans. These new requirements were developed in conjunction with FHFA and Freddie Mac, through FHFA's Servicing Alignment Initiative, in response to FHFA's October 2011 directive to phase out the practice of requiring mortgage servicers to use our network of retained attorneys to perform default- and foreclosure-related legal services for our loans. The new requirements become effective for our mortgage servicers in June 2013. During the transitional period, servicers will continue to be directly responsible for managing the foreclosure process and monitoring network firm performance in accordance with our current requirements and contractual arrangements.

Principal Forgiveness

In July 2012, the Acting Director of FHFA announced FHFA's decision not to direct Fannie Mae and Freddie Mac to participate in the Principal Reduction Alternative feature of Treasury's Home Affordable Modification Program ("HAMP"). Based on its analysis, FHFA concluded that the economic benefit of participating in that program does not outweigh the costs and risks.

FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans

On April 9, 2012, FHFA issued an Advisory Bulletin, "Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention," which was effective upon issuance and is applicable to Fannie Mae, Freddie Mac and the Federal Home Loan Banks. The Advisory Bulletin establishes guidelines for adverse classification and identification of specified single-family and multifamily assets and off-balance sheet credit exposures. The Advisory Bulletin indicates that this guidance considers and is generally consistent with the Uniform Retail Credit Classification and Account Management Policy issued by the federal banking regulators in June 2000. Among other requirements, the Advisory Bulletin requires 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, as "loss" when the loan is no more than 180 days delinquent, except in certain specified circumstances (such as properly secured loans with an LTV ratio equal to or less than 60%), and charge off the portion of the loan classified as "loss." The Advisory Bulletin also specifies that, if we subsequently receive full or partial payment of a previously charged-off loan, we may report a recovery of the amount, either through our loss reserves or as a reduction in our foreclosed property expenses.

The accounting methods outlined in FHFA's Advisory Bulletin are different from our current methods of accounting for single-family loans that are 180 days or more delinquent. As described in "Risk Factors," we believe that implementation of these changes in our accounting methods present significant operational challenges for us. We have agreed with FHFA that (1) effective January 1, 2014, we will implement the Advisory Bulletin's requirements related to classification, and

(2) effective January 1, 2015, we will implement an updated accounting policy related to charging-off delinquent loans. We are currently assessing the impact of implementing these accounting changes on our future financial results.
For information on additional regulatory matters affecting us, refer to "Our Charter and Regulation of Our Activities."
For a discussion of risks relating to legislative and regulatory matters, see "Risk Factors."

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 2013, as it was in 2010 through 2012, 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 high-cost areas (counties or county-equivalent areas) that are designated by FHFA annually. Our charter sets permanent 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. We also do not purchase or securitize second lien single-family mortgage loans when the combined loan-to-value ratio exceeds 80%, unless the second lien mortgage loan has credit enhancement in accordance with the requirements of the Charter Act. 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. Treasury temporarily received expanded authority, which expired on December 31, 2009, to purchase our obligations and other securities in unlimited amounts (up to the national debt limit) under the 2008 Reform Act. We describe Treasury's investment in our senior preferred stock and a common stock warrant pursuant to this expanded temporary authority under "Conservatorship and Treasury Agreements—Treasury Agreements."

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 exempted 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.

Regulation and Oversight of Our Activities

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.

FHFA is responsible for implementing the various provisions of the GSE Act. In general, we remain subject to existing regulations, orders and determinations until new ones are issued or made.

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 "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. The GSE Act requires us to obtain FHFA's approval before initially offering any 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 Acting Director of FHFA concluded that permitting us to offer new products at this time is 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. We cannot predict when or if FHFA will permit us to submit new product requests under the 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, including conditions that FHFA has already asserted existed at the time the then-Director of FHFA placed us into conservatorship. 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; 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. The rule is part of FHFA's implementation of the powers provided by the 2008 Reform Act, and does not seek to anticipate or predict future conservatorships or receiverships. The final rule, which became effective on July 20, 2011, establishes procedures for conservatorship and receivership, and priorities of claims for contract parties and other claimants. 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. An action, which was brought by the Ohio Public Employees Retirement System and the State Teachers Retirement System of Ohio, is currently pending in the U.S. District Court for the District of Columbia against FHFA and FHFA's Acting Director challenging the rule's provisions regarding nonpayment of securities litigation claims.

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 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 acquisitions, and to allocate such amount to certain government funds. The GSE Act also allows FHFA to suspend allocations on a temporary basis. In November 2008, FHFA advised us that it was suspending our allocations until further notice.

Executive Compensation. The Charter Act 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. Further, 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 to prohibit or limit certain golden parachute and indemnification payments to directors, officers and certain other parties. FHFA has issued rules relating to golden parachute payments, setting forth factors to be considered by the Director of FHFA in acting upon his authority to limit such payments.

Fair Lending. The GSE Act requires the Secretary of HUD to assure that the GSEs meet their fair lending obligations. Among other things, HUD is required to periodically review and comment on the underwriting and appraisal guidelines of each company to ensure consistency with the Fair Housing Act. HUD is currently conducting such a review.

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 capital classification of us 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 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.

Bank Capital, Liquidity and Other Supervisory Standards. In the wake of the financial crisis and as a result of the Dodd-Frank Act and of actions by international bank regulators, the capital, liquidity and other risk regimes for the banking industry are undergoing major changes, as we discuss above in “Legislative and Regulatory Developments—Financial Regulatory Reform Legislation: The Dodd-Frank Act—Enhanced supervision and prudential standards.” Although the GSEs are not currently subject to bank capital, liquidity and other 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.

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

On November 13, 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.
- 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 HAMP completed during the year count towards our housing goals; trial modifications will not be 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 6 below. There is no market-based alternative measurement for the multifamily goals.

Table 6: 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. See "Risk Factors" for a description of how we may be unable to meet our housing goals and how actions we may take to meet these goals and other regulatory requirements could adversely affect our business, results of operations and financial condition.

The following table presents our performance against our single-family housing benchmarks and market share measures, as well as our multifamily housing goals, for 2011 and 2010, as validated by FHFA. Our 2012 performance results have not yet been validated by FHFA.

Table 7: Housing Goals Performance

	2011			2010		
	Result	Bench-mark	Single-Family Market Level	Result	Bench-mark	Single-Family Market Level
Single-family housing goals:[1]						
Low-income families home purchases	25.82 %	27 %	26.5 %	25.13 %	27 %	27.2 %
Very low-income families home purchases	7.59	8	8.0	7.24	8	8.1
Low-income areas home purchases	22.35	24	22.0	24.05	24	24.0
Low-income and high-minority areas home purchases	11.62	13	11.4	12.37	13	12.1
Low-income families refinancing	23.05	21	21.5	20.90	21	20.2

	2011 Result[1] (in units)	Goal	2010 Result	Goal
Multifamily housing goals:				
Affordable to families with income no higher than 80% of area median income	301,224	177,750	214,997	177,750
Affordable to families with income no higher than 50% of area median income	84,244	42,750	53,908	42,750

(1) Our single-family results and benchmarks are expressed as a percentage of the total number of eligible mortgages acquired during the period.

We believe we met all of our single-family benchmarks for 2012, as well as our 2012 multifamily goals. We have reported this information to FHFA as well as to the Financial Services Committee of the House of Representatives and the Committee on Banking, Housing and Urban Affairs of the Senate, as part of our 2012 Annual Housing Activities Report and Annual Mortgage Report that is required under the Charter Act. FHFA will issue a final determination on our 2012 housing goals performance after the release of data reported under HMDA later this year.

For 2011, FHFA determined that we met our single-family low-income areas home purchase goals and our single-family refinance goal, as well as our 2011 multifamily goals. FHFA determined that we did not meet our single-family low-income home purchase goal or our single-family very low-income home purchase goal. Although FHFA determined that we did not meet these two goals and that their achievement was feasible, FHFA is not requiring us to submit a housing plan. FHFA stated that a housing plan is not required because the two goals were missed by a very small amount and because of our continued operation under conservatorship.

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.

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. A final rule has not been issued.

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.

See "Risk Factors" for a description of how changes we may make in our business strategies in order to meet our housing goals and duty to serve requirement may increase our credit losses and adversely affect our results of operations.

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, 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 our Fannie Mae MBS and debt securities include fund managers, commercial banks, pension funds, insurance companies, foreign central banks, corporations, state and local governments and other municipal authorities.

During 2012, approximately 1,100 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 2012, our top five lender customers, in the aggregate, accounted for approximately 46% of our single-family business volume, down from approximately 60% in 2011. Wells Fargo Bank, N.A., together with its affiliates, was the only customer that accounted for more than 10% of our single-family business volume in 2012, with approximately 23%.

A number of factors impacted our customers in 2012 and affected the volume of business and mix of customers with whom we and our competitors do business. We obtained fewer single-family loans from large mortgage lenders in 2012 than in prior years as a result of (1) exits from correspondent or broker lending by several large lenders who are focusing instead on lending through their retail channels, and (2) a number of large mortgage lenders having gone out of business since 2006. At the same time, we sought and continue to seek to provide liquidity to a broader, more diverse set of mortgage lenders. 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 lesser financial strength and operational capacity of many of these smaller sellers/servicers may negatively affect their ability to service the loans on our behalf or to satisfy their repurchase or compensatory fee obligations. The decrease in the concentration of our business with large 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

Historically, our competitors have included Freddie Mac, FHA, Ginnie Mae (which primarily guarantees securities backed by FHA-insured loans), the twelve FHLBs, financial institutions, securities dealers, insurance companies, pension funds, investment funds and other investors. During 2008, almost all of our competitors, other than Freddie Mac, FHA, Ginnie Mae and the FHLBs, dramatically reduced or ceased their activities in the residential mortgage finance business.

One of FHFA's strategic goals for our conservatorship involves gradually contracting our dominant presence in the marketplace. Despite this goal, our market share remains large and even increased in 2012 as we have continued to meet the needs of the single-family mortgage market in the absence of substantial private capital. We remained the largest single issuer of mortgage-related securities in the secondary market in 2012. During 2012, our primary competitors for the issuance of mortgage-related securities were Ginnie Mae and Freddie Mac. We currently estimate that our single-family market share was 43% in 2012, compared with 37% in 2011. 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 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 pricing and eligibility standards. We compete with Freddie Mac and, especially for loans with higher LTV ratios to finance home purchases, with FHA. We expect our guaranty fees may increase in coming years, which would likely affect our competitive environment. See "Our Charter and Regulation of Our Activities—Charter Act—Loan Standards" for more information about our loan limits, and "Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue," for a discussion of anticipated pricing increases.

We also compete for low-cost debt funding with institutions that hold mortgage portfolios, including Freddie Mac and the FHLBs.

Although we do not know the structure that long-term GSE reform will ultimately take, we expect that, if our company continues, we will face more competition in the future. See "Legislative and Regulatory Developments—GSE Reform" for discussions of GSE reform, recent legislative reform of the financial services industry that is likely to affect our business and the role of private capital in the mortgage markets.

EMPLOYEES

As of February 28, 2013, we employed approximately 7,200 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.

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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,

Among the forward-looking statements in this report are statements relating to:

- Our expectation that our annual earnings will remain strong over the next few years;
- Our expectation that improvements in the credit quality of our loan acquisitions since 2009 and increases in our charged guaranty fees on recently acquired loans will benefit our results for years to come, especially because these loans have relatively low interest rates, making them less likely to be refinanced;
- Our expectation that the single-family loans we have acquired since the beginning of 2009, in the aggregate, will be profitable over their lifetime, by which we mean that we expect our fee income on these loans to exceed our credit losses and administrative costs for them;
- Our expectation that, as a result of increases in the charged guaranty fee and the larger volume of single-family loans we acquired in 2012, we will receive significantly more guaranty fee income on the single-family loans we acquired in 2012, over their lifetime, than on the single-family loans we acquired in 2011;
- Our expectation that rising guaranty fee revenue we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties will in a number of years become the primary source of our revenues;
- Our expectation that, if current market conditions continue, revenues from guaranty fees will generally offset expected declines in the revenues we generate from the difference between the interest income earned on the assets in our mortgage portfolio and the interest expense associated with the debt funding of those assets;
- Our expectation of high levels of period-to-period volatility in our results because our derivatives are recorded at fair value in our financial statements while some of the instruments they hedge are not recorded at fair value in our financial statements;
- Our expectation that, as of the first quarter of 2013, we will no longer be in a three-year cumulative loss position;
- Our belief that, although we have not completed the analysis, after considering all relevant factors, we may release the valuation allowance on our deferred tax assets as early as the first quarter of 2013;
- Our expectation that the single-family loans we acquired from 2005 through 2008, in the aggregate, will not be profitable over their lifetime;
- Our expectation that the ultimate performance of all our loans will be affected by numerous factors, including changes in home prices, borrower behavior, public policy and other macroeconomic factors;
- 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 not as high as the December 31, 2012 serious delinquency rates of loans in our legacy book of business;
- Our belief that loans we acquire under HARP may not perform as well as the other loans we have acquired since the beginning of 2009, but they will perform better than the loans they replace because they should reduce the borrowers’ monthly payments and/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 if interest rates remain low, we will continue to acquire a high volume of refinancings under HARP for the program’s duration or until there is no longer a large population of borrowers with high LTV loans who would benefit from refinancing;
- Our expectation that we will acquire many refinancings with LTV ratios greater than 125% as a result of changes to HARP;
- Our expectation that we will continue to accept deliveries through September 30, 2014 of HARP loans with application dates on or before December 31, 2013;

- Our expectation that the number of our single-family loans in our legacy book of business that are seriously delinquent will remain well above pre-2008 levels for years;
- Our expectation that it will take a significant amount of time before our REO inventory is reduced to pre-2008 levels;
- Our belief that changes or perceived changes in federal government support of our business and the financial markets or our status as a GSE could materially and adversely affect our liquidity, financial condition and results of operations;
- Our expectation that single-family mortgage loan delinquency and severity rates will continue their downward trend, but that single-family delinquency, default and severity rates will remain high compared to pre-housing crisis levels;
- Our expectation that certain local multifamily markets and rental properties will continue to exhibit weak fundamentals, despite multifamily sector improvement at the national level;
- Our expectation that multifamily foreclosures in 2013 will remain generally commensurate with 2012 levels, although conditions may worsen if the unemployment rate increases on either a national or regional basis;
- Our forecast that total originations in the U.S. single-family mortgage market in 2013 will decrease from 2012 levels by approximately 15% from an estimated $1.93 trillion to $1.65 trillion, and that the amount of originations in the U.S. single family mortgage market that are refinancings will decrease from an estimated $1.40 trillion in 2012 to $1.03 trillion in 2013;
- Our expectation that home prices may increase on a national basis overall in 2013, if current market trends continue, although home price growth may not continue at 2012 rates;
- Our expectation of significant regional variation in the timing and rate of home price growth;
- Our expectation that our credit losses will remain high in 2013 relative to pre-housing crisis levels;
- Our expectation that, to the extent the slow pace of foreclosures continue in 2013, our realization of some credit losses will be delayed;
- Our expectation that the trends of improving home prices and declining single-family serious delinquency rates will continue;
- Our belief that our total loss reserves peaked at $76.9 billion as of December 31, 2011;
- Our expectation that our loss reserves will remain significantly elevated relative to historical levels for an extended period because (1) we expect future defaults on loans 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 in default;
- Our expectation that revenues generated from the difference between the interest income earned on the assets in our mortgage portfolio and the interest expense associated with the debt funding of those assets will decrease as we reduce the size of our mortgage portfolio;
- Our expectation that any future increases in guaranty fees will likely only further increase our guaranty fee revenue;
- Our expectation that in future periods our effective guaranty fee revenue will increase and our credit losses will decrease as a result of the higher credit quality of our new book of business, the decrease in our legacy book, and anticipated lower severity at the time of charge-off;
- Our expectation that uncertainty regarding the future of our company will continue;
- Our expectation that the unemployment rate will continue to decline gradually in 2013;
- Our belief that there is a potential for over-supply in multifamily properties in some localized areas over the next 24 months;
- Our expectation that the overall national rental market's 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 as a group rents multifamily housing at a higher rate than other groups;
- Our expectation that Congress will continue consideration of housing finance reform in the current congressional session, including hearings on GSE reform, and the consideration of legislation that may alter the housing finance reform system or the activities or operations of the GSEs;

- Our expectations that our future guaranty fees will incorporate private sector pricing considerations such as pricing indicative of higher required minimum capital levels, and more significant pricing differentiation between higher-risk and lower-risk loans, and that these changes would be in addition to the other increases;
- Our expectation 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 a substantial change to our business structure, our operations, or that involve Fannie Mae's liquidation or dissolution;
- Our expectation that our strategic objectives and business activities will continue to change, possibly significantly, including in pursuit of our public mission and other non-financial objectives;
- Our belief that implementing recent FHFA 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;
- Our belief that continued federal government support of our business and the financial markets, as well as our status as a GSE, are essential to maintaining our access to debt funding;
- Our expectations regarding our credit ratings and their impact on us as set forth in "Risk Factors" and "MD&A—Liquidity and Capital Management—Liquidity Management—Credit Ratings";
- Our expectation that the slow pace of foreclosures will continue to negatively affect our foreclosure timelines, credit-related expenses and single-family serious delinquency rates;
- Our expectation that our administrative expenses may increase in 2013 compared with 2012 as we continue to execute on our strategic goals;
- 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 mortgage assets that we may own pursuant to the senior preferred stock purchase agreement;
- Our intention generally not to have other parties assume the credit risk inherent in our book of business;
- 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 our liquidity contingency plan may be difficult or impossible to execute for a company of our size in our circumstances;
- Our belief that we have limited credit exposure on government loans;
- 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 volume of our home retention solutions and foreclosure alternatives will remain high throughout 2013, as they did in 2012;
- Our expectation that we may be unable to recover on all outstanding loan repurchase obligations resulting from sellers/servicers' breaches of contractual obligations;
- Our expectation that, with the implementation of our new representation and warranty framework, a greater proportion of repurchase requests may be issued on performing loans, as compared with our current repurchase requests, the substantial majority of which relate to loans that are either nonperforming or have been foreclosed upon;
- Our belief, based on the stressed financial condition of our non-governmental financial guarantor counterparties, that all but one of these counterparties may not be able to fully meet their obligations to us in the future;
- Our expectations regarding recoveries from lenders under risk sharing arrangements, and the possibility that we may require a lender to pledge collateral to secure its recourse obligations;
- Our expectation that the Uniform Mortgage Servicing Dataset (UMSD) Foundation Template will be released to targeted stakeholders in the first half of 2013; and
- Our expectation that a joint GSE plan for the design and build of a single securitization platform will be finalized in 2013.

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; our future guaranty fee pricing; challenges we face in retaining and hiring qualified employees; 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; a decrease in our credit ratings; limitations on our ability to access the debt capital markets; further disruptions in the housing and credit markets; defaults by one or more institutional counterparties; our need to rely on third parties to fully achieve some of our corporate objectives; our reliance on mortgage servicers; guidance by the Financial Accounting Standards Board ("FASB"); operational control weaknesses; our reliance on models; the level and volatility of interest rates and credit spreads; changes in the structure and regulation of the financial services industry; natural or other disasters; 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 is 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.

In 2011, Treasury and HUD 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's 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 his February 2012 letter to Congress, the Acting Director of FHFA wrote that, with "no near-term resolution [of Fannie Mae and Freddie Mac's conservatorships] in sight, it is time to update and extend the goals and directions of the conservatorships." He provided a strategic plan for Fannie Mae and Freddie Mac's conservatorships that included, among its three strategic goals, gradually contracting Fannie Mae and Freddie Mac's dominant presence in the marketplace while simplifying and shrinking our and Freddie Mac's operations.

During the last congressional session, the Subcommittee on Capital Markets and Government Sponsored Enterprises of the House Financial Services Committee approved numerous bills that could have constrained the operations of the GSEs or altered the authority that FHFA or Treasury has over the enterprises. In addition, several bills were introduced in the House of Representatives and the Senate that would have placed the GSEs into receivership after a period of time and either granted federal charters to new entities to engage in activities similar to those currently engaged in by the GSEs or left secondary mortgage market activities to entities in the private sector.

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 a substantial change to our business structure, our operations, or that involve Fannie Mae's liquidation or dissolution. Congress may also consider legislation aimed at reducing our market share including, for example, significant changes to conforming loan limits that could reduce the number of loans available for us to acquire, which would affect the amount of guaranty fees we receive. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding the future status of the GSEs. See "Business—Legislative and Regulatory Developments—GSE Reform" for more information about the Treasury report and Congressional proposals regarding reform of the GSEs.

Our dividend obligations on Treasury's investment result in our retaining a limited and decreasing amount of our earnings each year until 2018. Beginning in 2018, we will no longer retain any of our earnings.

In compliance with our dividend obligation to Treasury, we will retain only a limited amount of our future earnings, and we will 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 $3.0 billion for each quarter of 2013 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 earnings each year until 2018. Beginning in 2018, we will no longer retain any of our earnings, as the entire amount of our net worth will be paid to Treasury as dividends on the senior preferred stock.

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. 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.

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 has an obligation 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 provide these funds to us within the required 60 days if it has exhausted its borrowing authority, if there is a government shutdown or if we need more funds than remain available to us under the agreement. As of December 31, 2012, $117.6 billion remained available to us under the senior preferred stock purchase agreement. In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons, including conditions that FHFA has already asserted existed at the time the former Director of FHFA placed us into conservatorship.

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.

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. In light of the amended dividend requirements under the senior preferred stock purchase agreement, there may not 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 hire qualified 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, the heightened scrutiny of our actions by Congress and regulators and the working environment created thereby, 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, may 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 Stop Trading on Congressional Knowledge Act (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.

The 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," total target direct compensation for 2012 under our 2012 executive compensation program for each of our executives identified as a named executive was more than 30% below the market median for comparable firms and, in the case of our Chief Executive Officer, was more than 70% below the market median.

Congress has considered other legislation 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 in the last congressional session, if similar legislation were to become law, our employees could experience a sudden and sharp decrease in compensation. The Acting Director of FHFA stated on November 15, 2011 that this "would certainly risk a substantial exodus of talent, the best leaving first in many instances. [Fannie Mae and Freddie Mac] likely would suffer a rapidly growing vacancy list and replacements with lesser skills and no experience in their specific jobs. A significant increase in safety and soundness risks and in costly operational failures would, in my opinion, be highly likely." The Acting Director observed, "Should the risks I fear materialize, FHFA might well be forced to limit [Fannie Mae and Freddie Mac's] business activities. . . . Some of the business [Fannie Mae and Freddie Mac] would be unable to undertake might simply not occur, with potential disruption in housing markets and the economy."

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 is putting additional pressures on turnover, as attractive opportunities become available to our employees. Our competitors for talent are able to provide market-based compensation and to link employees' pay to performance. 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 further 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. 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 be terminated. 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.

The conservator has determined that, while we are in conservatorship, we will be limited to continuing our existing core business activities and taking actions to advance the goals of the conservatorship. We are devoting significant resources to

FHFA's strategic goals relating to building a new housing finance system for the future. FHFA's strategic goals include contracting our operations and reducing our role in the secondary mortgage market. In view of FHFA's strategic goals, we expect that our strategic objectives and business activities will continue to change, possibly significantly, including in pursuit of our public mission and other non-financial objectives. Accordingly, our strategic and operational focus going forward may not be consistent with the investment objectives of our investors. In addition, we may be directed to engage in activities that are operationally difficult, costly to implement or unprofitable. For example, if FHFA or Treasury directed us to reduce the amount of mortgage assets we hold at a substantially faster pace than we currently anticipate, we may be required to dispose of our assets at unfavorable prices.

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. 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. For example, in November 2009, Treasury withheld its consent under these covenants to our proposed transfer of interests in low-income housing tax credit ("LIHTC") investments, eliminating our ability to transfer the assets for value and resulting in our recognizing a $5 billion loss with respect to these investments in that quarter. Pursuant to the senior preferred stock purchase agreement, the maximum allowable amount of mortgage assets we are permitted to own was reduced to $650 billion on December 31, 2012, 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. This limit on the amount of mortgage assets we are permitted to hold could constrain the amount of delinquent loans we purchase from single-family MBS trusts, which could increase our costs.

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.

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 be terminated. 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 by mutual consent of Treasury and the conservator. 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. 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 consent of Treasury, regardless of whether we are in conservatorship.

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, 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."

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. Home price declines from 2006 to 2011 and other adverse conditions in the housing market contributed to our legacy book of business's poor credit performance, resulting in elevated serious delinquency rates and negatively impacting default rates and average loan loss severity on the mortgage loans in our legacy book of business. High delinquencies, default rates and loss severity cause us to experience higher credit-related expenses. The credit performance of our book of business was also negatively affected by the extent and duration of high unemployment. Further, home price declines have resulted in a large number of borrowers with "negative equity" in their properties (that is, they owe more on their mortgage loans than their houses are worth), 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—Mortgage Credit Risk Management," and we present detailed information on our 2012 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 in our legacy book of business, could deteriorate in the future, particularly if we experience national and regional declines in home prices, weakening economic conditions and high unemployment.

We may experience further losses and write-downs relating to our investment securities.

We have experienced significant fair value losses relating to our investment securities and recorded significant other-than-temporary impairment write-downs of some of our available-for-sale securities. We may experience additional other-than-temporary impairment write-downs of our investments in private-label mortgage-related securities. See "Note 5, Investments in Securities" for more information on our investments in private-label mortgage-related securities backed by Alt-A and subprime mortgage loans.

If the market for securities we hold in our investment portfolio is not liquid, we must use a greater amount of management judgment to value these securities. Later valuations and any price we ultimately would realize if we were to sell these securities could be materially lower than the estimated fair value at which we carry them on our balance sheet.

Any of the above factors could require us to record additional write-downs in the value of our investment portfolio, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

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, liability to customers, financial losses 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 make frequent changes to our core processes in response 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, 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.

The magnitude of the many new initiatives we are undertaking, including as part of our effort to help build a new 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. In April 2012, FHFA issued supervisory guidance requiring that we change our method of accounting for delinquent loans. This directive, which is described in "Business—Legislative and Regulatory Developments—FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans," creates significant operational burdens and costs for us. We are also currently working on implementing a number of other FHFA directives and initiatives that may increase our operational burdens and our costs. In addition, FHFA, other agencies of the U.S. government or Congress may direct us to take actions in the future that could further increase our operational risk.

While implementation of each individual initiative and directive creates operational challenges, implementing multiple directives during the same time period significantly increases these challenges. Implementing these directives requires a substantial time commitment from management and the employees responsible for implementing the changes, which could adversely affect our ability to retain these employees. In addition, some of these 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.

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. 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.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks. Our computer systems, software and networks may be vulnerable to breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. If one or more such events occurs, this could jeopardize our or our customers' or counterparties' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our customers', our counterparties' or third parties' operations, which could result in significant losses, reputational damage, litigation, regulatory fines or penalties, or 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 or to investigate and remediate vulnerabilities or other exposures arising from operational and security risks.

Since the conservatorship began, we have experienced, and we expect we may continue to experience, substantial changes in our management, employees and business structure and practices. These changes could increase our operational risk and result in business interruptions and financial losses. In addition, due to events that are wholly or partially beyond our control, our systems could fail to operate properly, which could lead to financial losses, business disruptions, legal and regulatory sanctions and reputational damage.

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. Our conservator previously directed us to focus primarily on minimizing our credit losses from delinquent mortgages and providing assistance to struggling homeowners to help them remain in their homes. More recently, our conservator has announced two strategic goals for our conservatorship—building a new infrastructure for the secondary mortgage market and gradually contracting our dominant presence in the marketplace while simplifying and shrinking our operations. 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 encouraging increased competition in our markets; modifying loans to defer principal, lower the interest rate or extend the maturity; or engaging in principal reduction. 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, as we discuss in "Business—Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue," 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.

In addition, to meet our housing goals, 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. We may take actions to meet our housing goals obligations that could increase our credit losses and credit-related expenses. We discuss our housing goals in "Business—Our Charter and Regulation of Our Activities—Regulation and Oversight of Our Activities—Housing Goals and Duty to Serve Underserved Markets."

Actions taken by state and local governments to address the housing crisis or increase revenues could have an adverse effect on our business, results of operations, financial condition and net worth.

Many state and local governments are seeking ways to address the effects of the housing crisis, including high levels of foreclosures. State and local governments are also seeking ways to address declining tax revenues. Some of the legislative, regulatory or litigation-related actions governments take to address these issues may adversely affect us by, for example, increasing our costs or affecting our ability to achieve our business goals efficiently and effectively. For example, a number of lawsuits have been filed against us challenging our right to claim an exemption, under our charter, from transfer taxes in connection with the recordation of deeds upon transfers of real property. Additional similar lawsuits could be filed against us, and taxing authorities in jurisdictions that do not normally impose a tax on the transfer of real property could also seek to impose transfer taxes on us. If we were to become subject to real property transfer taxes in a large number of states and localities, and if we were required to pay a number of years of past transfer taxes in these states and localities, it would increase our costs going forward and could have an adverse effect on our financial results.

In another example, a number of local governments are considering or may consider using eminent domain to seize mortgage loans and forgive principal on the loans. Such seizures, if they are successful, could result in further losses and write-downs relating to our investment securities and could increase our credit losses.

These actions and others that state and local governments may pursue in the future could have an adverse effect on our business, results of operations, financial condition and net worth.

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. Our level of net interest income 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 2011 and 2012 to issue debt of varying maturities at attractive pricing resulted from federal government support of us and the financial markets. 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 and the financial markets 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 the markets, 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 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 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 trigger additional collateral requirements, 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.

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.

On August 5, 2011, Standard & Poor’s Ratings Services (“S&P”) lowered the long-term sovereign credit rating on the U.S. to “AA+.” As a result of this action, and because we directly rely on the U.S. government for capital support, on August 8, 2011, S&P lowered our long-term senior debt rating to “AA+” with a negative outlook. Previously, our long-term senior debt had been rated by S&P as “AAA” and had been on CreditWatch Negative. S&P affirmed our short-term senior debt rating of “A-1+” and removed it from CreditWatch Negative. In assigning a negative outlook on the U.S. government’s long-term debt rating, S&P noted that it may lower the U.S. government’s long-term debt rating to “AA” within the next two years if it sees less reduction in spending than agreed to or higher interest rates, or if new fiscal pressures during the period result in a higher general government debt trajectory than S&P currently assumes. If S&P further lowers the U.S. government’s long-term debt rating, we expect that S&P would lower our long-term debt rating correspondingly.

After the U.S. government’s statutory debt limit was raised on August 2, 2011, Moody’s Investors Services (“Moody’s”) confirmed the U.S. government’s rating and our long-term debt ratings. Moody’s also removed the designation that these ratings were under review for possible downgrade. Moody’s revised the outlook for both the U.S. government’s rating and our long-term debt ratings to negative. In assigning the negative outlook to the U.S. government’s rating, Moody’s indicated there would be a risk of a downgrade if (1) there is a weakening in fiscal discipline in the coming year; (2) further fiscal consolidation measures are not adopted in 2013; (3) the economic outlook deteriorates significantly; or (4) there is an appreciable rise in the U.S. government’s funding costs over and above what is currently expected. On September 11, 2012, Moody’s issued an update to its outlook for the U.S. government’s debt rating. In this update, Moody’s noted that they would expect to lower the U.S. government’s debt rating if budget negotiations in 2013 fail to produce a plan that includes policies that result in stabilization and then downward trend in the ratio of federal debt to GDP over the medium term.

On November 28, 2011, Fitch Ratings Limited (“Fitch”) affirmed the long-term issuer default rating and senior unsecured debt rating of Fannie Mae at “AAA,” but revised its ratings outlook on Fannie Mae’s long-term issuer default rating to Negative from Stable. This action followed a similar action by Fitch on the United States sovereign rating.

As of March 25, 2013, our long-term debt continued to be rated "AA+" by S&P, "Aaa" by Moody's and "AAA" by Fitch. 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 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 derivatives contracts because a majority of our derivatives 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 derivatives 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 derivatives with credit-risk-related contingent features that were in a net liability position as of December 31, 2012 was $6.4 billion, for which we posted collateral of $6.3 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 as of December 31, 2012. If all of the credit-risk-related contingency features underlying these agreements had been triggered, an additional $159 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, 2012. An additional reduction in our credit ratings may also 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 sellers/servicers that service the loans we hold in our mortgage portfolio or that back our Fannie Mae MBS; sellers/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 mortgage portfolio or that back our Fannie Mae MBS, including mortgage insurers, lenders with risk sharing arrangements and financial guarantors; issuers of securities 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 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, a reduction in liquidity, operational failures or insolvency. Although the liquidity and financial condition of some of our institutional counterparties improved in 2012 compared with 2011, 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. 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. For example, failure by a significant seller/servicer counterparty, or a number of sellers/servicers, to fulfill repurchase obligations to us could result in a significant increase in our credit losses and have a material adverse effect on our results of operations and financial condition.

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 the loan or derivative exposure. We have exposure to these financial institutions in the form of unsecured debt instruments and derivatives transactions. As a result, we could incur losses relating to defaults under these instruments or relating to impairments to the carrying value of our assets represented by these instruments. 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 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, liquidity and net worth.

We may incur losses as a result of claims under our mortgage insurance policies not being paid in full or at all, and we may face business disruptions and increased concentration risk.

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 continued to incur losses in 2012, and their risk-to-capital positions continued to erode, which may increase the risk that these counterparties will fail to fulfill their obligations to pay in full our claims under insurance policies.

Three of our largest mortgage insurance counterparties—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 regulator and are in run-off. A mortgage insurer that is in run-off continues to collect renewal premiums on its existing insurance business, but no longer writes new insurance. 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, Triad and RMIC are currently paying only a portion of policyholder claims and deferring the remaining portion. Currently, PMI is paying only 50% of claims under its mortgage guaranty insurance policies in cash and is deferring the remaining 50%, and both Triad and RMIC are paying 60% of claims in cash and deferring the remaining 40%. It is uncertain when, or if, regulators for PMI, Triad or RMIC will allow them to begin paying deferred policyholder claims and/or increase or decrease the amount of cash they pay on claims.

In addition to the three mortgage insurers in run-off, the amount of capital held by both Genworth Mortgage Insurance Corporation (“Genworth”) and Mortgage Guaranty Insurance Corporation (“MGIC”) has fallen below applicable state regulatory capital requirements. As a result, each is currently operating pursuant to a waiver it received from the regulator of the state regulatory capital requirements applicable to its main insurance writing entity. Moreover, Radian Guaranty, Inc. (“Radian”) has disclosed that, in the absence of additional capital contributions to its main insurance writing entity, its capital might fall below state regulatory capital requirements in 2013.

These six mortgage insurers—PMI, Triad, RMIC, Genworth, MGIC and Radian—provided a combined $70.3 billion, or 77%, of our risk-in-force mortgage insurance coverage of our single-family guaranty book of business as of December 31, 2012. We do not know how long regulators will permit mortgage insurers that do not meet, or may soon fail to meet, state regulatory capital requirements to continue operating without obtaining additional capital. Nor do we know how long our mortgage insurer counterparties that are operating under waivers will continue to operate under waivers, or how long those that are currently below their state-imposed risk-to-capital limits will remain below these limits. If a mortgage insurer counterparty is unable to generate or obtain sufficient capital to stay below its risk-to-capital limits and cannot secure and maintain a waiver from its state regulator, it will likely be placed into run-off or receivership.

Some mortgage insurers have explored corporate restructurings, which are intended to provide relief from risk-to-capital limits in certain states. A restructuring plan that would involve contributing capital to a subsidiary of a mortgage insurer would result in less liquidity available to the mortgage insurer to pay claims on its existing book of business and an increased risk that the mortgage insurer will not pay its claims in full in the future.

From time to time we assess our mortgage insurer counterparties’ ability 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 a significant increase in our loss reserves and our credit losses.

Beginning in 2007, many mortgage insurers stopped insuring new mortgages with certain higher risk characteristics such as higher LTV ratios, lower borrower FICO credit scores or select property types. 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 is already in place. Except as permitted under HARP, our charter specifically requires us to obtain credit enhancement on single-family conventional mortgage loans with loan-to-value ratios over 80% at the time of purchase. As a result, an inability to obtain mortgage insurance may inhibit our ability to serve and support the housing and mortgage markets, meet our housing goals, and help borrowers remain in their homes by acquiring refinancings into more affordable loans. In addition, access to fewer mortgage insurer counterparties increases our concentration risk with the remaining mortgage insurers in the industry.

Changes in the mortgage industry may negatively impact our business.

A number of our largest single-family mortgage seller/servicer counterparties have reduced or eliminated their purchases of mortgage loans from mortgage brokers and correspondent lenders. As a result, we are acquiring an increasing portion of our business volume directly from, and a larger portion of our servicing is being performed by, smaller financial institutions that may not have the same financial strength or operational capacity as our largest counterparties. Our top five lender customers in terms of single-family business acquisition volume, in the aggregate, accounted for approximately 46% of our single-family business acquisition volume in 2012, compared with approximately 60% of our single-family business acquisition volume in 2011. In addition, only three of our top five lender customers for 2011 remained in our top five for 2012. Similarly, some of our servicing volume is shifting to smaller or non-traditional servicers. Our five largest single-family mortgage servicers, including their affiliates, serviced 57% of our single-family guaranty book of business as of December 31, 2012, compared with 63% as of December 31, 2011. The potentially lesser financial strength and operational capacity of smaller mortgage servicers may negatively affect their ability to service the loans on our behalf or to satisfy their repurchase or compensatory fee obligations. This decrease in the concentration of our business with large 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 are acquiring an increasing portion of our single-family business volume directly from smaller financial institutions, we continue 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 46% of our single-family business acquisition volume in 2012. 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.

Changes in the foreclosure environment and our reliance on servicers and their counsel and other service providers to complete foreclosures could continue to have a material adverse effect on our business, results of operations, financial condition and net worth.

The processing of foreclosures continues to be slow in many 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, new federal and state servicing requirements imposed by regulatory actions and legal settlements, and the need for servicers to adapt to these changes.

The slow pace of foreclosures has negatively affected our foreclosure timelines, credit-related expenses and single-family serious delinquency rates, and we expect they will continue to do so. We believe the slow pace of foreclosures is also slowing the recovery of the housing market. It may also negatively affect the value of the private-label securities we hold and result in additional impairments on these securities. Moreover, the failure of our servicers or their service providers to apply prudent and effective process controls and to comply with legal and other requirements in the foreclosure process poses operational, reputational and legal risks for us.

In addition, in response to an October 2011 directive from FHFA, we are phasing out the practice of requiring mortgage servicers to use our network of retained attorneys to perform default- and foreclosure-related legal services for our loans. Phasing out the use of our retained attorney network may make it more difficult for us to oversee the performance of default- and foreclosure-related legal services for our loans, which may adversely impact our efforts to reduce our credit losses.

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/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. Approximately half 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.
Several 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 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. 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.
Legislative and regulatory changes affecting the mortgage market may negatively impact our business, results of operations or financial condition.
As a result of action by Congress or government agencies, significant changes may be effected in the mortgage market that could negatively impact our business, results of operation or financial condition. These effects could be the result of actions taken in connection with housing finance reform. Alternatively, changes aimed at addressing other issues could affect us. For example, if Congress addresses fiscal issues by restricting the deductibility of mortgage interest, depending on the extent and nature of the restrictions, our business and financial results could be significantly adversely affected.

Basel III 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. Recently published international bank liquidity requirements may adversely affect demand by banks for our debt and Fannie Mae MBS securities in the future, which could in turn have a material adverse effect on our business, results of operations, financial condition, liquidity or net worth. Basel III, a set of global regulatory standards on bank capital adequacy and liquidity developed by the Basel Committee on Banking Supervision, was initially issued in December 2010. Basel III generally narrowed the definition of capital that can be used to meet risk-based standards and raised the amount of capital that must be held by banks. Basel III also established liquidity requirements for banks. On January 6, 2013, the Basel Committee revised these liquidity rules to require banks subject to Basel III to hold a specified level of high-quality liquid assets, no more than 40% of which may be composed of certain types of assets, including debt and mortgage-related securities of Fannie Mae, Freddie Mac and the other GSEs. These requirements will be phased in from 2015 through 2018. U.S. banking regulators are already working to update Basel capital standards in the United States. We believe substantially more than 40% of U.S. banks' liquid assets are currently composed of GSE debt and mortgage-related securities. Depending on how the Basel III liquidity rules are implemented in the United States, in the future they could materially, adversely affect demand by banks for our debt securities and Fannie Mae MBS.

In addition, Basel III's revisions to international capital requirements, depending on how they are implemented in the United States, 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.

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 and 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, it is likely that we will not 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 oversight 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 oversight 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 net interest income 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.

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, our conservator has determined that, while in conservatorship, we will not be permitted to engage in new products and will be limited to continuing our existing business activities and taking actions necessary to advance the goals of the conservatorship. 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.

We could be required to pay substantial judgments, settlements or other penalties as a result of civil litigation.

We are a party to a number of lawsuits. We are unable at this time to estimate our potential liability in some of these matters, but may be required to pay substantial judgments, settlements or other penalties and incur significant expenses in connection with some of these lawsuits, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. In addition, responding to these lawsuits may divert significant internal resources away from managing our business. More information regarding these lawsuits is included in “Note 18, Commitments and Contingencies.”

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

A decline in U.S. home prices or activity in the U.S. housing market would likely cause higher credit losses and credit-related expenses, and lower business volumes.

If a decline in home prices or activity in the U.S. housing market resulted in increases in delinquencies or defaults, or in loss severity, it would likely result in a higher level of credit losses and credit-related expenses, which in turn would adversely affect our results of operations, net worth and financial condition.

In addition, 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. Since the second quarter of 2008, single-family mortgage debt outstanding has been steadily declining. 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 the decline in the rate of growth in mortgage originations, 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 is significantly changing the regulation of the financial services industry, resulting in new standards related to regulatory oversight of systemically important financial companies, derivatives transactions, asset-backed securitization, mortgage underwriting and consumer financial protection. This legislation is affecting and will, in the future, directly and indirectly affect many aspects of our business and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. The Dodd-Frank Act and related regulatory changes could require us to change certain business practices, cause us to incur significant additional costs, limit the products we offer, require us to increase our regulatory capital or otherwise adversely affect our business. Additionally, implementation of this legislation will 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.

Examples of aspects of the Dodd-Frank Act and related regulatory changes that may affect us include mandatory clearing of certain derivatives transactions, which imposes significant additional costs on us; minimum standards for residential mortgage loans, which could subject us to increased legal risk for some loans we acquire; and the development of credit risk retention regulations applicable to residential mortgage loan securitizations, which could impact the types and volume of loans sold to us. Uncertainty regarding the CFPB's "ability to repay" rule may increase our legal risk for loans we acquire. Enhanced prudential standards that become applicable to certain bank holding companies and nonbank financial companies could affect investor demand for our debt and MBS securities. 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, credit concentration limits, resolution plan and credit exposure reporting requirements, overall risk management requirements, contingent capital requirements, enhanced public disclosures and short-term debt limits.

Because federal agencies have not completed all of the extensive rule-making processes needed to implement and clarify many of the provisions of the Dodd-Frank Act, it is difficult to assess fully the impact of this legislation on our business and industry at this time, and we cannot predict what similar changes to statutes or regulations will occur in the future. In addition, for many of the provisions of the Dodd-Frank Act, uncertainty regarding how they will ultimately be implemented is affecting and may in the future affect our actions and those of our customers and counterparties, which may negatively impact our business, results of operation, financial condition or liquidity.

Basel III's revisions to international capital requirements also may have a significant impact on us. Depending on how they are implemented by regulators, the Basel III rules could be the basis for a revised framework for GSE capital standards that could increase our capital requirements. See "Risks Relating to Our Business," for a discussion of how the Basel III capital and liquidity rules could affect investor demand for our debt and MBS securities and the business practices of our customers and counterparties.

In addition, the actions of Treasury, the CFTC, 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. In particular, these changes could affect our ability to issue debt and may reduce our customer base.

The occurrence of a major natural or other disaster in the United States could negatively impact our credit losses and credit-related expenses or disrupt our business operations in the affected geographic area.

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, 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.

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. Additionally, the contingency plans and facilities that we have in place may be insufficient to prevent an adverse effect on our ability to conduct business, which could lead to financial losses. Despite our ongoing protective measures and planning, unforeseen catastrophic events may exceed our recovery capabilities and those of our customers and the marketplace.

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 87,000 square feet of office space at one other location in Washington, DC. We maintain approximately 713,000 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.

Item 3. Legal Proceedings

This item describes our material legal proceedings. We describe additional material legal proceedings in "Note 18, 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 the 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. We presently cannot determine the ultimate resolution of the matters described below or incorporated by reference into this item. We have recorded a reserve for legal claims related to those matters when we were able to determine a loss was both probable and reasonably estimable. 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 for us and for Freddie Mac, filed 16 lawsuits on behalf of us 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. The lawsuits seek to recover losses we and Freddie Mac incurred on the securities. Fourteen of the lawsuits are pending in the U.S. District Court for the Southern District of New York ("SDNY"). These cases are against Bank of America Corp.; Barclays Bank PLC; Citigroup, Inc.; Credit Suisse Holdings (USA), Inc.; Deutsche Bank AG; First Horizon National Corporation; Goldman, Sachs & Co.; HSBC North America Holdings Inc.; JPMorgan Chase & Co.; Merrill Lynch & Co.; Morgan Stanley; Nomura Holding America Inc.; SG Americas, Inc.; and UBS Americas Inc. ("UBS") and against certain related entities and individuals. FHFA's lawsuit against Countrywide Financial Corporation ("Countrywide") and certain related entities and individuals is pending in the U.S. District Court for the Central District of California and its lawsuit against The Royal Bank of Scotland Group PLC ("RBS") and certain related entities and individuals is pending in the U.S. District Court for the District of Connecticut. The lawsuit against UBS was filed on July 27, 2011, and all the others were filed on September 2, 2011. The lawsuits allege that the defendants violated federal and state securities laws and, in some cases, committed fraud 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, interest and, in certain cases, punitive damages for common law fraud claims. Discovery is ongoing in all cases, except in the Countrywide case.

SDNY cases. On December 21, 2011, FHFA filed an amended complaint in the UBS case. On January 20, 2012, defendants in the UBS case filed a motion to dismiss the amended complaint. On May 4, 2012, the court denied defendants' motion to dismiss in the UBS case with respect to the federal and state securities law claims and granted defendants' motion to dismiss with respect to the negligent misrepresentation claim. On June 13, 2012 and June 28, 2012, FHFA filed amended complaints in the non-UBS cases pending in the SDNY. Defendants in these cases filed motions to dismiss on July 13, 2012 and August 17, 2012. On November 26, 2012, the U.S. Court of Appeals for the Second Circuit heard the UBS defendants' appeal of the district court's May 4, 2012 order denying their motion to dismiss. In a series of orders issued in November 2012, the district court denied, in large part, defendants' motions to dismiss in the non-UBS cases.

RBS case. On February 1, 2012, FHFA filed an amended complaint in the RBS case. On March 2, 2012, defendants in the RBS case filed a motion to dismiss the amended complaint. This motion is fully briefed.

Countrywide case. On June 8, 2012, defendants in the Countrywide case filed motions to dismiss. FHFA filed an amended complaint in that case on June 29, 2012 and defendants filed renewed motions to dismiss on July 13, 2012. On October 18, 2012, the court denied defendants' motions to dismiss as to all claims except certain federal securities law claims related to securities with shelf registration statements filed before July 25, 2005. On December 18, 2012, defendants filed motions to dismiss on certain issues not covered by the court's October order. On March 15, 2013, the court denied defendants' motions in part and granted them in part.

Investigation into Multifamily Asset Stabilization Program

In October 2011, we received notice of an ongoing investigation by the Office of Inspector General of FHFA ("FHFA OIG") and the U.S. Attorney for the Eastern District of Virginia with regard to a multifamily agreement with The Related Companies, L.P. (the "Multifamily Asset Stabilization Program"). The Department of Justice Civil Division has also become involved in the investigation. The financial impact of the agreement was not material to our financial statements. In connection with the investigation, we have received subpoenas for documents from the FHFA OIG. We are cooperating with this investigation.

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 43078, Providence, Rhode Island 02940.

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
2011		
First Quarter	$0.96	$0.30
Second Quarter	0.50	0.32
Third Quarter	0.39	0.23
Fourth Quarter	0.27	0.19
2012		
First Quarter	$0.41	$0.20
Second Quarter	0.32	0.25
Third Quarter	0.34	0.20
Fourth Quarter	0.31	0.25

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.

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 without the prior written consent of Treasury. In addition, in 2012 the terms of the senior preferred stock purchase agreement were amended to ultimately require the payment of our entire net worth to Treasury. As a result, our net income will not be available to common stockholders.

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. See "MD&A—Liquidity and Capital Management" for information on dividends declared and paid to Treasury 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.

Restrictions Relating to Subordinated Debt. During any period in which we defer payment of interest on qualifying subordinated debt, we may not declare or pay dividends on, or redeem, purchase or acquire, our common stock or preferred stock.

Holders

As of February 28, 2013, we had approximately 14,000 registered holders of record of our common stock, including holders of our restricted stock. In addition, as of February 28, 2013, 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, 2012, 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 2012.

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, 2012, as well as selected consolidated balance sheet data as of the end of each year within this five-year period. Certain prior period amounts have been reclassified to conform to the current period presentation. 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.

In 2009, the FASB concurrently revised the accounting guidance related to the consolidation of variable interest entities (the "consolidation accounting guidance") and the accounting guidance related to transfers of financial assets. The revisions to the accounting guidance for these topics replaced the previous accounting model with a qualitative model for determining the primary beneficiary of a variable interest entity ("VIE") and also increased the population of entities that are subject to assessment under the consolidation accounting guidance by removing the scope exception for qualifying special purpose entities. On January 1, 2010, we prospectively adopted the revised guidance for these topics, which had a significant impact on the presentation and comparability of our consolidated financial statements. Upon adoption of the consolidation accounting guidance, we consolidated the substantial majority of our single-class securitization trusts and eliminated previously recorded deferred revenue from our guaranty arrangements. While some line items in our consolidated financial statements were not impacted, others were impacted significantly, which reduces the comparability of our results for years prior to 2010.

	For the Year Ended December 31,				
	2012	2011	2010	2009	2008
	(Dollars in millions)				
Statement of operations data:					
Net revenues[1]	$22,988	$20,444	$17,493	$22,494	$17,436
Net other-than-temporary impairments	(713)	(308)	(722)	(9,861)	(6,974)
Investment gains (losses), net	487	506	346	1,458	(246)
Fair value losses, net[2]	(2,977)	(6,621)	(511)	(2,811)	(20,129)
Administrative expenses	(2,367)	(2,370)	(2,597)	(2,207)	(1,979)
Credit-related income (expenses)[3]	1,106	(27,498)	(26,614)	(73,536)	(29,809)
Other expenses, net[4]	(124)	(151)	(642)	(7,060)	(1,776)
Benefit (provision) for federal income taxes	—	90	82	985	(13,749)
Net income (loss) attributable to Fannie Mae	17,224	(16,855)	(14,014)	(71,969)	(58,707)
New business acquisition data:					
Fannie Mae MBS issues acquired by third parties[5]	$630,077	$478,870	$497,975	$496,067	$434,711
Mortgage portfolio purchases[6]	288,337	173,978	357,573	327,578	196,645
New business acquisitions	$918,414	$652,848	$855,548	$823,645	$631,356

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	As of December 31,				
	2012	2011	2010	2009	2008
	(Dollars in millions)				
Balance sheet data:					
Investments in securities:					
Fannie Mae MBS	$16,683	$24,274	$30,226	$229,169	$234,250
Other agency MBS	13,361	16,744	19,951	43,905	35,440
Mortgage revenue bonds	8,517	10,978	11,650	13,446	13,183
Other mortgage-related securities	47,365	49,936	56,668	54,265	56,781
Non-mortgage-related securities	17,950	49,848	32,753	8,882	17,640
Mortgage loans:(7)					
Loans held for sale	464	311	915	18,462	13,270
Loans held for investment, net of allowance	2,948,942	2,898,310	2,922,805	376,099	412,142
Total assets	3,222,422	3,211,484	3,221,972	869,141	912,404
Short-term debt	108,716	151,725	157,243	200,437	330,991
Long-term debt	3,080,801	3,038,147	3,039,757	574,117	539,402
Total liabilities	3,215,198	3,216,055	3,224,489	884,422	927,561
Senior preferred stock	117,149	112,578	88,600	60,900	1,000
Preferred stock	19,130	19,130	20,204	20,348	21,222
Total Fannie Mae stockholders' equity (deficit)	7,183	(4,624)	(2,599)	(15,372)	(15,314)
Net worth surplus (deficit)(8)	7,224	(4,571)	(2,517)	(15,281)	(15,157)
Book of business data:					
Total mortgage assets(9)	$3,063,712	$3,065,616	$3,099,250	$769,252	$792,196
Unconsolidated Fannie Mae MBS, held by third parties(10)	16,915	19,612	21,323	2,432,789	2,289,459
Other guarantees(11)	36,215	42,406	35,619	27,624	27,809
Mortgage credit book of business	$3,116,842	$3,127,634	$3,156,192	$3,229,665	$3,109,464
Guaranty book of business(12)	$3,039,457	$3,037,549	$3,054,488	$3,097,201	$2,975,710
Credit quality:					
Total nonperforming loans(13)	$250,897	$251,949	$253,579	$222,064	$119,955
Total loss reserves	62,629	76,938	66,251	64,891	24,753
Total loss reserves as a percentage of total guaranty book of business	2.06 %	2.53 %	2.17 %	2.10 %	0.83 %
Total loss reserves as a percentage of total nonperforming loans	24.96	30.54	26.13	29.22	20.64

	For the Year Ended December 31,				
	2012	2011	2010	2009	2008
Performance ratios:					
Net interest yield(14)	0.68 %	0.60 %	0.51 %	1.65 %	1.03 %
	48.2 bps	61.3 bps	77.4 bps	44.6 bps	22.7 bps

Credit loss ratio (in basis points)[15]	67

(1) Consists of net interest income and fee and other income.

(2) Consists of the following: (a) derivatives fair value gains (losses), net; (b) trading securities gains (losses), net; (c) hedged mortgage assets gains (losses), net; (d) debt foreign exchange gains (losses), net; (e) debt fair value gains (losses), net; and (f) mortgage loans fair value losses, net.

(3) Consists of benefit (provision) for loan losses, provision for guaranty losses and foreclosed property income (expense).

(4) Consists of the following: (a) debt extinguishment losses, net; (b) gains (losses) from partnership investments; and (c) losses on certain guaranty contracts.

(5) Reflects unpaid principal balance of Fannie Mae MBS issued and guaranteed by us during the reporting period less: (a) securitizations of mortgage loans held in our mortgage portfolio during the reporting period and (b) Fannie Mae MBS purchased for our mortgage portfolio during the reporting period.

(6) Reflects unpaid principal balance of mortgage loans and mortgage-related securities we purchased for our mortgage portfolio during the reporting period. Includes acquisition of mortgage-related securities accounted for as the extinguishment of debt because the entity underlying the mortgage-related securities has been consolidated in our consolidated balance sheets. For 2012, 2011 and 2010, includes unpaid principal balance of approximately $46 billion, $67 billion, and $217 billion, respectively, of delinquent loans purchased from our single-family MBS trusts. Under our MBS trust documents, we have the option to purchase from MBS trusts loans that are delinquent as to four or more consecutive monthly payments.

(7) Mortgage loans consist solely of domestic residential real-estate mortgages.

(8) Total assets less total liabilities.

(9) Reflects unpaid principal balance of mortgage loans and mortgage-related securities reported in our consolidated balance sheets. The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount. As a result of our adoption of the consolidation accounting guidance as of January 1, 2010, we reflect a substantial majority of our Fannie Mae MBS as mortgage assets and the balance as unconsolidated Fannie Mae MBS.

(10) Reflects unpaid principal balance of unconsolidated Fannie Mae MBS, held by third-party investors. The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

(11) Primarily includes long-term standby commitments we have issued and single-family and multifamily credit enhancements we have provided that are not otherwise reflected in the table.

(12) Reflects mortgage credit book of business less non-Fannie Mae mortgage-related securities held in our investment portfolio for which we do not provide a guaranty.

(13) Consists of on-balance sheet nonperforming loans held in our mortgage assets and off-balance sheet nonperforming loans in unconsolidated Fannie Mae MBS trusts held by third parties. Includes all nonaccrual loans, as well as TDRs and HomeSaver Advance first-lien loans on accrual status. See “MD&A—Consolidated Results of Operations—Credit-Related (Income) Expenses—Nonperforming Loans” for a discussion of our nonperforming loans.

(14) 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.

(15) Consists of (a) charge-offs, net of recoveries and (b) foreclosed property income (expense) for the reporting period (adjusted to exclude the impact of fair value losses resulting from credit-impaired loans acquired from MBS trusts and HomeSaver Advance loans) 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) Expenses—Credit Loss Performance Metrics” for a discussion of how our credit loss metrics are calculated.

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, 2012 and related notes, and with "Business—Executive Summary."

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. Please also see "Glossary of Terms Used in This Report."

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 risk associated with the need for management to make judgments and estimates in applying our accounting policies and methods. We have identified four 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
- Other-Than-Temporary Impairment of Investment Securities
- 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 17, 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.

Table 8 displays a comparison of the amount of financial assets carried in our consolidated balance sheets at fair value on a recurring basis ("recurring assets") that were classified as Level 3 as of December 31, 2012 and 2011. The availability of observable market inputs to measure fair value varies based on changes in market conditions, such as liquidity. As a result, we expect the amount of financial instruments carried at fair value on a recurring basis and classified as Level 3 to vary each period.

Table 8: Level 3 Recurring Financial Assets at Fair Value

	As of December 31,	
	2012	2011
	(Dollars in millions)	
Trading securities	$2,286	$4,238
Available-for-sale securities	25,034	29,492
Mortgage loans	2,634	2,319
Other assets	175	238
Level 3 recurring assets	$30,129	$36,287
Total assets	$3,222,422	$3,211,484
Total recurring assets measured at fair value	$116,261	$156,552
Level 3 recurring assets as a percentage of total assets	1 %	1 %
Level 3 recurring assets as a percentage of total recurring assets measured at fair value	26 %	23 %
Total recurring assets measured at fair value as a percentage of total assets	4 %	5 %

Assets measured at fair value on a nonrecurring basis and classified as Level 3, which are not presented in the table above, primarily include mortgage loans and acquired property. The fair value of Level 3 nonrecurring assets totaled $29.5 billion as of December 31, 2012.

Financial liabilities measured at fair value on a recurring basis and classified as Level 3 consisted of long-term debt with a fair value of $1.5 billion as of December 31, 2012 and $1.2 billion as of December 31, 2011, and other liabilities with a fair value of $161 million as of December 31, 2012 and $173 million as of December 31, 2011.

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 17, 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 delinquency and default trends and 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.

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. We believe that 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 a look back period 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 2012, we enhanced our collective single-family loss reserve model and our model that calculates loss reserves for individually impaired loans. The combined impact from these changes resulted in an approximately $3.5 billion increase to our allowance for loan losses and provision for credit losses. The components of the enhancement to our loan loss models are as follows:

- We enhanced our loan loss models for loans in our collective single-family loss reserve to reflect more recent experience of default expectations. The impact of this change had the most pronounced effect on loans with higher mark-to-market LTV ratios, where we have observed better than anticipated payment performance in recent periods. Historically, we had limited information on the performance of loans with higher mark-to-market LTV ratios. However, we have recently observed that loans with higher mark-to-market LTV ratios have performed better than the prior models estimated since the prior models had limited observations. As a result of incorporating these recent observations, our loss expectations have improved for these loans. The change resulted in an approximately $1.5 billion decrease to our allowance for loan losses and provision for credit losses.
- We enhanced our single-family loan loss models for individually impaired loans based on current observable trends of payment behavior on our modified loans to reflect slower prepayment and default expectations for these loans, which significantly extended the expected average life of our modified loans. Since a loan modification changes the contractual terms of a loan such that a concession is granted to the borrower, an extension of the average life of a modified loan increases the charge we record related to the concession. Therefore, while our expectations of credit losses decreased due to better performance of our modified loans, this decrease was more than offset by an increase in the present value of the concession granted to the borrower by the modification. The change resulted in an approximately $5.0 billion increase to our allowance for loan losses and provision for credit losses.

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 generally obtain property appraisals from independent third-parties to determine the fair value of multifamily loans that we consider to be individually impaired. We also obtain property appraisals and broker price opinions when we foreclose on a multifamily property. We then allocate a portion of the reserve to interest accrued on the loans as of the balance sheet date.

Other-Than-Temporary Impairment of Investment Securities

We evaluate available-for-sale securities in an unrealized loss position as of the end of each quarter for other-than-temporary impairment. We recognize other-than-temporary impairment in earnings if one of the following conditions exists: (1) our intent is to sell the security; (2) it is more likely than not that we will be required to sell the security before the impairment is recovered; or (3) we do not expect to recover our amortized cost basis. If, by contrast, we do not intend to sell the security and will not be required to sell prior to recovery of the amortized cost basis, we recognize only the credit component of other-than-temporary impairment in earnings. We record the noncredit component in other comprehensive income. The credit component is the difference between the security's amortized cost basis and the present value of its expected future cash flows, while the noncredit component is the remaining difference between the security's fair value and the present value of expected future cash flows. If, subsequent to recognizing other-than-temporary impairment, our estimates of future cash flows improve, we recognize the change in estimate prospectively over the remaining life of securities as a component of interest income.

Our evaluation requires significant management judgment and consideration of various factors to determine if we will receive the amortized cost basis of our investment securities. We evaluate a debt security for other-than-temporary impairment using an econometric model that estimates the present value of cash flows given multiple factors. These factors include: the severity and duration of the impairment; recent events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings and the failure of the issuer to make scheduled interest or principal payments. We rely on expected future cash flow projections to determine if we will recover the amortized cost basis of our available-for-sale securities.

In the second quarter of 2012, we updated our assumptions used to project cash flow estimates on our Alt-A and subprime private-label securities to incorporate recent observable market trends, which included extending the time it takes to liquidate loans underlying these securities and increasing severity rates for loans where the servicer stopped advancing payments. These updates resulted in lower net present value of cash flow projections on our Alt-A and subprime private-label securities and increased our other-than-temporary impairment expense by approximately $500 million.

We provide more detailed information on our accounting for other-than-temporary impairment in “Note 1, Summary of Significant Accounting Policies” and “Note 5, Investments in Securities.” See “Risk Factors” for a discussion of the risks associated with possible future write-downs of our investment securities.

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, 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.

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 losses in our consolidated statements of operations in recent years;
- unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels on a continuing basis in future years; and
- the carryforward periods for net operating losses and tax credits.

As of December 31, 2012, we have concluded that it is more likely than not that our deferred tax asset will not be realized in its entirety and that therefore we should retain the valuation allowance against our net deferred tax assets. The valuation allowance as of December 31, 2012 was $58.9 billion. Giving more weight to evidence that could be objectively verified than to evidence that could not be objectively verified, we determined that the factors in favor of releasing the allowance were outweighed by the evidence against releasing the valuation allowance. The factors that weighed against releasing the allowance as of December 31, 2012 and ultimately outweighed the factors in favor of releasing the reserve discussed below were the following:

- on a cumulative basis, we reported losses in our consolidated statements of operations for the three years ended December 31, 2012;
- the impact of a reduction in funds available to us under the senior preferred stock purchase agreement that would have resulted from releasing the valuation allowance in the fourth quarter of 2012, which we discuss below;
- stability in the housing market is relatively recent and home prices, while improving, are still well below their peak, which results in uncertainty regarding our projections of future credit losses;
- the uncertainty surrounding the future of our company given we are in conservatorship; and
- we have a limited recent history of profitability and a large number of delinquent loans in our book of business.

Under the terms of the senior preferred stock purchase agreement, the amount of funding available to us after December 31, 2012 is adjusted based on our positive net worth as of December 31, 2012 and is not affected by any positive net worth we may have on future dates. Accordingly, the amount of funding available under the senior preferred stock purchase agreement will be reduced only to the extent that we draw funds from Treasury under the agreement in the future. A decision to release the valuation allowance in 2013 will not reduce the funding available to us under the senior preferred stock purchase agreement.

Releasing the valuation allowance in the fourth quarter of 2012 would have decreased our available funding under the senior preferred stock purchase agreement to approximately $84 billion, compared to approximately $118 billion of available funding that resulted from not releasing the valuation allowance in the fourth quarter.
There was significant uncertainty regarding the effects that an approximately $34 billion reduction in the funds available to us under the senior preferred stock purchase agreement would have had on our business and financial results, including regulatory actions that would limit our business operations to ensure safety and soundness of the company, particularly in view of the fact that stability in the housing market and improvements in our financial results are relatively recent. This uncertainty was a significant consideration in our determination not to release the valuation allowance as of December 31, 2012.
In addition, it is difficult to conclude a valuation allowance is not required when there is significant objective and verifiable negative evidence, such as cumulative losses in recent years. We utilize a rolling three years of pre-tax income or loss as the primary measure of cumulative losses in recent years. Over the three years ended December 31, 2012, we remain in a cumulative loss position. However, we expect that as of the end of the first quarter 2013, we will report income for the fifth consecutive quarter and we will show cumulative profits for the past twelve quarters.
The following factors weighed in favor of releasing the allowance as of December 31, 2012:

- our 2012 profitability and our expectations regarding the sustainability of profits;
- the strong credit profile of the loans we have acquired since 2009;
- the significant size of our guaranty book of business and our contractual rights for future revenue from this book of business;
- our taxable income for 2012 and our expectations regarding the likelihood of future taxable income; and
- the carryforward periods for our net operating losses and tax credits.

We will continue to evaluate the recoverability of our deferred tax assets. Our evaluation in future quarters will be made by reviewing all relevant factors as of the end of those periods including the factors discussed above to the extent applicable. Releasing all or a portion of the valuation allowance after December 31, 2012 will not reduce the funding available to us under the senior preferred stock purchase agreement, as discussed above. In addition, we expect that, as of the first quarter of 2013, we will no longer be in a three-year cumulative loss position. Accordingly, although we have not completed the analysis, we believe that, after considering all relevant factors, we may release the valuation allowance as early as the first quarter of 2013.
If we reverse all or a significant portion of our valuation allowance in a future period we would record a material tax benefit in net income reflecting the reversal. This tax benefit would increase our net worth as of the end of the period in which we record it and, as a result, the amount of the dividend we will be required to pay Treasury in the following quarter pursuant to the terms of the senior preferred stock purchase agreement. This tax benefit would also result in a large negative effective tax rate in the period in which the valuation allowance is released.
In addition, if all or a significant portion of the valuation allowance is reversed, our effective tax rate will approach the statutory tax rate after the year in which the reversal is recorded. Our recorded effective tax rate has been at or close to zero since we established our valuation allowance because our provision or benefit for income taxes, as it relates to the change in the deferred tax asset balance, has been offset by a corresponding decrease or increase to our valuation allowance.

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. In 2009, FASB concurrently revised the accounting guidance related to the consolidation of variable interest entities and the accounting guidance related to transfers of financial assets. On January 1, 2010, we prospectively adopted the revised guidance for these topics, which had a significant impact on the presentation and comparability of our consolidated financial statements. See “Note 1, Summary of Significant Accounting Policies” for more information on the revised accounting guidance.

Table 9 displays a summary of our consolidated results of operations for the periods indicated.
Table 9: Summary of Consolidated Results of Operations

	For the Year Ended December 31,			Variance	
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
	(Dollars in millions)				
Net interest income	$21,501	$19,281	$16,409	$2,220	$2,872
Fee and other income	1,487	1,163	1,084	324	79
Net revenues	$22,988	$20,444	$17,493	$2,544	$2,951
Investment gains, net	487	506	346	(19)	160
Net other-than-temporary impairments	(713)	(308)	(722)	(405)	414
Fair value losses, net	(2,977)	(6,621)	(511)	3,644	(6,110)
Administrative expenses	(2,367)	(2,370)	(2,597)	3	227
Credit-related income (expenses):					
Benefit (provision) for credit losses	852	(26,718)	(24,896)	27,570	(1,822)
Foreclosed property income (expense)	254	(780)	(1,718)	1,034	938
Total credit-related income (expenses)	1,106	(27,498)	(26,614)	28,604	(884)
Other non-interest expenses[1]	(1,304)	(1,098)	(1,495)	(206)	397
Income (loss) before federal income taxes	17,220	(16,945)	(14,100)	34,165	(2,845)
Benefit for federal income taxes	—	90	82	(90)	8
Net income (loss)	$17,220	$(16,855)	$(14,018)	$34,075	$(2,837)
Less: Net loss attributable to noncontrolling interest	4	—	4	4	(4)
Net income (loss) attributable to Fannie Mae	$17,224	$(16,855)	$(14,014)	$34,079	$(2,841)
Total comprehensive income (loss) attributable to Fannie Mae	$18,843	$(16,408)	$(10,570)	$35,251	$(5,838)

(1) Consists of debt extinguishment losses, net and other expenses.

Net Interest Income

Net interest income represents the difference between interest income and interest expense and is a primary source of our revenue. The amount of interest income and interest expense we recognize in the consolidated statements of operations and comprehensive income (loss) is affected by our investment and debt activity, asset yields (including the impact of loans on nonaccrual status) and our funding costs.

Table 10 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 11 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 10: Analysis of Net Interest Income and Yield

	For the Year Ended December 31,								
	2012			2011			2010		
	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	$370,455	$14,255	3.85 %	$392,719	$14,829	3.78 %	$362,785	$14,992	4.13 %
Mortgage loans of consolidated trusts	2,621,317	110,451	4.21	2,596,816	123,633	4.76	2,619,258	132,591	5.06
Total mortgage loans	2,991,772	124,706	4.17	2,989,535	138,462	4.63	2,982,043	147,583	4.95
Mortgage-related securities	268,761	12,709	4.73	316,963	14,607	4.61	387,798	19,552	5.04
Elimination of Fannie Mae MBS held in portfolio	(173,933)	(8,492)	4.88	(202,806)	(10,360)	5.11	(250,748)	(13,232)	5.28
Total mortgage-related securities, net[1]	94,828	4,217	4.45	114,157	4,247	3.72	137,050	6,320	4.61
Non-mortgage securities[2]	50,282	71	0.14	71,713	117	0.16	91,613	221	0.24
Federal funds sold and securities purchased under agreements to resell or similar arrangements	38,708	73	0.19	26,045	32	0.12	28,685	62	0.22
Advances to lenders	6,220	123	1.98	3,943	85	2.16	3,523	84	2.38
Total interest-earning assets	$3,181,810	$129,190	4.06 %	$3,205,393	$142,943	4.46 %	$3,242,914	$154,270	4.76 %
Interest-bearing liabilities:									
Short-term debt[3]	$102,877	$147	0.14 %	$160,704	$301	0.19 %	$212,784	$619	0.29 %
Long-term debt	561,280	11,925	2.12	585,362	14,711	2.51	583,369	18,857	3.23
Total short-term and long-term funding debt	664,157	12,072	1.82	746,066	15,012	2.01	796,153	19,476	2.45
Debt securities of consolidated trusts	2,697,592	104,109	3.86	2,651,121	119,010	4.49	2,682,434	131,617	4.91
Elimination of Fannie Mae MBS held in portfolio	(173,933)	(8,492)	4.88	(202,806)	(10,360)	5.11	(250,748)	(13,232)	5.28
Total debt securities of	2,523,659	95,617	3.79	2,448,315	108,650	4.44	2,431,686	118,385	4.87

consolidated trusts held by third parties									
Total interest-bearing liabilities	$3,187,816	$107,689	3.38 %	$3,194,381	$123,662	3.87 %	$3,227,839	$137,861	4.27 %
Net interest income/net interest yield(1)		$21,501	0.68 %		$19,281	0.60 %		$16,409	0.51 %
Net interest income/net interest yield of consolidated trusts(4)		$6,342	0.24 %		$4,623	0.18 %		$974	0.04 %

	As of December 31,		
	2012	2011	2010
Selected benchmark interest rates(5)			
3-month LIBOR	0.31 %	0.58 %	0.30 %
2-year swap rate	0.39	0.73	0.80
5-year swap rate	0.86	1.22	2.17
30-year Fannie Mae MBS par coupon rate	2.23	2.88	4.13

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(1) Includes an out-of-period adjustment of $727 million to reduce “Interest income: Available-for-sale securities” in our consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2011. Without this adjustment the average interest rate earned on total mortgage-related securities would have been 4.36% and the total net interest yield would have been 0.62% for the year ended December 31, 2011.

(2) Includes cash equivalents.

(3) Includes federal funds purchased and securities sold under agreements to repurchase.

(4) Net interest income of consolidated trusts represents interest income from mortgage loans of consolidated trusts less interest expense from debt securities of consolidated trusts. Net interest yield is calculated based on net interest income from consolidated trusts divided by average balance of mortgage loans of consolidated trusts.

(5) Data from British Bankers' Association, Thomson Reuters Indices and Bloomberg L.P.

Table 11: Rate/Volume Analysis of Changes in Net Interest Income

	2012 vs. 2011			2011 vs. 2010		
	Total Variance	Variance Due to:[1] Volume	Rate	Total Variance	Variance Due to:[1] Volume	Rate
	(Dollars in millions)					
Interest income:						
Mortgage loans of Fannie Mae	$(574)	$(853)	$279	$(163)	$1,185	$(1,348)
Mortgage loans of consolidated trusts	(13,182)	1,156	(14,338)	(8,958)	(1,128)	(7,830)
Total mortgage loans	(13,756)	303	(14,059)	(9,121)	57	(9,178)
Total mortgage-related securities, net[2]	(757)	(846)	89	(1,346)	(902)	(444)
Non-mortgage securities[3]	(46)	(32)	(14)	(104)	(42)	(62)
Federal funds sold and securities purchased under agreements to resell or similar arrangements	41	20	21	(30)	(5)	(25)
Advances to lenders	38	46	(8)	1	9	(8)
Total interest income	(14,480)	(509)	(13,971)	(10,600)	(883)	(9,717)
Interest expense:						
Short-term debt[4]	(154)	(93)	(61)	(318)	(130)	(188)
Long-term debt	(2,786)	(586)	(2,200)	(4,146)	64	(4,210)
Total short-term and long-term funding debt	(2,940)	(679)	(2,261)	(4,464)	(66)	(4,398)
Total debt securities of consolidated trusts held by third parties	(13,033)	3,479	(16,512)	(9,735)	940	(10,675)
Total interest expense	(15,973)	2,800	(18,773)	(14,199)	874	(15,073)
Net interest income[2]	$1,493	$(3,309)	$4,802	$3,599	$(1,757)	$5,356

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(1) Combined rate/volume variances are allocated to both rate and volume based on the relative size of each variance.

(2) Excludes an out-of-period adjustment of $727 million that reduced the interest income on mortgage related securities for the year ended December 31, 2011.

(3) Includes cash equivalents.

(4) Includes federal funds purchased and securities sold under agreements to repurchase.

Although our portfolio balance declined, net interest income increased in 2012 compared with 2011, primarily due to lower interest expense on funding debt, a reduction in the amount of interest income not recognized for nonaccrual mortgage loans and accelerated net amortization income on loans and debt of consolidated trusts. These factors were partially offset by lower interest income on Fannie Mae mortgage loans and securities. The primary drivers of these changes were:

- lower interest expense on funding debt due to lower borrowing rates and lower funding needs, which allowed us to continue to replace higher-cost debt with lower-cost debt;
- higher coupon interest income recognized on mortgage loans due to a reduction in the amount of interest income not recognized for nonaccrual mortgage loans. The balance of nonaccrual loans in our consolidated balance sheet declined as we continued to complete a high number of loan workouts and foreclosures, and fewer loans became seriously delinquent;
- accelerated net amortization income related to mortgage loans and debt of consolidated trusts driven by a high volume of prepayments due to declining interest rates;
- lower interest income on Fannie Mae mortgage loans due to a decrease in average balance and new business acquisitions which continued to replace higher-yielding loans with loans issued at lower mortgage rates; and
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lower interest income on mortgage securities due to a decrease in the balance of our mortgage securities, as we continue to manage our portfolio to the requirements of the senior preferred stock purchase agreement.

Net interest income increased during 2011, as compared with 2010, due to lower interest expense on debt, which was partially offset by lower interest income on loans and securities. The primary drivers of these changes were:

- a reduction in the interest expense of debt of consolidated trusts driven by a decrease in rates. The rate on debt of consolidated trusts is generally driven by mortgage rates of loans securitized in MBS, and these mortgage rates declined in 2011;
- lower interest expense on funding debt due to lower borrowing rates, which allowed us to continue to replace higher-cost debt with lower-cost debt;
- lower interest income on mortgage securities due to a decrease in the balance of our mortgage securities, as we continue to manage our portfolio to the requirements of the senior preferred stock purchase agreement; and
- lower yields on mortgage loans as new business acquisitions continue to replace higher-yielding loans with loans issued at lower mortgage rates. The reduction in interest income on loans due to lower yields was partially offset by a reduction in the amount of interest income not recognized for nonaccrual mortgage loans, due to a decline in the balance of nonaccrual loans in our consolidated balance sheets as we continued to complete a high number of loan modifications and foreclosures.

Additionally, our net interest income and net interest yield were higher than they would have otherwise been in 2010 through 2012 because our debt funding needs were lower than they would otherwise have been as a result of the funds we received from Treasury under the senior preferred stock purchase agreement and because dividends paid to Treasury are not recognized in interest expense.

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. These cost basis adjustments are amortized over the contractual life of the underlying loans as a component of net interest income. Cost basis adjustments related to consolidated debt that is in a premium position are amortized as an income component within net interest income, while cost basis adjustments related to underlying mortgage loans that are in a premium position are recognized as an expense component within net interest income. Net unamortized premiums on debt of consolidated trusts exceeded net unamortized premiums on the related mortgage loans by $16.8 billion as of December 31, 2012, compared with $8.7 billion as of December 31, 2011. The increase is primarily due to higher prepayment volumes which significantly increased our portfolio securitization transactions during 2012.

We had $15.8 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, 2012 compared with $17.9 billion as of December 31, 2011. The extent to which we may record these discounts and other cost basis adjustments as income in future periods will be based on the actual performance of the loans.

Mortgage loans average balance includes loans on nonaccrual status while interest income on these loans is recognized when collected. Table 12 displays the interest income not recognized for loans on nonaccrual status and the resulting reduction in our net interest yield on total interest earning assets for the periods indicated.

Table 12: Impact of Nonaccrual Loans on Net Interest Income

	For the Year Ended December 31,					
	2012		2011		2010	
	Interest Income not Recognized for Nonaccrual Loans[1]	Reduction in Net Interest Yield[2]	Interest Income not Recognized for Nonaccrual Loans[1]	Reduction in Net Interest Yield[2]	Interest Income not Recognized for Nonaccrual Loans[1]	Reduction in Net Interest Yield[2]
	(Dollars in millions)					
Mortgage loans of Fannie Mae	$(3,403)		$(4,666)		$(4,721)	
Mortgage loans of consolidated trusts	(594)		(896)		(3,692)	
Total mortgage loans	$(3,997)	(12) bps	$(5,562)	(18) bps	$(8,413)	(26) bps

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(1) Amount includes cash received for loans on nonaccrual status.

(2) Calculated based on annualized interest income not recognized divided by total interest-earning assets, expressed in basis points.

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 Capital Markets group's net interest income in "Business Segment Results."

Other-Than-Temporary Impairment of Investment Securities

Net other-than-temporary impairments in 2012 increased compared with 2011. The increase was primarily driven by an update to the assumptions used to project cash flow estimates on our Alt-A and subprime private-label securities in the second quarter of 2012.

The net other-than-temporary impairment charges recognized in 2011 and 2010 were primarily driven by a net decline in forecasted home prices for certain geographic regions, which resulted in a decrease in the present value of our cash flow projections on Alt-A and subprime private-label securities. The charges recorded in 2011 were partially offset by an out-of-period adjustment, which reduced “Other-than-temporary impairments” in our consolidated statements of operations and comprehensive loss for the year ended December 31, 2011.

Fair Value Losses, Net

Table 13 displays the components of our fair value gains and losses.

Table 13: Fair Value Losses, Net

	For the Year Ended December 31,		
	2012	2011	2010
	(Dollars in millions)		
Risk management derivatives fair value losses attributable to:			
Net contractual interest expense accruals on interest rate swaps	$(1,430)	$(2,185)	$(2,895)
Net change in fair value during the period	(508)	(3,954)	1,088
Total risk management derivatives fair value losses, net	(1,938)	(6,139)	(1,807)
Mortgage commitment derivatives fair value losses, net	(1,688)	(423)	(1,193)
Total derivatives fair value losses, net	(3,626)	(6,562)	(3,000)
Trading securities gains, net	1,004	266	2,692
Other, net[1]	(355)	(325)	(203)
Fair value losses, net	$(2,977)	$(6,621)	$(511)

	2012	2011	2010
5-year swap rate:			
As of March 31	1.27 %	2.47 %	2.73 %
As of June 30	0.97	2.03	2.06
As of September 30	0.76	1.26	1.51
As of December 31	0.86	1.22	2.18

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(1) Consists of debt fair value gains (losses), net; debt foreign exchange gains (losses), net; and mortgage loans fair value gains (losses), net.

We can expect high levels of period-to-period volatility in our results of operations and financial condition due to changes in market conditions that result in periodic fluctuations in the estimated fair value of financial instruments that we mark to market through our earnings. These instruments include trading securities and derivatives. The estimated fair value of our trading securities and derivatives may fluctuate substantially from period to period because of changes in interest rates, credit spreads and interest rate volatility, as well as activity related to these financial instruments. While the estimated fair value of our derivatives may fluctuate, some of the financial instruments that the derivatives hedge are not recorded at fair value in our consolidated financial statements. Therefore, the accounting volatility resulting from market fluctuations related to our trading securities and derivatives may not be indicative of the economics of these transactions.

Risk Management Derivatives Fair Value Losses, Net

Risk management derivative instruments are an integral part of our management of interest rate risk. 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 for the years ended December 31, 2012, 2011 and 2010 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 2012, 2011 and 2010 primarily as a result of a decrease in the fair value of our pay-fixed derivatives due to a decline in swap rates during the periods. Risk management derivative fair value losses in 2011 were greater than the losses in 2012, primarily due to a significant decline in swap rates in 2011 compared with a more modest decline in swap rates in 2012. In 2010, the risk management derivative fair value losses we recognized were also the result of time decay on our purchased options and a decrease in implied interest rate volatility, which reduced the fair value of our purchased options.

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 offsetting mark-to-market gains and losses presented in Table 13. For additional information on our use of derivatives to manage interest rate risk, including the economic objective of our use of various types of derivative instruments, changes in our derivatives activity and the outstanding notional amounts, see "Risk Management—Market Risk Management, Including Interest Rate Risk Management—Interest Rate Risk Management."

Mortgage Commitment Derivatives Fair Value Losses, 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 (loss). 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 2012, 2011 and 2010 primarily due to losses on commitments to sell mortgage-related securities as a result of an increase in prices as interest rates decreased during the commitment period. Mortgage commitment derivative fair value losses in 2012 were greater than the losses in 2011, primarily as a result of (1) a higher volume of net commitments to sell mortgage-related securities and (2) a further increase in prices driven by the Federal Reserve's announcement that it would increase its MBS purchases from financial institutions beginning in September 2012.

Trading Securities Gains, Net

The estimated fair value of our trading securities may fluctuate substantially from period-to-period primarily due to changes in interest rates and credit spreads. Gains from our trading securities in 2012 were primarily driven by the narrowing of credit spreads on commercial mortgage-backed securities ("CMBS"). Gains from our trading securities in 2011 were primarily driven by higher prices on our CMBS as a result of significant narrowing of the U.S. Treasury yield curve and swap yield curve spreads offset by widening credit spreads. Gains from trading securities in 2010 were primarily driven by a decrease in interest rates and narrowing of credit spreads, primarily on CMBS.

We provide additional information on our trading and available-for-sale securities in "Consolidated Balance Sheet Analysis—Investments in Mortgage-Related Securities." We disclose the sensitivity of changes in the fair value of our trading securities to changes in interest rates in "Risk Management—Market Risk Management, Including Interest Rate Risk Management—Measurement of Interest Rate Risk."

Administrative Expenses

Administrative expenses were flat in 2012 compared with 2011, as continued efforts to reduce ongoing operating costs were offset by additional costs related to the execution of FHFA's strategic goals. Administrative expenses decreased in 2011 compared with 2010 due to cost reduction efforts and a realignment of resources in order to focus on our most critical priorities. We expect that our administrative expenses may increase in 2013 compared with 2012 as we continue to execute on our strategic goals.

Credit-Related (Income) Expenses

We refer to our (benefit) provision for loan losses and our provision for guaranty losses collectively as our "(benefit) provision for credit losses." Credit-related (income) expenses consist of our benefit (provision) for credit losses and foreclosed property (income) expense.

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, as of each balance sheet date. We establish our loss reserves through our provision for credit losses for losses that we believe have been incurred and will eventually be reflected over time in our charge-offs. When we determine that a loan is uncollectible, typically upon foreclosure, we record a charge-off against our loss reserves. We record recoveries of previously charged-off amounts as a reduction to charge-offs.

Table 14 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 14 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 14: Total Loss Reserves

	As of December 31,	
	2012	2011
	(Dollars in millions)	
Allowance for loan losses	$58,795	$72,156
Reserve for guaranty losses[1]	1,231	994
Combined loss reserves	60,026	73,150
Allowance for accrued interest receivable	1,737	2,496
Allowance for preforeclosure property taxes and insurance receivable[2]	866	1,292
Total loss reserves	62,629	76,938
Fair value losses previously recognized on acquired credit-impaired loans[3]	13,694	16,273
Total loss reserves and fair value losses previously recognized on acquired credit-impaired loans	$76,323	$93,211

(1) Amount included in “Other liabilities” in our consolidated balance sheets.

(2) Amount included in “Other assets” in our consolidated balance sheets.

(3) Represents the fair value losses on loans purchased out of unconsolidated MBS trusts reflected in our consolidated balance sheets.

The following table displays changes in the total allowance for loan losses, reserve for guaranty losses and the total combined loss reserves for the periods indicated.

Table 15: Allowance for Loan Losses and Reserve for Guaranty Losses (Combined Loss Reserves)

	For the Year Ended December 31,				
	2012	2011	2010	2009	2008
	(Dollars in millions)				
Changes in combined loss reserves:					
Allowance for loan losses:					
Beginning balance	$72,156	$61,556	$9,925	$2,772	$629
Adoption of consolidation accounting guidance[1]	—	—	43,576	—	—
(Benefit) provision for loan losses	(1,191)	25,914	24,702	9,569	4,022
Charge-offs[2]	(15,139)	(21,170)	(22,878)	(2,245)	(1,987)
Recoveries	1,784	5,272	3,077	214	190
Other[3]	1,185	584	3,154	(385)	(82)
Ending balance	$58,795	$72,156	$61,556	$9,925	$2,772
Reserve for guaranty losses:					
Beginning balance	$994	$323	$54,430	$21,830	$2,693
Adoption of consolidation accounting guidance[1]	—	—	(54,103)	—	—
Provision for guaranty losses	339	804	194	63,057	23,929
Charge-offs	(174)	(138)	(203)	(31,142)	(4,986)
Recoveries	72	5	5	685	194
Ending balance	$1,231	$994	$323	$54,430	$21,830
Combined loss reserves:					
Beginning balance	$73,150	$61,879	$64,355	$24,602	$3,322
Adoption of consolidation accounting guidance[1]	—	—	(10,527)	—	—
Total (benefit) provision for credit losses	(852)	26,718	24,896	72,626	27,951
Charge-offs[2]	(15,313)	(21,308)	(23,081)	(33,387)	(6,973)
Recoveries	1,856	5,277	3,082	899	384
Other[3]	1,185	584	3,154	(385)	(82)
Ending balance	$60,026	$73,150	$61,879	$64,355	$24,602
Attribution of charge-offs:					
Charge-offs attributable to guaranty book of business	$(15,249)	$(21,192)	$(22,901)	$(12,832)	$(4,544)
Charge-offs attributable to fair value losses on acquired credit-impaired and HomeSaver Advance loans	(64)	(116)	(180)	(20,555)	(2,429)
Total charge-offs	$(15,313)	$(21,308)	$(23,081)	$(33,387)	$(6,973)
Allocation of combined loss reserves:					
Balance at end of each period attributable to:					
Single-family	$58,809	$71,512	$60,163	$62,312	$24,498
Multifamily	1,217	1,638	1,716	2,043	104
Total	$60,026	$73,150	$61,879	$64,355	$24,602
Single-family and multifamily combined loss reserves as a percentage of applicable guaranty book of business:					
Single-family	2.08 %	2.52 %	2.10 %	2.14 %	0.87 %
Multifamily	0.59	0.84	0.91	1.10	0.06
Combined loss reserves as a percentage of:					
Total guaranty book of business	1.97 %	2.41 %	2.03 %	2.08 %	0.83 %
Recorded investment in nonperforming loans	23.92	29.03	24.40	28.98	20.51

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(1) Because we recognized mortgage loans held by newly consolidated trusts upon adoption of the consolidation accounting guidance on January 1, 2010, we increased our "Allowance for loan losses" and decreased our "Reserve for guaranty losses." The impact at the transition date is reported as "Adoption of consolidation accounting guidance." The decrease in the combined loss reserves on the adoption date represents a difference in the methodology used to estimate incurred losses for our allowance for loan losses as compared with our reserve for guaranty losses and our separate presentation of the portion of the allowance related to accrued interest as our "Allowance for accrued interest receivable."

(2) Includes accrued interest of $872 million, $1.4 billion, $2.4 billion, $1.5 billion and $642 million for the years ended December 31, 2012, 2011, 2010, 2009 and 2008, respectively.

(3) Amounts represent the net activity recorded in our allowances for accrued interest receivable and preforeclosure property taxes and insurance receivable from borrowers. The provision for credit 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.

Our provision, and in some cases benefit, for credit losses continues to be a key driver of our results for each period presented. The amount of our 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 lender and mortgage insurer counterparties. See "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management" for information on mortgage insurers and outstanding mortgage seller/servicer repurchase obligations. In addition, our provision for credit losses and our loss reserves can be impacted by updates to our allowance for loan loss models that we use to estimate our loss reserves.

We recognized a benefit for credit losses of $852 million in 2012 compared with a provision for credit losses of $26.7 billion in 2011. This result was driven by improvement in the profile of our single-family book of business due to continuing positive trends in the housing market and our ongoing efforts to improve the credit quality of our single-family guaranty book of business. Specifically, the profile of our single-family guaranty book improved due to:

- A 4.7% increase in home prices in 2012 compared with a home price decline of 3.7% in 2011. Higher home prices decrease the likelihood that loans will default and reduce the amount of credit loss on loans that do default.
- An increase in sales prices of our REO properties. We received net proceeds from our REO sales equal to 59% of the loans' unpaid principal balance in 2012, compared with 54% in 2011. Sales prices on dispositions of our REO properties improved in 2012 as a result of increased demand compared with 2011 as well as our efforts to improve the sales execution of our REO properties. The increase in sales proceeds reduces the amount of credit loss at foreclosure and, accordingly, results in a lower provision for credit losses.
- A continued reduction in the number of delinquent loans in our single-family guaranty book of business. Our serious delinquency rate declined from 3.91% as of December 31, 2011 to 3.29% as of December 31, 2012 and our early stage delinquencies declined from 2.91% as of December 31, 2011 to 2.62% as of December 31, 2012. The reduction in the delinquency rates is due, in part, to our efforts since 2009 to improve our underwriting standards and the credit quality of our single-family guaranty book of business, which has resulted in a decrease in the number of loans becoming delinquent. A decline in the number of loans becoming delinquent or seriously delinquent reduces our total loss reserves and provision for credit losses.

The improvement in our credit results in 2012 was partially offset by a $3.5 billion increase in our provision for credit losses due to changes in our assumptions and data used in calculating our loss reserves. For additional information on the impact from changes in our assumptions used in calculating our loss reserves in the third quarter of 2012, see "Critical Accounting Policies and Estimates—Total Loss Reserves."

In addition, the improvement in our credit results in 2012 was also partially offset by a change in our accounting for loans to certain borrowers who have received bankruptcy relief, which led to an increase in the number of loans we classify as troubled debt restructurings ("TDRs"). In the third quarter of 2012, we began classifying loans as TDRs where the borrower used the bankruptcy process to receive a discharge of the mortgage debt or to cure a mortgage delinquency over time. We determined that the discharge of mortgage debt in bankruptcy was a concession in cases in which the discharge effectively resulted in us losing our ability to hold the borrower personally liable for deficiencies under state law, although we continue to be able to foreclose on the collateral. We also determined that curing a mortgage delinquency over time through bankruptcy resulted in a concession similar to other long-term repayment plans. The increase in TDRs as a result of the implementation of this change in the third quarter of 2012 resulted in an increase in our provision for credit losses of approximately $1.1 billion.

Our provision for credit losses increased in 2011 compared with 2010 primarily due to: (1) a decline in actual and projected home prices in 2011, which led to an increase in projected defaults and higher loss severity rates; (2) a decrease in the estimated recovery amount from mortgage insurance coverage; and (3) the implementation of new accounting guidance that increased our TDR population, which increased the number of loans that were individually impaired. The increase in our provision was partially offset by an increase in cash received by us and estimated amounts due to us for repurchase requests; and accelerated expected prepayment speeds due to the lower interest rate environment, which reduced the expected lives of loans and increased the present value of cash flows expected on those loans.

In April 2012, FHFA issued an Advisory Bulletin that could have an impact on our provision for credit losses in the future; however, we are still assessing the impact of the Advisory Bulletin. See "Legislative and Regulatory Developments—FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans" for additional information.

We discuss our expectations regarding our future loss reserves in "Executive Summary—Outlook—Loss Reserves."

Loss Reserves Concentration Analysis

Certain loan categories have contributed disproportionately to the increase in our nonperforming loans and credit losses. These categories include: loans on properties in California, Florida, Arizona and Nevada and certain Midwest states; loans originated in 2005 through 2008; and loans related to higher-risk product types, such as Alt-A loans. Our total single-family loss reserves are also disproportionately higher for these states, Alt-A loans and our 2005 through 2008 vintages. Table 16 displays our single-family loss reserves concentration analysis.

Table 16: Total Single-Family Loss Reserves Concentration Analysis[1]

	Total Single-Family Loss Reserves As of December 31,	
	2012	2011
Illinois, Indiana, Michigan, and Ohio	14 %	13 %
California, Florida, Arizona, Nevada	44	49
Alt-A	27	29
2005 - 2008	85	88

(1) Loans that meet more than one category are included in each applicable category.

Nonperforming Loans

Our balance of nonperforming single-family loans remained high as of December 31, 2012 due to both high levels of delinquencies and an increase in TDRs. When a TDR occurs, the loan may return to a current status, but it will continue to be classified as a nonperforming loan as the loan is not performing in accordance with its original terms. Table 17 displays the composition of our nonperforming loans, which includes our single-family and multifamily 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 48 in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

Table 17: Nonperforming Single-Family and Multifamily Loans

	As of December 31,				
	2012	2011	2010	2009	2008
	(Dollars in millions)				
On-balance sheet nonperforming loans including loans in consolidated Fannie Mae MBS trusts:					
Nonaccrual loans	$114,761	$142,998	$170,788	$37,596	$15,610
TDRs on accrual status(1)	136,064	108,797	82,702	9,880	5,799
Total on-balance sheet nonperforming loans	250,825	251,795	253,490	47,476	21,409
Off-balance sheet nonperforming loans in unconsolidated Fannie Mae MBS trusts(2)	72	154	89	174,588	98,546
Total nonperforming loans	250,897	251,949	253,579	222,064	119,955
Allowance for loan losses and allowance for accrued interest receivable related to individually impaired on-balance sheet nonperforming loans	(45,776)	(47,711)	(38,827)	(5,609)	(723)
Total nonperforming loans, net of allowance	$205,121	$204,238	$214,752	$216,455	$119,232
Accruing on-balance sheet loans past due 90 days or more(3)	$3,580	$768	$896	$612	$317

	For the Year Ended December 31,				
	2012	2011	2010	2009	2008
	(Dollars in millions)				
Interest related to on-balance sheet nonperforming loans:					
Interest income forgone(4)	$7,554	$8,224	$8,185	$1,341	$401
Interest income recognized for the period(5)	6,442	6,598	7,995	1,206	771

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(1) Includes HomeSaver Advance first-lien loans on accrual status.

(2) Represents loans that would meet our criteria for nonaccrual status if the loans had been on-balance sheet.

(3) Recorded investment in loans that, as of the end of each period, are 90 days or more past due and continuing to accrue interest. As of December 31, 2012, includes loans with a recorded investment of $2.8 billion which were repurchased in January 2013 pursuant to our resolution agreement with Bank of America. These loans were returned to accrual status to reflect the change in our assessment of collectibility resulting from this agreement, see “Note 20, Subsequent Events.” Also includes 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.

(4) Represents the amount of interest income we did not record but would have recorded during the period for on-balance sheet nonperforming loans as of the end of each period had the loans performed according to their original contractual terms.

(5) Represents interest income recognized during the period for on-balance sheet loans classified as nonperforming 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 (Income) Expense

We recorded foreclosed property income in 2012 compared with recording foreclosed property expense in 2011 primarily due to: (1) improved sales prices on dispositions of our REO properties, resulting from strong demand in markets with limited REO supply and (2) the recognition of foreclosed property income resulting from resolutions with Bank of America on January 6, 2013 related to outstanding repurchase requests and compensatory fees. Compensatory fees are amounts we charge our primary servicers for servicing delays within their control when they fail to comply with established loss mitigation and foreclosure timelines as required by our Servicing Guide, which sets forth our policies and procedures related to servicing our single-family mortgages. See “Note 20, Subsequent Events” for additional information on these agreements and their impact on our financial results.

Foreclosed property expense decreased in 2011 compared with 2010 due, in part, to an increase in cash received by us and estimated amounts due to us for repurchase requests. These amounts were recognized in our provision for credit losses and foreclosed property expense. In addition, we had fewer REO properties in 2011 compared with 2010, primarily driven by delays in the foreclosure process, which resulted in lower foreclosed property expense. The decrease in foreclosed property expense was partially offset by a decrease in the estimated recovery amount from mortgage insurance coverage.

Credit Loss Performance Metrics

Our credit-related (income) expenses 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 nonperforming loans in our mortgage portfolio, 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 18 displays the components of our credit loss performance metrics as well as our average single-family and multifamily default rates and initial charge-off severity rates.

Table 18: Credit Loss Performance Metrics

	For the Year Ended December 31,								
	2012			2011			2010		
	Amount	Ratio[1]		Amount	Ratio[1]		Amount	Ratio[1]	
	(Dollars in millions)								
Charge-offs, net of recoveries	$13,457	44.2	bps	$16,031	52.4	bps	$19,999	65.6	bps
Foreclosed property (income) expense	(254)	(0.8)		780	2.6		1,718	5.6	
Credit losses including the effect of fair value losses on acquired credit-impaired loans	13,203	43.4		16,811	55.0		21,717	71.2	
Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property expense[2]	1,446	4.8		1,926	6.3		1,914	6.2	
Credit losses and credit loss ratio	$14,649	48.2	bps	$18,737	61.3	bps	$23,631	77.4	bps
Credit losses attributable to:									
Single-family	$14,392			$18,346			$23,133		
Multifamily	257			391			498		
Total	$14,649			$18,737			$23,631		
Single-family default rate		1.55	%		1.71	%		1.99	%
Single-family initial charge-off severity rate [3]		30.71	%		34.82	%		34.07	%
Average multifamily default rate		0.35	%		0.53	%		0.61	%
Average multifamily initial charge-off severity rate [3]		37.43	%		37.10	%		39.18	%

(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) 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.

Credit losses decreased in 2012 compared with 2011 primarily due to improved actual home prices and sales prices of our REO properties and lower REO acquisitions primarily due to the continued slow pace of foreclosures in 2012. The decrease in credit losses in 2011 compared with 2010 was driven by delays in the foreclosure process and an increase in cash received by us and estimated amounts due to us for repurchase requests.

Table 19 displays an analysis of our credit losses in certain higher-risk loan categories, loan vintages and loans within certain states that have continued to account for a disproportionate share of our credit losses as compared with our other loans.

Table 19: Credit Loss Concentration Analysis

	Percentage of Single-Family Conventional Guaranty Book of Business Outstanding[1]			Percentage of Single-Family Credit Losses		
	As of December 31,			For the Year Ended December 31,		
	2012	2011	2010	2012	2011	2010
Geographical Distribution:						
Arizona, California, Florida, and Nevada	28 %	28 %	28 %	51 %	58 %	56 %
Illinois, Indiana, Michigan, and Ohio	10	10	11	19	12	14
All other states	62	62	61	30	30	30
Select higher-risk product features[2]	22	21	22	54	56	61
Vintages:						
2005 - 2008	22	31	38	82	83	88
All other vintages	78	69	62	18	17	12

(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) 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.

Our new single-family book of business accounted for approximately 5% of our single-family credit losses for 2012. 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. We provide more detailed credit performance information, including serious delinquency rates by geographic region and foreclosure activity, in "Risk Management—Credit Risk Management—Mortgage Credit Risk Management."

Regulatory Hypothetical Stress Test Scenario

Under a September 2005 agreement with FHFA's predecessor, the OFHEO, we are required to disclose on a quarterly basis the present value of the change in future expected credit losses from our existing single-family guaranty book of business from an immediate 5% decline in single-family home prices for the entire United States followed by a return to the average of the possible growth rate paths used in our internal credit pricing models. The sensitivity results represent the difference between future expected credit losses under our base case scenario, which is derived from our internal home price path forecast, and a scenario that assumes an instantaneous nationwide 5% decline in home prices. Table 20 displays the credit loss sensitivities as of the dates indicated for first-lien single-family loans that are in our portfolio or underlying Fannie Mae MBS, before and after consideration of projected credit risk sharing proceeds, such as private mortgage insurance claims and other credit enhancements.

Table 20: Single-Family Credit Loss Sensitivity[1]

	As of December 31,	
	2012	2011
	(Dollars in millions)	
Gross single-family credit loss sensitivity	$13,508	$21,922
Less: Projected credit risk sharing proceeds	(2,206)	(1,690)
Net single-family credit loss sensitivity	$11,302	$20,232
Single-family loans in our portfolio and loans underlying Fannie Mae MBS	$2,765,460	$2,769,454
Single-family net credit loss sensitivity as a percentage of outstanding single-family loans in our portfolio and Fannie Mae MBS	0.41 %	0.73 %

(1) Represents total economic credit losses, which consist of credit losses and forgone interest. Calculations are based on 98% and 97% of our total single-family guaranty book of business as of December 31, 2012 and 2011, respectively. The mortgage loans and mortgage-related securities that are included in these estimates consist of: (a) single-family Fannie Mae MBS (whether held in our mortgage portfolio or held by third parties), excluding certain whole loan REMICs and private-label wraps; (b) single-family mortgage loans, excluding mortgages secured only by second liens, subprime mortgages, manufactured housing chattel loans and reverse mortgages; and (c) long-term standby commitments. We expect the inclusion in our estimates of the excluded products may impact the estimated sensitivities set forth in this table.

The decrease in the projected credit loss sensitivities in 2012 compared with 2011 was the result of the increase in home prices and lower projected default expectations for loans in our single-family guaranty book of business.

Because these sensitivities represent hypothetical scenarios, they should be used with caution. Our regulatory stress test scenario is limited in that it assumes an instantaneous uniform 5% nationwide decline in home prices, which is not representative of the historical pattern of changes in home prices. Changes in home prices generally vary on a regional, as well as a local, basis. In addition, these stress test scenarios are calculated independently without considering changes in other interrelated assumptions, such as unemployment rates or other economic factors, which are likely to have a significant impact on our future expected credit losses.

Other Non-Interest Expenses

Other non-interest expenses consist of credit enhancement expenses, which reflect the amortization of the credit enhancement asset we record at the inception of guaranty contracts; costs associated with the purchase of additional mortgage insurance to protect against credit losses; net gains and losses on the extinguishment of debt; servicer incentive fees in connection with loans modified under HAMP; our obligation to Treasury under the TCCA, which was effective on April 1, 2012; and other miscellaneous expenses.

Other non-interest expenses increased in 2012 compared with 2011 primarily due to our obligation and payments to Treasury under the TCCA of $238 million. As a result of the TCCA, we increased the guaranty fee on all single-family residential mortgages delivered to us on or after April 1, 2012 for securitization by 10 basis points and are required to remit this increase to Treasury, rather than retaining the incremental revenue. The resulting revenue is included in net interest income and the expense is included in other expenses. Other non-interest expenses decreased in 2011 compared with 2010 primarily due to a decrease in net losses recorded on the extinguishment of debt as a result of lower funding needs in 2011 compared with higher call activity due to low interest rates in 2010.

Federal Income Taxes

We did not recognize a provision or a benefit for federal income taxes in 2012. We recorded a benefit for federal income taxes of $90 million for 2011 because we effectively settled our 2007 and 2008 tax years with the Internal Revenue Service ("IRS") in 2011. We recorded a benefit for federal income taxes of $82 million for 2010 primarily due to the reversal of a portion of the valuation allowance for deferred tax assets resulting from a settlement agreement reached with the IRS for our unrecognized tax benefits for the tax years 1999 through 2004.

We discuss federal income taxes and the factors that led us to record a valuation allowance against our net deferred tax assets in "Note 10, Income Taxes." The amount of deferred tax assets considered realizable is subject to adjustment in future periods. We will continue to monitor all available evidence to assess the recoverability of our deferred tax assets and to assess whether we should retain a valuation allowance against our net deferred tax assets.

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 in "Note 13, Segment Reporting."

In this section, we summarize our segment results for the years ended December 31, 2012, 2011 and 2010 in the tables below and provide a comparative discussion of these results. This section should be read together with our comparative discussion

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of our consolidated results of operations in "Consolidated Results of Operations." See "Note 13, Segment Reporting" for a reconciliation of our segment results to our consolidated results.

Summary

Table 21 displays a summary of our segment results for 2012, 2011 and 2010.

Table 21: Business Segment Summary

	For the Year Ended December 31,		
	2012	2011	2010
	(Dollars in millions)		
Net revenues:[1]			
Single-Family	$8,120	$5,675	$2,126
Multifamily	1,234	1,064	940
Capital Markets	12,667	12,901	13,400
Consolidated trusts	2,024	950	460
Eliminations/adjustments	(1,057)	(146)	567
Total	$22,988	$20,444	$17,493
Net income (loss) attributable to Fannie Mae:			
Single-Family	$6,290	$(23,941)	$(26,680)
Multifamily	1,511	583	216
Capital Markets	14,201	8,999	16,074
Consolidated trusts	1,741	429	(224)
Eliminations/adjustments	(6,519)	(2,925)	(3,400)
Total	$17,224	$(16,855)	$(14,014)

	As of December 31,		
	2012	2011	2010
	(Dollars in millions)		
Total assets:			
Single-Family	$17,595	$11,822	$14,843
Multifamily	5,182	5,747	4,881
Capital Markets	723,217	836,700	873,052
Consolidated trusts	2,749,571	2,676,952	2,673,937
Eliminations/adjustments	(273,143)	(319,737)	(344,741)
Total	$3,222,422	$3,211,484	$3,221,972

(1) Includes net interest (loss) income, guaranty fee income (expense), and fee and other income (expense).

Segment Results

Table 22 displays our segment results for 2012.

Table 22: Business Segment Results

	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 benefit for credit losses	(118)	167	13,241	7,156	1,907	22,353
Guaranty fee income (expense)	8,151	1,040	(1,291)	(4,737) [4]	(2,951) [4]	212 [4]
Investment gains (losses), net	8	37	6,217	(1)	(5,774) [5]	487
Net other-than-temporary impairments	—	—	(711)	(2)	—	(713)
Fair value losses, net	(8)	—	(3,041)	(313)	385 [6]	(2,977)
Debt extinguishment (losses) gains, net	—	—	(277)	33	—	(244)
Gains from partnership investments	—	123	—	—	(4)	119 [7]
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
Other expenses	(1,079)	(5)	(22)	—	(73)	(1,179)
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 [8]	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 that we own in our portfolio that on a GAAP basis are eliminated.

(4) 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 is included in fee and other income in our consolidated statements of operations and comprehensive income (loss).

(5) 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 retained in the Capital Markets 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.

(6) Represents the removal of fair value adjustments on consolidated Fannie Mae MBS classified as trading that are retained in the Capital Markets portfolio.

(7) Gains from partnership investments are included in other expenses in our consolidated statements of operations and comprehensive income (loss).

(8) Represents the adjustment from equity method accounting to consolidation accounting for partnership investments that are consolidated in our consolidated balance sheets.

Single-Family Business Results

Table 23 displays the financial results of our Single-Family business for the periods indicated. For a discussion on 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 (expenses), net interest loss and administrative expenses.

Table 23: Single-Family Business Results

	For the Year Ended December 31,			Variance	
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
	(Dollars in millions)				
Net interest loss[1]	$(790)	$(2,411)	$(5,386)	$1,621	$2,975
Guaranty fee income[2][3]	8,151	7,507	7,206	644	301
Credit-related income (expenses)[4]	919	(27,218)	(26,420)	28,137	(798)
Other expenses[3][5]	(1,910)	(1,925)	(2,149)	15	224
Income (loss) before federal income taxes	6,370	(24,047)	(26,749)	30,417	2,702
(Provision) benefit for federal income taxes	(80)	106	69	(186)	37
Net income (loss) attributable to Fannie Mae	$6,290	$(23,941)	$(26,680)	$30,231	$2,739
Other key performance data:					
Single-family effective guaranty fee rate (in basis points)[3][6]	28.7	26.2	25.1		
Single-family average charged guaranty fee on new acquisitions (in basis points)[3][7]	39.9	28.8	25.7		
Average single-family guaranty book of business[8]	$2,843,718	$2,864,919	$2,873,779		
Single-family Fannie Mae MBS issuances[9]	$827,749	$564,606	$603,247		

(1) Primarily includes the cost to reimburse the Capital Markets group for interest income not recognized for loans in our 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) Guaranty fee income is included in fee and other income in our consolidated statements of operations and comprehensive income (loss).

(3) Pursuant to the TCCA, effective April 1, 2012, we increased the guaranty fee on all single-family residential mortgages delivered to us on or after that date for securitization by 10 basis points, and the incremental revenue must be remitted to Treasury. The resulting revenue is included in guaranty fee income and the expense is included in other expenses. This increase in guaranty fee is also included in the single-family charged guaranty fee.

(4) Consists of the benefit (provision) for credit losses and foreclosed property income (expense).

(5) Consists of investment gains (losses), net, fair value losses, net, fee and other income, administrative expenses and other expenses.

(6) Calculated based on annualized 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) Consists of single-family mortgage loans held in our mortgage portfolio, single-family mortgage loans held by consolidated trusts, single-family Fannie Mae MBS issued from unconsolidated trusts held by either third parties or within our retained portfolio, and other credit enhancements that we provide on single-family mortgage assets. Excludes non-Fannie Mae mortgage-related securities held in our investment portfolio for which we do not provide a guaranty.

(9) Reflects unpaid principal balance of Fannie Mae MBS issued and guaranteed by the Single-Family segment during the period. Includes Housing Finance Agency (HFA) new issue bond program issuances, none of which occurred in 2012 or 2011. There were HFA new issue bond program issuances of $3.1 billion during 2010.

2012 compared with 2011

Net income in 2012 compared with net loss in 2011 was primarily due to credit-related income in 2012 compared with credit-related expenses in 2011, driven primarily by a significant improvement in the profile of our single-family book of business resulting from an increase in actual home prices. Our single-family credit-related income represents the substantial majority of our consolidated activity. We provide a discussion of our credit-related income (expenses) and credit losses in "Consolidated Results of Operations—Credit-Related (Income) Expenses."

Net interest loss decreased in 2012 compared with 2011 primarily due to a reduction in the amount of interest income not recognized for nonaccrual mortgage loans in our consolidated balance sheet as we continued to complete a high number of loan workouts and foreclosures. In addition, as loans with stronger credit profiles become a larger portion of our single-family guaranty book of business, a smaller percentage of our loans are becoming seriously delinquent.

Guaranty fee income increased in 2012 compared with 2011 due to an increase in the amortization of risk-based fees. Additionally, as described in "Business—Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue," in December 2011, Congress enacted the TCCA 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, rather than retaining the incremental revenue. Effective April 1, 2012, the guaranty fee on all single-family residential mortgages delivered to Fannie Mae and Freddie Mac on or after that date for securitization was increased by 10 basis points; accordingly, the single-family average charged guaranty fee increased. The resulting revenue is included in guaranty fee income, and the expense is included in other expenses. We recorded other expenses of $238 million for 2012 for this obligation due to Treasury. We expect the guaranty fees collected and expenses incurred to increase in the future.

The single-family average charged guaranty fee on new Fannie Mae acquisitions increased 25.2 basis points over the course of 2012, from 27.9 basis points for the month of December 2011 to 53.1 basis points for the month of December 2012. The increase was primarily due to the 10 basis point TCCA increase noted above. An additional average increase of 10 basis points implemented during the fourth quarter of 2012, as well as lender specific contractual fee increases implemented throughout 2012, also contributed to the increased average charged guaranty fee. Some of these increases to guaranty fee pricing represent a step towards reducing our dominant presence in the marketplace by encouraging greater participation by private firms, a goal set forth in FHFA's strategic plan, as well as to more appropriately price for the credit risk taken. We expect that future increases to guaranty fee pricing will further increase our guaranty fee revenue.

In addition, single-family net income increased as a result of our resolution agreement with Bank of America. See "Note 20, Subsequent Events" for additional information on this agreement.

Our estimated market share of new single-family mortgage-related securities issuances, which excludes previously securitized mortgages, remained high at 49% for 2012. Despite our continued high market share, our average single-family guaranty book of business was flat in 2012 compared with 2011, primarily due to the decline in U.S. residential mortgage debt outstanding.

2011 compared with 2010

Net loss decreased in 2011 compared with 2010, primarily due to a decrease in net interest loss and an increase in guaranty fee income, partially offset by an increase in credit-related expenses.

The decrease in net interest loss in 2011 compared with 2010 was primarily due to a reduction in the amount of interest income not recognized for nonaccrual mortgage loans in our consolidated balance sheet as we continued to complete a high number of loan workouts and foreclosures.

Guaranty fee income increased in 2011 compared with 2010 due to an increase in the amortization of risk-based fees, reflecting the impact of higher risk based pricing associated with our more recent acquisition vintages. Our estimated market share of new single-family mortgage-related securities issuances was 48% for 2011 compared with 44% for 2010.

Single-family credit-related expenses represent the substantial majority of our consolidated activity. We provide a discussion of our credit-related expenses and credit losses in "Consolidated Results of Operations—Credit-Related (Income) Expenses."

Multifamily Business Results

Multifamily business results primarily reflect our multifamily guaranty business. Our multifamily business results also include activity relating to our LIHTC and equity investments. Although we are no longer 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, gains and losses from the sale of multifamily Fannie Mae MBS and re-securitizations, and other miscellaneous income.

Table 24 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. Expenses and other items that impact income or loss primarily include credit-related income (expenses) and administrative expenses.

Table 24: Multifamily Business Results

	For the Year Ended December 31,			Variance	
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
	(Dollars in millions)				
Guaranty fee income[1]	$1,040	$884	$791	$156	$93
Fee and other income	207	218	146	(11)	72
Gains (losses) from partnership investments[2]	123	81	(70)	42	151
Credit-related income (expense)[3]	187	(280)	(194)	467	(86)
Other expenses[4]	(250)	(259)	(443)	9	184
Income before federal income taxes	1,307	644	230	663	414
Benefit (provision) for federal income taxes	204	(61)	(14)	265	(47)
Net income attributable to Fannie Mae	$1,511	$583	$216	$928	$367
Other key performance data:					
Multifamily effective guaranty fee rate (in basis points)[5]	52.1	46.0	42.3		
Multifamily credit loss performance ratio (in basis points)[6]	12.9	20.4	26.6		
Average multifamily guaranty book of business[7]	$199,797	$191,984	$186,867		
Multifamily new business volumes[8]	$33,763	$24,356	$17,919		
Multifamily units financed from new business volumes[9]	559,000	423,000	306,000		
Multifamily Fannie Mae MBS issuances[10]	$37,738	$34,066	$26,499		
Multifamily Fannie Mae structured securities issuances (issued by Capital Markets group)	$10,084	$6,435	$4,808		
Additional net interest income earned on Fannie Mae multifamily mortgage loans and MBS (included in Capital Markets group's results)[11]	$827	$873	$865		
Average Fannie Mae multifamily mortgage loans and MBS in Capital Markets group's portfolio[12]	$98,025	$110,748	$115,839		

	As of December 31,	
	2012	2011
	(Dollars in millions)	
Multifamily serious delinquency rate[13]	0.24 %	0.59 %
Percentage of multifamily guaranty book of business with credit enhancement	90 %	90 %
Fannie Mae percentage of total multifamily mortgage debt outstanding[14]	22 %	21 %
Multifamily Fannie Mae MBS outstanding[15]	$128,477	$101,574

(1) Guaranty fee income is included in fee and other income in our consolidated statements of operations and comprehensive income (loss).

(2) Gains (losses) from partnership investments are included in other expenses in our consolidated statements of operations and comprehensive income (loss). Gains (losses) from partnership investments are reported using the equity method of accounting. As a result, net loss attributable to noncontrolling interest from partnership investments is not included in income for the Multifamily segment.

(3) Consists of the benefit (provision) for credit losses and foreclosed property income (expense).

(4) Consists of net interest (loss) income, investment gains, administrative expenses, and other (expenses) income.

(5) Calculated based on Multifamily segment guaranty fee income divided by the average multifamily guaranty book of business, expressed in basis points.

(6) Calculated based on Multifamily segment credit losses divided by the average multifamily guaranty book of business, expressed in basis points.

(7) Consists of multifamily mortgage loans held in our mortgage portfolio, multifamily mortgage loans held by consolidated trusts, multifamily Fannie Mae MBS issued from unconsolidated trusts held by either third parties or within our retained portfolio, and other credit enhancements that we provide on multifamily mortgage assets. Excludes non-Fannie Mae mortgage-related securities held in our investment portfolio for which we do not provide a guaranty.

(8) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued (excluding portfolio securitizations) and multifamily loans purchased during the period. Includes HFA new issue bond program issuances, none of which occurred in 2012 or 2011. There were HFA new issue bond program issuances of $1.0 billion during 2010.

(9) Excludes HFA new issue bond program.

(10) 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 $4.4 billion, $10.0 billion and $8.7 billion for the years ended December 31, 2012, 2011 and 2010, respectively, and (c) conversions of adjustable-rate loans to fixed-rate loans and discount MBS (“DMBS”) to MBS of $215 million, $241 million and $389 million for the years ended December 31, 2012, 2011 and 2010, respectively.

(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 Fannie Mae’s portfolio.

(12) Based on unpaid principal balance.

(13) As of January 31, 2013, our Multifamily serious delinquency rate was 0.35%.

(14) Includes mortgage loans and Fannie Mae MBS issued and guaranteed by the Multifamily segment. Information is based on the Federal Reserve’s December 2012 mortgage debt outstanding release. Prior period amounts may have been changed to reflect revised historical data from the Federal Reserve.

(15) Includes $28.1 billion and $28.3 billion of Fannie Mae multifamily MBS held in the mortgage portfolio, the vast majority of which have been consolidated to loans in our consolidated balance sheets, as of December 31, 2012 and 2011, respectively, and $1.3 billion and $1.4 billion of Fannie Mae MBS collateralized by bonds issued by state and local housing finance agencies as of December 31, 2012 and 2011, respectively.

2012 compared with 2011

Net income increased in 2012 compared with 2011, primarily due to credit-related income in 2012 compared with credit-related expenses in 2011. Credit-related income in 2012 was primarily due to reductions to our total loss reserves resulting from an improvement in national multifamily market fundamentals. In comparison, credit-related expenses in 2011 were primarily due to underperformance of certain local markets and properties due to localized economic conditions. Multifamily credit losses, which consist of net charge-offs and foreclosed property income (expense), were $257 million for 2012 compared with $391 million for 2011.

Guaranty fee income increased in 2012 compared with 2011 as we continued to acquire loans with higher guaranty fees. Our acquisitions of 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.

A benefit for federal income taxes of $204 million in 2012 was primarily driven by the utilization of tax credits related to LIHTC investments to offset our alternative minimum tax liability resulting from our 2012 taxable income. In comparison, a provision for federal income taxes was recognized in 2011, resulting from an effective settlement of issues with the Internal Revenue Service relating to tax years 2007 and 2008, which reduced our total corporate tax liability. However, the reduction in our tax liability also reduced the tax credits we were able to use, resulting in a provision for federal income taxes for the Multifamily segment in 2011.

2011 compared with 2010

Net income increased in 2011 compared with 2010, primarily due to an increase in guaranty fee income and gains from partnership investments recognized in 2011 compared with losses from partnership investments recognized in 2010. The increase in net income was partially offset by increased credit-related expenses in 2011 compared with 2010.

Guaranty fee income increased in 2011 compared with 2010, primarily due to higher charged guaranty fees on new acquisitions.

Credit-related expenses increased in 2011 compared with 2010, primarily due to a stable allowance for loan losses in 2011 compared with a decrease in 2010. Although national multifamily market fundamentals continued to improve in 2011, certain local markets and properties continued to underperform compared to the rest of the nation. Multifamily credit losses were $391 million for 2011 compared with $498 million for 2010.

We recognized gains from partnership investments in 2011 compared with losses from partnership investments in 2010 as stronger national multifamily market fundamentals resulted in improved property-level operating performance and increased gains on the sale of investments.

Capital Markets Group Results

Table 25 displays the financial results of our Capital Markets group for the periods indicated. Following the table we discuss the Capital Markets group's financial results and describe the Capital Markets group's mortgage portfolio. 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 "Consolidated Balance Sheet Analysis—Derivative Instruments," "Risk Management—Market Risk Management, Including Interest Rate Risk Management—Derivative Instruments" 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, other-than-temporary impairments, allocated guaranty fee expense and administrative expenses.

Table 25: Capital Markets Group Results

	For the Year Ended December 31,			Variance	
	2012	2011	2010	2012 vs. 2011	2011 vs. 2010
	(Dollars in millions)				
Net interest income [1]	$13,241	$13,920	$14,321	$(679)	$(401)
Investment gains, net[2]	6,217	3,711	4,047	2,506	(336)
Net other-than-temporary impairments	(711)	(306)	(720)	(405)	414
Fair value (losses) gains, net[3]	(3,041)	(6,596)	239	3,555	(6,835)
Fee and other income	717	478	519	239	(41)
Other expenses[4]	(2,098)	(2,253)	(2,359)	155	106
Income before federal income taxes	14,325	8,954	16,047	5,371	(7,093)
(Provision) benefit for federal income taxes	(124)	45	27	(169)	18
Net income attributable to Fannie Mae	$14,201	$8,999	$16,074	$5,202	$(7,075)

(1) Includes contractual interest income, excluding recoveries, on nonaccrual loans received from the Single-Family segment of $5.2 billion, $6.6 billion and $6.3 billion for the years ended December 31, 2012, 2011 and 2010, respectively. The Capital Markets group's net interest income is reported based on the mortgage-related assets held in the segment's 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.

(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 losses, net, administrative expenses, and other (expenses) income. 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.

2012 compared with 2011

Net income increased in 2012 compared with 2011, primarily due to a decrease in fair value losses and an increase in investment gains, partially offset by a decrease in net interest income and an increase in net other-than-temporary impairments.

Fair value losses decreased in 2012 compared with 2011 primarily due to a decrease in risk management derivatives fair value losses. The derivatives fair value losses that are reported for the Capital Markets group are consistent with the losses reported in our consolidated statement of operations and comprehensive income (loss). We discuss our derivatives fair value losses in “Consolidated Results of Operations—Fair Value Losses, Net.”

The net other-than-temporary impairments recognized by the Capital Markets group are consistent with our consolidated statements of operations and comprehensive income (loss) as described in “Consolidated Results of Operations—Other-Than-Temporary Impairment of Investment Securities.” In addition, see “Note 5, Investments in Securities” for information on our other-than-temporary impairments by major security type and primary drivers for other-than-temporary impairments recorded during the periods disclosed.

The Capital Markets group reports interest income and amortization of cost basis adjustments only on securities and loans that are held in our portfolio. For mortgage loans held in our mortgage portfolio, when interest income is no longer recognized in accordance with our nonaccrual accounting policy, the Capital Markets group recognizes interest income reimbursements that the group receives, primarily from Single-Family, for the contractual interest due. The interest expense recognized on the Capital Markets group’s statements of operations is limited to our funding debt, which is reported as “Debt of Fannie Mae” in our consolidated balance sheets. Net interest expense also includes a cost of capital charge allocated among the three business segments.

The decrease in net interest income in 2012 compared with 2011 was primarily due to a decrease in the balance of mortgage-related securities and lower interest rates on loans in our mortgage portfolio. This decrease in interest income on our interest-earning mortgage assets was partially offset by a decline in interest expense due to lower funding needs and lower borrowing rates, which allowed us to continue to replace higher-cost debt with lower-cost debt.

Our net interest income and net interest yield were higher than they would have otherwise been because our debt funding needs were lower than they would otherwise have been as a result of the funds we received from Treasury under the senior preferred stock purchase agreement and because dividends paid to Treasury are not recognized in interest expense.

We supplement our issuance of debt securities with derivative instruments to further reduce duration risk, which includes prepayment 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, net” and is displayed in “Table 13: Fair Value Losses, Net.” If we had included the economic impact of adding the net contractual interest accruals on our interest rate swaps in our Capital Markets group’s interest expense, the Capital Markets group’s net interest income would have decreased by $1.4 billion in 2012 compared with a decrease of $2.2 billion in 2011.

Investment gains increased in 2012 compared with 2011 primarily due to a higher volume of portfolio securitizations. In 2012, historically low interest rates and continued high acquisitions of HARP loans contributed to elevated portfolio securitization volumes.

2011 compared with 2010

Net income decreased in 2011 compared with 2010, primarily due to fair value losses in 2011 compared with fair value gains in 2010 and a decrease in net interest income, partially offset by a decrease in net other-than-temporary impairments.

Fair value losses in 2011 were primarily due to derivatives fair value losses. The derivatives fair value losses that are reported for the Capital Markets group are consistent with the losses reported in our consolidated statement of operations and comprehensive income (loss). We discuss our derivatives fair value losses in “Consolidated Results of Operations—Fair Value Losses, Net.”

The decrease in net interest income in 2011 compared with 2010 was primarily due to a decrease in the balance of mortgage-related securities, lower coupon rates on modified loans in our portfolio and an out-of-period adjustment to reduce interest income on mortgage-related securities in 2011. This decrease in interest income on our interest-earning assets was partially offset by a decline in funding costs as we replaced higher cost debt with lower cost debt. The reimbursements of contractual interest due on nonaccrual loans from the Single-Family business were a significant portion of the Capital Markets group's interest income during 2011. However, the increase in these reimbursements was offset by the decline in interest income on our mortgage-related securities because our securities portfolio balance has declined.

The Capital Markets Group's Mortgage Portfolio

The Capital Markets group's 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. Mortgage-related assets held by consolidated MBS trusts 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. Under the agreement, the maximum allowable amount of mortgage assets we may own was reduced to $650 billion as of December 31, 2012. Beginning in 2013, 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. As of December 31, 2012, we owned $633.1 billion in mortgage assets, compared with $708.4 billion as of December 31, 2011. The terms of the senior preferred stock purchase agreement were amended in 2012 and the amended terms are described in "Business—Conservatorship and Treasury Agreements."

Table 26 displays our Capital Markets group's mortgage portfolio activity for the periods indicated.

Table 26: Capital Markets Group's Mortgage Portfolio Activity[1]

	For the Year Ended December 31,	
	2012	2011
	(Dollars in millions)	
Mortgage loans:		
Beginning balance	$398,271	$427,074
Purchases	261,463	153,218
Securitizations [2]	(211,455)	(101,705)
Liquidations [3]	(76,571)	(80,316)
Mortgage loans, ending balance	371,708	398,271
Mortgage securities:		
Beginning balance	310,143	361,697
Purchases [4]	26,874	20,760
Securitizations [2]	211,455	101,705
Sales	(224,208)	(108,430)
Liquidations [3]	(62,918)	(65,589)
Mortgage securities, ending balance	261,346	310,143
Total Capital Markets mortgage portfolio	$633,054	$708,414

(1) Based on unpaid principal balance.

(2) Includes portfolio securitization transactions that do not qualify for sale treatment under GAAP.

(3) Includes scheduled repayments, prepayments, foreclosures and lender repurchases.

(4) Includes purchases of Fannie Mae MBS issued by consolidated trusts.

Table 27 displays the composition of the Capital Markets group’s mortgage portfolio as of December 31, 2012 and 2011.

Table 27: Capital Markets Group’s Mortgage Portfolio Composition[1]

	As of December 31,	
	2012	2011
	(Dollars in millions)	
Capital Markets group’s mortgage loans:		
Single-family loans:		
Government insured or guaranteed	$40,886	$41,555
Conventional:		
Long-term, fixed-rate	240,791	245,810
Intermediate-term, fixed-rate	10,460	10,289
Adjustable-rate	18,008	23,490
Total single-family conventional	269,259	279,589
Total single-family loans	310,145	321,144
Multifamily loans:		
Government insured or guaranteed	312	362
Conventional:		
Long-term, fixed-rate	3,245	3,629
Intermediate-term, fixed-rate	45,662	58,885
Adjustable-rate	12,344	14,251
Total multifamily conventional	61,251	76,765
Total multifamily loans	61,563	77,127
Total Capital Markets group’s mortgage loans	371,708	398,271
Capital Markets group’s mortgage-related securities:		
Fannie Mae	183,964	220,061
Freddie Mac	11,274	14,509
Ginnie Mae	1,049	1,043
Alt-A private-label securities	17,079	19,670
Subprime private-label securities	15,093	16,538
CMBS	20,587	23,226
Mortgage revenue bonds	8,486	10,899
Other mortgage-related securities	3,814	4,197
Total Capital Markets group’s mortgage-related securities[2]	261,346	310,143
Total Capital Markets group’s mortgage portfolio	$633,054	$708,414

(1) Based on unpaid principal balance.

(2) The fair value of these mortgage-related securities was $269.9 billion and $316.5 billion as of December 31, 2012 and 2011, respectively.

The Capital Markets group’s mortgage portfolio decreased to $633.1 billion as of December 31, 2012 from $708.4 billion as of December 31, 2011 primarily due to liquidations, partially offset by purchases of delinquent loans from MBS trusts as discussed below. Although the Capital Markets group’s mortgage portfolio decreased overall period over period, purchases, securitizations and sales activity increased in 2012 primarily as a result of lower interest rates and the implementation of changes to HARP.

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We expect to 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 mortgage assets that we may own pursuant to the senior preferred stock purchase agreement. We purchased approximately 277,000 delinquent loans with an unpaid principal balance of $45.8 billion from our single-family MBS trusts in 2012. As of December 31, 2012, the total unpaid principal balance of all loans in single-family MBS trusts that were delinquent as to four or more consecutive monthly payments was $3.7 billion. As a result of purchasing these delinquent loans and our portfolio declining to meet the requirements of our senior preferred stock purchase agreement with Treasury, an increasing portion of the Capital Market group's mortgage portfolio is comprised of nonperforming loans. The total unpaid principal balance of nonperforming loans in the Capital Markets group's mortgage portfolio was $230.3 billion or 36% of the Capital Markets group's mortgage portfolio as of December 31, 2012, compared with $236.2 billion or 33% of the Capital Markets group's mortgage portfolio as of December 31, 2011. This population includes loans that have been modified and classified as TDRs, of which $130.2 billion as of December 31, 2012 and $114.2 billion as of December 31, 2011 were TDRs on accrual status, as well as unmodified delinquent loans that are on nonaccrual status in our consolidated financial statements.

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 28 displays a summary of our consolidated balance sheets as of December 31, 2012 and 2011.

Table 28: Summary of Consolidated Balance Sheets

	As of December 31,		
	2012	2011	Variance
	(Dollars in millions)		
Assets			
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	$53,617	$63,539	$(9,922)
Restricted cash	67,919	50,797	17,122
Investments in securities(1)	103,876	151,780	(47,904)
Mortgage loans:			
Of Fannie Mae	355,936	380,379	(24,443)
Of consolidated trusts	2,652,265	2,590,398	61,867
Allowance for loan losses	(58,795)	(72,156)	13,361
Mortgage loans, net of allowance for loan losses	2,949,406	2,898,621	50,785
Other assets(2)	47,604	46,747	857
Total assets	$3,222,422	$3,211,484	$10,938
Liabilities and equity (deficit)			
Debt:			
Of Fannie Mae	$615,864	$732,444	$(116,580)
Of consolidated trusts	2,573,653	2,457,428	116,225
Other liabilities(3)	25,681	26,183	(502)
Total liabilities	3,215,198	3,216,055	(857)
Senior preferred stock	117,149	112,578	4,571
Other deficit(4)	(109,925)	(117,149)	7,224
Total equity (deficit)	7,224	(4,571)	11,795
Total liabilities and equity (deficit)	$3,222,422	$3,211,484	$10,938

(1) Includes $18.0 billion as of December 31, 2012 and $49.8 billion as of December 31, 2011 of non-mortgage-related securities that are included in our other investments portfolio, which we present in "Table 38: Cash and Other Investments Portfolio."

(2) Consists of accrued interest receivable, net; acquired property, net; and other assets.

(3) Consists of accrued interest payable and other liabilities.

(4) Consists of preferred stock, common stock, accumulated deficit, accumulated other comprehensive income (loss), treasury stock, and noncontrolling interest.

Cash and Other Investments Portfolio

Our cash and other investments portfolio consists of cash and cash equivalents, federal funds sold and securities purchased under agreements to resell or similar arrangements, and investments in non-mortgage-related 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, 2012 compared with the balance as of December 31, 2011 primarily due to an increase in refinance activity, resulting in an increase in unscheduled payments received.

Investments in Mortgage-Related Securities

Our investments in mortgage-related securities are classified in our consolidated balance sheets as either trading or available-for-sale and are measured at fair value. Unrealized and realized gains and losses on trading securities are included as a component of "Fair value losses, net" and unrealized gains and losses on available-for-sale securities are included in "Other comprehensive income (loss)" in our consolidated statements of operations and comprehensive income (loss). Realized gains and losses on available-for-sale securities are recognized when securities are sold in "Investment gains, net" in our consolidated statements of operations and comprehensive income (loss). We recognize the credit component of other-than-temporary impairments of debt securities we own in "Net other-than-temporary impairments" and the noncredit component in "Other comprehensive income (loss)" in our consolidated statements of operations and comprehensive income (loss) for those securities that we do not intend to sell and for which it is not more likely than not that we will be required to sell before recovery. 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, 2012 and 2011.

We classify private-label securities as Alt-A, subprime, CMBS or manufactured housing 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 ("wraps").

Table 29 displays the fair value of our investments in mortgage-related securities, including trading and available-for-sale securities, as of the dates indicated. The decrease during 2012 is primarily attributable to a reduction in our agency MBS investments as we continue to manage our portfolio to the requirements of the senior preferred stock purchase agreement.

Table 29: Summary of Mortgage-Related Securities at Fair Value

	As of December 31,		
	2012	2011	2010
	(Dollars in millions)		
Mortgage-related securities:			
Fannie Mae	$16,683	$24,274	$30,226
Freddie Mac	12,173	15,555	18,322
Ginnie Mae	1,188	1,189	1,629
Alt-A private-label securities	12,405	13,032	15,573
Subprime private-label securities	8,766	8,866	11,513
CMBS	22,923	24,437	25,608
Mortgage revenue bonds	8,517	10,978	11,650
Other mortgage-related securities	3,271	3,601	3,974
Total	$85,926	$101,932	$118,495

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 mortgage loans, net of the allowance for loan losses, in 2012 was primarily driven by securitization activity from our lender swap and portfolio securitization programs. For additional information on our mortgage loans, see “Note 3, Mortgage Loans.” 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.”

Deferred Tax Assets, Net

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. For additional information on our deferred tax assets and liabilities, see “Note 10, Income Taxes.”

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 increase in debt of consolidated trusts in 2012 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 (Deficit)

Our net equity increased as of December 31, 2012 compared with December 31, 2011. See Table 30 in “Supplemental Non-GAAP Information—Fair Value Balance Sheets” for details of the change in our net equity.

SUPPLEMENTAL NON-GAAP INFORMATION—FAIR VALUE BALANCE SHEETS

As part of our disclosure requirements with FHFA, we disclose on a quarterly basis supplemental non-GAAP consolidated fair value balance sheets, which reflect our assets and liabilities at estimated fair value.

Table 30 summarizes changes in our stockholders’ equity (deficit) reported in our GAAP consolidated balance sheets and in the estimated fair value of our net assets in our non-GAAP consolidated fair value balance sheets for the year ended December 31, 2012. The estimated fair value of our net assets is calculated based on the difference between the fair value of our assets and the fair value of our liabilities, adjusted for noncontrolling interests. We use various valuation techniques to estimate fair value, some of which incorporate internal assumptions that are subjective and involve a high degree of management judgment. We describe the specific valuation techniques used to determine fair value and disclose the carrying value and fair value of our financial assets and liabilities in “Note 17, Fair Value.”

Table 30: Comparative Measures—GAAP Change in Stockholders’ Equity (Deficit) and Non-GAAP Change in Fair Value of Net Assets (Net of Tax Effect)

	For Year Ended (Dollars in millions)
GAAP consolidated balance sheets:	
Fannie Mae stockholders’ deficit as of December 31, 2011[1]	$(4,624)
Total comprehensive income	18,839
Capital transactions:[2]	
Funds received from Treasury under the senior preferred stock purchase agreement	4,571
Senior preferred stock dividends	(11,608)
Capital transactions, net	(7,037)
Other	5
Fannie Mae stockholders’ equity as of December 31, 2012[1]	$7,183
Non-GAAP consolidated fair value balance sheets:	
Estimated fair value of net assets as of December 31, 2011	$(127,848)
Capital transactions, net	(7,037)
Increase in estimated fair value of net assets, excluding capital transactions	68,393
Increase in estimated fair value of net assets, net	61,356
Estimated fair value of net assets as of December 31, 2012	$(66,492)

(1) Our net worth, as defined under the senior preferred stock purchase agreement, is equivalent to the “Total equity (deficit)” amount reported in our consolidated balance sheets, which consists of “Total Fannie Mae stockholders’ equity (deficit)” and “Noncontrolling interest.”

(2) Represents capital transactions, which are reported in our consolidated financial statements.

During 2012, the estimated fair value of our net assets, excluding capital transactions, increased by $68.4 billion. This increase was primarily driven by a significant improvement in credit-related items due to higher actual and expected home prices experienced in 2012, which lowered the expected losses on our guaranty book of business. We estimate that home prices increased by 4.7% in 2012. The increase in home prices in 2012 had the most significant impact on the increase in the fair value of our assets. Changes in single-family home prices, regardless of magnitude, may cause volatility in our fair value measurements due to our $2.8 trillion single-family guaranty book of business.

We updated our assumptions for prepayment speeds, severities and default rates during the third quarter of 2012, which resulted in an increase in the fair value of our loans of approximately $23 billion. These updates resulted in lower expectations of losses on certain loans, primarily performing loans with high LTV ratios.

In addition, the increase in the estimated fair value of our net assets was also attributable to income resulting from the interest spread between our mortgage assets and associated debt and derivatives. Tightening of option-adjusted spreads realized on the mortgage-related assets held in our portfolio also contributed to the fair value increase.

The increase in fair value from the improvement in credit-related items, spread income, and tightening of option-adjusted spreads was partially offset by a decrease in fair value of $17 billion due to a change in the definition of principal market for certain of our loans and a change in fair value estimation for HARP loans (based on the definition of HARP at the time of implementation) as a result of the adoption of guidance issued by the FASB related to fair value measurement. For additional information on the changes resulting from the adoption of ASU 2011-04, Amendments to Achieve Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS, see “Note 17, Fair Value.”

Cautionary Language Relating to Supplemental Non-GAAP Financial Measures

In reviewing our non-GAAP consolidated fair value balance sheets, there are a number of important factors and limitations to consider. The estimated fair value of our net assets is calculated as of a particular point in time based on our existing assets and liabilities. It does not incorporate other factors that may have a significant impact on our long-term fair value, including revenues generated from future business activities in which we expect to engage, the value from our foreclosure and loss mitigation efforts or the impact that legislation or potential regulatory actions may have on us. As a result, the estimated fair value of our net assets presented in our non-GAAP consolidated fair value balance sheets does not represent an estimate of our net realizable value, liquidation value or our market value as a whole. Amounts we ultimately realize from the disposition of assets or settlement of liabilities may vary materially from the estimated fair values presented in our non-GAAP consolidated fair value balance sheets.

In addition, the fair value of our net assets presented in our fair value balance sheet does not represent an estimate of the value we expect to realize from operating the company, primarily because:

- The estimated fair value of our credit exposures significantly exceeds our projected credit losses as fair value takes into account certain assumptions about liquidity and required rates of return that a market participant may demand in assuming a credit obligation. We do not generally intend to have other parties assume the credit risk inherent in our book of business, and therefore would not be obligated to pay a market premium for its assumption, and
- The fair value of our net assets reflects a point in time estimate of the fair value of our existing assets and liabilities, and does not incorporate the value associated with new business that may be added in the future.

The fair value of our net assets is not a measure defined within GAAP and may not be comparable to similarly titled measures reported by other companies.

Supplemental Non-GAAP Consolidated Fair Value Balance Sheets

We display our non-GAAP fair value balance sheets as of the dates indicated in Table 31.

Table 31: Supplemental Non-GAAP Consolidated Fair Value Balance Sheets

	As of December 31, 2012				As of December 31, 2011			
	GAAP Carrying Value	Fair Value Adjustment[1]	Estimated Fair Value		GAAP Carrying Value	Fair Value Adjustment[1]	Estimated Fair Value	
	(Dollars in millions)							
Assets:								
Cash and cash equivalents	$89,036	$—	$89,036		$68,336	$—	$68,336	
Federal funds sold and securities purchased under agreements to resell or similar arrangements	32,500	—	32,500		46,000	—	46,000	
Trading securities	40,695	—	40,695		74,198	—	74,198	
Available-for-sale securities	63,181	—	63,181		77,582	—	77,582	
Mortgage loans:								
Mortgage loans held for sale	464	11	475		311	14	325	
Mortgage loans held for investment, net of allowance for loan losses:								
Of Fannie Mae	305,025	(33,837)	271,188		322,825	(27,829)	294,996	
Of consolidated trusts	2,643,917	118,511 (2)	2,762,428	(3)	2,575,485	76,540 (2)	2,652,025	(3)
Total mortgage loans	2,949,406	84,685	3,034,091	(4)	2,898,621	48,725	2,947,346	(4)
Advances to lenders	7,592	(84)	7,508	(5)(6)	5,538	(118)	5,420	(5)(6)
Derivative assets at fair value	435	—	435	(5)(6)	561	—	561	(5)(6)
Guaranty assets and buy-ups, net	327	365	692	(5)(6)	503	398	901	(5)(6)
Total financial assets	3,183,172	84,966	3,268,138	(7)	3,171,339	49,005	3,220,344	(7)
Credit enhancements	488	997	1,485	(5)(6)	455	2,550	3,005	(5)(6)
Other assets	38,762	(244)	38,518	(5)(6)	39,690	(258)	39,432	(5)(6)
Total assets	$3,222,422	$85,719	$3,308,141		$3,211,484	$51,297	$3,262,781	
Liabilities:								
Short-term debt:								
Of Fannie Mae	$105,233	$20	$105,253		$146,752	$30	$146,782	
Of consolidated trusts	3,483	—	3,483		4,973	—	4,973	
Long-term debt:								
Of Fannie Mae	510,631 (8)	24,941	535,572		585,692 (8)	28,291	613,983	
	2,570,170 (8)	131,009 (2)	2,701,179		2,452,455 (8)	144,202 (2)	2,596,657	

Of consolidated trusts								
Derivative liabilities at fair value	705	—	705	(9)(10)	916	—	916	(9)(10)
Guaranty obligations	599	2,514	3,113	(9)(10)	811	3,133	3,944	(9)(10)
Total financial liabilities	3,190,821	158,484	3,349,305	(7)	3,191,599	175,656	3,367,255	(7)
Other liabilities	24,377	910	25,287	(9)(10)	24,456	(1,135)	23,321	(9)(10)
Total liabilities	3,215,198	159,394	3,374,592		3,216,055	174,521	3,390,576	
Equity (deficit):								
Fannie Mae stockholders' equity (deficit):								
Senior preferred[11]	117,149	—	117,149		112,578	—	112,578	
Preferred	19,130	(17,938)	1,192		19,130	(18,163)	967	
Common	(129,096)	(55,737)	(184,833)		(136,332)	(105,061)	(241,393)	
Total Fannie Mae stockholders' equity (deficit)/non-GAAP fair value of net assets	$7,183	$(73,675)	$(66,492)		$(4,624)	$(123,224)	$(127,848)	
Noncontrolling interest	41	—	41		53	—	53	
Total equity (deficit)	7,224	(73,675)	(66,451)		(4,571)	(123,224)	(127,795)	
Total liabilities and equity (deficit)	$3,222,422	$85,719	$3,308,141		$3,211,484	$51,297	$3,262,781	

Explanation and Reconciliation of Non-GAAP Measures to GAAP Measures

(1) Each of the amounts listed as a "fair value adjustment" represents the difference between the carrying value included in our GAAP consolidated balance sheets and our best judgment of the estimated fair value of the listed item.

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(2) Fair value of consolidated loans is impacted by credit risk, which has no corresponding impact on the consolidated debt.

(3) Includes certain mortgage loans that we elected to report at fair value in our GAAP consolidated balance sheets of $10.8 billion and $3.6 billion as of December 31, 2012 and 2011, respectively.

(4) Performing loans had a fair value of $2.9 trillion and an unpaid principal balance of $2.8 trillion as of December 31, 2012 compared with a fair value of $2.8 trillion and an unpaid principal balance of $2.7 trillion as of December 31, 2011. Nonperforming loans, which for the purposes of our non-GAAP fair value balance sheets consists of loans that are delinquent by one or more payments, had a fair value of $112.3 billion and an unpaid principal balance of $189.9 billion as of December 31, 2012 compared with a fair value of $128.9 billion and an unpaid principal balance of $226.5 billion as of December 31, 2011. See “Note 17, Fair Value” for additional information on valuation techniques for performing and nonperforming loans.

(5) The following line items: (a) Advances to lenders; (b) Derivative assets at fair value; (c) Guaranty assets and buy-ups, net; (d) Credit enhancements; and (e) Other assets, together consist of the following assets presented in our GAAP consolidated balance sheets: (a) Accrued interest receivable, net; (b) Acquired property, net; and (c) Other assets.

(6) “Other assets” include the following GAAP consolidated balance sheets line items: (a) Accrued interest receivable, net and (b) Acquired property, net. The carrying value of these items in our GAAP consolidated balance sheets totaled $19.7 billion and $21.4 billion as of December 31, 2012 and 2011, respectively. “Other assets” in our GAAP consolidated balance sheets include the following: (a) Advances to lenders; (b) Derivative assets at fair value; (c) Guaranty assets and buy-ups, net; and (d) Credit enhancements. The carrying value of these items totaled $8.8 billion and $7.1 billion as of December 31, 2012 and 2011, respectively.

(7) We estimated the fair value of these financial instruments in accordance with the fair value accounting guidance as described in “Note 17, Fair Value.”

(8) Includes certain long-term debt instruments that we elected to report at fair value in our GAAP consolidated balance sheets of $12.4 billion and $4.8 billion as of December 31, 2012 and 2011, respectively.

(9) The following line items: (a) Derivative liabilities at fair value; (b) Guaranty obligations; and (c) Other liabilities, consist of the following liabilities presented in our GAAP consolidated balance sheets: (a) Accrued interest payable and (b) Other liabilities.

(10) “Other liabilities” include Accrued interest payable in our GAAP consolidated balance sheets. The carrying value of this item in our GAAP consolidated balance sheets totaled $11.3 billion and $12.6 billion as of December 31, 2012 and 2011, respectively. We assume that certain other liabilities, such as deferred revenues, have no fair value. Although we report the “Reserve for guaranty losses” as part of “Other liabilities” in our GAAP consolidated balance sheets, it is incorporated into and reported as part of the fair value of our guaranty obligations in our non-GAAP supplemental consolidated fair value balance sheets. “Other liabilities” in our GAAP consolidated balance sheets include the following: (a) Derivative liabilities at fair value and (b) Guaranty obligations. The carrying value of these items totaled $1.3 billion and $1.7 billion as of December 31, 2012 and 2011, respectively.

(11) The amount included in “estimated fair value” of the senior preferred stock is the liquidation preference, which is the same as the GAAP carrying value, and does not reflect fair value.

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 resides within the Capital Markets group and 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” in this report 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;
- net receipts on derivative instruments;
- borrowings under secured intraday funding lines of credit we have established with large financial institutions; 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; and
- losses incurred in connection with our Fannie Mae MBS guaranty obligations.

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; 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.

As directed by FHFA, 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 and other assumptions required by FHFA;
- maintain 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 the average projected 30-day cash needs over the previous three months (as adjusted in agreement with FHFA); and
- maintain 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, 2012, we were in compliance with each of the liquidity risk management policies and practices set forth above.

In addition to these FHFA requirements, we run routine operational testing of our ability to rely upon mortgage 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.

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.

Although our funding needs may vary from quarter to quarter depending on market conditions, our debt funding needs are influenced by anticipated liquidity needs, the size of our mortgage portfolio and our dividend payment obligations to Treasury. Under the agreement, we are required to reduce our mortgage portfolio to $650 billion by December 31, 2012 and, by December 31 of each year thereafter, 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.

Fannie Mae Debt Funding Activity

Table 32 displays the activity in debt of Fannie Mae for the periods indicated. 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 32: Activity in Debt of Fannie Mae

	For the Year Ended December 31,					
	2012		2011		2010	
	(Dollars in millions)					
Issued during the period:						
Short-term:						
Amount	$246,092		$424,503		$451,289	
Weighted-average interest rate	0.12	%	0.12	%	0.25	%
Long-term:						
Amount	$255,902		$256,670		$463,157	
Weighted-average interest rate	1.26	%	1.72	%	1.88	%
Total issued:						
Amount	$501,994		$681,173		$914,446	
Weighted-average interest rate	0.70	%	0.72	%	1.08	%
Paid off during the period: [1]						
Short-term:						
Amount	$287,624		$429,711		$499,828	
Weighted-average interest rate	0.12	%	0.19	%	0.23	%
Long-term:						
Amount	$334,564		$302,473		$406,267	
Weighted-average interest rate	1.88	%	2.52	%	3.16	%
Total paid off:						
Amount	$622,188		$732,184		$906,095	
Weighted-average interest rate	1.06	%	1.15	%	1.54	%

(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. Calls and repurchases of zero-coupon debt are reported at original face value, which does not equal the amount of actual cash payment.

Overall debt funding activity decreased in 2012 compared with 2011 primarily due to lower funding needs as a result of a reduction in the size of our mortgage portfolio pursuant to the requirements of the senior preferred stock purchase agreement. Our debt funding activity is influenced by the size of our mortgage portfolio, anticipated liquidity needs and our dividend payment obligations to Treasury. As we discuss in “Critical Accounting Policies and Estimates—Deferred Tax Assets,” we expect that, if we release the valuation allowance on our deferred tax assets, we will pay Treasury a significant dividend in the quarter following the release. We will fund such a dividend payment primarily through the issuance of debt securities and funds we would otherwise use to redeem debt.

We believe that continued federal government support of our business and the financial markets, 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 and the financial markets or our status as a GSE could materially and adversely affect our liquidity, financial condition and results of operations. For more information on GSE reform, see “Legislative and Regulatory Developments—GSE Reform” and “Risk Factors.”

In addition, due to our reliance on the U.S. government’s support, our access to debt funding or the cost of our debt funding 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. See our discussion of credit ratings in “Risk Factors” for information about factors that may lead to the U.S. government’s long-term debt rating being lowered, and “Credit Ratings” for further discussion of our dependence on our credit ratings.

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. 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; and (3) our liquidity contingency plans.

Outstanding Debt

Total outstanding debt of Fannie Mae includes federal funds purchased and securities sold under agreements to repurchase and short-term and long-term debt, excluding debt of consolidated trusts.

As of December 31, 2012, our outstanding short-term debt, based on its original contractual maturity, as a percentage of our total outstanding debt decreased to 17% from 20% as of December 31, 2011. 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, decreased to 2.25% as of December 31, 2012 from 2.42% as of December 31, 2011.

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 on December 31 of the immediately preceding calendar year. Our debt limit under the senior preferred stock purchase agreement was reduced to $874.8 billion in 2012. As of December 31, 2012, our aggregate indebtedness totaled $621.8 billion, which was $253.0 billion below our debt limit. 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 33 displays information as of the dates indicated on our outstanding short-term and long-term debt based on its original contractual terms.

Table 33: Outstanding Short-Term Borrowings and Long-Term Debt[1]

	As of December 31,							
	2012				2011			
	Maturities	Outstanding	Weighted-Average Interest Rate		Maturities	Outstanding	Weighted-Average Interest Rate	
	(Dollars in millions)							
Short-term debt:								
Fixed-rate:								
Discount notes	—	$104,730	0.15	%	—	$146,301	0.13	%
Foreign exchange discount notes	—	503	1.61		—	371	1.88	
Other [2]	—	—	—		—	80	0.04	
Total short-term debt of Fannie Mae [3]		105,233	0.16			146,752	0.13	
Debt of consolidated trusts	—	3,483	0.15		—	4,973	0.09	
Total short-term debt		$108,716	0.16	%		$151,725	0.13	%
Long-term debt:								
Senior fixed:								
Benchmark notes and bonds	2013 - 2030	$251,768	2.59	%	2012 - 2030	$277,146	2.81	%
Medium-term notes[4]	2013 - 2022	172,288	1.35		2012 - 2021	176,886	1.61	
Foreign exchange notes and bonds	2021 - 2028	694	5.44		2021 - 2028	662	5.44	
Other[5][6]	2013 - 2038	40,819	4.99		2012 - 2040	50,912	5.29	
Total senior fixed		465,569	2.35			505,606	2.64	
Senior floating:								
Medium-term notes[4]	2013 - 2019	38,633	0.27		2012 - 2016	71,855	0.32	
Other[5][6]	2020 - 2037	365	8.22		2020 - 2037	420	8.01	
Total senior floating		38,998	0.33			72,275	0.35	
Subordinated fixed-rate:								
Qualifying subordinated[7]	2013 - 2014	2,522	5.00		2012 - 2014	4,894	5.08	
Subordinated debentures	2019	3,197	9.92		2019	2,917	9.91	
Total subordinated fixed-rate		5,719	7.75			7,811	6.88	
Secured borrowings[8]	2021 - 2022	345	1.87		—	—	—	
Total long-term debt of Fannie Mae[9]		510,631	2.25			585,692	2.42	
Debt of consolidated trusts[6]	2013 - 2052	2,570,170	3.36		2012 - 2051	2,452,455	4.18	
Total long-term debt		$3,080,801	3.18	%		$3,038,147	3.84	%
Outstanding callable debt of Fannie Mae[10]		$177,784	1.64	%		$187,937	2.17	%

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(1) Outstanding debt amounts and weighted-average interest rates reported in this table include the effect of unamortized discounts, premiums and other cost basis adjustments. Reported amounts include fair value gains and losses associated with debt that we elected to carry at fair value. The unpaid principal balance of outstanding debt of Fannie Mae, which excludes unamortized discounts, premiums, fair value adjustments and other cost basis adjustments and debt of consolidated trusts, totaled $621.8 billion and $741.6 billion as of December 31, 2012 and 2011, respectively.

(2) Consists of foreign exchange discount notes denominated in U.S. dollars.

(3) Short-term debt of Fannie Mae consists of borrowings with an original contractual maturity of one year or less and, therefore, does not include the current portion of long-term debt. Reported amounts include a net unamortized

discount, fair value adjustments and other cost basis adjustments of $33 million and $53 million as of December 31, 2012 and 2011, respectively.

(4) Includes long-term debt with an original contractual maturity of greater than 1 year and up to 10 years, excluding zero-coupon debt.

(5) Includes long-term debt that is not included in other debt categories.

(6) Includes a portion of structured debt instruments that is reported at fair value.

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(7) Consists of subordinated debt with an interest deferral feature.

(8) Represents our remaining liability resulting from the transfers of financial assets from our consolidated balance sheets that did not qualify as sales under the accounting guidance for the transfer of financial instruments.

(9) Long-term debt of Fannie Mae consists of borrowings with an original contractual maturity of greater than one year. Reported amounts include the current portion of long-term debt that is due within one year, which totaled $103.2 billion and $134.3 billion as of December 31, 2012 and 2011, respectively. Reported amounts also include a net unamortized discount, fair value adjustments and other cost basis adjustments of $6.0 billion and $9.2 billion as of December 31, 2012 and 2011, respectively. The unpaid principal balance of long-term debt of Fannie Mae, which excludes unamortized discounts, premiums, fair value adjustments and other cost basis adjustments and amounts related to debt of consolidated trusts, totaled $516.5 billion and $594.8 billion as of December 31, 2012 and 2011, respectively.

(10) Consists of long-term callable debt of Fannie Mae that can be paid off in whole or in part at our option or the option of the investor at any time on or after a specified date. Reported amounts reflect the unpaid principal balance, and excludes unamortized discounts, premiums and other cost basis adjustments.

Table 34 below displays additional information for each category of our short-term borrowings.

Table 34: Outstanding Short-Term Borrowings[1]

	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 purchase and securities sold under agreements to repurchase	$—	—	%	$18	—	%	$490
Fixed-rate short-term debt:							
Discount notes	$104,730	0.15	%	$102,414	0.14	%	$151,906
Foreign exchange discount notes	503	1.61		412	1.82		516
Other[4]	—	—		33	0.04		80
Total short-term debt	$105,233	0.16	%				

	2011						
	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 purchase and securities sold under agreements to repurchase	$—	—	%	$10	0.11	%	$829
Fixed-rate short-term debt:							
Discount notes	$146,301	0.13	%	$160,358	0.18	%	$198,382
Foreign exchange discount notes	371	1.88		327	2.25		401
Other[4]	80	0.04		9	0.06		80
Total short-term debt	$146,752	0.13	%				

	2010					
	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 purchase and securities sold under agreements to repurchase	$52	2.20 %	$72	0.16 %	$ 200
Fixed-rate short-term debt:					
Discount notes	$151,500	0.32 %	$210,986	0.29 %	$ 260,377
Foreign exchange discount notes	384	2.43	299	1.86	384
Other[4]	—	—	15	0.53	100
Floating-rate short-term debt	—	—	8	0.02	50
Total short-term debt	$151,884	0.32 %			

(1) Includes unamortized discounts, premiums, fair value adjustments and other cost basis adjustments.

(2) For 2012 and 2011, average amount outstanding has been calculated using daily balances. For 2010, average amount outstanding has been calculated using month-end balances.

(3) For 2012 and 2011, maximum outstanding represents the highest daily outstanding balance during the year. For 2010, maximum outstanding represents the highest month-end outstanding balance during the year.

(4) Consists of foreign exchange discount notes denominated in U.S. dollars.

Subordinated Debt

We had $2.5 billion in outstanding qualifying subordinated debt as of December 31, 2012. Of this amount, $1.4 billion will mature during 2013. The terms of these securities state that, if our core capital is below 125% of our critical capital requirement (which it was as of December 31, 2012), we will defer interest payments on these securities. FHFA has directed us, however, to continue paying principal and interest on our outstanding qualifying subordinated debt during the conservatorship and thereafter until directed otherwise, regardless of our existing capital levels. Under the senior preferred stock purchase agreement, we are prohibited from issuing additional subordinated debt without the written consent of Treasury. We did not issue any subordinated debt in 2012.

Maturity Profile of Outstanding Debt of Fannie Mae

Table 35 displays the maturity profile, as of December 31, 2012, of our outstanding debt maturing within one year, by month, including amounts we have announced for early redemption. Our outstanding debt maturing within one year, including the current portion of our long-term debt, decreased as a percentage of our total outstanding debt, excluding debt of consolidated trusts, to 34% as of December 31, 2012, compared with 38% as of December 31, 2011. The weighted-average maturity of our outstanding debt that is maturing within one year was 130 days as of December 31, 2012, compared with 158 days as of December 31, 2011.

Table 35: Maturity Profile of Outstanding Debt of Fannie Mae Maturing Within One Year[1]

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(1) Includes a net unamortized discount, fair value adjustments and other cost basis adjustments of $79 million as of December 31, 2012. Excludes debt of consolidated trusts maturing within one year of $5.8 billion as of December 31, 2012.

Table 36 displays the maturity profile, as of December 31, 2012, 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, 2012 and approximately 59 months as of December 31, 2011.

Table 36: Maturity Profile of Outstanding Debt of Fannie Mae Maturing in More Than One Year[1]

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(1) Includes a net unamortized discount, fair value adjustments and other cost basis adjustments of $5.9 billion as of December 31, 2012. Excludes debt of consolidated trusts of $2.6 trillion as of December 31, 2012.

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 37 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, 2012.

Table 37: Contractual Obligations

	Payment Due by Period as of December 31, 2012				
	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]	$510,631	$103,187	$171,631	$144,666	$91,147
Contractual interest on long-term obligations[2]	63,466	9,501	14,167	9,636	30,162
Operating lease obligations[3]	154	35	64	46	9
Purchase obligations:					
Mortgage commitments[4]	65,310	65,309	1	—	—
Other purchase obligations[5]	161	62	77	22	—
Other long-term liabilities reflected in the consolidated balance sheet[6]	227	81	60	68	18
Total contractual obligations	$639,949	$178,175	$186,000	$154,438	$121,336

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(1) Represents the carrying amount of our long-term debt assuming payments are made in full at maturity. Amounts exclude $2.6 trillion in long-term debt from consolidations. Amounts include a net unamortized discount, fair value adjustments and other cost basis adjustments of $6.0 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 cancelled 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, 2012, see "Off-Balance Sheet Arrangements." Includes future cash payments due under our contractual obligations to fund LIHTC and other partnerships that are unconditional and legally binding and cash received as collateral from derivative counterparties, 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 covenants under the senior preferred stock purchase agreement, see "Business—Conservatorship and Treasury Agreements—Treasury Agreements—Covenants under Treasury Agreements." We discuss our funding under the senior preferred stock purchase agreement in "Capital Management—Capital Activity—Senior Preferred Stock Purchase Agreement."

Cash and Other Investments Portfolio

Our cash and other investments portfolio decreased in 2012 compared with 2011. Our 2011 balance was higher due to an increase in the amount of cash and highly liquid non-mortgage securities held in our portfolio to increase our liquidity position. 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—Issuers 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.

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Table 38 displays information on the composition of our cash and other investments portfolio as of the dates indicated.

Table 38: Cash and Other Investments Portfolio

	As of December 31,		
	2012	2011	2010
	(Dollars in millions)		
Cash and cash equivalents	$21,117	$17,539	$17,297
Federal funds sold and securities purchased under agreements to resell or similar arrangements	32,500	46,000	11,751
Non-mortgage-related securities:			
U.S. Treasury securities [(1)]	17,950	47,737	27,432
Asset-backed securities	—	2,111	5,321
Total non-mortgage-related securities	17,950	49,848	32,753
Total cash and other investments	$71,567	$113,387	$61,801

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(1) Excludes $1.1 billion, $600 million and $4.0 billion of U.S. Treasury securities which are a component of cash equivalents as of December 31, 2012, 2011 and 2010, respectively, as these securities had a maturity at the date of acquisition of three months or less.

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 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 mortgage portfolio is limited due to the credit-related issues of these loans, as well as operational constraints.

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.

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 possibility of further downgrades and 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 and other borrowing arrangements.

Table 39 displays the credit ratings issued by the three major credit rating agencies as of March 25, 2013.

Table 39: Fannie Mae Credit Ratings

	As of March 25, 2013		
	S&P	Moody's	Fitch
Long-term senior debt	AA+	Aaa	AAA
Short-term senior debt	A-1+	P-1	F1+
Qualifying subordinated debt	A	Aa2	AA-
Preferred stock	C	Ca	C/RR6
Bank financial strength rating	—	E+	—
Outlook	Negative (for Long Term Senior Debt and Qualifying Subordinated Debt)	Negative (for Long Term Senior Debt and Qualifying Subordinated Debt)	Negative (for AAA rated Long Term Issuer Default Rating)

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" for additional information on collateral we are required to provide to our derivatives counterparties in the event of downgrades in our credit ratings.

Cash Flows

Year Ended December 31, 2012. Cash and cash equivalents increased from December 31, 2011 by $3.6 billion to $21.1 billion as of December 31, 2012. Net cash generated from investing activities totaled $527.7 billion, resulting primarily from proceeds received from repayments of loans held for investment. Net cash from operating activities totaled $37.0 billion. These net cash inflows were largely offset by net cash used in financing activities of $561.1 billion primarily attributable to a significant amount of debt redemptions in excess of proceeds received from the issuances of debt.

Year Ended December 31, 2011. Cash and cash equivalents increased from December 31, 2010 by $242 million to $17.5 billion as of December 31, 2011. Net cash generated from investing activities totaled $464.4 billion, resulting primarily from proceeds received from repayments of loans held for investment. These net cash inflows were offset by net cash used in operating activities of $15.2 billion and net cash used in financing activities of $448.9 billion primarily attributable to a significant amount of debt redemptions in excess of proceeds received from the issuances of debt as well as proceeds received from Treasury under the senior preferred stock purchase agreement.

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 FHFA will not issue quarterly capital classifications. We submit capital reports to FHFA during the conservatorship and FHFA monitors our capital levels. We report our minimum capital requirement, core 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."

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

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, 2012. 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, 2012, in some future periods we could have a net worth deficit and if so would be required to obtain additional funding from Treasury pursuant to the senior preferred stock purchase agreement. The remaining amount of funding available to us under the agreement was $117.6 billion as of December 31, 2012. For additional information, see "Business—Conservatorship and Treasury Agreements—Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant—Senior Preferred Stock Purchase Agreement."

Treasury waived the quarterly commitment fee under the senior preferred stock purchase agreement for each quarter of 2012 and 2011. In addition, pursuant to the amendment to the senior preferred stock purchase agreement described in "Business—Conservatorship and Treasury Agreements," the periodic commitment fee under the agreement has been suspended effective January 1, 2013.

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. The limited circumstances under which Treasury's funding commitment will terminate are described in "Business—Conservatorship and Treasury Agreements."

Dividends

Our fourth quarter dividend on the senior preferred stock of $2.9 billion was declared by the conservator and paid by us on December 31, 2012, bringing our senior preferred stock dividends paid in 2012 to $11.6 billion. Beginning in 2013, the method for calculating the amount of dividends payable on the senior preferred stock will no longer be based on applying an annual dividend rate of 10% to the aggregate liquidation preference of the senior preferred stock. Instead, the amount of dividends payable on the senior preferred stock for a dividend period will be based on our net worth as of the end of the immediately preceding fiscal quarter. For each dividend period from January 1, 2013 through and including December 31, 2017, when, as and if declared by our Board of Directors, 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 applicable capital reserve amount will be $3.0 billion for 2013 and will be reduced by $600 million each year until it reaches zero on January 1, 2018. Our first quarter 2013 dividend on the senior preferred stock of $4.2 billion was declared by the conservator and paid by us on March 29, 2013. 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.

See "Risk Factors" for a discussion of the risks relating to our dividend obligations to Treasury on the senior preferred stock.

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 $53.1 billion as of December 31, 2012 and $62.0 billion as of December 31, 2011.

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 $1.2 billion as of December 31, 2012, compared with $1.4 billion as of December 31, 2011.

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 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 the fourth quarter of 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 2012, other than pursuant to existing prior commitments.

Treasury Housing Finance Agency Initiative

During the fourth quarter of 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, and a one-year extension of the expiration date for release of escrowed funds for the new issue bond ("NIB") program from December 31, 2011 to December 31, 2012. 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 $1.6 billion as of December 31, 2012 and $3.0 billion as of December 31, 2011.

Multifamily Bond Credit Enhancement Liquidity Commitments

Our total outstanding liquidity commitments to advance funds for securities backed by multifamily housing revenue bonds totaled $15.3 billion as of December 31, 2012 and $16.8 billion as of December 31, 2011. 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 (exclusive of our outstanding commitments under the HFA TCLFs program, for which we are not required to hold excess cash).

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.

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, strategic and execution risks that 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 or 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.

Enterprise Risk Governance

Our enterprise risk management structure consists of the Board of Directors, executive leadership, including the Chief Risk Officer, 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 risk 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. 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.

We manage risk by using a “three line 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 Risk Policy & Capital Committee and the Management Committee. The second line of defense is Enterprise Risk Management, which is responsible for ensuring compliance with the risk framework and independently reporting on risk management issues and performance. The third line of defense is Internal Audit, 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.

Risk Committees

We use our 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 Credit 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. Market conditions as a result of the housing crisis resulted in significant exposure to mortgage 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. 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 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 portfolio for which we do not provide a guaranty.

Mortgage Credit Book of Business

Table 40 displays the composition of our mortgage credit book of business as of the dates indicated. Our single-family mortgage credit book of business accounted for 93% of our mortgage credit book of business as of December 31, 2012 and 2011.

Table 40: Composition of Mortgage Credit Book of Business[1]

	As of December 31, 2012			As of December 31, 2011		
	Single-Family	Multifamily	Total	Single-Family	Multifamily	Total
	(Dollars in millions)					
Mortgage loans and Fannie Mae MBS[2]	$2,797,909	$188,418	$2,986,327	$2,798,633	$176,898	$2,975,531
Unconsolidated Fannie Mae MBS, held by third parties[3]	15,391	1,524	16,915	17,910	1,702	19,612
Other credit guarantees[4]	19,977	16,238	36,215	25,824	16,582	42,406
Guaranty book of business	$2,833,277	$206,180	$3,039,457	$2,842,367	$195,182	$3,037,549
Agency mortgage-related securities[5]	12,294	32	12,326	15,522	33	15,555
Other mortgage-related securities[6]	37,524	27,535	65,059	43,019	31,511	74,530
Mortgage credit book of business	$2,883,095	$233,747	$3,116,842	$2,900,908	$226,726	$3,127,634
Guaranty Book of Business Detail:						
Conventional Guaranty Book of Business[7]	$2,764,903	$204,112	$2,969,015	$2,769,919	$192,797	$2,962,716
Government Guaranty Book of Business[8]	$68,374	$2,068	$70,442	$72,448	$2,385	$74,833

(1) Based on unpaid principal balance.

(2) 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.

(3) Reflects unpaid principal balance of unconsolidated Fannie Mae MBS, held by third-party investors. The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

(4) Consists of single-family and multifamily credit enhancements that we have provided and that are not otherwise reflected in the table.

(5) Consists of mortgage-related securities issued by Freddie Mac and Ginnie Mae.

(6) Consists primarily of mortgage revenue bonds, Alt-A and subprime private-label securities and CMBS.

(7) 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.

(8) 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.

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, 2012 and 2011. 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 expenses or credit losses. We provide information on our credit-related expenses and credit losses in “Consolidated Results of

Operations—Credit-Related Expenses."

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 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, loan product type, the type of property securing the loan and the housing market and general economy. We focus more on 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.

Because we believe we have limited credit exposure on our government loans, 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 additional information on non-Fannie Mae mortgage-related securities held in our portfolio, including the impairment that we have recognized on these securities, 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.

Because the number of our delinquent and defaulted loans increased during the housing crisis, we reviewed more of these loans for compliance with our requirements. We use the information obtained from these loan quality reviews to provide feedback to lenders on possible areas for correction in their origination practices. In addition to performing reviews on delinquent and defaulted loan populations, we also conduct reviews on random samples of performing loans soon after acquisition in order to identify loans that may not have met our underwriting or eligibility requirements. We refer to these loans as having "underwriting defects." By identifying loans with underwriting defects earlier in their lifecycle, we can provide earlier feedback to lenders, which may lead to systemic improvements in the loan origination process.

Performance for the random sample is measured using a significant findings rate, which represents the proportion of loans in the sample population with underwriting defects. The significant findings rate does not necessarily indicate how well the loans will ultimately perform or the extent to which the loans will become subject to repurchase requests. Instead, we use it to estimate the percentage of loans we acquired that potentially had a significant error in the underwriting process.

Based on these reviews, we believe that over the last three years the percentage of loans we acquired that have underwriting defects has been reduced. As of February 28, 2013, the preliminary estimate of the non-Refi Plus loans we acquired in the twelve months ended June 30, 2012 that had underwriting defects was approximately 2.5%, compared with approximately 3.9% for loans acquired in the twelve months ended June 30, 2011 and approximately 5.5% for loans acquired in the twelve months ended June 30, 2010. These estimates are subject to change, perhaps materially, as we work through reconciliation of loans with defects acquired during these periods with originators.

Beginning in 2013, and in conjunction with our new representations and warranties framework that is discussed below, we will be changing the way we review loan files in order to provide lenders with better and earlier feedback on underwriting defects. We will also take advantage of recent advancements in tools and data-gathering. We do not yet know what impact this change will have on our significant findings rates, but it may limit the comparability between prior and future periods.

We initiated underwriting and eligibility changes that became effective 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. Most recently, in October 2012, we initiated further underwriting and eligibility changes through Desktop Underwriter

9.0 and our Selling Guide, which sets forth our policies and procedures related to selling single-family mortgages to us. The changes include updates to maximum LTV ratio requirements for adjustable-rate mortgages, as well as certain fixed-rate loan categories and Refi Plus policies related to documentation requirements for income and appraisal representations and warranties. In addition, we further refined our policies for manually underwritten mortgage loans with regard to comprehensive risk assessments, debt-to-income ratios and minimum credit score requirements for adjustable-rate mortgages.

In September 2012, we and Freddie Mac announced a new representation and warranty framework for conventional loans acquired on or after January 1, 2013. This new framework, 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 new framework, lenders will be relieved of certain repurchase obligations 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 acquisition date (or, for Refi Plus loans, for 12 months following the acquisition 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 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 a loan in compliance with all laws and that the loan conforms to our Charter requirements. As a result of this new framework, we are making changes in our quality control process that moves the primary focus of our quality control reviews from the time a loan defaults to shortly after the time the loan is delivered to us. These changes include augmenting the random sampling approach we currently use in selecting new mortgage loan deliveries for review with more targeted, discretionary loan selections.

As discussed in "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—Home Affordable Refinance Program and Refi Plus Loans" below for more discussion on 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, 2012 and 2011, see "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Mortgage Insurers."

Our mortgage servicers are the primary points of contact for borrowers and perform a vital role in our efforts to reduce defaults and pursue foreclosure alternatives. We discuss the actions we have taken to improve the servicing of our delinquent loans below in "Problem Loan Management."

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 and our 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 41 displays our single-family conventional business volumes and our single-family conventional guaranty book of business for the periods indicated, based on certain key risk characteristics that we use to evaluate the risk profile and credit quality of our single-family loans.

Table 41: 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,		
	2012	2011	2010	2012	2011	2010
Original LTV ratio:[5]						
<= 60%	25%	29%	30%	23%	24%	24%
60.01% to 70%	15	16	16	15	16	16
70.01% to 80%	35	37	38	39	40	41
80.01% to 90%[6]	9	9	9	10	10	9
90.01% to 100%[6]	8	7	5	10	9	9
100.01% to 125%[6]	5	2	2	2	1	1
Greater than 125%[6]	3	—	—	1	—	—
Total	100%	100%	100%	100%	100%	100%
Weighted average	75%	69%	68%	73%	71%	71%
Average loan amount	$213,515	$209,847	$219,431	$157,512	$156,194	$155,531
Estimated mark-to-market LTV ratio:[7]						
<= 60%				28%	26%	28%
60.01% to 70%				15	12	13
70.01% to 80%				22	18	19
80.01% to 90%				13	16	15
90.01% to 100%				9	10	9
100.01% to 125%				8	11	10
Greater than 125%				5	7	6
Total				100%	100%	100%
Weighted average				75%	79%	77%
Product type:						
Fixed-rate:[8]						
Long-term	74%	67%	72%	72%	73%	74%
Intermediate-term	23	26	22	17	15	14
Interest-only	*	*	*	1	1	2
Total fixed-rate	97	93	94	90	89	90
Adjustable-rate:						
Interest-only	*	1	1	3	3	4
Other ARMs	3	6	5	7	8	6
Total adjustable-rate	3	7	6	10	11	10
Total	100%	100%	100%	100%	100%	100%
Number of property units:						
1 unit	98%	97%	98%	97%	97%	97%
2-4 units	2	3	2	3	3	3
Total	100%	100%	100%	100%	100%	100%
Property type:						
Single-family homes	91%	91%	91%	91%	91%	91%
Condo/Co-op	9	9	9	9	9	9
Total	100%	100%	100%	100%	100%	100%
Occupancy type:						
Primary residence	89%	89%	91%	89%	89%	90%
Second/vacation home	4	5	4	4	5	4

Investor	7	6	5	7	6	6
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,		
	2012	2011	2010	2012	2011	2010
FICO credit score at origination:						
< 620	1%	*%	*%	3%	3%	4%
620 to < 660	2	2	2	6	7	7
660 to < 700	7	7	7	12	13	15
700 to < 740	16	16	16	20	20	21
>= 740	74	75	75	59	57	53
Total	100%	100%	100%	100%	100%	100%
Weighted average	761	762	762	742	738	735
Loan purpose:						
Purchase	21%	24%	22%	28%	31%	33%
Cash-out refinance	14	17	20	24	27	29
Other refinance	65	59	58	48	42	38
Total	100%	100%	100%	100%	100%	100%
Geographic concentration:[9]						
Midwest	16%	15%	16%	15%	15%	15%
Northeast	17	19	20	19	19	19
Southeast	19	19	18	23	24	24
Southwest	16	16	15	16	15	15
West	32	31	31	27	27	27
Total	100%	100%	100%	100%	100%	100%
Origination year:						
< = 2004				13%	18%	23%
2005				5	7	9
2006				5	7	8
2007				7	10	12
2008				5	7	9
2009				11	17	21
2010				13	18	18
2011				15	16	—
2012				26	—	—
Total				100%	100%	100%

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* Represents less than 0.5% of single-family conventional business volume or book of business.

(1) We reflect second lien mortgage loans in the original LTV ratio calculation only when we own both the first and second lien mortgage loans or we own only the second lien mortgage loan. Second lien mortgage loans represented less than 0.5% of our single-family conventional guaranty book of business as of December 31, 2012, 2011 and 2010. 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. Single-family business volume refers to both single-family mortgage loans we purchase for our mortgage portfolio and single-family mortgage loans we guarantee.

(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, 2012 and 2011. See “Credit Profile Summary” and “Business—Our Charter and Regulation of Our Activities—Charter Act—Loan Standards” 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% to fulfill our mission to serve the primary mortgage market and provide liquidity to the housing 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) Midwest consists of IL, IN, IA, MI, MN, NE, ND, OH, SD and WI. Northeast includes 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

The single-family loans we purchased or guaranteed in 2012 have a strong credit profile with a weighted average original LTV ratio of 75%, a weighted average FICO credit score of 761, and a product mix with a significant percentage of fully amortizing fixed-rate mortgage 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 and FHA, the percentage of loan originations representing refinancings, our future objectives, government policy, market and competitive conditions, and the volume and characteristics of loans we acquire under HARP. 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.

The increase in our weighted average original LTV ratio in 2012 compared with 2011 was primarily due to (1) an increase in acquisitions of refinancings under HARP in 2012, including loans with LTV ratios above 125% (see our discussion on HARP below), and (2) an increase in acquisitions of home purchase mortgages with LTV ratios greater than 80%. The increase in acquisitions of home purchase mortgages with LTV ratios greater than 80% in 2012 compared with 2011 was primarily due to: (1) most mortgage insurance companies lowering their premiums in 2012 and 2011 for loans with higher credit scores; and (2) FHA implementing price increases in its annual mortgage insurance premium in 2012 and 2011. These price changes improved the economics of purchasing private mortgage insurance as compared to purchasing FHA insurance and helped drive an increase in our acquisition of loans with LTV ratios over 80%. Despite the increase in home purchase mortgages with LTV ratios greater than 80%, these acquisitions have strong credit profile with weighted average FICO scores of 755.

Over the past several years, the prolonged and severe decline in home prices resulted in the overall estimated weighted average mark-to-market LTV ratio of our single-family conventional guaranty book of business to increase. However, in 2012, as home prices began to increase, the estimated weighted average mark-to-market LTV ratio of our single-family conventional guaranty book of business decreased. As of December 31, 2012, the estimated weighted average mark-to-market LTV ratio of our single-family conventional guaranty book of business was 75% compared with 79% as of December 31, 2011. The portion of our single-family conventional guaranty book of business with an estimated mark-to-market LTV ratio greater than 100% was 13% as of December 31, 2012 and 18% as of December 31, 2011. If home prices were to decline, more loans would have mark-to-market LTV ratios greater than 100%, which increases the risk of delinquency and default.

Home Affordable Refinance Program ("HARP") and Refi Plus Loans

HARP 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. We offer HARP 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. Under HARP, we allow our borrowers who have mortgage loans with current LTV ratios greater than 80% to refinance their mortgages without obtaining new mortgage insurance in excess of what is already in place. Under HARP, we were previously authorized to acquire loans only if their current

LTVs did not exceed 125% for fixed-rate loans and did not exceed 105% for adjustable-rate mortgages. Changes to HARP implemented in the first half of 2012 extended refinancing flexibility to eligible borrowers with loans that have LTV ratios greater than 125% for fixed-rate loans, which make the benefits of HARP available to a greater number of borrowers. The changes also included an extension of the ending date for HARP to December 2013. In addition to the high LTV ratios that characterize HARP loans, some borrowers for HARP and Refi Plus loans also have lower FICO credit scores and/or may provide less documentation than we would otherwise require.

Loans we acquire under Refi Plus in general and HARP in particular represent refinancings of loans that are already in our guaranty book of business. The credit risk associated with the acquired loans essentially replaces the credit risk that we already held prior to the refinancing. Loans we acquire under HARP and Refi Plus may not perform as well as 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).

As a result of low mortgage rates in recent periods, the percentage of acquisitions that are refinanced loans, including loans acquired under HARP, remains elevated. HARP loans constituted approximately 16% of our total single-family acquisitions in all of 2012, compared with approximately 10% of total single-family acquisitions in all of 2011. Due to the increase in the volume of HARP loans with higher LTV ratios, the weighted average LTV ratio at origination for our acquisitions in all of 2012 was higher than for our acquisitions in all of 2011. The average original LTV ratio of single-family loans we acquired in 2012, excluding HARP loans, was 68%, compared with 111% for HARP loans. As a result of the changes to HARP implemented in 2012, we expect that if interest rates remain low we will continue to acquire a high volume of refinancings under HARP until there is no longer a large population of borrowers with loans that have high LTV ratios who would benefit from refinancing. In particular, we expect to acquire many refinancings with LTV ratios greater than 125%, because many borrowers were unable to refinance loans with LTV ratios greater than 125% until changes to HARP were fully implemented in the second quarter of 2012. Approximately 3% of our total single-family conventional business volume for 2012 consisted of refinanced loans with LTV ratios greater than 125% at the time of acquisition. HARP is scheduled to end in December 2013, although we will continue to accept deliveries of HARP loans through September 30, 2014 for the loans with application dates on or before December 2013.

Table 42 displays the serious delinquency rates and current mark-to-market LTV ratios as of December 31, 2012 of single-family loans we acquired under HARP and Refi Plus compared with the other single-family loans we acquired since the beginning of 2009.

Table 42: Selected Credit Characteristics of Single-Family Conventional Loans Acquired under HARP and Refi Plus

	As of December 31, 2012						
	Percentage of New Book		Current Mark-to-Market LTV Ratio > 100%		FICO Credit Score at Origination[1]	Serious Delinquency Rate	
HARP[2]	13	%	38	%	741	0.93	%
Other Refi Plus[3]	12		*		755	0.33	
Total Refi Plus	25		20		748	0.61	
Non-Refi Plus[4]	75		1		762	0.26	
Total new book of business[5]	100	%	6	%	759	0.35	%

* Represents less than 0.5%.

(1) In the case of refinancings, represents FICO credit score at the time of the refinancing.

(2) HARP loans 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.

(3) Other Refi Plus includes all other Refi Plus loans that are not HARP loans.

(4) Includes primarily other refinancings and home purchase mortgages.

(5) Refers to single-family mortgage loans we have acquired since the beginning of 2009.

Alt-A and Subprime Loans

We classify certain loans as subprime or Alt-A so that we can discuss our exposure to subprime and Alt-A loans in this Form 10-K and elsewhere. However, there is no universally accepted definition of subprime or Alt-A loans. Our single-family conventional guaranty book of business includes loans with some features that are similar to Alt-A loans or subprime loans that we have not classified as Alt-A or subprime because they do not meet our classification criteria.

We do not rely solely on our classifications of loans as Alt-A or subprime 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" and "Note 6, Financial Guarantees."

Our exposure to Alt-A and subprime 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 and subprime 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 and subprime 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 are also 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 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. We have classified a mortgage loan as subprime if and only if the loan was 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. The unpaid principal balance of Alt-A loans included in our single-family conventional guaranty book of business of $155.5 billion as of December 31, 2012, represented approximately 5.6% of our single-family conventional guaranty book of business. The unpaid principal balance of subprime loans included in our single-family conventional guaranty book of business of $5.0 billion as of December 31, 2012, represented approximately 0.2% 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 $129.0 billion, or 4.7% of our single-family conventional guaranty book of business, as of December 31, 2012 and $133.0 billion, or 4.8% of our single-family conventional guaranty book of business, as of December 31, 2011. The standard conforming loan limit for a one-unit property was $417,000 in 2012 and 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. Unlike FHA, which is not subject to current loan limits for refinancing its existing loans above current limits, our current loan limits apply to all new acquisitions. Therefore, we expect refinances of our existing loans above current limits to be significantly reduced. 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 whole loans and Fannie Mae MBS backed by reverse mortgage loans in our guaranty book of business was $50.2 billion as of December 31, 2012 and $50.9 billion as of December 31, 2011. The 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 losses on these loans. In 2010, we communicated to our lenders that we were exiting the reverse mortgage business and would no longer acquire newly originated home equity conversion mortgages.

Adjustable-rate Mortgages ("ARMs") and Fixed-rate Interest-only 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 9.9% of our single-family conventional guaranty book of business as of December 31, 2012.
Table 43 displays information for ARMs 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 43: Single-Family Adjustable-Rate Mortgage Resets by Year[1]

	Reset Year						
	2013	2014	2015	2016	2017	Thereafter	Total
	(Dollars in millions)						
ARMs—Amortizing	$43,113	$11,688	$59,851	$31,028	$19,542	$24,821	$190,043
ARMs—Interest Only	37,457	5,343	15,684	6,746	4,403	4,644	74,277
ARMs—Negative Amortizing	5,592	348	800	475	195	—	7,410
Total	$86,162	$17,379	$76,335	$38,249	$24,140	$29,465	$271,730
Fixed-Rate Interest Only	$80	$121	$1,060	$6,493	$12,596	$3,606	$23,956

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(1) Does not include loans we have modified, some of which are subject to higher interest rates and increased monthly payments in the future. Also 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.

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. As of December 31, 2012, we had established 13 Mortgage Help Centers across the nation to accelerate the response time for struggling homeowners with loans owned by us. During 2012, these centers helped borrowers obtain nearly 12,000 home retention plans. We have also established partnerships with 18 local non-profit organizations in 17 cities, collectively known as our Mortgage Help Network. The Mortgage Help Network represents a contractual relationship with select not-for-profit counseling agencies located in our top delinquent mortgage markets to provide borrowers foreclosure prevention counseling, documentation and assistance with pending loan workout solutions. We also use direct mail and phone calls to encourage homeowners to pursue home retention solutions and foreclosure alternatives, and have established partnerships with counseling agencies in ten states across the country to provide similar services. Further, in cooperation with several Multiple Listing Services across the nation, we developed the Short Sale Assistance Desk to assist real estate professionals in handling post-offer short sale issues that may relate to servicer responsiveness, the existence of a second lien, or issues involving mortgage insurance.

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

The following table displays the delinquency status of loans in our single-family conventional guaranty book of business (based on number of loans) as of the dates indicated.

Table 44: Delinquency Status of Single-Family Conventional Loans

	As of December 31,		
	2012	2011	2010
Delinquency status:			
30 to 59 days delinquent	1.96 %	2.17 %	2.32 %
60 to 89 days delinquent	0.66	0.74	0.87
Seriously delinquent	3.29	3.91	4.48
Percentage of seriously delinquent loans that have been delinquent for more than 180 days	72 %	70 %	67 %

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, as well as our acquisition of loans with stronger credit profiles since the beginning of 2009. Our new single-family book of business represented 66% of our single-family guaranty book of business as of December 31, 2012. In January 2013, our single-family serious delinquency rate decreased further to 3.18% as a result of our continued loss mitigation efforts, as well as a result of the resolution agreement we entered into with Bank of America. Pursuant to the agreement, Bank of America repurchased specified single-family loans, some of which were seriously delinquent. See "Note 20, Subsequent Events" for additional information on the resolution agreement.

Although our serious delinquency rate has decreased, our 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. 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 many states. 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 will continue to negatively affect our single-family serious delinquency rates, foreclosure timelines and credit-related expenses (income). The length of the foreclosure process, the pace of loan modifications and changes in home prices and other macroeconomic conditions all influence serious delinquency rates. We expect the number of our single-family loans in our legacy book of business that are seriously delinquent to remain well above pre-2008 levels for years.

Table 45 displays a comparison, by geographic region and by loans with and without credit enhancement, of the serious delinquency rates as of the dates indicated for single-family conventional loans in our single-family guaranty book of business. Serious delinquency rates vary by geographic region due to many factors including regional home prices, unemployment, economic conditions and state foreclosure timelines.

Table 45: Single-Family Serious Delinquency Rates

	As of December 31,					
	2012		2011		2010	
	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate
Single-family conventional delinquency rates by geographic region:(1)						
Midwest	15 %	2.92 %	15 %	3.73 %	15 %	4.16 %
Northeast	19	4.40	19	4.43	19	4.38
Southeast	23	4.78	24	5.68	24	6.15
Southwest	16	1.76	15	2.30	15	3.05
West	27	2.28	27	2.87	27	4.06
Total single-family conventional loans	100 %	3.29 %	100 %	3.91 %	100 %	4.48 %
Single-family conventional loans:						
Credit enhanced	14 %	7.09 %	14 %	9.10 %	15 %	10.60 %
Non-credit enhanced	86	2.70	86	3.07	85	3.40
Total single-family conventional loans	100 %	3.29 %	100 %	3.91 %	100 %	4.48 %

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(1) See footnote 9 to “Table 41: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business” for states included in each geographic region.

While loans across our single-family guaranty book of business have been affected by the weak market conditions, loans in certain states, certain higher-risk loan categories, such as Alt-A loans and loans with higher mark-to-market LTVs, and our 2005 through 2008 loan vintages continue to exhibit higher than average delinquency rates and/or account for a disproportionate share of our credit losses. California, Florida, Arizona, Nevada and some states in the Midwest experienced more significant declines in home prices coupled with unemployment rates that remain high. Table 46 displays the serious delinquency rates and other financial information for our single-family conventional loans with some of these higher-risk characteristics as of the dates indicated. The reported categories are not mutually exclusive.

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Table 46: Single-Family Conventional Serious Delinquency Rate Concentration Analysis

	As of December 31,											
	2012				2011				2010			
	Unpaid Principal Balance	Percentage of Book Outstanding	Serious Delinquency Rate	Estimated Mark-to-Market LTV Ratio (1)	Unpaid Principal Balance	Percentage of Book Outstanding	Serious Delinquency Rate	Estimated Mark-to-Market LTV Ratio (1)	Unpaid Principal Balance	Percentage of Book Outstanding	Serious Delinquency Rate	Estimated Mark-to-Market LTV Ratio (1)
	(Dollars in millions)											
States:												
Arizona	$65,277	2 %	2.14 %	88 %	$66,875	2 %	3.65 %	109 %	$71,052	2 %	6.23 %	105 %
California	523,602	19	1.69	73	516,608	19	2.46	81	507,598	18	3.89	76
Florida	165,377	6	10.06	96	175,344	6	11.80	108	184,101	7	12.31	107
Nevada	27,206	1	6.70	117	28,766	1	7.42	138	31,661	1	10.66	128
Select Midwest states (2)	278,455	10	3.51	81	284,060	10	4.39	84	292,734	11	4.80	80
All other states	1,697,209	62	2.85	71	1,689,846	62	3.18	73	1,695,615	61	3.46	71
Product type:												
Alt-A	155,469	6	11.36	96	182,236	7	12.43	101	211,770	8	13.87	96
Subprime	5,035	*	20.60	107	5,791	*	23.18	111	6,499	*	28.20	103
Vintages:												
2005	139,204	5	7.79	90	190,521	7	7.27	95	235,100	9	7.20	89
2006	138,040	5	12.15	105	186,835	7	11.81	111	232,009	8	12.19	104
2007	195,308	7	12.99	107	269,012	10	12.62	112	334,110	12	13.24	104
2008	124,747	5	6.63	88	192,713	7	5.64	92	256,024	9	4.88	85
All other vintages	2,159,827	78	1.36	69	1,922,418	69	1.59	69	1,725,518	62	1.73	65
Estimated mark-to-market LTV ratio:												
Greater than 100%(1)	374,010	13	13.42	128	493,762	18	13.76	131	435,991	16	17.70	130
Select combined risk characteristics:												
Original LTV ratio > 90% and FICO score < 620	19,416	1	14.76	113	18,992	1	18.67	115	21,205	1	21.41	109

* Percentage is less than 0.5%.

(1) Second lien mortgage loans held by third parties are not included in the calculation of the estimated mark-to-market LTV ratios.

(2) Consists of Illinois, Indiana, Michigan and Ohio.

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 unemployed homeowners as an additional tool to help them avoid foreclosure.

With our implementation of HAMP, a modification initiative under the Making Home Affordable Program that is intended to be uniform across servicers, our aim is to help borrowers whose loan is either currently delinquent or is at imminent risk of default. HAMP modifications can include reduced interest rates, term extensions, and/or principal forbearance to bring the monthly payment down to 31% of the borrower's gross (pre-tax) income. After a servicer determines that the borrower's hardship is not temporary in nature, we require that servicers first evaluate borrowers for eligibility under HAMP before considering other workout options or foreclosure. By design, not all borrowers facing foreclosure will be eligible for a HAMP modification. As a result, we are working with servicers to ensure that borrowers who do not qualify for HAMP or who fail to successfully complete the HAMP required trial period are provided with alternative home retention options or a foreclosure prevention alternative.

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. Foreclosure alternatives include short sales, where our servicers work with a borrower to sell their home prior to foreclosure, and deeds-in-lieu of foreclosure, where the borrower voluntarily signs over the title to their property to the servicer. These alternatives are designed to reduce our credit losses while helping borrowers avoid foreclosure. 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 47 displays statistics on our single-family loan workouts that were completed, by type, for the periods indicated. 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 and forbearance plans that have been initiated but not completed.

Table 47: Statistics on Single-Family Loan Workouts

	For the Year Ended December 31,					
	2012		2011		2010	
	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	$30,640	163,412	$42,793	213,340	$82,826	403,506
Repayment plans and forbearances completed[1]	3,298	23,329	5,042	35,318	4,385	31,579
HomeSaver Advance first-lien loans	—	—	—	—	688	5,191
Total home retention strategies	33,938	186,741	47,835	248,658	87,899	440,276
Foreclosure alternatives:						
Short sales	15,916	73,528	15,412	70,275	15,899	69,634
Deeds-in-lieu of foreclosure	2,590	15,204	1,679	9,558	1,053	5,757
Total foreclosure alternatives	18,506	88,732	17,091	79,833	16,952	75,391
Total loan workouts	$52,444	275,473	$64,926	328,491	$104,851	515,667
Loan workouts as a percentage of single-family guaranty book of business[2]	1.85 %	1.57 %	2.29 %	1.85 %	3.66 %	2.87 %

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(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.

(2) Calculated based on loan workouts during the period as a percentage of our single-family guaranty book of business as of the end of the period.

The volume of home retention solutions completed in 2012 decreased compared with 2011, primarily due to a decline in the number of delinquent loans in 2012, compared with 2011.

During 2012, we initiated approximately 184,000 trial modifications, HAMP and non-HAMP, compared with approximately 211,000 trial modifications during 2011. We also initiated other types of workouts, such as repayment plans and forbearances.

HAMP guidance directs servicers either to cancel or to convert trial modifications after three or four monthly payments, depending on the borrower's circumstances. As of December 31, 2012, 56% of our HAMP trial modifications had been converted to permanent HAMP modifications since the inception of the program. The conversion rate for HAMP modifications since June 1, 2010, when servicers became required to perform a full verification of a borrower's eligibility prior to offering a HAMP trial modification, was 87% as of December 31, 2012. The average length of a trial period for HAMP modifications initiated after June 1, 2010 was four months.

The number of foreclosure alternatives completed during 2012 remained high as these are favorable solutions for a large number of borrowers. We expect the volume of our home retention solutions and foreclosure alternatives to remain high throughout 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. In addition, more than half of the loan modifications we have made since 2009 have been made to loans that have mark-to-market LTV ratios above 100%.

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 48 displays activity related to our single-family TDRs for the periods indicated. For more information on the impact of TDRs, see "Note 3, Mortgage Loans."

Table 48: Single-Family Troubled Debt Restructuring Activity[1][2]

	For the Year Ended December 31,		
	2012	2011	2010
	(Dollars in millions)		
Beginning balance, January 1	$177,484	$155,564	$101,282
New TDRs	54,032	42,088	67,550
Foreclosures[2]	(13,752)	(14,143)	(9,526)
Payoffs[3]	(6,992)	(2,801)	(1,915)
Other[4]	(3,367)	(3,224)	(1,827)
Ending balance, December 31	$207,405	$177,484	$155,564

(1) Represents the unpaid principal balance of the loans post-modification.
(2) Consists of foreclosures, deeds-in-lieu of foreclosure, short sales, and third-party sales.
(3) Consists of full borrower payoffs and repurchases of loans that were successfully resolved through payment by mortgage sellers/servicers.
(4) Primarily includes monthly principal payments.

Table 49 displays the percentage of our loan modifications completed during 2011 and 2010 that were current or paid off one year after modification, as well as the percentage of our loan modifications completed during 2010 that were current or paid off two years after modification.

Table 49: Percentage of Loan Modifications That Were Current or Paid Off at One and Two Years Post-Modification[1]

	2011				2010			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
One Year Post-Modification								
HAMP Modifications	78 %	78 %	78 %	77 %	74 %	74 %	74 %	76 %
Non-HAMP Modifications	66	68	69	69	67	67	65	55
Total	71	72	75	74	69	70	70	65
Two Years Post-Modification								
HAMP Modifications					70 %	69 %	68 %	70 %
Non-HAMP Modifications					64	63	61	52
Total					65	65	65	60

(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.

We began changing the structure of our non-HAMP modifications in 2010 to lower borrowers' monthly mortgage payments to a greater extent, which improved the performance of our non-HAMP modifications overall. In addition, because post-modification performance was greater for our HAMP modifications than for our non-HAMP modifications, we began in September 2010 to include trial periods for our non-HAMP modifications.

There is significant uncertainty regarding the ultimate long term success of our current 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

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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 50 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 50: Single-Family Foreclosed Properties

	For the Year Ended December 31,		
	2012	2011	2010
Single-family foreclosed properties (number of properties):			
Beginning of period inventory of single-family foreclosed properties (REO)(1)	118,528	162,489	86,155
Acquisitions by geographic area:(2)			
Midwest	50,583	45,167	57,761
Northeast	12,008	9,858	14,049
Southeast	58,411	51,153	79,453
Southwest	28,541	44,675	55,276
West	24,936	48,843	55,539
Total properties acquired through foreclosure(1)	174,479	199,696	262,078
Dispositions of REO	(187,341)	(243,657)	(185,744)
End of period inventory of single-family foreclosed properties (REO)(1)	105,666	118,528	162,489
Carrying value of single-family foreclosed properties (dollars in millions)(3)	$9,505	$9,692	$14,955
Single-family foreclosure rate(4)	0.99 %	1.13 %	1.46 %

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(1) Includes held for use properties, which are reported in our consolidated balance sheets as a component of "Other assets" and acquisitions through deeds-in-lieu of foreclosure.

(2) See footnote 9 to "Table 41: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business" for states included in each geographic region.

(3) Excludes foreclosed property claims receivables, which are reported in our consolidated balance sheets as a component of "Acquired property, net."

(4) Estimated based on the annualized 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 slow economic recovery, combined with high unemployment rates, continues to result in a high level of mortgage loans that transition from delinquent to REO status, either through foreclosure or deed-in-lieu of foreclosure. Our foreclosure rates remain high; however, foreclosures continue to proceed at a slow pace caused by continuing foreclosure process issues encountered by our servicers and changing legislative, regulatory and judicial requirements. The delay in foreclosures has resulted in a decrease in the inventory of foreclosed properties since December 31, 2010.

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. In 2012, we repaired approximately 84,000 properties from our single-family REO inventory, at an average cost of approximately $6,100 per property.

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 107,000 of the 187,000 single-family properties we sold in 2012 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

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federal and state laws protecting tenants in foreclosed properties. As of December 31, 2012, over 7,000 tenants leased our REO properties.

We continue to manage our REO inventory to minimize costs and maximize sales proceeds. However, as we are unable to market and sell a higher portion of our inventory, the pace at which we can dispose of our properties has slowed, resulting in higher foreclosed property expenses related to costs associated with ensuring that the property is vacant and costs of maintaining the property.

Table 51 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 51: Single-Family Foreclosed Property Status

	Percent of Single-Family Foreclosed Properties As of December 31,		
	2012	2011	2010
Available-for-sale	28 %	28 %	37 %
Offer accepted[1]	17	17	14
Appraisal stage[2]	10	8	8
Unable to market:			
Redemption status[3]	11	12	11
Occupied status[4]	14	15	16
Rental property[5]	5	7	6
Properties being repaired	7	6	5
Other	8	7	3
Total unable to market	45	47	41
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 within the period during which state laws allows the former mortgagor and second lien holders to redeem the property.

(4) Properties that are still occupied, and for which the eviction process is not yet complete.

(5) Properties with a tenant living in the home under our Tenant in Place or Deed for Lease programs.

Table 52 displays the proportionate share of foreclosures in certain states as compared with their share of our guaranty book of business.

Table 52: 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, 2012		December 31, 2011		December 31, 2010	
	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:						
Arizona, California, Florida, and Nevada	28 %	28 %	28 %	33 %	28 %	36 %
Illinois, Indiana, Michigan, and Ohio	10	23	10	17	11	17

(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) Calculated based on the number of properties acquired through foreclosure or deed-in-lieu of foreclosure during the period divided by the total number of properties acquired through foreclosure.

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 and lender, market and sub-market trends and growth, and the current and anticipated cash flows from the property. 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 expenses (income) and credit losses in “Business Segment Results—Multifamily Business Results.”

Multifamily Acquisition Policy and Underwriting Standards

Our Multifamily business, together with our Enterprise Risk Management division, which provides independent risk oversight of the Multifamily business, is responsible for pricing and managing the credit risk on multifamily mortgage loans we purchase and on Fannie Mae MBS. Our primary multifamily delivery channel is the Delegated Underwriting and Servicing, or DUS®, program. 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 and/or loan size. Loans delivered to us by DUS lenders and their affiliates represented 88% of our multifamily guaranty book of business as of December 31, 2012, compared with 86% as of December 31, 2011 and 84% as of December 31, 2010.

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 53 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 as of the dates indicated.

Table 53: Multifamily Lender Risk-Sharing

	As of December 31,			
	2012		2011	
Lender risk-sharing				
DUS	73	%	68	%
Non-DUS negotiated	8		11	
No recourse to the lender	19		21	

At the time of our purchase or guarantee of multifamily mortgage loans, we and our lenders rely significantly 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 54 displays original LTV ratio and DSCR metrics for our multifamily guaranty book of business as of the dates indicated.

Table 54: Multifamily Guaranty Book of Business Key Risk Characteristics

	As of December 31,					
	2012		2011		2010	
Weighted average original LTV ratio	66	%	66	%	67	%
Original LTV ratio greater than 80%	4		5		5	
Original DSCR less than or equal to 1.10	8		8		9	

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 is an important factor that influences credit performance and helps reduce our credit risk.

We and our lenders monitor the performance and risk concentrations 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 are managing 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 have worked with our lenders in recent years to collect limited sets of quarterly property operating measures from borrowers, in addition to more complete annual financial updates, for those loans where we are entitled contractually to receive such information. During the second quarter of 2012, we began requiring lenders to provide complete quarterly financial updates consistent with the information required for annual submissions. 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 with a current DSCR less than 1.0 was approximately 5% as of December 31, 2012 and 7% as of December 31, 2011. Our estimates of current DSCRs are based on the latest available income information for these properties and our assessments of market conditions. Although we use the most recently available results from our multifamily borrowers, there is a lag in reporting, which typically can range from 6 to 12 months.

Problem Loan Management and Foreclosure Prevention

The number of seriously delinquent multifamily loans decreased in 2012. Since changes in delinquency rates lag changes in economic conditions, we expect delinquencies to continue to contribute to credit losses. 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 to a low level relative to our multifamily guaranty book of business.

Problem Loan Statistics

We classify multifamily loans as seriously delinquent when payment is 60 days or more past due. We include the unpaid principal balance of multifamily loans that we own or that back Fannie Mae MBS and any housing bonds for which we provide credit enhancement in the calculation of the multifamily serious delinquency rate.

Table 55 displays a comparison of our multifamily serious delinquency rates for loans acquired through our DUS product line versus loans not acquired through our DUS product line and the percentage of total multifamily credit losses they represent.

Table 55: Multifamily Concentration Analysis

	As of December 31,						Percentage of Multifamily Credit Losses For the Years Ended December 31,		
	2012		2011		2010				
	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate	2012	2011	2010
DUS small balance loans (1)	8 %	0.32 %	8 %	0.45 %	8 %	0.55 %	7 %	9 %	7 %
DUS non small balance loans (2)	76	0.17	72	0.51	70	0.56	71	72	61
Non-DUS small balance loans (1)	7	1.02	9	1.38	10	1.47	16	12	10
Non-DUS non small balance loans (2)	9	0.21	11	0.57	12	0.97	6	7	22
Total multifamily loans	100 %	0.24 %	100 %	0.59 %	100 %	0.71 %	100 %	100 %	100 %

(1) Loans with original unpaid principal balances of up to $3 million as well as loans in high cost markets with original unpaid principal balances up to $5 million.

(2) Loans with original unpaid principal balances greater than $3 million as well as loans in high cost markets with original unpaid principal balances greater than $5 million.

The multifamily serious delinquency rate decreased as of December 31, 2012 compared with December 31, 2011 as national multifamily market fundamentals continued to improve. The DUS loans in our guaranty book of business have lower delinquency rates when compared with the non-DUS loans in our guaranty book primarily due to the DUS model, which has several features that more closely align our interests with those of the lenders. Multifamily loans with an original balance of up to $3 million nationwide or $5 million in high cost markets, which we refer to as small balance loans, acquired through non-DUS lenders continue to represent a disproportionately large share of delinquencies, but they are generally covered by loss sharing arrangements that limit the credit losses we incur. Small balance non-DUS loans continue to exhibit higher delinquencies than small balance loans acquired through DUS lenders. These small balance non-DUS loans account for 29% of our multifamily serious delinquencies and 7% of our multifamily guaranty book of business as of December 31, 2012 compared with 20% of our multifamily serious delinquencies and 9% of our multifamily guaranty book of business as of December 31, 2011. These small balance non-DUS loan acquisitions mainly occurred in 2007 and 2008 but have been less than 2% of the unpaid principal balance of our total multifamily acquisitions since 2008. Although our 2007 and early 2008 acquisitions were underwritten to our then-current credit standards and required borrower equity, they were acquired near the peak of multifamily housing values. During the second half of 2008, our underwriting standards were adjusted to reflect the evolving market trends at that time.

In addition, Nevada has a disproportionately high share of seriously delinquent loans compared with its share of the multifamily guaranty book of business as a result of slow economic recovery in certain areas of the state. Nevada accounted for 12% of multifamily serious delinquencies but only 1% of the multifamily guaranty book of business as of December 31, 2012.

REO Management

Foreclosure and REO activity affect the level of our credit losses. Table 56 displays our held for sale multifamily REO activity for the periods indicated.

Table 56: Multifamily Foreclosed Properties

	For the Year Ended December 31,		
	2012	2011	2010
Multifamily foreclosed properties (number of properties):			
Beginning of period inventory of multifamily foreclosed properties (REO)	260	222	73
Total properties acquired through foreclosure	164	257	232
Transfers to held for use, net[1]	(44)	(27)	(1)
Dispositions of REO	(252)	(192)	(82)
End of period inventory of multifamily foreclosed properties (REO)	128	260	222
Carrying value of multifamily foreclosed properties (dollars in millions)	$331	$577	$596

(1) Represents the net transfers of properties from held for sale to held for use. Held for use properties are reported in our consolidated balance sheets as a component of "Other assets."

The decrease in our multifamily foreclosed property inventory reflects the continued improvement of national multifamily market fundamentals in 2012.

Institutional Counterparty Credit Risk Management

We rely on our institutional counterparties to provide services and credit enhancements, risk sharing agreements with lenders and financial guaranty contracts that are critical to our business. Institutional counterparty credit risk is the risk that these institutional counterparties may fail to fulfill their contractual obligations to us, including mortgage sellers/servicers who are obligated to repurchase loans from us or reimburse us for losses in certain circumstances and service our loans based on established guidelines. Defaults by a counterparty with significant obligations to us could result in significant financial losses to us.

Several of our institutional counterparties are subject to provisions of the Dodd-Frank Act. However, we cannot predict its potential impact on our company or our industry at this time. For additional discussion on key provisions and additional information about this legislation see "Legislative and Regulatory Developments—Financial Regulatory Reform Legislation: The Dodd-Frank Act" and "Risk Factors."

We have exposure primarily to the following types of institutional counterparties:

- mortgage sellers/servicers that sell the loans to us or service the loans we hold in our investment portfolio or that back our Fannie Mae MBS;
- third-party providers of credit enhancement on the mortgage assets that we hold in our investment portfolio or that back our Fannie Mae MBS, including mortgage insurers, financial guarantors 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, and mortgage sellers/servicers;
- issuers of securities held in our cash and other investments portfolio;
- derivatives counterparties;
- debt security and mortgage 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/servicers, derivatives counterparties, custodial depository institutions or document custodians on our behalf.

The liquidity and financial condition of some of our institutional counterparties improved in 2012 compared with 2011. However, 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. As described in "Risk Factors," the financial difficulties that our institutional counterparties are experiencing may negatively affect their ability to meet their obligations to us and the amount or quality of the products or services they provide to us.

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 materially adversely affect our ability to conduct our operations.

Mortgage Sellers/Servicers

Our primary exposures to institutional counterparty risk are with mortgage sellers/servicers that service the loans we hold in our mortgage portfolio or that back our Fannie Mae MBS, as well as mortgage sellers/servicers that are obligated to repurchase loans from us or reimburse us for losses in certain circumstances. We rely on mortgage sellers/servicers to meet our servicing standards and fulfill their servicing and repurchase obligations.

Mortgage sellers/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 sellers/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 decide to replace a mortgage seller/servicer. If a significant mortgage servicer counterparty fails, and its mortgage servicing obligations are not transferred to a company with the ability and intent to fulfill all of these obligations, we could incur penalties for late payment of taxes and insurance on the properties that secure the mortgage loans serviced by that mortgage seller/servicer. We could also be required to absorb losses on defaulted loans that a failed mortgage seller/servicer is obligated to repurchase from us if we determine there was an underwriting or eligibility breach.

Risk management steps we have taken or may take to mitigate our risk to mortgage sellers/servicers with whom we have material 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/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 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 additional discussion on risks of mortgage fraud to which we are exposed.

Our business with our mortgage servicers is concentrated. Our five largest single-family mortgage servicers, including their affiliates, serviced approximately 57% of our single-family guaranty book of business as of December 31, 2012, compared with approximately 63% as of December 31, 2011. 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, 2012, compared with approximately 17% as of December 31, 2011. In addition, we had two other mortgage servicers, Bank of America, N.A. and JPMorgan Chase Bank, N.A., that, with their affiliates, each serviced over 10% of our single-family guaranty book of business as of December 31, 2012 and 2011. In addition, Wells Fargo Bank, N.A. serviced over 10% of our multifamily guaranty book of business as of December 31, 2012 and 2011.

Although our business with our mortgage sellers/servicers is concentrated, a number of our largest single-family mortgage seller/servicer counterparties have recently reduced or eliminated their purchases of mortgage loans from mortgage brokers and correspondent lenders. As a result, we are acquiring an increasing portion of our business volume directly from smaller financial institutions and some of our servicing volume is shifting to smaller or non-traditional mortgage servicers that may not have the same financial strength or operational capacity as our largest mortgage servicers. See “Risk Factors” for more information on the impact to our business due to changes in the mortgage industry.

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 resulted in 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 changes in the foreclosure environment.

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/servicers are obligated to either repurchase the loan or foreclosed property, or to reimburse us for our losses. 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/servicer to reimburse us for our losses. We may consider additional facts and circumstances when determining whether to require a mortgage seller/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/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/servicers meet these obligations collectively as “repurchase requests.” In addition, we charge our primary mortgage servicers a compensatory fee for servicing delays within their control when they fail to comply with established loss mitigation and foreclosure timelines in our Servicing Guide. Compensatory fees are intended to compensate us for damages attributed to such servicing delays and to emphasize the importance of the mortgage servicer’s performance.

Repurchase requests impact the risk that affected mortgage sellers/servicers will 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/servicer, or a number of mortgage sellers/servicers, to fulfill repurchase obligations to us could result in a significant increase in our credit losses and credit-related expenses, and have a material 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 a material adverse effect on our results of operations or financial condition. We estimate our allowance for loan losses assuming the benefit of repurchase demands only from those counterparties we determine have the financial capacity to fulfill this obligation. Accordingly, as of December 31, 2012, in estimating our allowance for loan losses, we assumed no benefit from repurchase demands due to us from mortgage sellers/servicers that, in our view, lacked the financial capacity to honor their contractual obligations.

On January 6, 2013, we entered into a comprehensive agreement (the “resolution agreement”) with Bank of America, which resolved certain repurchase requests arising from breaches of selling representations and warranties for loans originated between 2000 and 2008. Bank of America agreed, among other things, to a resolution which included a cash payment to us of $3.6 billion in January 2013 related to repurchase requests and the repurchase of approximately 29,500 loans from us for an aggregate repurchase price of $6.6 billion, subject to a reconciliation process. Also in January 2013, Bank of America made an initial cash payment to us of $518 million related to mortgage insurance claims. The resolution agreement addressed $11.3 billion of unpaid principal balance of our outstanding repurchase requests with Bank of America as of December 31, 2012, of which $8.9 billion were over 120 days past due. Accordingly, the amount of our outstanding repurchase requests will decrease substantially in the first quarter of 2013 as outstanding repurchase requests to Bank of America represented 73% of our total repurchase requests outstanding as of December 31, 2012.

In connection with the resolution agreement, we also approved Bank of America’s request to transfer servicing of approximately 941,000 loans to two specialty mortgage servicers and resolved outstanding and certain future compensatory fees owed by Bank of America due to servicing delays. Bank of America made an initial payment to us of $1.3 billion in January 2013. Subsequent to the initial payment, we and Bank of America will complete a loan review process in 2013 as specified in the compensatory fee agreement to mutually determine the final amount of compensatory fees owed. See “Note 20, Subsequent Events” for additional information on our agreements with Bank of America and their impact on our financial results.

Table 57 displays repurchase request activity, measured by unpaid principal balance, during 2012 and 2011. The dollar amounts of our outstanding repurchase requests provided below are based on the unpaid principal balance of the loans underlying the repurchase request issued, not the actual amount we have requested from the lenders. In some cases, we allow lenders to remit payment equal to our loss, including imputed interest, on the loan after we have disposed of the REO, which is less than the unpaid principal balance of the loan. As a result, we expect our actual cash receipts relating to these outstanding repurchase requests to be significantly lower than the unpaid principal balance of the loan. Amounts relating to repurchase requests originating from missing documentation or loan files are excluded from the total requests outstanding until we receive the missing documents and loan files and a full underwriting review is completed.

Table 57: Repurchase Request Activity

	For the Year Ended December 31,	
	2012	2011
	(Dollars in millions)	
Beginning outstanding repurchase requests	$10,400	$5,007
Issuances	23,764	24,828
Collections	(8,657)	(11,533)
Other resolutions[1]	(8,425)	(6,913)
Total successfully resolved	(17,082)	(18,446)
Cancellations	(1,069)	(989)
Ending outstanding repurchase requests[2]	$16,013	$10,400

(1) Mainly includes repurchase requests that were successfully resolved through the lender taking corrective action with or without a pricing adjustment. Also includes resolutions through indemnification or future repurchase agreements, negotiated settlements for a pool of loans, and loans in which no further repurchase or reimbursement for loss was required from the mortgage seller/servicer.

(2) Excludes the impact of our January 6, 2013 resolution agreement with Bank of America, which reduced the total outstanding repurchase request balance by $11.3 billion and substantially resolved our outstanding and expected future repurchase requests on specified single-family loans originated between 2000 and 2008 that were delivered to us by Bank of America. See "Note 20, Subsequent Events" for additional information on this agreement.

The increase in "Other resolutions" activity during 2012 compared with 2011 was primarily driven by an increase in the number of requests that were successfully resolved by lenders, thereby curing the defects identified in the repurchase request without requiring the lender to repurchase the loan or reimburse us for our losses. As of December 31, 2012, less than 0.25% of the loans in our new single-family book of business, which were acquired after 2008, have been subject to a repurchase request, compared with approximately 3% of single-family loans acquired between 2005 and 2008 that have been subject to a repurchase request.

Table 58 displays our top five mortgage sellers/servicers by outstanding repurchase requests based on the unpaid principal balance of the loans underlying repurchase requests issued as of December 31, 2012 and 2011. Table 58 also displays the mortgage sellers'/servicers' balance and percentage of our repurchase requests to that mortgage seller/servicer that were over 120 days outstanding, and the mortgage sellers'/servicers' repurchase requests outstanding over 120 days as a percentage of our total repurchase requests outstanding over 120 days, as of December 31, 2012 and 2011.

Table 58: Outstanding Repurchase Requests[1]

	Outstanding Repurchase Requests as of December 31,							
	2012				2011			
	Total Outstanding Balance[3]	Over 120 Days[2] Balance[3]	%	% of Total	Total Outstanding Balance[3]	Over 120 Days[2] Balance[3]	%	% of Total
	(Dollars in millions)							
Mortgage Seller/Servicer Counterparty:								
Bank of America, N.A.[4]	$11,735	$9,163	78 %	84 %	$5,449	$1,841	34 %	59 %
CitiMortgage[5]	909	284	31	3	917	226	25	7
Wells Fargo Bank, N.A.[5]	758	358	47	3	830	259	31	8
JPMorgan Chase Bank, N.A.	688	173	25	2	1,136	197	17	6
SunTrust Bank, Inc.[5]	494	224	45	2	430	40	9	1

Other(5)	1,429	724	51	6		1,638	576	35	19	
Total	$16,013	$10,926		100	%	$10,400	$3,139		100	%

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(1) Amounts relating to repurchase requests originating from missing documentation or loan files are excluded from the outstanding repurchase requests until we receive the missing documents and loan files and a full underwriting review is completed.

(2) Measured from the repurchase request date. For lenders remitting after the property is disposed, the number of days outstanding is adjusted to allow for final loss determination.

(3) Based on the unpaid principal balance of the loans underlying the repurchase request issued. In some cases, lenders remit payment equal to our loss on sale of the loan as REO, which includes imputed interest, and is significantly lower than the unpaid principal balance of the loan. Also includes repurchase requests resulting from the rescission of mortgage insurance coverage.

(4) Excludes the impact of our January 6, 2013 resolution agreement with Bank of America, which reduced the total outstanding repurchase request balance by $11.3 billion, of which $8.9 billion represented repurchase requests that were over 120 days past due. The resolution agreement substantially resolved outstanding and expected future repurchase requests on specified single-family loans originated between 2000 and 2008 that were delivered to us by Bank of America. See "Note 20, Subsequent Events" for additional information on this agreement.

(5) Mortgage seller/servicer has entered into an agreement with us relating to some of the reported amounts. The agreement extended the time for resolving certain outstanding repurchase requests and/or provided for the seller/servicer to post collateral to us.

We continue to aggressively pursue our contractual rights associated with outstanding repurchase requests. Failure by a mortgage seller/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 these matters to our satisfaction, we may seek additional remedies. If we are unable to resolve our repurchase requests, either through collection or additional remedies, we will not recover the losses we have recognized from the associated loans.

In December 2010, we entered into an agreement with Residential Capital LLC, GMAC Mortgage LLC and other subsidiaries of Ally Financial Inc. ("Ally") and received a cash payment of $462 million in exchange for our release of certain claims against specified Ally affiliates. In May 2012, certain wholly-owned subsidiaries of Ally, including GMAC Mortgage LLC, filed for Chapter 11 bankruptcy protection. On January 31, 2013, Fannie Mae and GMAC Mortgage LLC reached an agreement pursuant to which Fannie Mae received $265 million primarily related to representation and warranty liabilities due to title defects, mortgage insurance coverage claims and compensatory fees. As a result of this settlement, we recorded $173 million as a benefit to "Benefit (provision) for credit losses," in our consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2012. Also, as a part of this agreement, there was a mutual release of claims by parties and we approved GMAC Mortgage LLC's request to transfer servicing of certain mortgage loans to another servicer.

As described in "Mortgage Credit Risk Management—Single-Family Mortgage Credit Risk Management," we implemented a new representation and warranty framework on January 1, 2013. With the implementation of these changes, a greater proportion of our repurchase requests may be issued on performing loans, as compared with our current repurchase requests, the substantial majority of which relate to loans that are either nonperforming or have been foreclosed upon.

Mortgage Insurers

We are generally required, pursuant to our charter, to obtain credit enhancement 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 enhancement to manage our single-family mortgage credit risk, including primary and pool mortgage insurance coverage. Table 59 displays our risk in force for the primary and pool mortgage insurance coverage on single-family loans in our guaranty book of business and our insurance in force for our mortgage insurer counterparties as of December 31, 2012 and 2011. The table includes our top nine 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, 2012 and 2011.

Table 59: Mortgage Insurance Coverage

	Risk In Force[1]				Insurance In Force[2]			
	As of December 31, 2012			As of December 31, 2011	As of December 31, 2012			As of December 31, 2011
	Primary	Pool	Total		Primary	Pool	Total	
	(Dollars in millions)							
Counterparty:[3]								
Mortgage Guaranty Insurance Corp.	$19,671	$418	$20,089	$21,479	$77,771	$4,575	$82,346	$89,872
Radian Guaranty, Inc.	18,015	111	18,126	15,505	72,830	916	73,746	63,534
United Guaranty Residential Insurance Co.	17,105	77	17,182	14,579	68,563	622	69,185	59,233
Genworth Mortgage Insurance Corp.	13,607	19	13,626	13,628	54,587	177	54,764	54,893
PMI Mortgage Insurance Co.[4]	8,829	72	8,901	11,128	35,692	1,051	36,743	47,734
Republic Mortgage Insurance Co.[4]	6,892	250	7,142	9,219	27,440	2,962	30,402	39,130
Triad Guaranty Insurance Corp.[4]	2,077	291	2,368	3,150	7,738	2,157	9,895	12,400
CMG Mortgage Insurance Co.[5]	2,340		2,340	1,951	9,823		9,823	8,241
Essent Guaranty, Inc.	1,724		1,724	395	7,148		7,148	1,685
Others	197		197	217	1,118		1,118	1,214
Total	$90,457	$1,238	$91,695	$91,251	$362,710	$12,460	$375,170	$377,936
Total as a percentage of single-family guaranty book of business			3 %	3 %			13 %	13 %

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(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) Insurance coverage amounts provided for each counterparty may include coverage provided by consolidated affiliates and subsidiaries of the counterparty.

(4) These mortgage insurers are under various forms of supervised control by their state regulators and are in run-off.

(5) CMG Mortgage Insurance Company is a joint venture owned by PMI Mortgage Insurance Co. and CUNA Mutual Insurance Society.

The continued high level of mortgage insurance claims due to higher defaults and credit losses in recent periods have adversely affected the financial results and condition of mortgage insurers. Each of our top seven mortgage insurer counterparties that continue to be rated by S&P, Fitch and Moody's have a current insurer financial strength rating below the "AA-" level that we require under our qualified mortgage insurer approval requirements to be considered qualified as a "Type 1" mortgage insurer. Due to these low credit ratings, we primarily rely on our internal credit ratings when assessing our exposure to a counterparty.

Our rating structure is based on a scale of 1 to 20. A rating of 1 represents a counterparty that we view as having excellent credit quality and a rating of 20 represents a counterparty with poor credit quality. These internal ratings, which reflect our views of a mortgage insurer's claims paying ability, are based primarily on an assessment of the mortgage insurer's capital adequacy and liquidity. These assessments involve in-depth credit reviews of each mortgage insurer, a comprehensive analysis of the mortgage insurance sector, analyses of the insurer's portfolio, discussions with the insurer's management, the insurer's plans to maintain capital within the insuring entity and our views on macroeconomic variables which impact a mortgage insurer's estimated future paid losses, such as changes in home prices and changes in interest rates. From time to time, we may also discuss a counterparty's situation with the rating agencies.

As of April 2, 2013, of our largest primary mortgage insurers:

- PMI, RMIC and Triad 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 pay claims on its existing insurance business, but no longer writes new insurance, which increases the risk that the mortgage insurer will fail to pay our claims under existing insurance policies.
- Genworth and MGIC are operating pursuant to waivers they received from the regulators of the state regulatory capital requirements applicable to their main insurance writing entity, as the capital of each entity has fallen below applicable state regulatory capital requirements. We have approved subsidiaries of both Genworth and MGIC to write new insurance in states in which each company does not have a waiver. Genworth and MGIC each recently disclosed in their public filings that they have also obtained requisite approvals from Freddie Mac. In January 2013,

Genworth announced a plan designed to reduce its risk-to-capital and ensure continued ability to write new business. The actions under the plan, some of which are subject to regulatory approval, include contributing additional capital and reorganizing the holding company structure for the U.S. mortgage insurance subsidiaries. Additionally, the plan includes a contingency for using an entity other than the existing main insurance writing entity for writing new business in all 50 states. Prior to the announcement, we entered into an agreement with Genworth that provided our approval for those elements of Genworth's plan that required our approval.

- Radian has disclosed that, in the absence of additional capital contributions to its main insurance writing entity, its capital might fall below state regulatory capital requirements in 2013. We have approved a subsidiary of Radian to write new insurance if Radian falls below state regulatory capital requirements in the future.

These six mortgage insurers, PMI, Triad, RMIC, Genworth, Radian and MGIC, provided a combined $70.3 billion, or 77%, of our risk in force mortgage insurance coverage of our single-family guaranty book of business as of December 31, 2012.

We are exposed to the risk that mortgage insurers that do not meet, or may soon fail to meet, state regulatory capital requirements may fail to pay our claims under insurance policies and that the quality and speed of their claims processing could deteriorate. See "Risk Factors" for more information on losses we may incur under our mortgage insurance policies.

The financial condition of some of our primary mortgage insurer counterparties improved during 2012 compared with 2011 but there is still significant risk that these counterparties will fail to fulfill their obligations to pay our 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 these 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.

We evaluate each of our mortgage insurer counterparties individually to determine whether or under what conditions it will remain eligible to insure new mortgages sold to us. Based on our evaluation, we may impose additional terms and conditions of approval on some of our mortgage insurers, including: (1) limiting the volume and types of loans they may insure for us; (2) requiring them to obtain our consent prior to entering into risk sharing arrangements with mortgage lenders; (3) requiring them to meet certain financial conditions, such as maintaining a minimum level of policyholders' surplus, a maximum risk-to-capital ratio, a maximum combined ratio, or a minimum amount of acceptable liquid assets; or (4) requiring that they secure parental or other capital support agreements.

The payment of claims by RMIC, PMI and Triad have been partially deferred pursuant to orders from their state regulators. Pursuant to a new corrective order, effective December 3, 2012, RMIC is now paying 60% of all valid claims and 40% is deferred as a policyholder claim. This new order increased RMIC's payment from 50% and is retroactive for all claims after January 19, 2012, the date of the original order. PMI continues to pay 50% on all valid claims and 50% is deferred as a policyholder claim. Finally, Triad continues to pay 60% on all valid claims and 40% is deferred as a policyholder claim. It is uncertain when, or if, any of these mortgage insurers' regulators will allow them to pay their deferred policyholder claims and/or increase the amount of cash they pay on claims. While our remaining mortgage insurers have continued to pay claims owed to us in full, there can be no assurance that they will continue to do so given their current financial condition.

Some mortgage insurers have explored corporate restructurings designed to provide relief from risk-to-capital limits in certain states. We have approved several restructurings so that certain of our mortgage insurer counterparties or their subsidiaries could continue to write new business. Additionally, mortgage insurers continue to approach us with various proposed corporate restructurings that would require our approval of affiliated mortgage insurance writing entities. In February 2013, CUNA Mutual Insurance Society ("CUNA") and the Arizona Department of Insurance, which is the receiver for PMI, announced a proposed sale of all outstanding equity interests in CMG Mortgage Insurance Company ("CMG"). CMG is jointly owned by CUNA and PMI. The proposed sale would result in a change in control of CMG and our approval would be required in order for CMG to be eligible to write mortgage insurance for us.

The number of mortgage loans for which our mortgage insurer counterparties have rescinded coverage decreased but remained high in 2012. In those cases where the mortgage insurer has rescinded coverage, we require the mortgage seller/servicer to repurchase the loan or indemnify us against loss. The table below displays cumulative rescission rates as of December 31, 2012, by the period in which the claim was filed. We do not present information for claims filed in the most recent two quarters to allow sufficient time for a substantial percentage of the claims filed to be resolved.

Table 60: Rescission Rates of Mortgage Insurance

	As of December 31, 2012	
	Cumulative Rescission Rate[(1)]	Cumulative Claims Resolution Percentage[(2)]
Primary mortgage insurance claims filed in:		
First six months of 2012	4 %	48 %
2011	8	74
2010	11	92
Pool mortgage insurance claim filed in:		
First six months of 2012	10 %	86 %
2011	10	96
2010	14	99

(1) Represents claims filed during the period where coverage was rescinded as of December 31, 2012, divided by total claims filed during the same period. Denied claims are excluded from the rescinded population.

(2) Represents claims filed during the period that were resolved as of December 31, 2012, divided by the total claims filed during the same period. Claims resolved mainly consist of claims for which we have settled and claims for which coverage has been rescinded by the mortgage insurer.

When we estimate the credit losses that are inherent in our mortgage loan portfolio 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 our estimated benefit from mortgage insurers as of December 31, 2012 and 2011 that reduces our total loss reserves.

Table 61: Estimated Mortgage Insurance Benefit

	As of December 31,	
	2012	2011
	(Dollars in millions)	
Contractual mortgage insurance benefit	$9,993	$15,099
Less: Collectibility adjustment[(1)]	708	2,867
Estimated benefit included in total loss reserves	$9,285	$12,232

(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 2012, we experienced an improvement in the profile of our single-family book of business, which resulted in a decrease in the contractual benefit we expect to receive from mortgage insurers. The collectibility adjustment to the estimated mortgage insurance benefit for probable losses also decreased as of December 31, 2012 compared to December 31, 2011, primarily driven by lower projected claims that we will submit to our mortgage insurance counterparties due to lower expected defaults. We expect lower defaults primarily as a result of higher actual and forecasted home prices and better observed performance of high mark-to-market LTV loans. 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 division 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

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meet its obligations beyond 30 months, we extend the time frame used to evaluate the mortgage insurers' claims paying ability to a long-term forecast and use that long-term expected 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, in part, on the internal credit ratings for each of our mortgage insurance counterparties. Specifically, for loans insured by a mortgage insurer with a lower credit rating, our cash flow projections include fewer proceeds from the insurer. 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 and we expect the 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 noted risk ratings to adjust the loss severity in our estimates of future cash flows. As the loans collectively assessed for impairment only look 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 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/servicer. We had outstanding receivables of $3.7 billion as of December 31, 2012 and $3.6 billion as of December 31, 2011 related to amounts claimed on insured, defaulted loans, of which $1.1 billion as of December 31, 2012 and $639 million as of December 31, 2011 was due from our mortgage sellers/servicers. We assessed the total outstanding receivables for collectibility, and they were recorded net of a valuation allowance of $551 million as of December 31, 2012 and $570 million as of December 31, 2011 in "Other assets." The valuation allowance reduces our claim receivable to the amount that we consider probable of collection. We received proceeds under our primary and pool mortgage insurance policies for single-family loans of $5.1 billion in 2012, $5.8 billion in 2011 and $6.4 billion in 2010.

From time to time, we may enter into negotiated transactions with mortgage insurer counterparties pursuant to which we agree to cancel or restructure insurance coverage, in excess of charter requirements, in exchange for a fee. These insurance cancellations and restructurings may provide our counterparties with capital relief and provide us with cash in lieu of future claims that the counterparty may not be able to pay, thereby reducing our future counterparty credit exposure. We received cash fees of $796 million during 2010, which are included in our total proceeds amount. We did not receive any fees for the cancellation or restructuring of coverage during 2012 or 2011.

Financial Guarantors

We are the beneficiary of financial guarantees on non-agency securities held in our investment portfolio and on non-agency securities that have been resecuritized to include a Fannie Mae guaranty and sold to third parties. Table 62 displays the total unpaid principal balance of guaranteed non-agency securities in our portfolio as of December 31, 2012 and 2011.

Table 62: Unpaid Principal Balance of Financial Guarantees

	As of December 31,	
	2012	2011
	(Dollars in millions)	
Alt-A private-label securities	$928	$1,279
Subprime private-label securities	1,264	1,398
Mortgage revenue bonds	4,374	4,931
Other mortgage-related securities	292	317
Non mortgage-related securities	—	46

Total	$6,858	$7,971

With the exception of Ambac Assurance Corporation ("Ambac"), none of our financial guarantor counterparties has failed to repay us for claims under guaranty contracts. Based on the stressed financial condition of our non-governmental financial guarantor counterparties, we believe that all but one of these counterparties may not be able to fully meet their obligations to

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us in the future. Pursuant to a court order, effective August 31, 2012, Ambac pays 25% on all filed claims that are valid. Ambac provided coverage on $3.0 billion, or 44%, of our total non-governmental guarantees, as of December 31, 2012. We model our securities without assuming the benefit of non-governmental financial guarantees. We then adjust results for those external financial guarantees from guarantors that we determine are creditworthy, although we continue to seek collection of any amounts due to us from all counterparties. As of December 31, 2012, when modeling our securities for impairments we did not assume the benefit of external financial guarantees from any non-governmental counterparties. See “Note 5, Investments in Securities” for a further discussion of our model methodology and key inputs used to determine other-than-temporary-impairment.

We are also the beneficiary of financial guarantees included in securities issued by Freddie Mac, the federal government and its agencies that totaled $27.3 billion as of December 31, 2012 and $31.4 billion as of December 31, 2011.

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 $11.9 billion as of December 31, 2012, compared with $12.8 billion as of December 31, 2011. As of December 31, 2012, 55% of our maximum potential loss recovery on single-family loans was from three lenders, compared with 58% as of December 31, 2011. Our maximum potential loss recovery from lenders under risk sharing agreements on DUS and non-DUS multifamily loans was $36.4 billion as of December 31, 2012, compared with $32.1 billion as of December 31, 2011. As of December 31, 2012, 35% of our maximum potential loss recovery on multifamily loans was from three DUS lenders, compared with 40% as of December 31, 2011.

Although market conditions have improved, unfavorable market conditions in prior years adversely affected the liquidity and financial condition of our lender counterparties. 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 51% as of December 31, 2012, compared with 46% as of December 31, 2011. The recourse obligations from lender counterparties rated below investment grade was 22% as of December 31, 2012, compared with 26% as of December 31, 2011. The remaining recourse obligations were from lender counterparties that were not rated by rating agencies, which was 27% as of December 31, 2012 and 28% as of December 31, 2011. 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 “Mortgage Credit Risk Management—Multifamily Mortgage Credit Risk Management,” 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, 2012, approximately 40% 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 51% as of December 31, 2011. 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 $74.0 billion in deposits for single-family payments were received and held by 292 institutions during the month of December 2012 and a total of $66.4 billion in deposits for single-family payments were received and held by 284 institutions during the month of December 2011. During the month of January 2013, a total of $76.3 billion in deposits for single-family payments were received and held by 287 institutions. Of these total deposits, 93% as of December 31, 2012, compared with 92% as of December 31, 2011, were held by institutions rated as investment grade by S&P, Moody’s and Fitch. As of January 31, 2013, 95% of these total deposits 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 87% of these deposits as of December 31, 2012 and 2011. As of

January 31, 2013, our six largest custodial depository institutions held 87% of these deposits.

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 2012, approximately $7.2 billion, or 10%, 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 $6.1 billion, or 9%, during the month of December 2011. During the month of January 2013, approximately $8.0 billion, or 11%, of our total deposits for single-family payments received and held by these institutions was in excess of the deposit insurance protection limit. 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.

Our counterparty exposure relating to principal and interest payments held on our behalf increased significantly in 2012 due to high prepayment volumes. In recent years our counterparty exposure has fluctuated as a result of (1) the September 2009 adoption of a rule amending the deposit insurance regulations on mortgage servicer accounts to extend coverage on these accounts on a “per borrower” basis; and (2) the Dodd-Frank Act, which permanently increased the amount of federal deposit insurance available to $250,000 per depositor. The Dodd-Frank Act also provided temporary unlimited coverage through December 31, 2012 for noninterest-bearing transaction accounts. We generally used noninterest-bearing transaction accounts for otherwise ineligible custodial depository institutions, which is not a significant portion of our holdings. However, the temporary unlimited coverage for noninterest-bearing transaction accounts expired on December 31, 2012, which required that these custodial accounts be moved to eligible depositories.

Issuers of Investments Held in our Cash and Other Investments Portfolio

Our cash and other investments portfolio consists of cash and cash equivalents, federal funds sold and 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, 2012, our cash and other investments portfolio totaled $71.6 billion and included $19.1 billion of U.S. Treasury securities. As of December 31, 2011, our cash and other investments portfolio totaled $113.4 billion and included $48.3 billion of U.S. Treasury securities. As of January 31, 2013, our cash and other investments portfolio totaled $99.5 billion and included $23.6 billion of U.S. Treasury securities. We held no unsecured positions with financial institutions as of December 31, 2012 and 2011. As of January 31, 2013, we held a $1.0 billion short-term unsecured deposit with a financial institution that had a short-term credit rating of P-2 from Moody’s (based on the lowest credit rating issued by S&P, Moody’s and Fitch). 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 by term and rating level. In addition, we monitor the financial position and any downgrades of these counterparties. 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 derivatives contracts. We are exposed to the risk that a counterparty in a derivative transaction will default on payments due to us and we may also need to acquire a replacement derivative from a different counterparty at a higher cost or may be unable to find a suitable replacement. We manage our counterparty credit exposure through master netting arrangements, which we normally enter into with counterparties with which we deal on an over-the-counter basis. These arrangements allow us to net derivative asset and liabilities with the same counterparty.

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. For derivative instruments where the right of legal offset does not exist, we calculate the replacement cost of the outstanding derivative contracts in a gain position at the transaction level.

We also manage our counterparty exposure by requiring counterparties to post collateral, which includes cash, U.S. Treasury securities, agency debt and agency mortgage-related securities. In June 2012, Moody's completed a credit rating review of banks and securities companies with global capital market operations, which encompassed most of Fannie Mae's derivative counterparties. The companies were downgraded by Moody's, which resulted in an increase in the amount of collateral these companies are required to post to us under our derivative agreements. As of December 31, 2012 all of our derivative counterparties were in compliance with these additional collateral requirements.

The fair value of derivatives in a gain position is included in our consolidated balance sheets in “Other assets.” Table 63 below displays our counterparty credit exposure on outstanding risk management derivative instruments in a gain position by counterparty credit ratings and the number of counterparties for over-the-counter derivatives as of December 31, 2012 and 2011. Also disclosed below are the notional amounts outstanding for all risk management derivatives for the periods indicated.

Table 63: Credit Loss Exposure of Risk Management Derivative Instruments

	As of December 31, 2012						
	Credit Rating[1]						
	AA+/AA/AA-	A+/A/A-	BBB+/BBB/BBB-	Subtotal[2]	Exchange-Traded/Cleared[3]	Other[4]	Total
	(Dollars in millions)						
Credit loss exposure[5]	$—	$48	$ —	$ 48	$ 171	$27	$246
Less: Collateral held[6]	—	48	—	48	163	—	211
Exposure net of collateral	$—	$—	$ —	$ —	$ 8	$27	$35
Additional information:							
Notional amount	$22,703	$600,028	$ 40,350	$ 663,081	$ 38,426	$447	$701,954
Number of counterparties[7]	4	11	1	16			

	As of December 31, 2011					
	Credit Rating[1]					
	AA+/AA/AA-	A+/A/A-	BBB+/BBB/BBB-	Subtotal[2]	Other[4]	Total
	(Dollars in millions)					
Credit loss exposure[5]	$—	$ 885	$ —	$ 885	$51	$936
Less: Collateral held[6]	—	840	—	840	—	840
Exposure net of collateral	$—	$ 45	$ —	$ 45	$51	$96
Additional information:						
Notional amount	$63,294	$ 546,967	$ —	$ 610,261	$2,929	$613,190
Number of counterparties[7]	6	10	—	16		

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(1) We manage collateral requirements based on the lower credit rating of the legal entity, as issued by S&P and Moody’s. The credit rating reflects the equivalent S&P’s rating for any ratings based on Moody’s scale.

(2) We had credit loss exposure to one counterparty which had a notional balance of $5.9 billion as of December 31, 2012 compared with four counterparties which had notional balances of $127.5 billion as of December 31, 2011.

(3) Represents contracts entered through an agent on our behalf with a derivatives clearing organization.

(4) Includes mortgage insurance contracts and swap credit enhancements accounted for as derivatives.

(5) 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. We net derivative gains and losses with the same counterparty where a legal right of offset exists under an enforceable master netting agreement. This table excludes mortgage commitments accounted for as derivatives.

(6) Represents both 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 agreements to help ensure recovery of any loss through the disposition of the collateral.

(7) Represents counterparties with which we have an enforceable master netting arrangements.

Derivative transactions with 10 of our counterparties accounted for approximately 90% of our total outstanding notional amount as of December 31, 2012, with each of these counterparties accounting for between approximately 6% and 14% of the total outstanding notional amount. Derivatives transactions with nine of our counterparties accounted for approximately 91% of our total outstanding notional amount as of December 31, 2011, with each of these counterparties accounting for between approximately 7% and 15% of the total outstanding notional amount.

Under the Dodd-Frank Act we will be required in the future to submit certain interest rate swaps for clearing to a derivatives clearing organization. In anticipation of those requirements, we have cleared interest rate swap transactions with the Chicago Mercantile Exchange, Inc. (“CME”), a derivatives clearing organization. As a result, we are exposed to the institutional credit risk of CME and its members that execute and submit our transactions for clearing. Our institutional credit risk exposure to the CME or other comparable exchanges or trading facilities, as well as their members, will increase in the future.

See “Note 9, Derivative Instruments” for additional information on our derivative contracts as of December 31, 2012 and 2011.

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 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 and limits on exposure and monitoring both our exposure positions and 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 have outstanding claims as a creditor in the bankruptcy case of Lehman Brothers Holdings, Inc. (“Lehman Brothers”), which filed for bankruptcy in September 2008. These claims include securities law claims related to Lehman Brothers private-label securities and notes and mortgage loan repurchase obligations. The bankruptcy court has set aside a reserve of $5.0 billion for these claims, which may not reflect the final allowed amount. We expect to receive only a portion of any claim amounts ultimately allowed in the proceedings.

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. For more information on the impact that changes in spreads have on the value of the fair value of our net assets, see "Supplemental Non-GAAP Information—Fair Value Balance Sheets."

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 consolidated balance sheet 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.

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 existing investments in mortgage assets, investments in non-mortgage securities, our outstanding debt used to fund those assets and the derivatives used to supplement our debt instruments and manage interest rate risk, and any fixed-price asset, liability or derivative commitments.

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 portfolio. In a declining interest rate environment, existing mortgage assets held in our 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 balance sheet. 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.

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- 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 four 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 consolidated balance sheets 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 exposure: (1) fair value sensitivity of 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,

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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

As part of our disclosure commitments 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 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 the estimated cash flows 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 website 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 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 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 mortgage assets. As a result, the degree to which the interest rate sensitivity of our assets is offset will be dependent upon, among other factors, the mix of funding and other derivative instruments we use at any given point in time.

The sensitivity measures presented in Table 64, which we disclose on a quarterly basis as part of our disclosure commitments 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 64 displays the pre-tax market value profile of our net portfolio as of December 31, 2012 and 2011. In addition, Table 64 also provides the average, minimum, maximum and standard deviation for duration gap and for the most adverse market value impact on the net portfolio for non-parallel and parallel interest rate shocks for the three months ended December 31, 2012 and 2011. The effective duration gap was (0.1) months for the last three months of 2012 which was the same average duration for the last three months of 2011.

Table 64: Interest Rate Sensitivity of Net Portfolio to Changes in Interest Rate Level and Slope of Yield Curve[1]

	As of December 31,	
	2012	2011
	(Dollars in billions)	
Rate level shock:		
-100 basis points	$0.8	$0.3
-50 basis points	0.2	0.1
+50 basis points	0.1	(0.1)
+100 basis points	—	(0.4)
Rate slope shock:		
-25 basis points (flattening)	—	—
+25 basis points (steepening)	—	0.1

	For the Three Months Ended December 31, 2012		
	Duration Gap	Rate Slope Shock 25 bps	Rate Level Shock 50 bps
		Exposure	
	(In months)	(Dollars in billions)	
Average	(0.1)	$—	$0.1
Minimum	(0.8)	—	—
Maximum	0.4	—	0.2
Standard deviation	0.3	—	0.1

	For the Three Months Ended December 31, 2011		
	Duration Gap	Rate Slope Shock 25 bps	Rate Level Shock 50 bps
		Exposure	
	(In months)	(Dollars in billions)	
Average	(0.1)	$—	$(0.1)
Minimum	(0.7)	—	(0.2)
Maximum	0.4	—	—
Standard deviation	0.2	—	0.1

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[1] Computed based on changes in LIBOR swap rates.

A majority of the interest rate risk associated with our mortgage-related securities and loans is hedged with our debt issuances, which includes 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 65 displays an example of how derivatives impacted the net market value exposure for a 50 basis point parallel interest rate shock.

From December 31, 2012 to December 31, 2011, as displayed below in Table 65, debt issuance hedged a majority of the interest rate risk associated with our mortgage-related securities and loans. As displayed in Table 64, derivatives were also used to maintain a low interest rate risk exposure as the average duration gap was (0.1) months.

Table 65: Derivative Impact on Interest Rate Risk (50 Basis Points)

	As of December 31,	
	2012	2011
	(Dollars in billions)	
Before Derivatives	$(0.5)	$(1.3)
After Derivatives	0.1	(0.1)
Effect of Derivatives	0.6	1.2

Other Interest Rate Risk Information

The interest rate risk measures discussed above exclude the impact of changes in the fair value of our net guaranty assets 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.

We provide additional interest rate sensitivities below in Table 66, including separate disclosure of the potential impact on the fair value of our trading assets and our other financial instruments for the periods indicated, from the same hypothetical changes in the level of interest rates as displayed above in Table 64. In contrast to sensitivities disclosed in Table 64, these estimates exclude the interest rate sensitivities of derivatives and related debt funding. We also assume a parallel shift in all maturities along the interest rate swap curve in calculating these sensitivities. We believe these interest rate changes represent reasonably possible near-term changes in interest rates over the next twelve months.

Table 66: Interest Rate Sensitivity of Financial Instruments

	As of December 31, 2012				
		Pre-Tax Effect on Estimated Fair Value			
		Change in Interest Rates (in basis points)			
	Estimated Fair Value	-100	-50	+50	+100
	(Dollars in billions)				
Trading financial instruments	$40.7	$0.7	$0.3	$(0.3)	$(0.7)
Other financial instruments, net[1]	(121.9)	(3.9)	(3.8)	(2.7)	(2.4)
	As of December 31, 2011				
		Pre-Tax Effect on Estimated Fair Value			
		Change in Interest Rates (in basis points)			
	Estimated Fair Value	-100	-50	+50	+100
	(Dollars in billions)				
Trading financial instruments	$74.2	$0.9	$0.4	$(0.4)	$(0.9)
Other financial instruments, net[1]	(221.1)	17.1	8.4	(6.6)	(12.1)

(1) Includes all financial assets less all Trading securities less all financial liabilities reported in "Note 17, Fair Value—Fair Value of Financial Instruments."

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, that could materially adversely affect our business, impair our liquidity, cause financial losses and harm our reputation. Operational risk is an unavoidable result of being in business, and managing it is a central part of our business activities. We

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continue to enhance our risk-conscious culture, in which all employees are expected to identify, discuss, manage and remediate potential and actual operational risk.

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 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. Despite the planning, testing and continuous preparation of back up venues that we engage in, a catastrophic event may still result in a significant business disruption.

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.

See “Risk Factors” for a discussion on our operational risk.

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.

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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 "Note 3, Mortgage Loans" and "Note 6, Financial Guarantees." 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.

"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 investment 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 investment 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.

"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 security 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 held in our mortgage portfolio; (2) Fannie Mae MBS held in our mortgage portfolio; (3) Fannie Mae MBS held by third parties; and (4) other credit enhancements that we provide on mortgage assets. It excludes non-Fannie Mae mortgage-related securities held in our investment portfolio for which we do not provide a guaranty.

"HomeSaver Advance loan" refers to a 15-year unsecured personal loan in an amount equal to all past due payments relating to a borrower's first-lien mortgage loan, generally up to the lesser of $15,000 or 15% of the unpaid principal balance of the delinquent first-lien loan. The advance is used to bring the first-lien mortgage loan current. This workout option was retired in 2010.

"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.

"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 investment 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 credit book of business" refers to the sum of the unpaid principal balance of: (1) mortgage loans held in our mortgage portfolio; (2) Fannie Mae MBS held in our mortgage portfolio; (3) non-Fannie Mae mortgage-related securities held in our investment portfolio; (4) Fannie Mae MBS held by third parties; and (5) 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 and is typically significantly greater than the potential market or credit loss that could result from such transaction.

"Option-adjusted spread" or "OAS" 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 OAS 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 OAS 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 OAS reflects the exercise of the prepayment option by the homeowner, which lowers the expected return of the mortgage investor. In other words, OAS 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 OAS to swaps. The OAS of our debt and derivative instruments are also frequently quoted to swaps. The OAS 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 mortgage portfolio.

"Pay-fixed swap" refers to an agreement under which we pay a predetermined fixed rate of interest based upon a set notional principal 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" 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 agreement 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.

"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.

"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 pool 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.

"Small balance loans" refers to multifamily loans with an original unpaid balance of up to $3 million nationwide or up to $5 million in high cost markets.

"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. For more information about the credit risk characteristics of loans in our single-family guaranty book of business, see “Note 3, Mortgage Loans” and “Note 6, Financial Guarantees.” We have classified private-label mortgage-related securities held in our investment portfolio as subprime if the securities were labeled as such when issued.

“Structured Fannie Mae MBS” refers to Fannie Mae MBS that are resecuritizations of other Fannie Mae MBS.

“Swaptions” refers to options on interest rate swaps in the form of contracts granting an option to one party and creating a corresponding commitment from the counterparty to enter into specified interest rate swaps in the future. Swaptions are traded in the over-the-counter market and not through an exchange.

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, 2012, 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, 2012 or as of the date of filing this report.

Our disclosure controls and procedures were not effective as of December 31, 2012 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, 2012 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 "Description of Material Weakness." Based on discussions with FHFA and the structural nature of this material weakness, it is likely that we will not 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, 2012. In making its assessment, management used the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Management's assessment of our internal control over financial reporting as of December 31, 2012 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, 2012 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, 2012. 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, 2012 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 Regulatory 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 Regulatory 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 Regulatory 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, 2012 or as of the date of filing this report. Based on discussions with FHFA and the structural nature of this weakness, it is likely that we will not remediate this material weakness while we are under conservatorship.

MITIGATING ACTIONS RELATING TO MATERIAL WEAKNESS

Disclosure Controls and Procedures

As described above under “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 Office of Conservatorship Operations, 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, 2012 (“2012 Form 10-K”), and engaged in discussions regarding issues associated with the information contained in those filings. Prior to filing our 2012 Form 10-K, FHFA provided Fannie Mae management with a written acknowledgment that it had reviewed the 2012 Form 10-K, and it was not aware of any material misstatements or omissions in the 2012 Form 10-K and had no objection to our filing the 2012 Form 10-K.
- The Acting 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, 2012 have been prepared in conformity with GAAP.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Overview

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. Below we describe a change in our internal control over financial reporting since September 30, 2012 that management believes has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Change in Management

Effective April 3, 2013, David C. Benson, who currently serves as Fannie Mae’s Executive Vice President—Capital Markets, Securitization & Corporate Strategy, will become Fannie Mae’s Executive Vice President and Chief Financial Officer, succeeding Susan R. McFarland, who will resign as Fannie Mae’s Executive Vice President and Chief Financial Officer and will become a senior adviser for a transition period that will end no later than June 30, 2013.

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, 2012, based on criteria established in Internal Control - Integrated Framework 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 its 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, 2012, 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, 2012, based on the criteria established in Internal Control - Integrated Framework 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, 2012, of the Company and our report dated April 2, 2013, 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
Washington, DC
April 2, 2013

Item 9B. Other Information

2013 Compensation Changes

On March 27, 2013, FHFA approved compensation changes for David C. Benson and Susan R. McFarland, two of our named executive officers. See “Executive Compensation—Compensation Discussion and Analysis—2013 Compensation Changes—CFO Compensation Changes,” which is incorporated herein by reference, for a description of these changes.

On March 27, 2013, FHFA also directed us to revise the forfeiture provisions applicable to the named executives’ earned but unpaid fixed deferred salary for 2013 and subsequent performance years. See “Executive Compensation—Compensation Discussion and Analysis—2013 Compensation Changes—Change to Fixed Deferred Salary Forfeiture Provisions,” which is incorporated herein by reference, for a description of this revision.

On March 28, 2013, our Board of Directors adopted additional performance goals for 2013. See “Executive Compensation—Compensation Discussion and Analysis—2013 Compensation Changes—2013 Performance Goals,” which is incorporated herein by reference, for a description of these performance goals.

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. More information about FHFA’s September 6, 2008 appointment as our conservator and its subsequent reconstitution of our Board and direction regarding the Board’s function and authorities can be found below in “Corporate Governance—Conservatorship and Delegation of Authority to Board of Directors.”

As discussed in more detail below under “Corporate Governance—Composition of Board of Directors,” FHFA, as conservator, appointed an initial group of directors to our Board following our entry into conservatorship, 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. 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; 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.

William Thomas Forrester, 64, served as Chief Financial Officer of The Progressive Corporation from 1999 until his retirement in March 2007, and 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 is currently a member of the Board of Directors of Alterra Capital Holdings Limited, where he serves on the Audit and Risk Management Committee and the Underwriting Committee. He previously was a member of the Board of Directors of The Navigators Group, Inc. from December 2006 to May 2012, where he served as Chairman 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 Nominating & Corporate Governance 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, 63, 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

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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 Office Depot, Inc., where she serves as a member of both the Audit Committee and the Corporate Governance and Nominating Committee. Ms. Gaines is also 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. 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, mortgage lending, low-income housing, and the regulation of financial institutions, which she gained in the positions described above.

Charlynn Goins, 70, 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 also was a Senior Vice President of Prudential Financial, Inc. (formerly, Prudential Securities, Inc.) from 1990 to 1997. Ms. Goins serves as the Chairperson of the New York Community Trust. She also 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 is an attorney. 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 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, 64, 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, the Risk Policy & Capital Committee, and the Strategic Initiatives 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, mortgage lending, low-income housing and homebuilding, which he gained in the positions described above.

Robert H. Herz, 59, serves as President of Robert H. Herz LLC, providing consulting services on financial reporting and other matters. He also serves as a senior advisor to and as a member of the Advisory Board of WebFilings LLC, a provider of financial reporting software. 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 Advisory Council of the Sustainability Accounting Standards Board, on the Leadership Board of the Manchester Business School in England, on the Advisory Council of AccountAbility.org, 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 a member of the Audit Committee. Mr. Herz has been a Fannie Mae director since June 2011. Mr. Herz serves as a member of the Audit Committee, the Nominating & Corporate Governance Committee, and the Strategic Initiatives 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.

Philip A. Laskawy, 72, retired from Ernst & Young in September 2001, after having held several positions during his employment there from 1961 to 2001, including serving as Chairman and Chief Executive Officer from 1994 until his retirement in September 2001. Mr. Laskawy currently serves on the Boards of Directors of General Motors Company, Henry Schein, Inc., Lazard Ltd. and Loews Corporation. He serves as a member of the Finance Committee at General Motors Company. At Henry Schein, Inc., he serves as Lead Director, Chair of the Nominating and Governance Committee, a member of the Audit Committee and a member of the Strategic Advisory Committee. He is Chair of the Compensation Committee and a member of the Audit Committee at Lazard Ltd. At Loews Corporation, he is a member of the Audit Committee. Mr. Laskawy previously was a member of the Board of Directors of Discover Financial Services from June 2007 through September 2008. Mr. Laskawy initially became a director and Chairman of Fannie Mae's Board in September 2008. Mr. Laskawy is Chair of the Executive Committee and a member of the Strategic Initiatives Committee.

The Nominating & Corporate Governance Committee concluded that Mr. Laskawy 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.

Timothy J. Mayopoulos, 54, 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 2004 to 2008. He was Managing Director and General Counsel, Americas of Deutsche Bank AG's Corporate and Investment Bank from 2002 to 2004. He was Managing Director and Senior Deputy General Counsel, Americas of Credit Suisse First Boston from 2000 to 2001, and Managing Director and Associate General Counsel of Donaldson, Lufkin & Jenrette, Inc. from 1996 to 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 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 & Corporate Governance Committee concluded that Mr. Mayopoulos should serve as a director due to his extensive experience in business, risk management, public policy, mortgage lending, and the regulation of financial institutions, which he gained in the positions described above.

Egbert L. J. Perry, 57, is the Chairman and Chief Executive Officer of The Integral Group LLC. Founded in 1993 by Mr. Perry, Integral is a real estate advisory, investment management and development company based in Atlanta. Mr. Perry has over 29 years 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 Board of Directors of Atlanta Life Financial Group, where he serves as a member of the Audit Committee, as Chair of the Advisory Board of the Penn Institute for Urban Research and as a trustee of the University of Pennsylvania. Mr. Perry 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. Mr. Perry is a member of the Compensation Committee, the Risk Policy & Capital Committee, and the Strategic Initiatives 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, mortgage lending, real estate, low-income housing and homebuilding, which he gained in the positions described above.

Jonathan Plutzik, 58, 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 and the regulation of financial institutions, which he gained in the positions described above.

David H. Sidwell, 60, 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 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.

On November 24, 2008, FHFA, as conservator, reconstituted our Board of Directors and directed us regarding the function and authorities of the Board of Directors. FHFA has 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 on December 19, 2008 when FHFA appointed nine Board members to serve in addition to the Board Chairman, who was appointed by FHFA on September 16, 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 specified 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, on November 24, 2008, FHFA instructed the Board to consult with and obtain FHFA's approval before taking action in certain specified areas. On November 15, 2012, FHFA revised and replaced these prior instructions to the Board. Pursuant to the new instructions, FHFA has increased the number of matters that require conservator approval before we may take action. FHFA's new 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;
- any assessment by us of our performance against 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 (Deficit)" for a list of matters that require the approval of Treasury under the senior preferred stock purchase agreement.

The new instructions also 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. 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, 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.

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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 and Mr. Herz, 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 and Mr. Herz 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. Laskawy, 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. Laskawy, 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 2013. 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, 53, has been Executive Vice President—Capital Markets, Securitization & Corporate Strategy since September 2012. Mr. Benson previously served as Fannie Mae's 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. Effective April 3, 2013, Mr. Benson will become Fannie Mae's Executive Vice President and Chief

Financial Officer.

Pascal Boillat, 46, 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, 47, has been Senior Vice President and Head of Underwriting and Pricing since May 2011. Mr. Bon Salle previously served as Fannie Mae's 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. Effective April 3, 2013, Mr. Bon Salle will become Fannie Mae's Executive Vice President—Single-Family Underwriting, Pricing & Capital Markets.

Terence W. Edwards, 57, has been Executive Vice President—Credit Portfolio Management since September 2009, when he joined Fannie Mae. 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 from January 2005 through June 2009. 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, 57, has been Senior Vice President and Head of Multifamily since January 2012. 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.

Bradley E. Lerman, 56, has been Executive Vice President, General Counsel and Corporate Secretary since October 2012. Prior to joining Fannie Mae, Mr. Lerman was Senior Vice President and Head of Litigation at Pfizer, Inc. from January 2009 to September 2012. He was previously a partner at the law firm of Winston & Strawn LLP from August 1998 to January 2009.

Susan R. McFarland, 52, has served as Executive Vice President and Chief Financial Officer since July 2011. Prior to joining Fannie Mae, she served as Executive Vice President, Finance and Principal Accounting Officer of Capital One Financial Corporation from March 2011 to July 2011. She served as Capital One's Executive Vice President and Controller from March 2004 to March 2011, and as Chief Financial Officer of various lines of business at Capital One prior to that time. Prior to joining Capital One, she was with Bank One and its predecessor bank from 1986 to 2002, most recently as the Chief Financial Officer of the Retail Bank. She started her career with Deloitte & Touche. Effective April 3, 2013, Ms. McFarland will resign as Fannie Mae's Executive Vice President and Chief Financial Officer, and will become a senior adviser for a transition period that will end no later than June 30, 2013.

John R. Nichols, 51, 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 for BlackRock from February 2005 to October 2010.

Zachary Oppenheimer, 53, 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 2012 or with respect to 2012 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 2012.

Item 11. Executive Compensation

COMPENSATION DISCUSSION AND ANALYSIS

Named Executives for 2012

This Compensation Discussion and Analysis focuses on compensation decisions relating to our Chief Executive Officer, our former Chief Executive Officer, our Chief Financial Officer, and our next three most highly compensated executive officers during 2012. We refer to these individuals as our named executives. For 2012, our named executives were:

- Timothy J. Mayopoulos, President and Chief Executive Officer;
- Michael J. Williams, our former President and Chief Executive Officer;
- Susan R. McFarland, Executive Vice President and Chief Financial Officer;
- David C. Benson, Executive Vice President—Capital Markets, Securitization & Corporate Strategy;
- Terence W. Edwards, Executive Vice President—Credit Portfolio Management; 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 2012. Specified changes to our executive compensation program effective for 2013 are described under “2013 Compensation Changes.”

Executive Summary

Due to our conservatorship status and other legal requirements discussed under “2012 Executive Compensation Program—Impact of Conservatorship and Other Legal Requirements,” FHFA, our conservator and regulator, has significant oversight over our executive compensation arrangements and determinations. In March 2012, FHFA directed us to implement new compensation arrangements it designed for our named executives, in consultation with Treasury, effective January 1, 2012. We refer to these arrangements as the “2012 executive compensation program.” The Acting Director of FHFA has stated that our 2012 executive compensation program “strikes the balance between prudent executive pay, including the elimination of bonuses, with the need to safeguard quality staffing in order to protect the taxpayers’ investment and achieve the objectives in the Conservatorship Scorecard.”

As described in more detail under “2012 Executive Compensation Program—Elements of 2012 Executive Compensation Program—Direct Compensation,” the 2012 executive compensation program consists of two principal elements: base salary and deferred salary. The 2012 executive compensation program does not include any bonus component. 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 before January 31, 2014 and an at-risk portion that is subject to reduction based on corporate and individual performance. In addition, effective January 1, 2013, our Chief Executive Officer’s total target direct compensation consists solely of a base salary of $600,000.

Under the 2012 executive compensation program, FHFA:

- reduced total target direct compensation for each named executive by 10% from 2011 levels, except for one named executive who received a pay increase in connection with a promotion;
- eliminated long-term incentive awards as a component of the 2012 executive compensation program, so that the named executives’ direct compensation consists solely of base salary and deferred salary paid in cash; and
- increased the amount of the named executives’ deferred salary as a result of the elimination of long-term incentive awards.

As a result of reductions in overall pay levels, total target direct compensation for 2012 under the 2012 executive compensation program for each current named executive was more than 30% below the market median for comparable firms and, in the case of our Chief Executive Officer, was more than 70% below the market median. See "Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data" for more information.

While reducing pay levels to conserve taxpayer resources is an important objective of the 2012 executive compensation program, we and FHFA believe this objective must be balanced with the objective to attract and retain able and experienced executives to prudently manage our $3.1 trillion book of business and be an effective steward of taxpayer resources. Under the leadership of our experienced executives, the company achieved $17.2 billion in net income for 2012, which is the company's first annual profit since 2006 and the highest annual net income in the company's history. The company also substantially achieved the corporate goals for 2012 set by the conservator.

The 2012 executive compensation program is designed so that executive pay is reduced if the conservator's goals are not fully achieved. In March 2012, FHFA established a set of 2012 corporate performance objectives and related targets, referred to as the 2012 conservatorship scorecard. In early 2013, FHFA evaluated the company's performance against the 2012 conservatorship scorecard and determined that the corporate-performance based portion of 2012 at-risk deferred salary would be paid at 95% of target for each named executive. See "Determination of 2012 Compensation—Assessment of Corporate Performance on 2012 Conservatorship Scorecard" for more information on the company's performance against the 2012 conservatorship scorecard. The remaining half of the named executives' 2012 at-risk deferred salary was subject to reduction based on individual performance, as determined by the Board of Directors in consultation with the Compensation Committee and subject to FHFA's approval. See "Determination of 2012 Compensation—Assessment of 2012 Individual Performance" for a description of the individual performance of the named executives.

Although long-term incentive awards were eliminated as a component of the 2012 executive compensation program, in February 2013 the named executives were entitled to receive the second and final installment of their 2011 long-term incentive awards that were granted under our prior executive compensation program. This installment is required to be reported as 2012 compensation for purposes of the "Summary Compensation Table for 2012, 2011 and 2010" because it was determined based on performance for both 2011 and 2012. As a result of this final installment payment of the 2011 long-term incentive award, the amount of the named executives' total compensation as reported in the Summary Compensation Table is generally higher for 2012 than for 2011, despite the 10% reduction in total target direct compensation for most of our named executives under the 2012 executive compensation program. See "Compensation Tables—Differences in 2012, 2011 and 2010 Compensation" for a description of the differences in the named executives' compensation in 2012, 2011 and 2010 as reflected in the Summary Compensation Table. Compensation reported for 2013 will not include a long-term incentive award component. See "Determination of 2012 Compensation—Assessment of Corporate Performance on 2011 Long-Term Incentive Award Goals (Second Installment)" for a description of the company's performance against the 2012 goals relating to the second installment of the 2011 long-term incentive award.

2012 Executive Compensation Program

Program Objectives

FHFA has advised us that our 2012 executive compensation program was designed to fulfill, and to balance, three primary objectives:

- reduce pay levels to conserve taxpayer resources and eliminate bonuses;
- attract and retain executive talent; and
- reduce pay if the conservator's goals are not achieved.

Reduce Pay Levels to Conserve Taxpayer Resources and Eliminate Bonuses

A primary objective of the 2012 executive compensation program was to reduce pay levels given our conservatorship status and reliance on taxpayer support. A related objective of the new compensation program was to eliminate bonuses. At FHFA's direction, we reduced total target direct compensation for our named executives by 10% in 2012 (except for one named executive who received a pay increase in connection with a promotion) and we eliminated long-term incentive awards from our executive compensation structure. In addition, beginning in 2013, total target direct compensation for our Chief Executive Officer position has been further reduced. Total target 2012 direct compensation for Mr. Williams, our former Chief Executive Officer, was $5,400,000. Total 2013 direct compensation for Mr. Mayopoulos, our current Chief Executive Officer, is $600,000.

As a result of these reductions and prior reductions in compensation, total target direct compensation for our named executives is significantly below the market median for comparable firms. As described in "Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data," total target direct compensation for 2012 under the 2012 executive compensation program for each of our current named executives was more than 30% below the market median for comparable firms and, in the case of our Chief Executive Officer, was more than 70% below the market median.

In addition to reducing pay for our current executives, where appropriate, we also seek to compensate newly hired executives at lower amounts than the executives they are replacing. Our aggregate salary and employee benefit expense as a percentage of our net revenues was 5.2% in 2012.

Attract and Retain Executive Talent

Another primary objective of the 2012 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 be an effective steward of the government's and taxpayers' support.

We and FHFA recognize that the current levels of our executive compensation and other factors put pressure on our ability to attract and retain executive talent with the necessary skills and knowledge. We face competition from both within the financial services industry and from businesses outside of this industry for qualified executives. If we are unable to attract and retain qualified executives, it could threaten our ability to continue to provide liquidity and stability to the mortgage market, result in costly operational failures, and heighten safety and soundness risks. See "Risk Factors" for a discussion of the risks associated with executive and employee retention. To encourage retention, the fixed portion of each named executive's deferred salary is subject to reduction if an executive leaves the company before January 31, 2014.

Reduce Pay if the Conservator's Goals Are Not Achieved

In order to support FHFA's goals for our conservatorship and encourage corporate and individual performance in furtherance of these goals, 30% of each named executive's total target direct compensation consists of "at-risk" deferred salary, which is subject to reduction based on corporate and individual performance.

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 was determined. Regulatory and other legal requirements affecting our executive compensation 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, as our conservator, 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, and before assessing our performance against a conservator scorecard.
- During the conservatorship, FHFA, as our conservator, has all powers of the shareholders. Accordingly, we have not held shareholders' meetings since entering into conservatorship and have held no shareholder advisory vote 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.

- Under the Housing and Economic Recovery Act of 2008 and related regulations issued by FHFA, the Director of FHFA has the authority to prohibit or limit us from making any "golden parachute payment" to specified categories of persons, including our named executives.
- Pursuant to the STOCK Act, 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 the company 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," each current named executive's total target direct compensation for 2012 under the 2012 executive compensation program was more than 30% below the market median for comparable firms. The Charter Act also provides that a significant portion of our executive officers' potential compensation should be based on the company's performance. As described under "Elements of 2012 Executive Compensation Program—Direct Compensation," 15% of each named executive's total target direct compensation consists of at-risk deferred salary that is subject to reduction based on corporate performance and 15% of each named executive's total target direct compensation consists of at-risk deferred salary that is subject to reduction based on individual performance.

As a result of these requirements, the 2012 compensation decisions for our named executives discussed in this Compensation Discussion and Analysis were either determined or approved by the Acting Director of FHFA after receiving input from the Board of Directors, Compensation Committee and management.

Elements of 2012 Executive Compensation Program

Direct Compensation

The table below summarizes the principal elements, objectives and key features of our 2012 executive compensation program for our named executives. All elements of our named executives' direct compensation are paid in cash because we are prohibited from paying new stock-based compensation under the senior preferred stock purchase agreement without Treasury's consent.

Compensation Element	Form	Primary Compensation Objectives	Key Features
Base Salary	Fixed cash payments, which are paid during the year on a bi-weekly basis.	Attract and retain named executives by providing a fixed level of current cash compensation.	Base salary reflects the 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, including the named executives, other than our Chief Executive Officer and Chief Financial Officer.
Deferred Salary	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. There are two elements of deferred salary: • a fixed portion that is subject to reduction if an executive leaves the company before January 31, 2014; and • an at-risk portion that is subject to reduction based on corporate and individual performance.	Fixed Deferred Salary Retain named executives.	Earned but unpaid fixed deferred salary is subject to reduction if a named executive leaves the company prior to January 31, 2014. If he or she leaves the company prior to this date, 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 preceded January 31, 2014.*
		At-Risk Deferred Salary Retain named executives and encourage named executives to achieve corporate and individual performance objectives.	Equal to 30% of the named executive's total target direct compensation. Half of at-risk deferred salary is subject to reduction based on corporate performance 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 approval. There is no potential for at-risk deferred salary to be higher than 100% of target based on performance; at-risk deferred salary is only subject to reduction based on performance. The 2012 conservatorship scorecard against which corporate performance was measured for the named executives' 2012 at-risk deferred salary is described below

under "Determination of 2012 Compensation—Assessment of Corporate Performance on 2012 Conservatorship Scorecard."

* The forfeiture provisions applicable to earned but unpaid fixed deferred salary have been modified for 2013 and subsequent performance years. See "2013 Compensation Changes—Change to Fixed Deferred Salary Forfeiture Provisions" for more information.

Employee Benefits

Our employee benefits are a fundamental part of our executive compensation program, and serve as an important tool in attracting and retaining senior executives. We describe these employee benefits in the table below. We provide more detail on our retirement plans under "Compensation Tables—Pension Benefits" and "Compensation Tables—Nonqualified Deferred Compensation."

Benefit	Form	Primary Objective
Health, Welfare and Other Benefits	In general, the named executives are eligible for 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.
Retirement Plans:		
Defined Benefit Pension Plans • Qualified Retirement Plan • Non-qualified Supplemental Pension Plan and 2003 Supplemental Pension Plan • Non-qualified Executive Pension Plan	Our Retirement Plan is a tax-qualified defined benefit pension plan that was generally available to employees before participation in the plan was frozen in 2007. Our non-qualified Supplemental Pension Plans and Executive Pension Plan provide supplemental retirement benefits in addition to those offered by the Retirement Plan. The named executives who joined the company prior to 2008 (Mr. Williams and Mr. Benson) participate in the company's defined benefit pension plans. Mr. Williams is the only named executive with a benefit under the Executive Pension Plan. We froze benefits under this plan in 2009. The named executives who joined the company after 2007 are not eligible to participate in any of these plans.	Retain named executives by providing a level of retirement income.
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 the company's qualified defined contribution plan by providing benefits to participants whose annual eligible earnings exceed the IRS limit on eligible compensation for 401(k) plans. The named executives who joined the company after 2007 (Mr. Mayopoulos, Ms. McFarland, Mr. Edwards and Mr. Nichols) participate in the company's Supplemental Retirement Savings Plan. The named executives who joined the company prior to 2008 are not eligible to participate in this plan, as they participate in some or all of the company's	Attract and retain named executives by providing retirement savings.

	defined benefit pension plans.	
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.

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Benefit	Form	Primary Objective
Relocation Benefits and Other Perquisites	From time to time, we offer relocation benefits to new executives. As described in footnote 7 to the "Summary Compensation Table for 2012, 2011 and 2010," we agreed to provide up to $100,000 in relocation benefits to Ms. McFarland to facilitate her move to the Washington, D.C. area. We believe that perquisites should be a minimal part of the compensation package for our named executives. Except for the relocation benefits provided to Ms. McFarland described above, the perquisites we provided to all of our named executives in 2012 did not exceed $2,000 in the aggregate. Total perquisites for any named executive cannot exceed $25,000 per year without FHFA approval, and we do not provide a gross-up for taxes due on any perquisite.	Relocation benefits are provided to attract new named executives by reimbursing them for a specified amount of their costs associated with relocating to the Washington, D.C. area.

Sign-on Award

In addition to the direct compensation and employee benefits described in the tables above, from time to time, a new executive may be awarded a sign-on award to attract the executive to join Fannie Mae and/or to compensate him or her for compensation forfeited upon leaving a prior employer. Our Chief Financial Officer, Susan R. McFarland, was awarded a $1.7 million sign-on award when she joined the company in July 2011 to partially compensate her for equity grants forfeited upon leaving her prior employer. See footnote 10 to the "Summary Compensation Table for 2012, 2011 and 2010" for more information regarding Ms. McFarland's sign-on award.

Severance Benefits

We have not entered into agreements with any of our named executives that entitle the executive to severance benefits; however, under the 2012 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. In addition, as described in more detail in "2013 Compensation Changes—CFO Compensation Changes," the Board of Directors and FHFA have approved a change to the terms of Ms. McFarland's sign-on award contingent upon her execution of a release of claims in a form satisfactory to the company.

Compensation Arrangements with our Chief Executive Officer

Mr. Mayopoulos became our Chief Executive Officer in June 2012. Prior to becoming our Chief Executive Officer, he 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. Moreover, Mr. Mayopoulos' total direct compensation for 2013 will consist solely of $600,000 in base salary. He will not earn any deferred salary for 2013. He continues to be eligible to receive the deferred salary he earned for 2012 on the applicable payment dates in 2013, and he was paid the second installment of his 2011 long-term incentive award in February 2013. He also continues to be eligible to participate in the employee benefit programs made available to all Fannie Mae executives. See "Compensation Tables—Summary Compensation Table for 2012, 2011 and 2010" for more information about Mr. Mayopoulos' 2012 compensation.

Determination of 2012 Compensation

Summary of 2012 Compensation Actions

2012 Executive Compensation Program

The table below displays the named executives' compensation targets under the 2012 executive compensation program compared to the actual payments to be received by the named executives under this program. The amounts shown in the "Total Target" and "Total Actual" columns consist of the sum of 2012 base salary and 2012 deferred salary. This table includes only direct compensation under the 2012 executive compensation program. In addition to this compensation, the current named executives also received the second and final installment of their 2011 long-term incentive award in February 2013, which is described in a separate table below. This table is presented on a different basis than, 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 2012, 2011 and 2010."

			2012 Corporate Performance-Based At-Risk Deferred Salary		2012 Individual Performance-Based At-Risk Deferred Salary		Total	
Named Executive	2012 Base Salary Rate	2012 Fixed Deferred Salary	Target	Actual	Target	Actual	Target	Actual
Timothy Mayopoulos[1] President and Chief Executive Officer	$500,000	$1,358,500	$398,250	$378,338	$398,250	$398,250	$2,655,000	$2,635,088
Michael Williams[2] Former President and Chief Executive Officer	900,000	2,880,000	810,000	443,942	810,000	467,308	5,400,000	2,535,404
Susan McFarland Executive Vice President and Chief Financial Officer	600,000	1,416,000	432,000	410,400	432,000	324,000	2,880,000	2,750,400
David Benson Executive Vice President—Capital Markets, Securitization & Corporate Strategy	500,000	1,264,000	378,000	359,100	378,000	378,000	2,520,000	2,501,100
Terence Edwards Executive Vice President—Credit Portfolio Management	500,000	1,264,000	378,000	359,100	378,000	378,000	2,520,000	2,501,100
John Nichols[3] Executive Vice President and Chief Risk Officer	430,962	861,538	276,923	263,077	276,923	276,923	1,846,346	1,832,500

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(1) Mr. Mayopoulos became our Chief Executive Officer in June 2012. Prior to becoming our Chief Executive Officer, he 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, effective January 1, 2013, his total direct compensation has been reduced to $600,000, comprised only of base salary. See "2012 Executive Compensation Program—Compensation Arrangements with our Chief Executive Officer" for more information.

(2) Amounts in the "2012 Base Salary Rate" and "2012 Fixed Deferred Salary" columns for Mr. Williams represent his target salary, not the amounts he actually received. Because Mr. Williams left the company in July 2012, he received $560,769 in base salary in 2012 and will receive $1,063,385 in 2012 fixed deferred salary (which is the portion of 2012 fixed deferred salary that he earned from January 1, 2012 through July 31, 2012 ($1,661,538), reduced by 2% for each month by which his departure date preceded January 31, 2014). The amount of 2012 corporate performance-based at-risk deferred salary that he will receive is the portion of this element of at-risk deferred salary that he earned from January 1, 2012 through July 31, 2012 ($467,308), reduced by 5% from the target due to corporate performance in 2012. The amount of 2012 individual performance-based at-risk deferred salary that he will receive is 100% of the portion of this element of at-risk deferred salary that he earned from January 1, 2012 through July 31, 2012 ($467,308). See "Assessment of 2012 Individual Performance" for more information on Mr. Williams' individual performance. The amount in the "Total—Actual" column for Mr. Williams is the sum of the 2012 base salary, 2012 fixed deferred salary and 2012 at-risk deferred salary that he actually received or will receive.

(3) Effective May 18, 2012, Mr. Nichols' annual base salary rate increased from $400,000 to $450,000, his fixed deferred salary increased from an annual rate of $720,000 to an annual rate of $950,000, and his at-risk deferred salary target increased from an annual target of $480,000 to an annual target of $600,000. Mr. Nichols' total target direct compensation was increased in connection with his promotion to Chief Risk Officer in August 2011. The base salary and deferred salary target amounts provided in this table represent the sum of: (1) his annual base salary rate and annual deferred salary target for the period from January 1, 2012 through May 17, 2012, prorated based on the number of pay periods in this period; and (2) his annual base salary rate and annual deferred salary target for the period from May 18, 2012 through December 31, 2012, prorated based on the number of pay periods in this period.

Prior Executive Compensation Program

In addition to the above compensation under the 2012 executive compensation program, the current named executives also received the second and final installment of their 2011 long-term incentive award in February 2013. The long-term incentive awards, which allowed for payments above or below target, were a component of the company's 2011 executive compensation program, but were eliminated from the 2012 executive compensation program. The table below displays the target amount of the second and final installment of each named executive's 2011 long-term incentive award compared to the actual payment received by the named executive. The amount of this payment was based on both corporate and individual performance. See "Assessment of Corporate Performance of 2011 Long-Term Incentive Award Goals (Second Installment)" for a description of the company's performance against the 2012 goals relating to this installment of the 2011 long-term incentive award and "Assessment of 2012 Individual Performance" for a description of the individual performance of the named executives.

	Second Installment of 2011 Long-Term Incentive Award	
Named Executive	Target	Actual
Timothy Mayopoulos	$ 490,167	$ 521,538
Michael Williams[1]	1,000,000	—
Susan McFarland	254,246	181,150
David Benson	465,167	465,000
Terence Edwards	465,167	465,000
John Nichols	198,904	187,069

(1) Mr. Williams did not receive the second installment of his 2011 long-term incentive award because he was not employed by Fannie Mae on the payment date for that installment.

Although long-term incentive awards are not a component of the company's 2012 executive compensation program, the second installment of the 2011 long-term incentive award is required to be reported as 2012 compensation for purposes of the "Summary Compensation Table for 2012, 2011 and 2010" because payment of this installment was based on performance in both 2011 and 2012.

Assessment of Corporate Performance on 2012 Conservatorship Scorecard

Overview

In March 2012, FHFA developed a set of corporate performance objectives and related targets for 2012, referred to as the 2012 conservatorship scorecard, and directed the company to implement them. The 2012 conservatorship scorecard is shown below under "FHFA Assessment." The 2012 conservatorship scorecard provides the implementation roadmap for FHFA's strategic plan for Fannie Mae and Freddie Mac. See "Executive Summary—Our Business Objectives and Strategy" for a description of FHFA's strategic goals for the GSEs. FHFA developed these objectives and related targets with input from management, the Compensation Committee and the Board of Directors. Half of the named executives' 2012 at-risk deferred salary, or 15% of their overall 2012 total target direct compensation, was subject to reduction based on the company's performance against the 2012 conservatorship scorecard. As described below under "FHFA Assessment," FHFA determined that the corporate-performance based portion of 2012 at-risk deferred salary would be paid at 95% of target.

Compensation Committee Assessment

In late 2012 and early 2013, the Compensation Committee reviewed the company's performance against the 2012 conservatorship scorecard and, following its review, provided FHFA with its assessment of management's performance against the 2012 conservatorship scorecard. As part of its review, the Compensation Committee reviewed management's assessment of the company's performance against the scorecard objectives and targets, and discussed the company's performance with the Chief Executive Officer. The Compensation Committee also reviewed management reports regarding prior input management received from FHFA with respect to the company's performance against the individual scorecard targets.

The Compensation Committee determined that the company met substantially all of the 2012 conservatorship scorecard targets in a timely and high quality manner, while at the same time conducting the company's core business at a high level in a complicated operating environment. A number of the targets that the company did not fully meet by year end were items that had either been suspended by FHFA or otherwise delayed due to factors primarily beyond the company's control. The Compensation Committee determined that management's overall performance with respect to achieving these challenging objectives was impressive, particularly in light of the major management transition the company experienced during the year. The Compensation Committee concluded that management's performance had exceeded expectations. The Committee noted that its assessment accorded significant weight to the company's improved financial condition.

The Compensation Committee recommended that FHFA also consider the company's performance in other areas in assessing the company's performance and making compensation determinations. Additional accomplishments noted by the Compensation Committee in its assessment included, among other things, the following:

- achieving four consecutive profitable quarters and $17.2 billion in net income for the year, which is the company's first annual profit since 2006 and record annual net income for the company;
- acquiring and managing a high quality new book of business that we expect will be profitable over its lifetime;
- managing substantial leadership transitions, including a change in the company's chief executive officer;
- reducing the company's single-family serious delinquency rate to 3.29% as of December 31, 2012, compared to 3.91% as of December 31, 2011;
- implementing a new HARP program to increase assistance to borrowers, more than doubling the number of HARP refinances in 2012 as compared to 2011;
- reaching a repurchase resolution with Bank of America and collecting on over $8 billion in other outstanding repurchase requests, as described in "MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Mortgage Sellers/Servicers;" and
- successfully meeting the company's obligations as program administrator for HAMP and other initiatives under the Making Home Affordable Program.

FHFA Assessment

In early 2013, FHFA reviewed our performance against the 2012 conservatorship scorecard, with input from management and the Compensation Committee. FHFA determined that the company substantially performed the objectives of the scorecard and that the corporate-performance based portion of 2012 at-risk deferred salary would be paid at 95% of target. FHFA stated that the company demonstrated a strong focus on achieving the objectives and collaborating with FHFA and Freddie Mac on the accomplishments. FHFA stated that in some instances the company's failure to meet a target by the specified deadline was the result of factors outside of the company's control. As a result of the company's strong performance during 2012, FHFA stated that significant progress has been made on the conservator's strategic goals for the next phase of the GSEs' conservatorships.

The table below sets forth the 2012 conservatorship scorecard and a summary of FHFA's assessment of the company's achievement of the scorecard objectives and targets, including the numerical score FHFA provided for each objective.

Objectives	Weighting	Targets	Final Score	Summary of Performance Against Targets
1. Build a New Infrastructure	30%		28.9%	
• Continued progress on, or completion of, mortgage market enhancement activities already underway	15%		14.9%	
– Loan-level Disclosure in Mortgage-Backed Security (MBS)		– Develop template for enhanced loan-level disclosures for single-family MBS that incorporates market standards and is consistent with maintaining liquidity in the to-be-announced market. Template to be submitted to FHFA by June 30, 2012.		– Met this target: Provided final template to FHFA on June 29, 2012.
– Uniform Mortgage Data Program (UMDP)		– Meet articulated Uniform Mortgage Data Program (UMDP) timetables as follows: – Uniform Collateral Data Portal (UCDP) electronic appraisal submission requirement by March 19, 2012. – Uniform Loan Delivery Data (ULDD) format loan delivery data by July 23, 2012. – Deliver new ULDD data point in compliance with SEC Rule 15Ga-1 by November 30, 2012. – Notify market of optional ULDD data points, including those necessary to improve disclosure and for other business uses in 2012.		– Met this target: Met articulated UMDP timetables including: – Began collecting UCDP electronic appraisal data by March 19, 2012. – Began collecting ULDD Phase 1 required data points by July 23, 2012. – Developed ability to collect new ULDD data point on funder information by November 30, 2012. – Notified market of optional ULDD Phase II data points on December 13, 2012. Developed and agreed on an implementation timeline for ULDD Phase II.
		– Notify market of servicing data standard, including data necessary to improve disclosure, and agree on timetable for data collection to begin in 2013 by December 31, 2012.		– Substantially met this target: In December 2012, made general announcement regarding progress on the creation of a Uniform Mortgage Servicing Dataset (UMSD), as well as announcements to targeted stakeholders requesting

		feedback on draft dataset in early 2013. Also completed the UMSD Foundation Template in December 2012. The December 2012 announcements did not include the UMSD Foundation Template, which is expected to be released to targeted stakeholders in the first half of 2013.
	– Develop plans that leverage uniform appraisal data (UAD) and ULDD for enhanced risk management by December 31, 2012.	– Met this target: Developed an implementation plan for UAD and ULDD data on how the new data can be used to reduce loan repurchase exposure and incorporated into credit portfolio analytics, and submitted plan to FHFA in September 2012.
	– Cooperate with FHA implementation of portal to accept electronic appraisals.	– Met this target: Supported FHA with respect to its roadmap for developing and implementing a portal to receive electronic appraisals.
– Seller-Servicer Contract Harmonization	– Appropriate resource allocation to seller-servicer contract harmonization and commitment to targeted timetables as outlined in FHFA directive.	– Met this target: Delivered on all of FHFA’s seller-servicer contract harmonization initiatives within the specified timeframes.

Objectives	Weighting	Targets	Final Score	Summary of Performance Against Targets
• Securitization Platform	10%	• In collaboration with FHFA and the other Enterprise, develop and finalize a plan by December 31, 2012 for the design and build of a single securitization platform that can serve both Enterprises and a post-conservatorship market with multiple future issuers.	9.5%	• Substantially met this target: Delivered a joint GSE plan to FHFA in December 2012 for the design and build of a single securitization platform. The plan incorporated industry feedback on FHFA's October 2012 white paper on this topic. The plan remains under review by FHFA and is expected to be finalized in 2013.
• Pooling and Servicing Agreements	5%	• Propose a model pooling and servicing agreement (PSA), collaborate with other Enterprise and FHFA on a specific proposal, seek public comment, and produce final recommendations for standard Enterprise trust documentation by December 31, 2012.	4.5%	• Substantially met this target: Delivered a joint GSE plan to FHFA in December 2012 for a model PSA. The plan incorporated industry feedback on FHFA's October 2012 white paper on this topic and is currently under review by FHFA.
2. Contract the Enterprises' dominant presence in the marketplace while simplifying and shrinking certain operations.	30%		28.4%	
• Work with FHFA to evaluate options for meeting conservatorship goals, including shifting mortgage credit risk to private investors via assessment of:	10%		9.4%	
– Multifamily line of business		– Undertake a market analysis by December 31, 2012, of the viability of multifamily business operations without government guarantees. Review the likely viability of these models operating on a stand-alone basis after attracting private capital and adjusting pricing if needed.		– Met this target: Provided FHFA with the requested analysis of the multifamily business in December 2012.
– Investment assets and nonperforming loans		– Perform analysis of investments portfolio as described in the strategic plan by the fourth quarter of 2012 and make preparations for the competitive disposition of a pool of nonperforming assets by September 30, 2012.		– Substantially met this target: Performed the requested analysis of our portfolio and submitted a revised portfolio plan to FHFA in November 2012. Also made preparations for the disposition of one or more pools of

				nonperforming assets, but this task was not completed by the September 30 deadline specified in the target.
		– Review options with board of directors and FHFA and make appropriate recommendations for future actions.		– Met this target: As noted above, submitted a revised portfolio plan to FHFA in November 2012.
		– Implement plan agreed to by board and FHFA.		– Met this target: As noted above, submitted a revised portfolio plan to FHFA in November 2012.
• Risk Sharing	10%	• Initiate risk sharing transactions by September 30, 2012.	9.0%	• Substantially met this target: Completed work to initiate credit-linked note transaction; however, transaction has been delayed due to new CFTC derivative regulations.
		• Execute new risk sharing transactions beyond the traditional charter required mortgage insurance coverage.		• Substantially met this target: Made preparations for bulk mortgage insurance transactions; however, transactions have been put on hold by FHFA pending review and update of mortgage insurer eligibility requirements.

Objectives	Weighting	Targets	Final Score	Summary of Performance Against Targets
		• Propose timeline for continued growth in risk sharing through 2013.		• Met this target: Delivered 2013 plan for growth in risk-sharing activities to FHFA in October 2012.
• Pricing	10%		10.0%	
– Single-family Guarantee Fee Pricing Increases		– Develop and begin implementing plan to increase guarantee fee pricing to more closely approximate the private sector.		– Met this target: Initial guaranty fee analysis provided to FHFA in July 2012. After reviewing analysis, in August 2012, FHFA directed us and Freddie Mac to increase our single-family guaranty fee prices by an average of 10 basis points effective in the fourth quarter of 2012. Developed a plan for single-family pricing increases in 2013 forward and provided this plan to FHFA in September 2012.
		– Set uniform pricing across loan sellers to extent practicable.		– Met this target: Developed a national price increase proposal that levels pricing between large and small lenders, and delivered this proposal to FHFA in June 2012. As noted above, in August 2012, FHFA directed us and Freddie Mac to increase our single-family guaranty fee prices by an average of 10 basis points effective in the fourth quarter of 2012.
– Set plan to price for state law effects on mortgage credit losses given default		– Work with FHFA to develop appropriate risk-based pricing by state. State-level pricing grid to be completed by August 31, 2012.		– Met this target: Developed a plan for state-based pricing adjustments and delivered this plan to FHFA in July 2012. In September 2012, FHFA published a notice presenting an approach to adjust the guaranty fees that we and Freddie Mac charge on single-family mortgages in states where costs related to foreclosure practices are significantly higher than the national average.
3. Maintain foreclosure prevention activities and credit availability for new and refinanced mortgages.	20%		20.0%	
• Loss Mitigation through continued implementation and enhancement of Servicer Alignment	10%	• Enhance transparency of servicer requirements around foreclosure timelines and compensatory fees and publish applicable	10.0%	• Met this target: Published updates to our servicer requirements in June 2012 relating to compensatory fees and allowable foreclosure timelines

Initiative		announcements by September 30, 2012.		that enhanced the transparency of these requirements.
• Short Sales		• Enhance short sales programs that include efforts to identify program obstacles that impact utilization by June 30, 2012. Applicable lender announcements to foreclosure alternatives by September 30, 2012.		• Met this target: Issued new guidelines to mortgage servicers in August 2012 to align and consolidate existing short sale programs into one standard short sale program.
• Deeds in Lieu and Deeds-for-Lease		• Design, develop, or enhance deed in lieu and deed-for-lease programs that include efforts to identify and resolve program obstacles that impact utilization by September 30, 2012. Applicable lender announcements to foreclosure alternatives by December 31, 2012.		• Met this target: Issued new guidelines to mortgage servicers in November 2012 to enhance and align existing deeds-in-lieu and deeds-for-lease programs.
• Real Estate Owned Sales	10%	• Implement, as needed, loans to facilitate real estate owned (REO) sales program by June 30, 2012.	10.0%	• N/A: Not a Fannie Mae objective; applicable only to Freddie Mac.

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Objectives	Weighting	Targets	Final Score	Summary of Performance Against Targets
		• Expand financing for small investors in REO properties by June 30, 2012.		• Met this target: Implemented enhancements to our HomePath® financing program in July 2012 to provide expanded financing options for small investors in REO properties.
		• Initiate disposition pilot, either through financing or bulk sales, by September 30, 2012.		• Met this target: Completed the first transactions under FHFA's REO pilot initiative in September 2012.
		• Expand pilot programs and establish ongoing sales program, as agreed to with FHFA, during 2012.		• Met this target: Plan for ongoing sales program provided to FHFA in December 2012.
4. Manage Efficiently in Support of Conservatorship Goals	20%		18.3%	
• Conservatorship / Board Priorities	20%	• Work closely with FHFA toward concluding litigation associated with private-label securities and whole loan repurchase claims, as appropriate. • Prioritize and manage Enterprise operations in support of conservatorship goals and board directions. • Adapt to evolving conservatorship requirements. • Collaborate fully with FHFA and, when requested, the other Enterprise. • Actively seek and consider public input on conservatorship-related projects, as requested. • Effectively identify, communicate, and remediate situations that create risk for the conservatorships or avoidable taxpayer losses. • Ensure corporate governance procedures are maintained, including timely reporting to the	18.3%	• Met 7 of 9 targets: Management worked closely with FHFA and the Board throughout the year to focus on and achieve these conservatorship and Board priorities for 2012. The company fully achieved all but the two following targets: • Effectively identify, communicate, and remediate situations that create risk for the conservatorships or avoidable taxpayer losses. This target was not fully achieved. As of year end, certain aspects of the company's internal control environment continued to need strengthening. • Take steps to mitigate key person dependencies and maintain appropriate internal controls and risk management governance. This target was not fully achieved. While the company took steps to mitigate key person dependencies and maintain appropriate internal controls and risk management governance, as of year end, certain aspects of the company's internal control environment continued to

	board and adhering to board mandates and expectations. • Take steps to mitigate key person dependencies and maintain appropriate internal controls and risk management governance. • Achieve milestones agreed to within the year with regard to accounting alignment.	need strengthening.

Assessment of Corporate Performance of 2011 Long-Term Incentive Award Goals (Second Installment)

In March 2011, the Board established 2012 corporate performance goals for the second installment of the 2011 long-term incentive award. FHFA approved these goals in April 2011. The Board did not assign any relative weight to the goals and the Compensation Committee was permitted to consider other factors in addition to the goals in assessing corporate performance.

In late 2012 and early 2013, the Compensation Committee reviewed the company's performance against the 2012 performance goals and related metrics relating to the second installment of the 2011 long-term incentive award. As part of its review, the Compensation Committee reviewed management's assessment of the company's performance against the goals, discussed the company's performance with the Chief Executive Officer and received input from FHFA on the company's performance against the goals. Based on this evaluation, the Compensation Committee determined that the pool for the second installment of the 2011 long-term incentive awards for executive officers would be funded at 95% of target. The Board of Directors and FHFA approved the Compensation Committee's determination.

The table below presents our 2012 corporate performance goals and related metrics for purposes of determining the second installment of the 2011 long-term incentive award, and management's assessment of our achievement against these goals and metrics. A summary of the Compensation Committee's assessment of the company's performance against these goals and metrics is provided following the table.

Goals	Metrics	Performance Against Goal/Metric
Goal 1: Achieve cost savings consistent with the financial plan.	Limit core administrative expenses for 2012 to no more than $1.8 billion.	Achieved this goal, with 2012 core administrative expenses of $1.8 billion. (Core administrative expenses exclude $607 million in costs relating to the credit organization, Treasury's Making Home Affordable program and extraordinary expenses that are included in administrative expenses in our statement of operations for 2012.)
Goal 2: Achieve 2012 credit expense target.	Limit total credit-related expenses for 2012 to no more than $15.9 billion.	Achieved this goal, with total credit-related income of $1.1 billion in 2012.
Goal 3: Resolve specified risk and control matters identified by FHFA.	Complete all remediation activity for risk and control matters identified by FHFA within mutually agreed timeframes. Submit remediation plans for all new risk and control matters identified by FHFA within FHFA-mandated timeframes.	Achieved this goal. Completed remediation activity for all FHFA-identified risk and control matters within agreed-upon timeframes. Submitted remediation plans for all new FHFA-identified risk and control matters within mandated timeframes.
Goal 4: Achieve 2012 milestones of the operational risk plan.	Implement all planned risk controls self-assessments for 2012, and provide all deliverables established by the Board within agreed-upon timeframes. Implement remediation plans for all high-priority business unit operational risk issues by specified dates.	Achieved this goal. Implemented the 2012 risk controls self-assessment plan and completed all planned risk controls self-assessments for 2012. Implemented the high-priority business unit operational risk remediation plans scheduled for 2012.
Goal 5: Meet 2012 targets for Operating Plan.	Achieve approved Operating Plan deliverables for 2012 and manage to overall budget. In March 2012, the Board of Directors modified this metric to add that achievement of the 2012 milestones should be considered in light of the goals of the conservatorship set forth in the 2012 conservatorship scorecard.	Substantially achieved this goal. Completed substantially all 2012 deliverables under the Operating Plan. Some 2012 deliverables were delayed to 2013, in most cases because the final implementation of certain projects was postponed to early 2013 in order to minimize the operational risk associated with implementing multiple new initiatives at the same time. In addition, four Operating Plan projects have been postponed indefinitely due to the prioritization of conservatorship

scorecard objectives. Costs under the Operating Plan during 2012 exceeded the budget due primarily to the achievement and implementation of some 2012 deliverables ahead of schedule.

The Compensation Committee determined that the company substantially achieved all of the 2012 performance goals and related metrics relating to the second installment of the 2011 long-term incentive award. Specifically, the Compensation Committee determined that the company met expectations with respect to the cost savings goal, exceeded expectations with respect to the credit expense goal, resolved all of the risk and control matters identified by FHFA within the agreed-upon timeframes, achieved all 2012 milestones of the operational risk plan, and substantially achieved the 2012 targets for the Operating Plan. In arriving at its funding determination, the Compensation Committee considered the full scope of management’s performance, including management’s performance of the 2012 conservatorship scorecard and the additional accomplishments described above under “Assessment of Corporate Performance on 2012 Conservatorship Scorecard.” The Compensation Committee also considered the company’s prior performance against its 2011 performance goals. In evaluating the company’s performance against these goals, the Compensation Committee did not assign specific weightings to any goal or metric.

Assessment of 2012 Individual Performance

Overview. Half of the named executives' 2012 at-risk deferred salary, or 15% of their overall 2012 total target direct compensation, was subject to reduction based on individual performance in 2012, as determined by the Board of Directors with FHFA's approval. In addition, the amounts of the second installment of the current named executives' 2011 long-term incentive awards took into account not only the company's performance against the 2012 corporate goals and metrics described above, but also an assessment by the Board of Directors of each named executive's performance during the applicable performance periods, as well as retention considerations.

The Board (excluding Mr. Mayopoulos) assessed the Chief Executive Officer's performance with input from the Compensation Committee and assessed each other named executive's performance with input from both the Compensation Committee and the Chief Executive Officer. Based on these assessments, the Board used its judgment and discretion to determine the amount of compensation it deemed appropriate for each named executive. In each case, the Board's determination was consistent with the recommendations of the Chief Executive Officer and the Compensation Committee. FHFA reviewed and approved these determinations. More information on the compensation arrangements for each of our named executives is set forth in the "Summary Compensation Table for 2012, 2011 and 2010."

Timothy Mayopoulos, President and Chief Executive Officer. The Board determined that the individual performance-based portion of Mr. Mayopoulos' 2012 at-risk deferred salary would be $398,250, which equals his target, and that the second installment of his 2011 long-term incentive award would be $521,538, compared with a target of $490,167. Mr. Mayopoulos' individual performance was evaluated in part based on the company's performance against the 2012 conservatorship scorecard and the corporate performance goals for the applicable performance periods, reflecting the fact that he has been accountable for the success of the entire organization since he became Chief Executive Officer in June 2012. In addition, other achievements not reflected in the 2012 conservatorship scorecard or the corporate performance goals were considered. The Board determined that, under Mr. Mayopoulos' leadership since he became Chief Executive Officer in June 2012, the company has been profitable, had record annual net income for 2012, and performed substantially all of the 2012 performance goals set for the organization by FHFA and the Board. Mr. Mayopoulos' other accomplishments in 2012 included significantly reducing the organization's credit-related expenses while allowing the company to continue to effectively provide liquidity to the housing market, and promoting the company's ability to assist troubled borrowers while further developing a high-quality book of new business. Mr. Mayopoulos also oversaw the organization's achievement of a substantial portion of its 2012 Operating Plan deliverables and improvement in the company's risk and control environment. The Board also recognized Mr. Mayopoulos' exceptional leadership during the organization's transition of chief executive officers and other members of management, his development of a strong new executive management team and his effective communications with the Board and FHFA regarding implementation of the Board's and FHFA's 2012 priorities for the company. The Board also considered Mr. Mayopoulos' performance as Chief Administrative Officer, General Counsel and Corporate Secretary. For the portion of the year that he served in these roles, the Board considered his continued outstanding service as chief adviser to the Chief Executive Officer, leadership of the Legal, Human Resources, Communications and Marketing Services, and Government and Industry Relations divisions of the company, as well as his leadership on the company's strategic initiatives. The Board recognized that Mr. Mayopoulos successfully implemented the 2012 executive compensation program developed by FHFA and furthered the company's contingency planning processes, resulting in an improved risk environment. The Board concluded that, overall, Mr. Mayopoulos' 2012 performance was exceptionally strong when measured against applicable goals and exceeded expectations.

Michael Williams, Former President and Chief Executive Officer. The Board determined that the individual performance-based portion of Mr. Williams' 2012 at-risk deferred salary would be $467,308, which equals the portion of his target that he earned prior to his departure from the company. In recommending and determining the amount of the individual performance-based portion of Mr. Williams' 2012 at-risk deferred salary, the Compensation Committee and the Board considered in part the company's performance against the 2012 conservatorship scorecard and the corporate performance goals for the applicable performance periods, reflecting the fact that Mr. Williams was the company's Chief Executive Officer until June 2012. In addition, other achievements not reflected in the 2012 conservatorship scorecard or the corporate performance goals were considered. The Board acknowledged that under Mr. Williams' leadership the company posted a profitable first quarter and a profitable second quarter shortly after Mr. Williams stepped down from the position of Chief Executive Officer, and that Mr. Williams' performance helped make possible the company's record 2012 annual net income. The Board also recognized Mr. Williams' contributions towards managing the organization's management turnover, including the successful transition of his role as Chief Executive Officer of the company, during the period between when he informed the company in January 2012 that he would step down as Chief Executive Officer and his departure. Mr. Williams did not receive the second installment of his 2011 long-term incentive award because he left the company before the payment date for the installment.

Susan McFarland, Executive Vice President and Chief Financial Officer. The Board determined that the individual performance-based portion of Ms. McFarland's 2012 at-risk deferred salary would be $324,000, compared with a target of $432,000, and that the second installment of her 2011 long-term incentive award would be $181,150, compared with target of $254,246. In recommending and determining these amounts, the Chief Executive Officer, the Compensation Committee and the Board of Directors considered Ms. McFarland's achievements and her leadership of the Finance organization in 2012. Ms. McFarland reconstituted and strengthened the Capital Working Group in 2012. In addition, Ms. McFarland oversaw the alignment of the company's new accounting policies with Freddie Mac, as required by the 2012 conservatorship scorecard. Ms. McFarland also improved quarterly business reviews to provide increased understanding and transparency into business activities and performance, developed a plan to modernize the company's financial reporting capabilities, and restructured the Finance organization's shared services group to increase focus on critical capabilities. The Chief Executive Officer, the Compensation Committee and the Board of Directors also recognized there were opportunities to improve the company's modeling and analytics and financial planning and analysis capabilities, both of which were identified early in 2012.

David Benson, Executive Vice President—Capital Markets, Securitization & Corporate Strategy. The Board determined that the individual performance-based portion of Mr. Benson's 2012 at-risk deferred salary would be $378,000, which equals his target, and that the second installment of his 2011 long-term incentive award would be $465,000, compared with a target of $465,167. In recommending and determining these amounts, the Chief Executive Officer, the Compensation Committee and the Board of Directors considered Mr. Benson's many achievements and his expanded leadership role in 2012. Under Mr. Benson's leadership, the Capital Markets group successfully managed significant growth in volumes and profitability for Capital Markets products and services in 2012, as well as the company's mortgage portfolio. He also successfully carried out a wide variety of new assignments in 2012. Mr. Benson successfully led the company's teams working with FHFA and Freddie Mac on the 2012 conservatorship scorecard objectives to develop both (1) a plan for the design and implementation of a new securitization platform and (2) a plan for a new model pooling and servicing agreement to be used as part of the company's trust documentation. Mr. Benson also assumed responsibility for, restructured and enhanced the company's Enterprise Project Management office, which coordinates the strategic alignment, execution and administration of all major projects across the company, including the 2012 conservatorship scorecard items, corporate strategic initiatives and other significant projects. In addition, Mr. Benson oversaw the preparation of the company's annual risk management plan to Treasury, which is a new requirement that was added to the company's senior preferred stock purchase agreement with Treasury in August 2012, and delivered the plan within a short timeframe.

Terence Edwards, Executive Vice President—Credit Portfolio Management. The Board determined that the individual performance-based portion of Mr. Edwards' 2012 at-risk deferred salary would be $378,000, which equals his target, and that the second installment of his 2011 long-term incentive award would be $465,000, compared with a target of $465,167. In recommending and determining these amounts, the Chief Executive Officer, the Compensation Committee and the Board of Directors considered Mr. Edwards' many achievements and continued outstanding leadership of the credit portfolio management division in 2012. Mr. Edwards successfully led a number of the company's 2012 conservatorship scorecard initiatives, including the REO pilot initiative, the servicing alignment initiative, and the enhancements of the company's short sale, deeds-in-lieu and deeds-for-lease programs. In addition, under Mr. Edwards' leadership of the credit portfolio management division in 2012, the company: reduced the number of its seriously delinquent single-family loans to below 600,000 as of December 31, 2012 from a peak of more than 1 million in 2010; reduced its single-family serious delinquency rate by 62 basis points during the year; and continued to improve its REO sales. Mr. Edwards also played an important role in negotiating the repurchase resolution with Bank of America. In addition, Mr. Edwards led the teams that: established the first servicing flow transfers with two major lenders; developed a new proposal for lender-placed insurance; and developed new modification programs to assist distressed borrowers.

John Nichols, Executive Vice President and Chief Risk Officer. The Board determined that the individual performance-based portion of Mr. Nichols' 2012 at-risk deferred salary would be $276,923, which equals his target, and that the second installment of his 2011 long-term incentive award would be $187,069, compared with a target of $198,904. In recommending and determining these amounts, the Chief Executive Officer, the Compensation

Committee and the Board of Directors considered Mr. Nichols' many achievements in 2012 and his leadership of the Enterprise Risk Management organization. In 2012, Mr. Nichols worked with the Board's Risk Policy & Capital Committee to draft and adopt a new enterprise risk framework. Mr. Nichols also oversaw the implementation of new credit risk limits across the company, as well as new counterparty standards and processes. Mr. Nichols also supervised the company's negotiation of the repurchase resolution with Bank of America. In addition, Mr. Nichols focused on infrastructure, improving reporting, establishing policies, and the company's operational risk program. Mr. Nichols also served as chair of the company's Cultural Steering Group and vice chair of the Diversity Advisory Council.

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.

In 2012, McLagan advised management and the Compensation Committee on various compensation and human resources matters, including:

- providing recommendations for adjustments to the company's comparator group for consistency with Freddie Mac's comparator group;
- providing recommendations and feedback on the development of the company's 2012 executive compensation program;
- advising on market trends, competitive pay levels and various compensation proposals for new hires and promotions; and
- providing actual and forecasted market compensation data for senior management positions, including the named executives' positions.

In 2012, 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 2012 executive compensation program and communicating with FHFA on the Compensation Committee's behalf;
- advising the Compensation Committee on adjustments to the company's comparator group for consistency with Freddie Mac's comparator group;
- 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 2012 compensation program;
- assisting the Compensation Committee in its evaluation of the company's performance against the 2012 conservatorship scorecard and the 2012 corporate performance goals relating to the second installment of the 2011 long-term incentive award; and
- informing the Compensation Committee of regulatory updates and market trends in compensation and benefits.

Compensation Consultant Independence Assessment

In December 2012, the Compensation Committee assessed the independence of FW Cook and McLagan. Based on its assessment, the Compensation Committee determined that FW Cook is independent from management and has no material conflicts of interest.

Because McLagan was retained by and provides services to management, it is not an independent adviser. In addition to the services McLagan performed for management that are described above, other potential conflicts identified include services performed by McLagan affiliates for management that are unrelated to executive compensation. No other potential conflicts of interest were identified with respect to McLagan.

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. In 2012, FHFA requested that we and Freddie Mac consider using the same comparator group of companies for benchmarking executive compensation, in order to provide consistency in the market data used for compensation decisions. In response to this request, both we and Freddie Mac made adjustments to our respective comparator groups so that they would be consistent. In September 2012, the Compensation Committee revised our primary comparator group to consist 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

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. Factors relevant to the selection of this 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.

The Compensation Committee determined to continue the bifurcated approach to benchmarking senior executive positions that it adopted in 2011. 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 company benchmarks pay levels against a broader group of companies. We believe this more comprehensive approach results in more relevant and better aligned market data.

In September 2012, the Compensation Committee determined that the current named executives' compensation would be benchmarked as follows:

- The compensation of our Chief Executive Officer (Mr. Mayopoulos), Chief Financial Officer (Ms. McFarland) and Executive Vice President—Capital Markets, Securitization & Corporate Strategy (Mr. Benson) would be benchmarked against our revised comparator group identified above;
- The compensation of our Executive Vice President and Chief Risk Officer (Mr. Nichols) would be benchmarked against both the revised comparator group and a group of large banks consisting of Bank of America Corporation, Citigroup Inc., JPMorgan Chase & Co. and Wells Fargo & Company; and
- The compensation of our Executive Vice President—Credit Portfolio Management (Mr. Edwards) would be benchmarked against the group of large banks previously described, multifamily specialty firms, Freddie Mac and Ally Financial Inc.

In October 2012, McLagan provided the Compensation Committee with updated benchmarking data for the current named executives following these instructions and the Compensation Committee discussed this data at its November 2012 meeting. In each case, the data compared the named executives' total target direct compensation for 2012 under the 2012 executive compensation program (which excludes the second installment of the 2011 long-term incentive award they received in February 2013) with the market median of 2011 direct compensation for comparable positions in the applicable comparator group of companies based on McLagan's proprietary database and as disclosed in the companies' annual reports, proxy statements and SEC filings. The benchmarking took into account individual variations in job scope for one of the named executives (Mr. Benson). As shown in the table below, each current named executive's total target direct compensation for 2012 under the 2012 executive compensation program was more than 30% below the market median.

The table below displays the current named executives' total target direct compensation and total actual direct compensation for 2012 under the 2012 executive compensation program (which excludes the second installment of the 2011 long-term incentive award), in each case as compared to the market median of 2011 total direct compensation for the applicable comparator group of companies.

Named Executive	Target Direct Compensation % below Market Median	Actual Direct Compensation % below Market Median
Timothy Mayopoulos[(1)]	-71 %	-72 %
Susan McFarland	-32	-35
David Benson	-31	-31
Terence Edwards	-42	-43
John Nichols[(2)]	-34	-39

(1) Mr. Mayopoulos became our Chief Executive Officer in June 2012. Prior to becoming our Chief Executive Officer, he was Fannie Mae's Executive Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary. For purposes of this benchmarking, Mr. Mayopoulos' 2012 total target direct compensation (which did not increase as a result of his promotion to Chief Executive Officer) was benchmarked against the compensation of Chief Executive Officers in the applicable comparator group of companies. Effective January 1, 2013, Mr. Mayopoulos' total direct compensation consists solely of $600,000 in base salary, which is 94% below the market median of 2011 total direct compensation for Chief Executive Officers in the applicable comparator group.

(2) Mr. Nichols' total target direct compensation used for purposes of this comparison reflects his increased annual target direct compensation effective May 18, 2012 ($2,000,000).

Compensation Recoupment Policy

Beginning with compensation for the 2009 performance year, 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 (defined in the compensation recoupment policy as both the awards made under the deferred pay program established in 2009 and deferred salary under the executive compensation program established in 2012) or incentive payments (including long-term incentive awards) 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, long-term incentive awards and any other 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, long-term incentive awards and any other 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, long-term incentive awards and any other 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, long-term incentive awards and any other 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 or equity-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.

The Compensation Committee plans to review our compensation recoupment policy and revise it as necessary to comply with the Dodd-Frank Wall Street Reform and Consumer Protection Act once rules implementing the Act's clawback requirements have been finalized by the SEC.

Stock Ownership and Hedging Policies

In January 2009, our Board eliminated our stock ownership requirements. We ceased paying new stock-based compensation to our executives after entering into conservatorship in September 2008. 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. 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. Deferred salary and long-term incentive awards received by the named executives do not qualify as performance-based compensation under section 162(m).

2013 Compensation Changes

CEO Compensation Changes

As described above under "Elements of 2012 Executive Compensation Program—Compensation Arrangements with our Chief Executive Officer," effective January 1, 2013, Mr. Mayopoulos' total direct compensation consists solely of $600,000 in base salary. He will not earn any deferred salary for 2013. He continues to be eligible to receive the deferred salary he earned for 2012 on the applicable payment dates in 2013, and he was paid the second installment of his 2011 long-term incentive award in February 2013. He also continues to be eligible to participate in the employee benefit programs made available to all Fannie Mae executives.

CFO Compensation Changes

Ms. McFarland has announced her retirement from the company. Mr. Benson will succeed Ms. McFarland as the company's Chief Financial Officer, effective as of April 3, 2013. Ms. McFarland will remain employed by the company as a senior adviser for a transition period that will end no later than June 30, 2013.

In addition to his new responsibilities as Chief Financial Officer, Mr. Benson will retain responsibility for corporate strategy, treasury, balance sheet management and securitization. To reflect the increased scope of his new position, Mr. Benson's target total direct annual compensation will increase to $3,000,000, comprised of three components: (1) annual base salary of $600,000; (2) annual fixed deferred salary of $1,500,000; and (3) target annual at-risk deferred salary of $900,000. The change in Mr. Benson's compensation will be effective as of April 3, 2013 and his deferred salary for 2013 will be prorated to reflect the change in his compensation rate as of this date. FHFA has approved the terms of Fannie Mae's new compensation arrangements with Mr. Benson.

Ms. McFarland will continue to earn compensation under her current compensation arrangement through the conclusion of her service as a senior adviser to the company. Under the terms of Ms. McFarland's offer letter from the company, she is obligated to repay to the company the final $200,000 installment payment of her sign-on award if she chooses to leave the company prior to July 31, 2013. The Board has waived the requirement that Ms. McFarland repay this final installment payment, contingent upon Ms. McFarland's execution of a release of claims in a form satisfactory to the company. FHFA has approved these arrangements.

Change to Fixed Deferred Salary Forfeiture Provisions

As described under "Elements of 2012 Executive Compensation Program—Direct Compensation," under the 2012 executive compensation program as initially established by FHFA in March 2012, earned but unpaid fixed deferred salary for 2012 and subsequent performance years was subject to reduction if a named executive left the company prior to January 31, 2014. If

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the named executive left the company prior to this date, the amount of earned but unpaid fixed deferred salary received by the named executive would be reduced by 2% for each full or partial month by which the executive's separation date preceded January 31, 2014. Under the original terms of the 2012 executive compensation program, the January 31, 2014 date by which a named executive's deferred salary would be fully vested was applicable not only to 2012 fixed deferred salary but also to fixed deferred salary earned for 2013 and subsequent performance years.

On March 27, 2013, FHFA directed us to revise the 2012 executive compensation program so that, effective for 2013 and subsequent performance years, earned but unpaid fixed deferred salary will be reduced by 2% for each full or partial month by which the named executive's separation date precedes January 31 of the second year following the performance year. Accordingly, for 2013 and each subsequent performance year, the vesting schedule for earned but unpaid fixed deferred salary will restart each year and earned but unpaid fixed deferred salary will not be fully vested until January 31 of the second year following the performance year. For example, the amount of earned but unpaid fixed 2013 deferred salary received by a named executive if he or she left the company (other than due to termination for cause) would be reduced by 2% for each full or partial month by which the executive's separation date preceded January 31, 2015. FHFA made this change to the 2012 executive compensation program in order to maintain the retention feature of fixed deferred salary for 2013 and subsequent performance years.

2013 Performance Goals

As described under "2012 Executive Compensation Program—Elements of 2012 Executive Compensation Program—Direct Compensation," half of the named executives' at-risk deferred salary is subject to reduction based on corporate performance 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 approval.

On March 4, 2013, the Acting Director of FHFA released 2013 corporate performance goals and related targets for Fannie Mae and Freddie Mac, referred to as the 2013 conservatorship scorecard. The company's performance against the 2013 conservatorship scorecard, as determined by FHFA with input from management and the Board of Directors, will determine the amount of the corporate-performance based component of the named executives' 2013 at-risk deferred salary. See our Current Report on Form 8-K filed with the SEC on March 8, 2013 for a description of the 2013 conservatorship scorecard.

On March 28, 2013, our Board of Directors adopted the following additional performance goals for 2013, referred to as the 2013 Board of Directors goals. Performance against the 2013 Board of Directors goals will be a factor that the Board of Directors considers in determining the individual performance of the named executives for purposes of the individual performance-based component of the named executives' 2013 at-risk deferred salary.

1. Achieve key financial targets, including acquiring and managing a profitable, high-quality book of new business from 2009 forward. Metrics associated with this goal consist of generating projected returns in excess of our cost of capital on our 2013 single-family and multifamily acquisitions, managing our businesses within Board risk limits, and limiting our core administrative expenses for 2013.
2. Serve the housing market by being a major source of liquidity, effectively managing our legacy book of business and assisting troubled borrowers. Metrics associated with this goal consist of reducing the number of our seriously delinquent single-family loans and meeting our obligations as program administrator of the Department of the Treasury's Making Home Affordable Program.
3. Improve the company's risk, control and compliance environment. Most of the metrics associated with this goal seek to address various risk, control and compliance matters raised by FHFA or Internal Audit. Other metrics associated with this goal consist of accomplishing specified 2013 enterprise risk management goals and meeting the 2013 milestones relating to the implementation of two safety and soundness initiatives (a new loan accounting platform and a new data center).
4. Improve the company's capabilities, infrastructure and efficiency. Metrics associated with this goal consist of achieving specified 2013 investment plan goals (including maintenance projects), and developing and meeting the 2013 milestones of a human capital plan.

The Board expects these goals to be accomplished within the risk, control and compliance framework set forth in the third objective listed above.

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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
Egbert L. J. Perry
Jonathan Plutzik
David H. Sidwell

COMPENSATION RISK ASSESSMENT

We conducted a risk assessment of our 2012 employee compensation policies and practices. In conducting this risk assessment, we reviewed, among other things, our compensation plans, pay profiles, performance goals and performance appraisal management process. We 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 our risk assessment, we concluded that our 2012 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 our conclusion, including:

- Payment of incentive compensation is based on the achievement of performance metrics that we have concluded do not encourage unnecessary or excessive risk-taking. Our mix of multiple performance metrics without undue emphasis on any one metric provides an appropriate balance of incentives.
- Our extensive performance appraisal process is designed to ensure achievement of goals without encouraging executives or employees to take excessive risks.
- FHFA, with input from the Compensation Committee and Board of Directors, has the discretion to determine or approve if scorecard goals have been achieved, the funding level for deferred salary and long-term incentive awards, and the amount of incentive compensation paid to individual executive officers.
- Deferred salary and incentive compensation for our executive officers are subject to the terms of a clawback policy.
- We have no pre-arranged severance arrangements for our executive officers that would guarantee additional compensation when an executive leaves.

Although we determined that our 2012 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 "Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data," total target direct compensation for 2012 under the 2012 executive compensation program for each of our current named executives was more than 30% below the market median for comparable firms and, in the case of our Chief Executive Officer, was more than 70% below the market median. Other factors that increase our risk of executive officer attrition include our conservatorship status, the uncertainty of our future, and the heightened scrutiny of our actions by Congress and our regulators. See "Risk Factors" for a discussion of the risks associated with executive and employee retention.

COMPENSATION TABLES

Differences in 2012, 2011 and 2010 Compensation

As described above in "Compensation Discussion and Analysis," FHFA instituted new compensation arrangements for our named executives in 2012. Under these new arrangements, FHFA:

- reduced total target direct compensation for each named executive by 10% from 2011 levels, except for one named executive who received a pay increase in connection with a promotion;

- eliminated long-term incentive awards as a component of the 2012 executive compensation program, so that the named executives' direct compensation consists solely of base salary and deferred salary paid in cash; and
- increased the amount of the named executives' deferred salary as a result of the elimination of long-term incentive awards.

Although FHFA reduced total target direct compensation for most of our named executives under the 2012 executive compensation program, total compensation for our named executives reported for 2012 in the "Summary Compensation Table for 2012, 2011 and 2010" is generally higher than for 2011 because the named executives received the final installment of their 2011 long-term incentive award in February 2013, and this installment is required to be reported as 2012 compensation for purposes of the table. Although long-term incentive awards were eliminated as a component of the 2012 executive compensation program, the named executives were entitled to receive the final installment of their 2011 long-term incentive awards that were granted under our prior executive compensation program. This installment is required to be reported as 2012 compensation for purposes of the Summary Compensation Table because it was determined based on performance for both 2011 and 2012. Compensation reported in the Summary Compensation Table for 2013 will not include a long-term incentive award component.

In addition, as a result of the changes to the named executives' compensation arrangements instituted in 2012, the amounts shown in the Summary Compensation Table in the "Fixed Deferred Salary (Service-Based)" sub-column and the "At-Risk Deferred Salary (Performance-Based)" sub-column are generally higher for 2012 than for 2011 and 2010, and the amounts shown in the "Long-Term Incentive Awards" sub-column are lower than for 2011.

Summary Compensation Table for 2012, 2011 and 2010

The following table shows summary compensation information for 2012, 2011 and 2010 for the named executives. For more information on the compensation reflected in this table, see the footnotes following the table and "Differences in 2012, 2011 and 2010 Compensation" above.

		Salary ($)			Non-Equity Incentive Plan Compensation ($)				
Name and Principal Position	Year	Base Salary(1)	Fixed Deferred Salary (Service-Based)(2)	Bonus ($)(3)	At-Risk Deferred Salary (Performance-Based)(4)	Long-Term Incentive Awards(5)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)(6)	All Other Compensation ($)(7)	Total ($)
Timothy Mayopoulos(8)	2012	500,000	1,358,500	—	776,588	521,538	—	80,000	3,236,626
President and Chief	2011	500,000	734,834	—	624,608	952,149	—	80,000	2,891,591
Executive Officer	2010	500,000	734,834	—	661,350	485,000	—	88,308	2,469,492
Michael Williams(9)	2012	560,769	1,063,385	—	911,250	—	2,491,883	9,142	5,036,429
President and Chief	2011	900,000	1,550,000	—	1,317,500	1,491,000	1,268,300	11,300	6,538,100
Executive Officer	2010	900,000	1,550,000	—	1,395,000	900,000	833,156	16,300	5,594,456
Susan McFarland(10)	2012	600,000	1,416,000	800,000	734,400	181,150	—	100,013	3,831,563
Executive Vice President and Chief Financial Officer	2011	288,462	766,667	900,000	651,667	218,906	—	94,391	2,920,093
David Benson	2012	500,000	1,264,000	—	737,100	465,000	321,555	13,350	3,301,005
Executive Vice	2011	500,000	684,834	—	582,108	820,553	299,704	15,500	2,902,699
President—Capital	2010	500,000	684,834	—	616,350	440,000	218,844	22,250	2,482,278

Markets, Securitization & Corporate Strategy									
Terence Edwards	2012	500,000	1,264,000	—	737,100	465,000	—	80,000	3,046,100
Executive Vice	2011	500,000	684,834	—	582,108	854,744	—	80,000	2,701,686
President—Credit	2010	500,000	684,834	—	616,350	420,000	—	54,439	2,275,623
Portfolio Management									
John Nichols(11)	2012	430,962	861,538	—	540,000	187,069	—	66,862	2,086,431
Executive Vice President and Chief Risk Officer									

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(1) Amounts shown in this sub-column consist of base salary paid during the year on a bi-weekly basis. Amount of base salary for Mr. Williams includes $34,615 paid out upon termination of his employment for unused vacation days.

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(2) Amounts shown in this sub-column consist of the fixed, service-based portion of 2012, 2011 and 2010 deferred salary. As described in footnote 4 below, the remaining portion of 2012, 2011 and 2010 deferred salary is included in the "Non-Equity Incentive Plan Compensation" column because it is performance-based. Deferred salary for 2012 generally will be paid in four equal installments in March, June, September and December 2013. More information about 2012 deferred salary is presented in "Compensation Discussion and Analysis—2012 Executive Compensation Program—Elements of 2012 Executive Compensation Program—Direct Compensation."

(3) As described in footnote 10 below, amounts shown for 2012 and 2011 in this column consist of Ms. McFarland's $1.7 million sign-on award, which was awarded in July 2011.

(4) Amounts shown for 2012, 2011 and 2010 in this sub-column consist of the at-risk, performance-based portion of 2012, 2011 and 2010 deferred salary earned by each named executive. Half of 2012 at-risk deferred salary 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 2012 at-risk deferred salary awarded to each named executive:

Name	2012 Corporate Performance-Based At-Risk Deferred Salary Amount	% of Target	2012 Individual Performance-Based At-Risk Deferred Salary Amount	% of Target
Timothy Mayopoulos	378,338	95 %	398,250	100 %
Michael Williams	443,942	95 %	467,308	100 %
Susan McFarland	410,400	95 %	324,000	75 %
David Benson	359,100	95 %	378,000	100 %
Terence Edwards	359,100	95 %	378,000	100 %
John Nichols	263,077	95 %	276,923	100 %

Because Mr. Williams left the company in July 2012, he was eligible to receive a maximum of $934,615 in 2012 at-risk deferred salary, which is the portion of his original $1,620,000 2012 at-risk deferred salary target that he earned prior to his departure from the company. The percentages in each of the "% of Target" columns for Mr. Williams in the table above reflect the percentage of the earned portion of his target. See footnote 9 below for additional information.
The amount of the performance-based portion of 2011 and 2010 deferred salary was based solely on corporate performance for the applicable year. The amount of 2011 deferred salary awarded to each applicable named executive represented 85% of the target amount of the performance-based portion of deferred salary. The amount of 2010 deferred salary awarded to each applicable named executive represented 90% of the target amount of the performance-based portion of deferred salary.

(5) For all of the named executives except for Mr. Williams, 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. As described in footnote 9 below, Mr. Williams left the company in July 2012 and therefore he did not receive the second installment of his 2011 long-term incentive award.

For all of the applicable named executives except for Ms. McFarland, amounts shown for 2011 in this sub-column consist of both: (1) the first installment of the 2011 long-term incentive award, which was based on corporate and individual performance for 2011; and (2) the second installment of the 2010 long-term incentive award, which was based on corporate and individual performance for both 2010 and 2011. As described in footnote 10 below, Ms. McFarland joined the company in 2011 and therefore she did not receive a 2010 long-term incentive award. Accordingly, for Ms. McFarland, the amount shown for 2011 in this sub-column consists only of the first installment of her 2011 long-term incentive award, which was prorated based on her hire date.
The table below provides details on the amounts of each of these awards for each named executive other than Mr. Nichols (who was not a named executive in 2011):

Name	2011 Long-term Incentive Award	2010 Long-term Incentive Award

	(First Installment)	(Second Installment)
Timothy Mayopoulos	$ 483,794	$ 468,355
Michael Williams	714,000	777,000
Susan McFarland	218,906	—
David Benson	410,276	410,277
Terence Edwards	439,582	415,162

Both the first installment of the 2011 long-term incentive award and the second installment of the 2010 long-term incentive award were paid in February 2012.

Amounts shown for 2010 in this sub-column consist solely of the first installment of the 2010 long-term incentive award, which was based on corporate and individual performance for 2010.

(6) The reported amounts represent change in pension value. We calculated these amounts using the same assumptions we use for financial reporting under GAAP, using a discount rate of 4.15% as of December 31, 2012. None of our named executives received above-market or preferential earnings on nonqualified deferred compensation.

Mr. Williams left the company in July 2012 and began receiving retirement benefit payments in February 2013, based on a benefit commencement date of November 1, 2012, at age 55. Accordingly, for purposes of determining Mr. Williams' change in pension value, we calculated Mr. Williams' pension value as of December 31, 2012 based on his actual benefit commencing at age 55. If we had calculated Mr. Williams' change in pension value assuming that he would remain in service until the normal retirement ages under the applicable pension plans, the increase in pension value reported in this column would have been $1,112,108. See "Pension Benefits" below for more information.

The discount rate used to determine pension value as of December 31, 2012 decreased by 80 basis points from the rate used as of December 31, 2011. Of the $2,491,883 increase in pension value reported for Mr. Williams, $1,379,775 was attributable to his election to begin receiving benefits at age 55 rather than at the normal retirement ages under the plans, $822,800 was attributable to changes in actuarial assumptions (primarily the reduction in the discount rate noted above), $267,400 was attributable to financing cost, and $21,908 was attributable to amounts earned through his 2012 service. Of the $321,555 increase in pension value reported for Mr. Benson, $181,900 was attributable to changes in actuarial assumptions (primarily the reduction in the discount rate noted above), $48,500 was attributable to financing cost, and $91,155 was attributable to amounts earned through his 2012 service.

(7) The table below shows more information about the amounts reported for 2012 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) relocation benefits provided to our Chief Financial Officer.

Name	Company Contributions to Retirement Savings (401(k)) Plan	Company Credits to Supplemental Retirement Savings Plan	Charitable Award Programs	Relocation Benefits
Timothy Mayopoulos	$20,000	$60,000	$—	$—
Michael Williams	5,192	—	3,950	—
Susan McFarland	20,000	51,077	250	28,686
David Benson	12,500	—	850	—
Terence Edwards	20,000	60,000	—	—
John Nichols	20,000	41,862	5,000	—

In accordance with SEC rules, amounts shown under "All Other Compensation" for 2012 do not include perquisites or personal benefits for a named executive that, in the aggregate, amount to less than $10,000.

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.

The amount shown in the "Relocation Benefits" column for Ms. McFarland consists of relocation benefits provided to her consisting of the reimbursement of costs associated with selling her home during 2012. These benefits were provided to Ms. McFarland as part of a relocation benefit of up to $100,000 that we agreed to provide to her in connection with her hire in July 2011. This benefit expired in July 2012 in accordance with its terms. We calculated the incremental cost of providing Ms. McFarland's relocation benefits based on actual cost (that is, the total amount of expenses incurred by us in providing the benefits), excluding $41 in fees and interest paid to the relocation benefit administrator.

Amounts shown in the "Charitable Award Programs" column reflect gifts we made under our matching charitable gifts program, under which gifts made by our employees and directors to Section 501(c)(3) charities are matched, up to an aggregate total of $5,000 for the 2012 calendar year.

(8)

Mr. Mayopoulos became our President and Chief Executive Officer on June 18, 2012. He previously served as Fannie Mae's Executive Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary from September 2010 through June 17, 2012, and as Fannie Mae's Executive Vice President, General Counsel and Corporate Secretary from April 2009 to September 2010.

(9) Mr. Williams was our President and Chief Executive Officer from April 2009 through June 17, 2012. He remained employed by the company as an adviser following his resignation as President and Chief Executive Officer from June 18, 2012 through July 31, 2012. Because Mr. Williams left the company in July 2012, he did not receive the third or fourth installments of his 2011 deferred salary (which total $1,433,750) because he was not employed by Fannie Mae on the respective payment dates for those installments. The amounts reported in this table as Mr. Williams' 2011 compensation include the $1,433,750 in 2011 deferred salary that he forfeited due to his departure from the company.

Because of his departure from the company, Mr. Williams also did not receive the second installment of his 2011 long-term incentive award (which could have been up to $1,000,000) because he was not employed by Fannie Mae on the payment date for that installment. In addition, because of his departure from the company, Mr. Williams will receive only a portion of his target 2012 deferred salary (which was $2,880,000 in fixed deferred salary and $1,620,000 in at-risk deferred salary). Specifically, he will receive:

(1) $1,063,385 in 2012 fixed deferred salary, which is the portion of his 2012 fixed deferred salary that he earned from January 1, 2012 through July 31, 2012 ($1,661,538), reduced by 2% for each month by which his departure date preceded January 31, 2014; and (2) $911,250 in at-risk 2012 deferred salary, which is the portion of his at-risk 2012 deferred salary that he earned from January 1, 2012 through July 31, 2012 ($934,615), reduced by 2.5% from the adjusted target based on corporate and individual performance in 2012 (the corporate performance-based portion was paid at 95% of target and the individual performance-based portion was paid at 100% of target). The amounts reported as Mr. Williams' 2012 compensation in this table exclude all forfeited amounts and represent amounts he actually received or will receive, rather than the original amounts awarded to him. Because he left the company in July 2012, Mr. Williams will receive his 2012 deferred salary in the following three installment amounts, rather than in four equal installments: $789,854 in March 2013, $921,496 in June 2013, and $263,285 in September 2013.

(10) Ms. McFarland joined Fannie Mae as our Chief Financial Officer on July 11, 2011. Ms. McFarland will be resigning as our Chief Financial Officer effective April 3, 2013, but will remain employed by the company as a senior adviser for a transition period that will end no later than June 30, 2013. The amount of 2012 fixed deferred salary Ms. McFarland ultimately receives will be reduced based on the date she leaves the company (by 2% for each full or partial month by which her departure date precedes January 31, 2014).

Ms. McFarland was granted a $1.7 million sign-on award in 2011, which was paid as follows: $900,000 in July 2011, $600,000 in the first quarter of 2012, and $200,000 in July 2012. Each of these payments was subject to repayment if Ms. McFarland chose to leave Fannie Mae within one year after the payment; however, as described in "Compensation Discussion and Analysis—2013 Compensation Changes—CFO Compensation Changes," the Board waived the requirement that Ms. McFarland repay the final $200,000 installment payment of her sign-on award, contingent upon Ms. McFarland's execution of a release of claims.

Amounts shown for 2011 in the "Bonus" column for Ms. McFarland consist of the first installment of her sign-on award ($900,000) and amounts shown for 2012 in the "Bonus" column for Ms. McFarland consist of the second and third installments of her sign-on award (which total $800,000). Amounts shown for 2011 in the "Non-Equity Incentive Plan Compensation" column for Ms. McFarland consist of: (1) the first installment of her 2011 long-term incentive award, which was prorated based on her hire date ($218,906); and (2) the performance-based portion of her 2011 deferred salary, which was not prorated ($651,667). Because she joined the company in 2011, Ms. McFarland did not receive a 2010 long-term incentive award.

(11) Effective May 18, 2012, Mr. Nichols' annual base salary rate increased from $400,000 to $450,000, his fixed deferred salary increased from an annual rate of $720,000 to an annual rate of $950,000, and his at-risk deferred salary target increased from an annual target of $480,000 to an annual target of $600,000. Mr. Nichols' total target direct compensation was increased in connection with his promotion to Chief Risk Officer in August 2011. Because of the increase in his deferred salary effective May 18, 2012, Mr. Nichols will receive his 2012 deferred salary in the following installment amounts, rather than in four equal installments: $297,000 in March 2013, $337,038 in June 2013, $383,750 in September 2013 and $383,750 in December 2013.

Grants of Plan-Based Awards in 2012

The following table shows the at-risk grants of deferred salary made to the named executives during 2012. The terms of 2012 deferred salary are described in "Compensation Discussion and Analysis—2012 Executive Compensation Program—Elements of 2012 Executive Compensation Program—Direct Compensation." Deferred salary amounts shown represent only the at-risk, performance-based portion of the named executives' 2012 deferred salary.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards[1]		
Name	Award Type	Threshold ($)	Target ($)	Maximum ($)
Timothy Mayopoulos	At-risk deferred salary—Corporate	—	398,250	398,250
	At-risk deferred salary—Individual	—	398,250	398,250
	Total at-risk deferred salary	—	796,500	796,500
Michael Williams	At-risk deferred salary—Corporate	—	810,000	810,000
	At-risk deferred salary—Individual	—	810,000	810,000
	Total at-risk deferred salary	—	1,620,000	1,620,000
Susan McFarland	At-risk deferred salary—Corporate	—	432,000	432,000
	At-risk deferred salary—Individual	—	432,000	432,000
	Total at-risk deferred salary	—	864,000	864,000
David Benson	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
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	—	276,923	276,923
	At-risk deferred salary—Individual	—	276,923	276,923
	Total at-risk deferred salary	—	553,846	553,846

(1) Amounts shown are the target amounts of the at-risk, performance-based portion of the named executives' 2012 deferred salary. Half of 2012 at-risk deferred salary was subject to reduction based on corporate performance against the 2012 conservatorship scorecard, as determined by FHFA, and half was subject to reduction based on individual performance in 2012, as determined by the Board of Directors with FHFA's approval. 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 2012 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 2012 deferred salary that will be paid to the named executives for 2012 performance are included in the "Non-Equity Incentive Plan Compensation" column of the "Summary Compensation Table for 2012, 2011 and 2010" and explained in footnote 4 to that table.

Outstanding Equity Awards at 2012 Fiscal Year-End

The following table shows outstanding stock option awards held by the named executives as of December 31, 2012. As of December 31, 2012, the exercise prices of the outstanding options referenced in the table below were substantially higher than the market price of our common stock. The closing market price of our common stock on December 31, 2012 was $0.26 per share. As of December 31, 2012, there were no remaining unvested restricted stock awards.

Name	Award Type[1]	Grant Date	Option Awards[2] Number of Securities Underlying Unexercised Options (#) Exercisable	Option Exercise Price ($)	Option Expiration Date
Timothy Mayopoulos	N/A				
Michael Williams	N/A				
Susan McFarland	N/A				
David Benson	O	1/21/2003	9,624	69.43	1/21/2013
	O	1/23/2004	12,223	78.32	1/23/2014
Terence Edwards	N/A				
John Nichols	N/A				

(1) O indicates stock options.

(2) All awards of options listed in this table vested in four equal annual installments beginning on the first anniversary of the date of grant. Amounts reported in this table represent only the unexercised portions of option awards.

Option Exercises and Stock Vested in 2012

The following table shows information regarding vesting of restricted stock held by the named executives during 2012. We have calculated the value realized on vesting by multiplying the number of shares of stock by the fair market value (based on the average of the high and low prices) of our common stock on the vesting date. We have provided no information regarding stock option exercises because no named executives exercised stock options during 2012.

Name	Stock Awards Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
Timothy Mayopoulos	—	—
Michael Williams	37,189	8,418
Susan McFarland	—	—
David Benson	5,986	1,355
Terence Edwards	—	—
John Nichols	—	—

Pension Benefits

Retirement Savings Plan

The Retirement Savings Plan is a defined contribution plan 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 match in cash employee contributions up to 3% of base salary for employees who are grandfathered participants in our Retirement Plan and up to 6% of base salary and eligible incentive compensation (which for the applicable named executives includes the deferred salary element of our executive compensation program) for employees who are not grandfathered participants in our Retirement Plan. All non-grandfathered employees are 100% vested in our matching contributions. Grandfathered employees receive benefits under the 3% of base salary matching program and are fully vested in our matching contributions after five years of service. Messrs. Williams and Benson are grandfathered employees under our Retirement Plan and therefore receive benefits under the 3% matching program, while Ms. McFarland and Messrs. Mayopoulos, Edwards and Nichols are non-grandfathered employees and therefore receive benefits under the 6% matching program.

All regular employees, with the exception of those who participated in the Executive Pension Plan (which includes Mr. Williams), receive an additional 2% contribution (based on base salary for grandfathered employees and on base salary and eligible incentive compensation for non-grandfathered employees) from the company regardless of employee contributions to this plan. Participants are fully vested in this 2% contribution after three years of service.

Defined Benefit Pension Plans

Retirement Plan. The Federal National Mortgage Association Retirement Plan for Employees Not Covered Under Civil Service Retirement Law, referred to as the "Retirement Plan," is a tax-qualified defined benefit pension plan. Participation in the Retirement Plan has been frozen, and employees hired after December 31, 2007 and employees who did not satisfy the age and service requirements to be grandfathered participants under the Retirement Plan do not earn benefits under the Retirement Plan. Prior to 2007, participation in the Retirement Plan was generally available to employees. Participants are fully vested in the Retirement Plan when they complete five years of credited service. Messrs. Williams and Benson are the only named executives who participate 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 (which consists of base salary) 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.

A different formula applies for years of service after 35 years. Final average annual earnings are average annual earnings in the participant's highest paid 36 consecutive calendar months during the participant's last 120 calendar months of employment. Earnings are base salary. 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 2012, the statutory compensation and benefit caps were $250,000 and $200,000, respectively. 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 employees who retire before age 65, benefit payments are reduced by stated percentages for each year that they are younger than 65.

Mr. Williams is eligible for early retirement under the Retirement Plan, as well as under the Supplemental Pension Plan and the 2003 Supplemental Pension Plan described below, and has elected to receive benefit payments under these plans at age 55. Applying the factors in these plans, Mr. Williams' benefit payments were reduced by 37% as a result of his election to start benefits at age 55. Payments to Mr. Williams under all three plans began in February 2013. See the "Pension Benefits for 2012" table below for more information.

Supplemental Pension Plan and 2003 Supplemental Pension Plan. The purpose of the Supplemental Pension Plan is to provide supplemental retirement benefits using the Retirement Plan formula to employees whose base salary exceeds the statutory compensation cap applicable to the Retirement Plan or whose benefit under the Retirement Plan is limited by the statutory benefit cap applicable to the Retirement Plan. The purpose of the Supplemental Pension Plan of 2003 (the "2003 Supplemental Pension Plan") is 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 2003 Supplemental Pension Plan, the amount of an officer's eligible incentive compensation taken into account is limited in the aggregate to 50% of the officer's base salary. Benefits under these plans vest 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 by stated percentages for each year that they are younger than 65 in the same manner as under the Retirement Plan. Messrs. Williams and Benson are the only named executives who participate in the Supplemental Pension Plan and the 2003 Supplemental Pension Plan.

In general, officers who are eligible to participate in the Executive Pension Plan receive the greater of their Executive Pension Plan benefits or combined Supplemental Pension Plan and 2003 Supplemental Pension Plan benefits. However, for 2010 and 2011, Mr. Williams accrued benefits under the Supplemental Pension Plan and the 2003 Supplemental Pension Plan that will not be offset by his Executive Pension Plan benefit. In light of its decision to freeze Mr. Williams' benefit under the Executive Pension Plan, the Board adopted this change for 2010 and 2011, with the approval of FHFA, to provide Mr. Williams a pension benefit for 2010 and 2011. The Board did not adopt this change for 2012.

Executive Pension Plan. The Executive Pension Plan was designed to supplement the benefits payable under the Retirement Plan. Mr. Williams is the only named executive with a benefit under the Executive Pension Plan, and his benefit under the plan was frozen as of December 31, 2009. Because the Executive Pension Plan is frozen, Mr. Williams' compensation, years of service and Retirement Plan benefits earned for years after 2009 are not taken into account in determining his benefit under the Executive Pension Plan.

Executive Pension Plan benefits vested after ten years of participation in the plan, and Mr. Williams was 90% vested at the time the plan was frozen. Mr. Williams' maximum potential annual pension benefit under the Executive Pension Plan, based on his status as 90% vested and a pension goal formula of 40%, was 36% of his average annual covered compensation earned for the years 2007, 2008 and 2009. Covered compensation is Mr. Williams' average annual base salary, including deferred compensation, plus eligible incentive compensation. For this purpose, eligible incentive compensation is limited in the aggregate to 50% of Mr. Williams' base salary, and consists of payments made in prior years under the Annual Incentive Plan and 2008 Retention Program. His payments under the Executive Pension Plan are reduced by his Retirement Plan benefit determined as of December 31, 2009.

The normal retirement age under the Executive Pension Plan is age 60; however, early retirement is available under the plan at age 55, with a reduction in the plan benefit of 2% for each year between the year in which benefit payments begin and the year in which the participant turns 60. The benefit payment for Mr. Williams is a monthly amount equal to 1/12th of his annual retirement benefit payable during the lives of Mr. Williams and his surviving spouse.

Mr. Williams is also eligible for early retirement under the Executive Pension Plan and elected to receive benefit payments under this plan at age 55. His benefit payments were reduced by 10% in accordance with the early retirement reduction provisions of the plan. Payments to Mr. Williams under this plan began in February 2013. See the "Pension Benefits for 2012" table below for more information.

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, 2012.

Pension Benefits for 2012

Name	Plan Name	Number of Years Credited Service (#)[(1)]	Present Value of Accumulated Benefit ($)[(2)]
Timothy Mayopoulos	Not applicable		
Michael Williams	Retirement Plan	22	965,975
	Supplemental Pension Plan[(3)]	22	778,316
	2003 Supplemental Pension Plan[(3)]	22	460,627
	Executive Pension Plan	9	5,659,896
Susan McFarland	Not applicable		
David Benson	Retirement Plan	11	371,826
	Supplemental Pension Plan	11	421,900
	2003 Supplemental Pension Plan	11	416,348
Terence Edwards	Not applicable		
John Nichols	Not applicable		

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(1) Mr. Williams has fewer years of credited service under the Executive Pension Plan than under the Retirement Plan because he worked at Fannie Mae prior to becoming a participant in the Executive Pension Plan. In addition, because benefit accruals under the Executive Pension Plan for years after 2009 were frozen, Mr. Williams' credited service under the Executive Pension Plan was frozen in 2009 at 9 years.

(2) The present value of Mr. Benson's benefits under the Retirement Plan, Supplemental Pension Plan and 2003 Supplemental Pension Plan assumes that he will remain in service until age 65, the normal retirement age under those plans. Mr. Williams left the company in July 2012 and began receiving retirement benefit payments in February 2013, based on a benefit commencement date of November 1, 2012, at age 55. Accordingly, the present value of Mr. Williams' benefits under the Executive Pension Plan, Retirement Plan, Supplemental Pension Plan and 2003 Supplemental Pension Plan have been calculated based on his actual benefit commencing at age 55. If Mr. Williams had remained in service until age 60, the normal retirement age under the Executive Pension Plan, the present value of his accumulated benefit under that plan as of December 31, 2012 would have been $4,635,890. If

Mr. Williams had remained in service until age 65, the normal retirement age under the Retirement Plan, the Supplemental Pension Plan and the 2003 Supplemental Pension Plan, the present value of his accumulated benefit under each of these plans as of December 31, 2012 would have been $810,110, $652,732 and $386,307, respectively. Even though the terms of the Executive Pension Plan, Retirement Plan, Supplemental Pension Plan and 2003 Supplemental Pension Plan provide for a reduction in benefit payments for those electing to receive benefits prior to the normal retirement age, the actuarial valuations of the present value of Mr. Williams' benefits are higher for retirement at age 55 under these plans 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 he will receive by electing to receive benefits earlier. The present values assume that benefits under these plans will be paid to Mr. Williams in the form of a monthly annuity for Mr. Williams' life and that of Mr. Williams' surviving spouse, reflecting Mr. Williams' benefit election under the plans. The postretirement mortality assumption for both Mr. Benson and Mr. Williams is based on the IRS prescribed mortality table for 2013 funding purposes. Under the terms of the 2003 Supplemental Pension Plan, deferred salary for 2012 has been taken into account for the purpose of determining the present value of Mr. Benson's accumulated benefit under the plan as of December 31, 2012. For additional information regarding the calculation of present value and the assumptions underlying these amounts, see "Note 12, Employee Retirement Benefits."

(3) The present value of accumulated benefit for Mr. Williams for the Supplemental Pension Plan and 2003 Supplemental Pension Plan shown in this table reflects only the amounts accrued under these plans in 2010 and 2011. Although Mr. Williams has 22 years of credited service under the Supplemental Pension Plan and 2003 Supplemental Pension Plan, as of December 31, 2012, his aggregate benefit under these plans for years prior to 2010 and for 2012 is offset by the benefit that he would receive upon his retirement under the Executive Pension Plan.

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 for non-grandfathered employees. The Supplemental Retirement Savings Plan is intended to supplement our Retirement Savings Plan, or 401(k) plan, by providing benefits to participants whose annual eligible earnings exceed the IRS annual limit on eligible compensation for 401(k) plans (for 2012, the limit was $250,000). Ms. McFarland and Messrs. Mayopoulos, Edwards and Nichols are the named executives who participated in the Supplemental Retirement Savings Plan in 2012.

For 2012, we credited 8% of the eligible compensation for Ms. McFarland and Messrs. Mayopoulos, Edwards and Nichols that exceeded the IRS annual limit for 2012. Eligible compensation for Ms. McFarland and Messrs. Mayopoulos, Edwards and Nichols 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.

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 similar to the investments offered under our 401(k) plan. Participants may change their investment elections on a daily basis. 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 employed by us.

The table below provides information on the nonqualified deferred compensation of the named executives for 2012.

Nonqualified Deferred Compensation for 2012

Name	Executive Contributions in Last Fiscal Year ($)	Company Contributions in Last Fiscal Year ($)(1)	Aggregate Earnings in Last Fiscal Year ($)(2)	Aggregate Withdrawals/ Distributions ($)	Aggregate Balance at Last Fiscal Year-End ($)(3)
Timothy Mayopoulos					
Supplemental Retirement Savings Plan	—	60,000	18,759	—	200,030
Michael Williams					
2001 Special Stock Award(4)	—	—	46	(322)	—
Susan McFarland					
Supplemental Retirement Savings Plan	—	51,077	2,349	—	56,936
David Benson	—	—	—	—	—

Terence Edwards					
Supplemental Retirement Savings Plan	—	60,000	9,315	—	159,522
John Nichols					
Supplemental Retirement Savings Plan	—	41,862	2,029	—	51,726

(1) All amounts reported in this column for Ms. McFarland and Messrs. Mayopoulos, Edwards and Nichols as company contributions in the last fiscal year pursuant to the Supplemental Retirement Savings Plan are also reported as 2012 compensation in the "All Other Compensation" column of the "Summary Compensation Table for 2012, 2011 and 2010."

(2) None of the earnings reported in this column are reported as 2012 compensation in the "Summary Compensation Table for 2012, 2011 and 2010" because the earnings are neither above-market nor preferential.

(3) Amounts reported in this column for Mr. Mayopoulos include company contributions in 2011 and 2010 to the Supplemental Retirement Savings Plan of $60,400 and $48,708, respectively, that are also reported as 2011 and 2010 compensation, respectively, in the "All Other Compensation" column of the "Summary Compensation Table for 2012, 2011 and 2010."

Amounts reported in this column for Ms. McFarland include company contributions in 2011 to the Supplemental Retirement Savings Plan of $3,477 that are also reported as 2011 compensation in the "All Other Compensation" column of the "Summary Compensation Table for 2012, 2011 and 2010."

Amounts reported in this column for Mr. Edwards include company contributions in 2011 and 2010 to the Supplemental Retirement Savings Plan of $60,400 and $30,339, respectively, that are also reported as 2011 and 2010 compensation, respectively, in the "All Other Compensation" column of the "Summary Compensation Table for 2012, 2011 and 2010."

(4) The Board previously approved a special stock award to officers for 2001 performance. On January 15, 2002, Mr. Williams deferred until retirement 1,142 shares he received in connection with this award. Mr. Williams' number of shares grew through the reinvestment of dividends prior to 2009 to 1,372.81 shares. On August 1, 2012, following his retirement, these shares were distributed to Mr. Williams, excluding a portion that were retained to cover tax obligations. Aggregate earnings on these shares reflect changes in stock price from January 1, 2012 to August 1, 2012. Aggregate withdrawals/distributions on these shares reflect the value of the shares on August 1, 2012.

Potential Payments Upon Termination or Change-in-Control

The information below describes and quantifies certain compensation and benefits that may 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, 2012, 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; however, under the 2012 executive compensation program, a named executive would be entitled to receive a specified portion of his or her earned but unpaid 2012 deferred salary if his or her employment was terminated for any reason, other than for cause. In addition, as described in more detail in "2013 Compensation Changes—CFO Compensation Changes," the Board of Directors and FHFA have approved a change to the terms of Ms. McFarland's sign-on award contingent upon her execution of a release of claims in a form satisfactory to the company.

Below we discuss various elements of the named executives' compensation under our current executive compensation program and our prior executive compensation program that would or could have become payable in the event a named executive dies, resigns, retires, or his or her employment is terminated by the company without cause. We then quantify the amounts that would or could have been paid to our named executives in these circumstances, in each case as of December 31, 2012.

2012 Deferred Salary. Under the 2012 executive compensation program, if a named executive is separated from employment with the company for any reason other than termination for cause (including his or her death, resignation, retirement or the termination of his or her employment by the company without cause), he or she would receive:

- the earned but unpaid portion of his or her fixed deferred salary, reduced by 2% for each full or partial month by which the named executive's termination precedes January 31, 2014; and
- the earned but unpaid portion of his or her at-risk deferred salary, subject to reduction from the target level for corporate and individual performance for the applicable performance year.

The forfeiture provisions applicable to earned but unpaid fixed deferred salary have been modified for 2013 and subsequent performance years. See “2013 Compensation Changes—Change to Fixed Deferred Salary Forfeiture Provisions” for more information.

If a named executive’s employment is terminated by the company for cause, he or she would not receive any of the earned but unpaid portion of his or her 2012 deferred salary. Under the 2012 executive compensation program, the company may terminate an executive for cause if it determines that the executive has: (a) materially harmed the company by, in connection with his or her 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 “no contest” with respect to, a felony.

- 2011 Deferred Salary and 2011 Long-Term Incentive Awards. The following describes the termination provisions that were applicable to deferred salary and long-term incentive awards awarded in 2011 pursuant to our prior executive compensation program. These provisions do not apply to deferred salary awarded in 2012 or subsequent years. As of the date of this filing, there are no remaining unpaid installments of 2011 deferred salary or 2011 long-term incentive awards. In general, an executive officer, including our named executives, was required to continue to be employed to receive payments of his or her 2011 deferred salary and 2011 long-term incentive award, and would forfeit any unpaid amounts upon termination of his or her employment. Exceptions to this general rule applied in the case of an executive officer’s death or retirement, and could have applied in the event an executive officer’s employment was terminated by Fannie Mae other than for cause, as follows:
Death. Under our prior executive compensation program, in the event an executive officer’s employment was terminated due to his or her death, his or her estate would receive the remaining installment payments of deferred salary for the prior year, as well as a pro rata portion of deferred salary for the current year, based on time worked during the year. In addition, his or her estate would receive any remaining installment payment of a long-term incentive award for a completed performance year and a pro rata portion of a long-term incentive award for the current performance year, based on time worked during the year; provided that the executive officer was employed at least one complete calendar quarter during the current performance year.
Retirement. Under our prior executive compensation program, if an executive officer retired from Fannie Mae at or after age 65 with at least 5 years of service, he or she would receive the remaining installment payments of deferred salary for the prior year. In addition, he or she would receive any remaining installment payment of a long-term incentive award for a completed performance year.
Termination by Fannie Mae. Under our prior executive compensation program, if Fannie Mae terminated an executive officer’s employment other than for cause, the Board of Directors could determine, subject to the approval of FHFA in consultation with Treasury, that he or she may receive certain unpaid deferred salary or long-term incentive awards. The determination to pay amounts of unpaid deferred salary or long-term incentive awards was in the discretion of the Board of Directors and FHFA; under our prior executive compensation program, the named executives did not have any contractual right or right under the terms of the deferred salary plan or the long-term incentive plan to receive any unpaid deferred salary or long-term incentive awards in the event of a termination by Fannie Mae.

In each case, for any portion of a long-term incentive award or any performance-based portion of a deferred salary award that had not been finally determined, the award would have been adjusted based on performance relative to the applicable performance goals and could not exceed 100% of the target award. Under our prior executive compensation program, an executive officer was required to agree to the terms of a standard termination agreement with the company in order to receive these post-termination of employment payments.

Under both our new executive compensation program and our prior executive compensation program, installment payments of deferred salary will be made on the original payment schedule, rather than being provided in a lump sum.

- Stock Compensation Plans. Under the Fannie Mae Stock Compensation Plan of 2003, stock options, restricted stock and restricted stock units held by our employees, including our named executives, fully vested upon the employee’s death, total disability or retirement. Under both the Fannie Mae Stock Compensation Plan of 2003 and the Fannie Mae Stock Compensation Plan of 1993, upon the occurrence of these events, or if an option holder leaves our employment after age 55 with at least 5 years of service, the option holder, or the holder’s estate in the case of death, can exercise any stock options until the initial expiration date of the stock option, which is generally 10 years after the date of grant. For these purposes, “retirement” generally means that the executive retires at or after age 60 with 5 years of service or age 65 (with no service requirement). As of December 31, 2012, there were no remaining unvested awards of stock options, restricted stock or restricted stock units.
- Retiree Medical Benefits. We currently make certain retiree medical benefits available to our full-time employees who retire and meet certain age and service requirements.

The table below shows the amounts that would have become payable to each our current named executives if the named executive’s employment had terminated on December 31, 2012 as a result of either (1) his or her resignation, retirement or the termination of his or her employment by the company without cause, or (2) his or her death. If a named executive's employment had been terminated by the company for cause, he or she would not receive any of these amounts. Because Mr. Williams left the company in July 2012, the amounts shown in the table below reflect the amounts he will receive based on his July 31, 2012 separation date, rather than the amounts he would have received if he had left the company on December 31, 2012.

Potential Payments Upon Termination as of December 31, 2012

Name	2012 Fixed Deferred Salary[(1)]	2012 At-Risk Deferred Salary[(2)]	Second Installment of 2011 Long-Term Incentive Award[(3)]	Total
Timothy Mayopoulos				
Resignation, retirement or termination without cause	1,005,290	776,588	—	1,781,878
Death	1,005,290	776,588	521,538	2,303,416
Termination for cause	—	—	—	—
Michael Williams[(4)]				
Resignation, retirement or termination without cause	1,063,385	911,250	—	1,974,635
Death	—	—	—	—
Termination for cause	—	—	—	—
Susan McFarland				
Resignation, retirement or termination without cause	1,047,840	734,400	—	1,782,240
Death	1,047,840	734,400	181,150	1,963,390
Termination for cause	—	—	—	—
David Benson				
Resignation, retirement or termination without cause	935,360	737,100	—	1,672,460
Death	935,360	737,100	465,000	2,137,460
Termination for cause	—	—	—	—
Terence Edwards				
Resignation, retirement or termination without cause	935,360	737,100	—	1,672,460
Death	935,360	737,100	465,000	2,137,460
Termination for cause	—	—	—	—
John Nichols				
Resignation, retirement or termination without cause	637,538	540,000	—	1,177,538
Death	637,538	540,000	187,069	1,364,607
Termination for cause	—	—	—	—

(1) Each named executive other than Mr. Williams would have received 74% of his or her 2012 fixed deferred salary, which is the earned but unpaid portion of his or her 2012 fixed deferred salary as of December 31, 2012, reduced by 2% for each full or partial month by which the named executive's separation of employment preceded January 31, 2014. Mr. Williams left the company in July 2012, therefore he will receive 64% of his earned but unpaid 2012 fixed deferred salary (which is 37% of the total 2012 fixed deferred salary originally awarded to him).

(2) Each named executive would have received all of his or her earned but unpaid 2012 at-risk deferred salary, as determined by FHFA and the Board in early 2013 (that is, his or her earned but unpaid 2012 at-risk deferred salary target, reduced by the amounts determined by FHFA and the Board in early 2013 as a result of corporate and individual performance). See the "At-Risk Deferred Salary (Performance-Based)" sub-column of the "Summary Compensation Table for 2012, 2011 and 2010" for the amount of 2012 at-risk deferred salary that was awarded to

each named executive.

(3) In the event of his or her death as of December 31, 2012, each named executive other than Mr. Williams would have received the second installment of his or her 2011 long-term incentive award, which was determined in early 2013 and paid in February 2013. Mr. Williams left the company in July 2012, therefore he forfeited the second installment of his 2011 long-term incentive award. None of the named executives would have received the second installment of his or her 2011 long-term incentive award if his or her employment had been terminated for any other reason as of December 31, 2012.

(4) Mr. Williams left the company on July 31, 2012. As a result, the amounts shown in this table reflect the amounts he will receive based on his July 31, 2012 separation date, rather than the amounts he would have received if he had left the company on December 31, 2012.

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 2012 compensation for our non-management directors is shown in the table below. Messrs. Mayopoulos and Williams, our only directors who also served as employees of Fannie Mae during 2012, were not entitled to receive any additional compensation for their service as directors.

2012 Non-Employee Director Compensation Table

Name	Fees Earned or Paid in Cash ($)	All Other Compensation ($)[1]	Total ($)
Dennis R. Beresford[2]	30,833	—	30,833
William Thomas Forrester	182,500	—	182,500
Brenda J. Gaines	180,000	—	180,000
Charlynn Goins	170,000	1,590	171,590
Frederick B. “Bart” Harvey III	160,000	—	160,000
Robert H. Herz	170,000	—	170,000
Philip A. Laskawy	290,000	—	290,000
Egbert L. J. Perry	160,000	—	160,000
Jonathan Plutzik	160,000	—	160,000
David H. Sidwell	175,000	—	175,000

(1) “All Other Compensation” consists only of gifts we made or will make under our matching charitable gifts program. Our matching charitable gifts program is discussed in greater detail following this table.

(2) Mr. Beresford was a member of the Board of Directors through February 29, 2012.

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, Mr. Laskawy, is $290,000. 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 $5,000 for the 2012 calendar year. Effective January 1, 2013, the aggregate total amount that may be matched by the company under this program in a calendar year has been reduced to $2,500.

Stock Ownership Guidelines for Directors. In January 2009, our Board eliminated our stock ownership requirements for directors and for senior officers. We ceased paying stock-based compensation after entering into conservatorship in September 2008.

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

The following table provides information as of December 31, 2012 with respect to shares of common stock that may be issued under our existing equity compensation plans. At this time, we are prohibited from issuing new stock without the prior written consent of Treasury under the terms of the senior preferred stock purchase agreement, 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, 2012		
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	2,440,071 (1)	$ 71.72 (2)	41,248,352 (3)
Equity compensation plans not approved by stockholders	N/A	N/A	N/A
Total	2,440,071	$ 71.72	41,248,352

(1) This amount includes outstanding stock options and shares issuable upon the payout of deferred stock balances. Outstanding awards, options and rights include grants under the Fannie Mae Stock Compensation Plan of 1993, the Stock Compensation Plan of 2003 and the payout of shares deferred upon the settlement of awards made under a prior plan.

(2) The weighted average exercise price is calculated for the outstanding options and does not take into account deferred shares.

(3) This number of shares consists of 11,960,258 shares available under the 1985 Employee Stock Purchase Plan and 29,288,094 shares available under the Stock Compensation Plan of 2003 that may be issued as restricted stock, stock bonuses, stock options or in settlement of restricted stock units, performance share program awards, stock appreciation rights or other stock-based awards. No more than 1,433,784 of the shares issuable under the Stock Compensation Plan of 2003 may be issued as restricted stock or restricted stock units vesting in full in fewer than three years, performance shares with a performance period of less than one year or bonus shares subject to similar vesting provisions or performance periods. 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 March 15, 2013. 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.

Name and Position	Amount and Nature of Beneficial Ownership[1] Common Stock Beneficially Owned Excluding Stock Options	Stock Options Exercisable or Other Shares Obtainable Within 60 Days of March 15, 2013[2]	Total Common Stock Beneficially Owned
David C. Benson[3] Executive Vice President—Capital Markets, Securitization & Corporate Strategy	14,966	12,223	27,189
Terence W. Edwards Executive Vice President—Credit Portfolio Management	0	0	0
William Thomas Forrester Director	0	0	0
Brenda J. Gaines Director	487	0	487
Charlynn Goins Director	0	0	0
Frederick B. Harvey, III Director	0	0	0
Robert H. Herz Director	0	0	0
Philip A. Laskawy Chairman of the Board	0	0	0
Timothy J. Mayopoulos President and Chief Executive Officer	0	0	0
Susan R. McFarland Executive Vice President and Chief Financial Officer	0	0	0
John R. Nichols Executive Vice President and Chief Risk Officer	0	0	0
Egbert L. J. Perry Director	0	0	0
Jonathan Plutzik Director	0	0	0
David H. Sidwell Director	0	0	0
Michael J. Williams[4] Former President and Chief Executive Officer	240,513	0	240,513
All directors and current executive officers as a group (19 persons)	72,669	43,029	115,698

(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. Except to the extent otherwise indicated, each holder has sole investment and voting power over the shares referenced in this table. Holders of stock options have no investment or voting power over the shares issuable upon the exercise of the options until the options are exercised.

(2) These shares are issuable upon the exercise of outstanding stock options.

(3)

Mr. Benson's shares include 6,010 shares with respect to which he shares voting and investment power with his spouse.

(4) Mr. Williams resigned as President and Chief Executive Officer effective in June 2012. Mr. Williams' shares include 41,539 shares held jointly with his spouse, 40,771 shares held solely by his spouse and 700 shares held by his daughter.

The following table shows the beneficial ownership of our common stock by each holder of more than 5% of our common stock as of March 15, 2013.

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 %

(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 April 2, 2013, Treasury has not exercised the warrant. The information above assumes Treasury beneficially owns no other shares of our common stock.

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 has an 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 instructions issued to the Board of Directors by the conservator on November 15, 2012 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.

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, 2012, 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, 2012, we had paid an aggregate of $31.4 billion to Treasury in dividends on the senior preferred stock. Our dividend payment on the senior preferred stock for the first quarter of 2013 was $4.2 billion.

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 the 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 January 2012, the Administration announced an extension of HAMP for an additional year through December 31, 2013. The Acting Director of FHFA has directed us to continue modifying loans under HAMP in accordance with the program's extended guidelines, and our role as program administrator has been extended accordingly.

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 to receive an aggregate of approximately $269 million from Treasury for our work as program administrator from 2009 through 2012, as well as receive from Treasury an additional amount of approximately $62 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 2013 and future years through the completion of our role as program administrator.

Treasury Housing Finance Agency Initiative

On October 19, 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 November and December 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 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 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

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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, 2012, the total amount outstanding for both Fannie Mae and Freddie Mac under the TCLF program was $3.2 billion (of which $3.0 billion consisted of principal and $189 million consisted of accrued interest) and the total unpaid principal amount outstanding for both Fannie Mae and Freddie Mac under the NIB program was $12.3 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 bear all losses of unpaid interest under the two programs. Accordingly, as of December 31, 2012, Fannie Mae's maximum potential risk of loss under these programs, assuming a 100% loss of principal, was $3.6 billion. As of December 31, 2012, 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, requires 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 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. As of December 31, 2012, we had paid $104 million to Treasury for our obligations through September 30, 2012 under the TCCA, and our liability to Treasury for TCCA-related guaranty fees for the fourth quarter of 2012 was $134 million.

Transactions with PHH Corporation

Terence W. Edwards has been Executive Vice President—Credit Portfolio Management of Fannie Mae since September 14, 2009, when he joined Fannie Mae. Prior to joining Fannie Mae, Mr. Edwards served as the President and Chief Executive Officer, as well as a member of the Board of Directors, of PHH Corporation, until June 17, 2009. Mr. Edwards continued to be employed by PHH Corporation until September 11, 2009.

PHH Mortgage Corporation ("PHH"), a subsidiary of PHH Corporation, is a single-family seller-servicer customer of Fannie Mae. We regularly enter into transactions with PHH in the ordinary course of this business relationship. In 2012, PHH delivered $21.4 billion in mortgage loans to us, which included the delivery of loans for direct payment and the delivery of pools of mortgage loans in exchange for Fannie Mae MBS. We acquired most of these mortgage loans pursuant to our early funding programs. This represented approximately 2.6% of our single-family business volume in 2012 and made PHH our sixth-largest single-family customer. In addition, as of December 31, 2012, PHH serviced $80.0 billion of single-family mortgage loans either owned directly by Fannie Mae or backing Fannie Mae MBS, which represented approximately 2.9% of our single-family servicing book, making PHH our sixth-largest servicer. PHH also entered into transactions with us to purchase or sell $4.4 billion in agency mortgage-related securities in 2012. As a single-family seller-servicer customer, PHH also pays us fees for its use of certain Fannie Mae technology, enters into risk-sharing arrangements with us, and provides us with collateral to secure some of its obligations. PHH renewed its delivery commitment to us in April 2012 for a 12-month term and in March 2013 extended its delivery commitment for an additional month to May 2013.

In November 2012, we renewed our committed purchase facility with PHH, pursuant to which PHH may have, at any given time during the term of the facility, up to $1.0 billion in outstanding early funding transactions with us. The renewal of the committed purchase facility was effective December 2012 and is for a 12-month term. This agreement is in addition to our existing uncommitted transaction limits with PHH under our early funding programs. We have also provided PHH with an early reimbursement facility to fund certain of PHH's servicing advances, which was renewed in June 2012 for a 12-month term. The maximum amount outstanding under this early reimbursement facility during 2012 was $80 million. PHH is also a participating lender in our HomePath® Mortgage financing initiative relating to our REO properties.

We believe that Fannie Mae is one of PHH's largest business partners and that transactions with Fannie Mae are material to PHH's business. According to PHH Corporation's annual report on Form 10-K for the year ended December 31, 2012, 85% of its mortgage loan sales during 2012 were sold to, or were sold pursuant to programs sponsored by, Fannie Mae, Freddie Mac or Ginnie Mae, and it is highly dependent on programs administered by Fannie Mae, Freddie Mac and Ginnie Mae.

Pursuant to a separation agreement with PHH Corporation, Mr. Edwards was entitled to receive additional compensation from PHH Corporation for his prior services to the company. Some of this additional compensation was dependent on the performance of PHH Corporation. According to Forms 8-K filed by PHH Corporation on August 5, 2009 and September 16, 2009, Mr. Edwards' separation agreement with PHH Corporation provided that he would receive the following additional compensation from PHH Corporation: (a) an amount equal to his base salary for a 24-month period beginning on PHH Corporation's first regular pay date after March 11, 2010; (b) annual cash bonuses for calendar years 2009, 2010 and 2011 in an amount equal to the bonus he would have received based on actual performance of the company (except that the 2011 bonus will be prorated to reflect the actual number of months covered by the severance period in 2011), which bonuses will be paid to Mr. Edwards at the same time bonuses are payable to corporate employees, but no later than March 15 after the end of the applicable performance year; and (c) a cash transition payment of $50,000 on PHH Corporation's first regular pay date after March 11, 2010. In addition, the outstanding options and restricted stock units that were previously awarded to him continued to vest following his departure from the company and, on the last day of the severance period, all remaining unvested options and restricted stock units became fully vested, except for specified restricted stock units which vested only to the extent that performance goals were satisfied. As of March 2012, Mr. Edwards had received all remaining compensation due to him from PHH Corporation for his prior services to the company, and was no longer entitled to any additional compensation from PHH Corporation. In addition, as of September 2012, Mr. Edwards no longer owned any stock options, restricted stock units or other equity securities of PHH Corporation.

Our policies and procedures for the review and approval of related party transactions described above under "Policies and Procedures Relating to Transactions with Related Persons" did not require the review, approval or ratification of the above-described transactions with PHH. Our Nominating & Corporate Governance Committee Charter and our Board's delegation of authorities did not require the Nominating & Corporate Governance Committee to review and approve these transactions because Fannie Mae did not engage in any such transactions directly with Mr. Edwards; however, the Nominating & Corporate Governance Committee has reviewed this relationship. As required under our Conflict of Interest Policy and Conflict of Interest Procedure for employees in effect at the time Mr. Edwards commenced his employment with us, Mr. Edwards reported his ongoing financial interest in PHH Corporation at the time of his employment and requested review and approval of the conflict. Our Chief Executive Officer reviewed and approved of the conflict, and to address the conflict required that Mr. Edwards be recused from all matters relating to PHH. Because Mr. Edwards no longer had any remaining financial interests in PHH as of September 2012, the requirement that he be recused from PHH matters was removed in December 2012.

Transactions involving The Integral Group LLC

Egbert L.J. Perry, who joined our Board in December 2008, is the Chairman, Chief Executive Officer and controlling shareholder of The Integral Group LLC, referred to as Integral. Over the past eleven years, our Multifamily (formerly, Housing and Community Development) 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, our Audit Committee is required to be in compliance with the NYSE's listing requirements for audit committees, under which members of a company's audit committee 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

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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 nine directors is independent: Philip A. Laskawy, William Thomas Forrester, Brenda J. Gaines, Charlynn Goins, Frederick B. Harvey III, Robert H. Herz, Egbert L. J. Perry, 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 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 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.
- One of these Board members serves as a trustee for a charitable organization that has 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 this relationship with the charitable organization is not material to the independence of this Board member.
- 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, him in his 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.
- Two of these Board members and an immediate family member of another Board member serve as directors and an employee, respectively, of companies that have been sued by FHFA, as conservator to Fannie Mae and Freddie Mac, for violations of laws in the sale of residential private-label mortgage-backed securities to Fannie Mae and Freddie Mac. The Board of Directors has concluded that these relationships were not material to the independence of these Board members.
- Mr. Perry is an executive officer and majority shareholder 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. 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 these loans as of December 31, 2012 constituted approximately 6% 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

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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, 2012 constituted less than 4% of the total capitalization and approximately 11% 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 seeking to make 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.

Mr. Plutzik's wife, Leslie Goldwasser, is a Managing Director with Credit Suisse. She is not an executive officer of Credit Suisse. Fannie Mae has multiple business relationships with Credit Suisse in the ordinary course of its business. We believe that payments made by or to Fannie Mae pursuant to its relationships with Credit Suisse during the past five years likely fell below our Guidelines' thresholds of materiality for when an immediate family member of a director is a current executive officer, employee, controlling shareholder or partner of a company engaged in business with Fannie Mae. Ms. Goldwasser has confirmed that she has no direct or indirect interest or involvement in any transactions between Fannie Mae and Credit Suisse and that her compensation is not affected directly or indirectly by any such transactions. In light of these facts, the Board of Directors has concluded that these business relationships are not material to Mr. Plutzik'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, 2012 and 2011. 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 2012 and 2011, including fees for the 2012 and 2011 audits.

	For the Year Ended December 31,	
Description of Fees	2012	2011
Audit fees	$39,246,000	$34,400,000
Audit-related fees[1]	2,090,000	1,850,000
Tax fees	37,000	25,000
All other fees[2]	2,360,000	65,000
Total fees	$43,733,000	$36,340,000

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(1) Consists of fees billed for attest-related services on debt offerings, securitization transactions and compliance with our covenants of the Senior Preferred Stock Purchase Agreement.

(2) Consists of fees billed for analysis and assessment of the finance organization and human capital continuity planning.

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 2012 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 2012, 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: April 2, 2013

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Timothy J. Mayopoulos and Susan R. McFarland, 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/ Philip A. Laskawy Philip A. Laskawy	Chairman of the Board of Directors	April 2, 2013
/s/ Timothy J. Mayopoulos Timothy J. Mayopoulos	President and Chief Executive Officer and Director	April 2, 2013
/s/ Susan R. McFarland Susan R. McFarland	Executive Vice President and Chief Financial Officer	April 2, 2013
/s/ Gregory A. Fink Gregory A. Fink	Senior Vice President and Controller	April 2, 2013
/s/ William Thomas Forrester William Thomas Forrester	Director	April 2, 2013

Signature	Title	Date
/s/ Brenda J. Gaines Brenda J. Gaines	Director	April 2, 2013
/s/ Charlynn Goins Charlynn Goins	Director	April 2, 2013
/s/ Frederick B. Harvey III Frederick B. Harvey III	Director	April 2, 2013
/s/ Robert H. Herz Robert H. Herz	Director	April 2, 2013
/s/ Egbert L. J. Perry Egbert L. J. Perry	Director	April 2, 2013
/s/ Jonathan Plutzik Jonathan Plutzik	Director	April 2, 2013
/s/ David H. Sidwell David H. Sidwell	Director	April 2, 2013

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 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 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, 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, 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, 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, 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, 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, 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, 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, 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, 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 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 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
4.13	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series Q
4.14	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series R
4.15	Certificate of Designation of Terms of Fannie Mae Preferred Stock, Series S
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, 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, 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, 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, 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, filed May 8, 2009.)

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Item	Description
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, 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, 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, filed May 9, 2012.)
10.2	Compensation Repayment Provisions† (Incorporated by reference to Exhibit 99.1 to Fannie Mae's Current Report on Form 8-K, filed December 24, 2009.)
10.3	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 for the year ended December 31, 2009, filed February 26, 2010.)
10.4	Deferred Pay Plan, effective December 16, 2009† (Incorporated by reference to Exhibit 10.10 to Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2009, filed February 26, 2010.)
10.5	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 for the year ended December 31, 2008, filed February 26, 2009.)
10.6	Federal National Mortgage Association Supplemental Pension Plan, as amended on November 20, 2007†
10.7	Amendment to Fannie Mae Supplemental Pension Plan for Internal Revenue Code Section 409A, effective January 1, 2009†
10.8	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 for the year ended December 31, 2008, filed February 26, 2009.)
10.9	Fannie Mae Supplemental Pension Plan of 2003, as amended on November 20, 2007†
10.10	Amendment to Fannie Mae Supplemental Pension Plan of 2003 for Internal Revenue Code Section 409A, effective January 1, 2009†
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 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, 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, filed August 8, 2012.)
10.14	Executive Pension Plan of the Federal National Mortgage Association as amended and restated† (Incorporated by reference to Exhibit 10.10 to Fannie Mae's registration statement on Form 10, filed March 31, 2003.)
10.15	Amendment, effective March 1, 2007, to the Executive Pension Plan of the Federal National Mortgage Association, as amended and restated†
10.16	Amendment to Fannie Mae Executive Pension Plan, effective November 20, 2007†
10.17	Amendment to the Executive Pension Plan of the Federal National Mortgage Association, effective January 1, 2008† (Incorporated by reference to Exhibit 10.25 to Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2008, filed February 26, 2009.)

10.18	Amendment to the Executive Pension Plan of the Federal National Mortgage Association, effective December 16, 2009† (Incorporated by reference to Exhibit 10.23 to Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2009, filed February 26, 2010.)
10.19	Amendment to the Executive Pension Plan of the Federal National Mortgage Association, effective January 1, 2010† (Incorporated by reference to Exhibit 10.22 to Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2010, filed February 24, 2011.)

Item	Description
10.20	Fannie Mae Annual Incentive Plan, as amended December 10, 2007†
10.21	Fannie Mae Stock Compensation Plan of 2003, as amended through December 14, 2007†
10.22	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 for the year ended December 31, 2008, filed February 26, 2009.)
10.23	Fannie Mae Stock Compensation Plan of 1993† (Incorporated by reference to Exhibit 10.26 to Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2011, filed February 29, 2012.)
10.24	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, filed November 5, 2009.)
10.25	Fannie Mae Procedures for Deferral and Diversification of Awards, as amended effective December 10, 2007† (Incorporated by reference to Exhibit 10.30 to Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2008, filed February 26, 2009.)
10.26	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, filed August 8, 2008.)
10.27	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 for the year ended December 31, 2008, filed February 26, 2009.)
10.28	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, filed August 5, 2010.)
10.29	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, filed August 8, 2012.)
10.30	Form of Nonqualified Stock Option Grant Award Document† (Incorporated by reference to Exhibit 10.33 to Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2009, filed February 26, 2010.)
10.31	Form of Restricted Stock Award Document† (Incorporated by reference to Exhibit 10.33 to Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2011, filed February 29, 2012.)
10.32	Form of Restricted Stock Units Award Document adopted January 23, 2008†
10.33	Form of Restricted Stock Units Award Document† (Incorporated by reference to Exhibit 10.35 to Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2011, filed February 29, 2012.)
10.34	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, filed October 2, 2008.)
10.35	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, filed May 8, 2009.)
10.36	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, filed December 30, 2009.)
10.37	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, filed August 17, 2012.)
10.38	

	Letters, dated September 1, 2005, setting forth an agreement between Fannie Mae and OFHEO (Incorporated by reference to Exhibit 10.39 to Fannie Mae's Annual Report on Form 10-K for the year ended December 31, 2011, filed February 29, 2012.)
10.39	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 for the year ended December 31, 2009, filed February 26, 2010.)

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Item	Description
10.40	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, filed June 5, 2012.)
10.41	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, filed October 23, 2009.)
10.42	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 for the year ended December 31, 2011, filed February 29, 2012.)
10.43	Termination Agreement and General Release, effective as of February 28, 2012, by and between David C. Hisey and Fannie Mae† (Incorporated by reference to Exhibit 10.43 to Fannie Mae’s Quarterly Report on Form 10-Q, filed May 9, 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*

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† This Exhibit is a management contract or compensatory plan or arrangement.

* The financial information contained in these XBRL documents is unaudited. The information in these exhibits shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, or otherwise subject to the liabilities of Section 18, nor shall they be deemed incorporated by reference into any disclosure document relating to Fannie Mae, except to the extent, if any, expressly set forth by specific reference in such filing.

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, 2012 and 2011, and the related consolidated statements of operations and comprehensive income (loss), cash flows, and changes in equity (deficit) for each of the three years in the period ended December 31, 2012. 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, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012, 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, 2012, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated April 2, 2013 expressed an adverse opinion on the Company’s internal control over financial reporting because of a material weakness.

/s/ Deloitte & Touche LLP
Washington, DC
April 2, 2013

FANNIE MAE
(In conservatorship)
Consolidated Balance Sheets
(Dollars in millions, except share amounts)

	As of December 31,	
	2012	2011
ASSETS		
Cash and cash equivalents	$21,117	$17,539
Restricted cash (includes $61,976 and $45,900, respectively, related to consolidated trusts)	67,919	50,797
Federal funds sold and securities purchased under agreements to resell or similar arrangements	32,500	46,000
Investments in securities:		
Trading, at fair value	40,695	74,198
Available-for-sale, at fair value (includes $935 and $1,191, respectively, related to consolidated trusts)	63,181	77,582
Total investments in securities	103,876	151,780
Mortgage loans:		
Loans held for sale, at lower of cost or fair value (includes $72 and $66, respectively, related to consolidated trusts)	464	311
Loans held for investment, at amortized cost:		
Of Fannie Mae	355,544	380,134
Of consolidated trusts (includes $10,800 and $3,611 respectively, at fair value and loans pledged as collateral that may be sold or repledged of $943 and $798, respectively)	2,652,193	2,590,332
Total loans held for investment	3,007,737	2,970,466
Allowance for loan losses	(58,795)	(72,156)
Total loans held for investment, net of allowance	2,948,942	2,898,310
Total mortgage loans	2,949,406	2,898,621
Accrued interest receivable, net (includes $7,567 and $8,466, respectively, related to consolidated trusts)	9,176	10,000
Acquired property, net	10,489	11,373
Other assets (includes cash pledged as collateral of $1,222 and $1,109, respectively)	27,939	25,374
Total assets	$3,222,422	$3,211,484
LIABILITIES AND EQUITY (DEFICIT)		
Liabilities:		
Accrued interest payable (includes $8,645 and $9,302, respectively, related to consolidated trusts)	$11,303	$12,648
Debt:		
Of Fannie Mae (includes $793 and $838, respectively, at fair value)	615,864	732,444
Of consolidated trusts (includes $11,647 and $3,939, respectively, at fair value)	2,573,653	2,457,428
Other liabilities (includes $1,059 and $629, respectively, related to consolidated trusts)	14,378	13,535
Total liabilities	3,215,198	3,216,055
Commitments and contingencies (Note 18)	—	—
Fannie Mae stockholders' equity (deficit):		
Senior preferred stock, 1,000,000 shares issued and outstanding	117,149	112,578
Preferred stock, 700,000,000 shares are authorized—555,374,922 shares issued and outstanding	19,130	19,130
	687	687

Common stock, no par value, no maximum authorization—1,308,762,703 shares issued, 1,158,077,970 and 1,157,767,400 shares outstanding, respectively		
Accumulated deficit	(122,766)	(128,381)
Accumulated other comprehensive income (loss)	384	(1,235)
Treasury stock, at cost, 150,684,733 and 150,995,303 shares, respectively	(7,401)	(7,403)
Total Fannie Mae stockholders' equity (deficit)	7,183	(4,624)
Noncontrolling interest	41	53
Total equity (deficit)	7,224	(4,571)
Total liabilities and equity (deficit)	$3,222,422	$3,211,484

See Notes to Consolidated Financial Statements

FANNIE MAE
(In conservatorship)
Consolidated Statements of Operations and Comprehensive Income (Loss)
(Dollars and shares in millions, except per share amounts)

	For the Year Ended December 31,		
	2012	2011	2010
Interest income:			
Trading securities	$989	$1,087	$1,251
Available-for-sale securities	3,299	3,277	5,290
Mortgage loans (includes $110,451, $123,633, and $132,591, respectively, related to consolidated trusts)	124,706	138,462	147,583
Other	196	117	146
Total interest income	129,190	142,943	154,270
Interest expense:			
Short-term debt	152	310	631
Long-term debt (includes $95,612, $108,641, and $118,373, respectively, related to consolidated trusts)	107,537	123,352	137,230
Total interest expense	107,689	123,662	137,861
Net interest income	21,501	19,281	16,409
Benefit (provision) for credit losses	852	(26,718)	(24,896)
Net interest income (loss) after benefit (provision) for credit losses	22,353	(7,437)	(8,487)
Investment gains, net	487	506	346
Other-than-temporary impairments	(311)	(614)	(694)
Noncredit portion of other-than-temporary impairments recognized in other comprehensive income (loss)	(402)	306	(28)
Net other-than-temporary impairments	(713)	(308)	(722)
Fair value losses, net	(2,977)	(6,621)	(511)
Debt extinguishment losses, net	(244)	(232)	(568)
Fee and other income	1,487	1,163	1,084
Non-interest loss	(1,960)	(5,492)	(371)
Administrative expenses:			
Salaries and employee benefits	1,195	1,236	1,277
Professional services	766	736	942
Occupancy expenses	188	179	170
Other administrative expenses	218	219	208
Total administrative expenses	2,367	2,370	2,597
Foreclosed property (income) expense	(254)	780	1,718
Other expenses	1,060	866	927
Total expenses	3,173	4,016	5,242
Income (loss) before federal income taxes	17,220	(16,945)	(14,100)
Benefit for federal income taxes	—	90	82
Net income (loss)	17,220	(16,855)	(14,018)
Other comprehensive income (loss):			
Changes in unrealized gains on available-for-sale securities, net of reclassification adjustments and taxes	1,735	622	3,504
Other	(116)	(175)	(60)
Total other comprehensive income	1,619	447	3,444
Total comprehensive income (loss)	18,839	(16,408)	(10,574)
Less: Comprehensive loss attributable to noncontrolling interest	4	—	4
Total comprehensive income (loss) attributable to Fannie Mae	$18,843	$(16,408)	$(10,570)

Net income (loss)	$17,220	$(16,855)	$(14,018)
Less: Net loss attributable to noncontrolling interest	4	—	4
Net income (loss) attributable to Fannie Mae	$17,224	$(16,855)	$(14,014)
Preferred stock dividends	(11,603)	(9,614)	(7,704)
Undistributed earnings available for distribution to senior preferred stockholder	(4,224)	—	—
Net income (loss) attributable to common stockholders (Note 11)	$1,397	$(26,469)	$(21,718)
Earnings (loss) per share:			
Basic	$0.24	$(4.61)	$(3.81)
Diluted	0.24	(4.61)	(3.81)
Weighted-average common shares outstanding:			
Basic	5,762	5,737	5,694
Diluted	5,893	5,737	5,694

See Notes to Consolidated Financial Statements

FANNIE MAE
(In conservatorship)
Consolidated Statements of Cash Flows
(Dollars in millions)

	For the Year Ended December 31,		
	2012	2011	2010
Cash flows provided by (used in) operating activities:			
Net income (loss)	$17,220	$(16,855)	$(14,018)
Reconciliation of net income (loss) to net cash provided by (used in) operating activities:			
Amortization of cost basis adjustments	(2,335)	(369)	126
(Benefit) provision for credit losses	(852)	26,718	24,896
Valuation gains	(1,345)	(408)	(1,289)
(Gains) losses from partnership investments	(119)	(82)	74
Current and deferred federal income taxes	10	1,044	258
Purchases of loans held for sale	(603)	(737)	(81)
Proceeds from repayments and sales of loans held for sale	177	68	88
Net change in trading securities, excluding non-cash transfers	31,972	(17,048)	(23,612)
Payments for foreclosed property expenses	(5,722)	(5,394)	(5,658)
Other, net	(1,402)	(2,175)	(8,179)
Net cash provided by (used in) operating activities	37,001	(15,238)	(27,395)
Cash flows provided by investing activities:			
Purchases of trading securities held for investment	(3,216)	(2,951)	(8,547)
Proceeds from maturities and paydowns of trading securities held for investment	3,508	2,591	2,638
Proceeds from sales of trading securities held for investment	3,861	1,526	21,556
Purchases of available-for-sale securities	(34)	(192)	(413)
Proceeds from maturities and paydowns of available-for-sale securities	12,636	13,552	17,102
Proceeds from sales of available-for-sale securities	1,306	3,192	7,867
Purchases of loans held for investment	(210,488)	(78,099)	(86,724)
Proceeds from repayments of loans held for investment of Fannie Mae	31,322	25,190	20,715
Proceeds from repayments of loans held for investment of consolidated trusts	797,331	544,145	574,740
Net change in restricted cash	(17,122)	12,881	(15,025)
Advances to lenders	(144,064)	(70,914)	(74,130)
Proceeds from disposition of acquired property and preforeclosure sales	38,685	47,248	39,682
Net change in federal funds sold and securities purchased under agreements to resell or similar agreements	13,500	(34,249)	41,471
Other, net	468	468	(753)
Net cash provided by investing activities	527,693	464,388	540,179
Cash flows used in financing activities:			
Proceeds from issuance of debt of Fannie Mae	736,065	766,598	1,155,993
Payments to redeem debt of Fannie Mae	(854,111)	(815,838)	(1,146,363)
Proceeds from issuance of debt of consolidated trusts	396,513	233,516	276,575
Payments to redeem debt of consolidated trusts	(832,537)	(647,695)	(808,502)
Payments of cash dividends on senior preferred stock to Treasury	(11,608)	(9,613)	(7,706)
Proceeds from senior preferred stock purchase agreement with Treasury	4,571	23,978	27,700
Other, net	(9)	146	4
Net cash used in financing activities	(561,116)	(448,908)	(502,299)
Net increase in cash and cash equivalents	3,578	242	10,485
Cash and cash equivalents at beginning of period	17,539	17,297	6,812
Cash and cash equivalents at end of period	$21,117	$17,539	$17,297

Cash paid during the period for:			
Interest	$119,259	$128,806	$140,651
Non-cash activities:			
Net mortgage loans acquired by assuming debt	$537,862	$448,437	$484,699
Net transfers from (to) mortgage loans of Fannie Mae to (from) mortgage loans of consolidated trusts	165,272	33,859	(121,852)
Transfers from advances to lenders to loans held for investment of consolidated trusts	133,554	69,223	68,385
Net transfers from mortgage loans to acquired property	46,981	56,517	66,081

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 January 1, 2010	1	580	1,113	$60,900	$20,348	$664	$2,083	$(83,531)	$(5,126)	$(7,398)	$77	$(11,983)
Change in investment in noncontrolling interest	—	—	—	—	—	—	—	—	—	—	9	9
Comprehensive loss:												
Net loss	—	—	—	—	—	—	—	(14,014)	—	—	(4)	(14,018)
Other comprehensive income, net of tax effect:												
Changes in net unrealized losses on available-for-sale securities (net of tax of $1,644)	—	—	—	—	—	—	—	—	3,054	—	—	3,054
Reclassification adjustment for other-than-temporary impairments recognized in net loss (net of tax of $253)	—	—	—	—	—	—	—	—	469	—	—	469
Reclassification adjustment for gains included in net loss (net of tax of $10)	—	—	—	—	—	—	—	—	(19)	—	—	(19)
Unrealized gains on guaranty assets and guaranty fee buy-ups	—	—	—	—	—	—	—	—	1	—	—	1
Prior service cost and actuarial gains, net of amortization for defined benefit plans	—	—	—	—	—	—	—	—	(61)	—	—	(61)
Total comprehensive loss												(10,574)
Senior preferred stock dividends	—	—	—	—	—	—	(2,265)	(5,441)	—	—	—	(7,706)
Increase to senior preferred liquidation preference	—	—	—	27,700	—	—	—	—	—	—	—	27,700
	—	(3)	5	—	(144)	3	141	—	—	—	—	—

Conversion of convertible preferred stock into common stock												
Other	—	—	1	—	—	—	41	—	—	(4)	—	37
Balance as of December 31, 2010	1	577	1,119	88,600	20,204	667	—	(102,986)	(1,682)	(7,402)	82	(2,517)
Change in investment in noncontrolling interest	—	—	—	—	—	—	—	—	—	—	(29)	(29)
Comprehensive loss:												
Net loss	—	—	—	—	—	—	—	(16,855)	—	—	—	(16,855)
Other comprehensive income, net of tax effect:												
Changes in net unrealized losses on available-for-sale securities (net of tax of $250)	—	—	—	—	—	—	—	—	465	—	—	465
Reclassification adjustment for other-than-temporary impairments recognized in net loss (net of tax of $99)	—	—	—	—	—	—	—	—	209	—	—	209
Reclassification adjustment for gains included in net loss (net of tax of $28)	—	—	—	—	—	—	—	—	(52)	—	—	(52)
Prior service cost and actuarial gains, net of amortization for defined benefit plans	—	—	—	—	—	—	—	—	(175)	—	—	(175)
Total comprehensive loss												(16,408)
Senior preferred stock dividends	—	—	—	—	—	—	(1,072)	(8,541)	—	—	—	(9,613)
Increase to senior preferred liquidation preference	—	—	—	23,978	—	—	—	—	—	—	—	23,978
Conversion of convertible preferred stock into common stock	—	(21)	39	—	(1,074)	20	1,054	—	—	—	—	—
Other	—	—	—	—	—	—	18	1	—	(1)	—	18
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	—	—	—	—	—	—	—	—	—			