FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-Q
August 08, 2013

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2013
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No.: 0-50231
Federal National Mortgage Association
(Exact name of registrant as specified in its charter)
Fannie Mae

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

Registrant’s telephone number, including area code:
(202) 752-7000
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 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
As of June 30, 2013, there were 1,158,077,970 shares of common stock of the registrant outstanding.

TABLE OF CONTENTS

		Page
PART I—Financial Information		1
Item 1.	Financial Statements	
	Condensed Consolidated Balance Sheets	85
	Condensed Consolidated Statements of Operations and Comprehensive Income	86
	Condensed Consolidated Statements of Cash Flows	87
	Note 1—Summary of Significant Accounting Policies	88
	Note 2—Consolidations and Transfers of Financial Assets	92
	Note 3—Mortgage Loans	95
	Note 4—Allowance for Loan Losses	102
	Note 5—Investments in Securities	105
	Note 6—Financial Guarantees	111
	Note 7—Acquired Property, Net	114
	Note 8—Short-Term Borrowings and Long-Term Debt	114
	Note 9—Derivative Instruments	117
	Note 10—Income Taxes	119
	Note 11—(Loss) Earnings Per Share	121
	Note 12—Segment Reporting	121
	Note 13—Equity	125
	Note 14—Concentrations of Credit Risk	126
	Note 15—Netting Arrangements	128
	Note 16—Fair Value	130
	Note 17—Commitments and Contingencies	158
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	1
	Introduction	1
	Executive Summary	2
	Legislative and Regulatory Developments	12
	Critical Accounting Policies and Estimates	14
	Consolidated Results of Operations	16
	Business Segment Results	28
	Consolidated Balance Sheet Analysis	37
	Supplemental Non-GAAP Information—Fair Value Balance Sheets	39
	Liquidity and Capital Management	43
	Off-Balance Sheet Arrangements	51
	Risk Management	52
	Forward-Looking Statements	80
Item 3.	Quantitative and Qualitative Disclosures about Market Risk	163
Item 4.	Controls and Procedures	163
PART II—Other Information		165
Item 1.	Legal Proceedings	165
Item 1A.	Risk Factors	166
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	168
Item 3.	Defaults Upon Senior Securities	169
Item 4.	Mine Safety Disclosures	169
Item 5.	Other Information	169
Item 6.	Exhibits	169

MD&A TABLE REFERENCE

Table	Description	Page
1	Selected Credit Characteristics of Single-Family Conventional Loans Held, by Acquisition Period	5
2	Single-Family Acquisitions Statistics	5
3	Credit Statistics, Single-Family Guaranty Book of Business	7
4	Summary of Condensed Consolidated Results of Operations	16
5	Analysis of Net Interest Income and Yield	17
6	Rate/Volume Analysis of Changes in Net Interest Income	19
7	Impact of Nonaccrual Loans on Net Interest Income	20
8	Fair Value Gains (Losses), Net	21
9	Total Loss Reserves	22
10	Allowance for Loan Losses and Reserve for Guaranty Losses (Combined Loss Reserves)	23
11	Nonperforming Single-Family and Multifamily Loans	25
12	Credit Loss Performance Metrics	26
13	Single-Family Credit Loss Sensitivity	27
14	Single-Family Business Results	29
15	Multifamily Business Results	31
16	Capital Markets Group Results	33
17	Capital Markets Group’s Mortgage Portfolio Activity	35
18	Capital Markets Group’s Mortgage Portfolio Composition	36
19	Summary of Condensed Consolidated Balance Sheets	37
20	Summary of Mortgage-Related Securities at Fair Value	38
21	Comparative Measures—GAAP Change in Stockholders’ Equity and Non-GAAP Change in Fair Value of Net Assets (Net of Tax Effect)	40
22	Supplemental Non-GAAP Consolidated Fair Value Balance Sheets	42
23	Activity in Debt of Fannie Mae	45
24	Outstanding Short-Term Borrowings and Long-Term Debt	47
25	Maturity Profile of Outstanding Debt of Fannie Mae Maturing Within One Year	48
26	Maturity Profile of Outstanding Debt of Fannie Mae Maturing in More Than One Year	49
27	Cash and Other Investments Portfolio	49
28	Fannie Mae Credit Ratings	50
29	Composition of Mortgage Credit Book of Business	53
30	Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business	55
31	Selected Credit Characteristics of Single-Family Conventional Loans Acquired under HARP and Refi Plus	58
32	Delinquency Status of Single-Family Conventional Loans	60
33	Single-Family Serious Delinquency Rates	61
34	Single-Family Conventional Serious Delinquency Rate Concentration Analysis	62
35	Statistics on Single-Family Loan Workouts	63
36	Percentage of Single-Family Loan Modifications That Were Current or Paid Off at One and Two Years Post-Modification	64
37	Single-Family Foreclosed Properties	64
38	Single-Family Foreclosed Property Status	65
39	Multifamily Lender Risk-Sharing	66
40	Multifamily Guaranty Book of Business Key Risk Characteristics	66

Table	Description	Page
41	Multifamily Concentration Analysis	67
42	Multifamily Foreclosed Properties	68
43	Repurchase Request Activity	69
44	Outstanding Repurchase Requests	70
45	Mortgage Insurance Coverage	72
46	Rescission Rates and Claims Resolution of Mortgage Insurance	73
47	Estimated Mortgage Insurance Benefit	74
48	Unpaid Principal Balance of Financial Guarantees	74
49	Credit Loss Exposure of Risk Management Derivative Instruments	77
50	Interest Rate Sensitivity of Net Portfolio to Changes in Interest Rate Level and Slope of Yield Curve	79
51	Derivative Impact on Interest Rate Risk (50 Basis Points)	80

PART I—FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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 our Annual Report on Form 10-K for the year ended December 31, 2012 ("2012 Form 10-K") in "Business—Conservatorship and Treasury Agreements."

You should read this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in conjunction with our unaudited condensed consolidated financial statements and related notes and the more detailed information in our 2012 Form 10-K.

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 "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 and in "Risk Factors" in our 2012 Form 10-K.

You can find a "Glossary of Terms Used in This Report" in the "MD&A" of our 2012 Form 10-K.

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 or 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. We securitize 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.

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. Ultimately, we help fill the role of enabling families to buy, refinance or rent a home.

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 provisions of our agreements with Treasury, and their impact on our business in our 2012 Form 10-K in "Business—Conservatorship and Treasury Agreements" and "Risk Factors." We discuss the uncertainty of our future and its impact on us in "Executive Summary—Outlook" in this report and in "Risk Factors" in our 2012 Form 10-K. We describe recent proposals for GSE reform that could materially affect our business in "Legislative and Regulatory Developments—GSE Reform" in this report and "Business—Legislative and Regulatory Developments" in our 2012 Form 10-K.

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

We are focused on paying Treasury for taxpayers' investment in Fannie Mae, which can be accomplished by supporting the housing 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. Our financial results for the second quarter of 2013 continued to be strong. With our net income of $10.1 billion for the second quarter of 2013, we ended the quarter with a positive net worth of $13.2 billion as of June 30, 2013. We will pay $10.2 billion of that net worth as a dividend on the senior preferred stock to Treasury in the third quarter of 2013. With this dividend payment, we will have paid a total of $105.3 billion in dividends to Treasury on the senior preferred stock. We expect to remain profitable for the foreseeable future. See "Summary of Our Financial Performance" below for an overview of our financial performance for the second quarter and first half of 2013, as compared with the second quarter and first half of 2012. For more information regarding our expectations for our future financial performance, see "Outlook" and "Strengthening Our Book of Business—Expectations Regarding Future Revenues" below.
- Providing Liquidity and Support to the Mortgage Market. We continued to be the leading provider of liquidity to the mortgage market in the second quarter of 2013. As described below under "Contributions to the Housing and Mortgage Markets Since Entering Conservatorship—2013 Acquisitions and Market Share," we remained the largest single issuer of mortgage-related securities in the secondary market during the quarter 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 72% of our single-family guaranty book of business as of June 30, 2013, while the single-family loans we acquired prior to 2009 constituted 28% 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." As described below in "Strengthening Our Book of Business—Credit Risk Profile," we expect that our new single-family book of business will be profitable over its lifetime.
- Credit Performance. Our single-family serious delinquency rate continued to decline from its peak of 5.59% as of February 28, 2010, and was 2.77% as of June 30, 2013, compared with 3.53% as of June 30, 2012. 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 "Business—Executive Summary—Reducing Credit Losses on Our Legacy Book of Business" in our 2012 Form 10-K. As part of our strategy to reduce defaults, we provided approximately 61,500 loan workouts in the second quarter of 2013 to help homeowners stay in their homes or otherwise avoid foreclosure.

We also 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 our 2012 Form 10-K in "Business—Executive Summary—Helping to Build a New Housing Finance System." In March 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, that build upon these strategic goals. See our current report on Form 8-K filed with the SEC on March 8, 2013 for a description of the 2013 conservatorship scorecard.

In addition to working on FHFA's conservatorship scorecard objectives, we are also working on additional related projects to help prepare our business and infrastructure for potential future changes in the structure of the U.S. housing

finance system. For example, one of our priorities is to modernize our technological infrastructure. These projects will likely take several

2

years to implement. We are devoting significant resources to and incurring significant expenses in implementing FHFA's objectives and these additional related projects.

Summary of Our Financial Performance

Our financial results for the second quarter and first half of 2013 reflected continued improvements in the housing and mortgage markets, resulting in a further reduction in our loss reserves, and continued stable revenues. In addition, the increase in interest rates during the second quarter and first half of 2013 resulted in improvements in the fair value of financial instruments that we mark to market in our earnings, resulting in fair value gains primarily related to derivatives during the periods. Although the increase in interest rates had a positive impact on the fair value of our financial instruments, the increase in interest rates had a negative impact on our loss reserves.

Although we expect our revenues to continue to be stable, we expect volatility from period to period in our financial results due to changes in market conditions that result in periodic fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings. 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 that serve to mitigate certain risk exposures may fluctuate, some of the financial instruments that generate these exposures are not recorded at fair value in our condensed consolidated financial statements. In addition, our credit-related income or expense can vary substantially from period to period primarily due to changes in home prices, borrower payment behavior and economic conditions.

Comprehensive Income

Quarterly Results

We recognized comprehensive income of $10.3 billion in the second quarter of 2013, consisting of net income of $10.1 billion and other comprehensive income of $166 million. In comparison, we recognized comprehensive income of $5.4 billion in the second quarter of 2012, consisting of net income of $5.1 billion and other comprehensive income of $328 million.

The $5.0 billion increase in our net income in the second quarter of 2013 compared with the second quarter of 2012 was primarily due to increases in fair value gains and credit-related income. The $3.3 billion increase in fair value gains, which consisted of fair value gains of $829 million in the second quarter of 2013 compared with fair value losses of $2.4 billion in the second quarter of 2012, was primarily driven by derivatives fair value gains as swap rates increased in the second quarter of 2013 compared with derivatives fair value losses as swap rates declined in the second quarter of 2012.

Credit-related income increased by $2.6 billion to $5.7 billion in the second quarter of 2013 from $3.1 billion in the second quarter of 2012. Credit-related income for the second quarters of 2013 and 2012 was primarily due to a significant increase in home prices, including higher average sales prices on our real estate owned ("REO") properties, which resulted in a reduction in our loss reserves and a benefit for credit losses. In addition, in the second quarter of 2013, we updated the assumptions and data used to estimate our allowance for loan losses for individually impaired single-family loans to reflect faster prepayment and lower default expectations for these loans, which resulted in a decrease to our allowance for loan losses and an incremental benefit for credit losses of approximately $2.2 billion. See "Critical Accounting Policies and Estimates—Total Loss Reserves" for additional information. The positive impact of these factors on our credit-related income for the second quarter of 2013 was partially offset by lower cash flow projections on our individually impaired loans due to increasing mortgage interest rates in the second quarter of 2013. Higher mortgage interest rates lengthen the expected lives of modified loans and thus increase the impairment related to concessions on these loans, resulting in an increase to the provision for credit losses.

We recognized a provision for federal income taxes of $2.0 billion in the second quarter of 2013 as our current estimate of pre-tax income for 2013 was greater than our estimate as of March 31, 2013. We did not recognize a provision for federal income taxes in the second quarter of 2012. See "Note 10, Income Taxes" for additional information.

Year-to-Date Results

We recognized comprehensive income of $69.6 billion in the first half of 2013, consisting of net income of $68.8 billion and other comprehensive income of $820 million. In comparison, we recognized comprehensive income of $8.5 billion in the first half of 2012, consisting of net income of $7.8 billion and other comprehensive income of $690 million.

Our comprehensive income in the first half of 2013 was driven primarily by the release of the substantial majority of our valuation allowance against our deferred tax assets in the first quarter of 2013, which resulted in a benefit for federal income taxes of $48.6 billion in our condensed consolidated statements of operations and comprehensive income for the first half of

2013. We discuss the factors that led to our conclusion to release the valuation allowance against our deferred tax assets in "Critical Accounting Policies and Estimates—Deferred Tax Assets" and "Note 10, Income Taxes."

Our pre-tax income, which excludes the benefit for federal income taxes, was $20.2 billion in the first half of 2013 compared with $7.8 billion in the first half of 2012. The increase in our pre-tax income was primarily due to an increase in credit-related income to $6.9 billion in the first half of 2013 from $772 million in the first half of 2012 and fair value gains of $1.7 billion in the first half of 2013 compared with fair value losses of $2.2 billion in the first half of 2012. The improvement in our pre-tax income in the first half of 2013 was primarily a result of increased credit-related income and fair value gains due to the same factors that impacted the second quarter of 2013, which are described above.

In addition, net interest income increased $1.3 billion in the first half of 2013 compared with the first half of 2012. The increase in net interest income was driven, in large part, by a reduction in the amount of interest income not recognized for nonaccrual mortgage loans, which resulted from a 22% decline in the number of seriously delinquent loans and our resolution agreement with Bank of America in the first quarter of 2013. The resolution agreement resulted in the recognition of $518 million of unamortized cost basis adjustments on loans repurchased by Bank of America. See "Note 20, Subsequent Events" in our 2012 Form 10-K for additional information on this agreement.

We recognized other comprehensive income of $820 million in the first half of 2013 compared with $690 million in the first half of 2012. The other comprehensive income recognized in the first half of 2013 and 2012 was driven by decreases in unrealized losses on non-agency available-for-sale 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 increased to $13.2 billion as of June 30, 2013 from $7.2 billion as of December 31, 2012, primarily due to our comprehensive income of $69.6 billion, partially offset by our payments to Treasury of $63.6 billion in senior preferred stock dividends during the first half of 2013.

As a result of our positive net worth as of June 30, 2013, we are not requesting a draw from Treasury under the senior preferred stock purchase agreement. Our dividend payment for the third quarter of 2013 will be $10.2 billion, which is calculated based on our net worth of $13.2 billion as of June 30, 2013 less the applicable capital reserve amount of $3.0 billion. As of September 30, 2013, we will have paid a total of $105.3 billion in dividends to Treasury on the senior preferred stock.

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 $53.1 billion as of June 30, 2013 from $62.6 billion as of December 31, 2012. Our total loss reserve coverage to total nonperforming loans was 23% as of June 30, 2013 compared with 25% as of December 31, 2012.

Strengthening Our Book of Business

Credit Risk Profile

While making it possible for families to purchase, refinance or rent a home, we have established responsible credit standards to protect homeowners as well as taxpayers. 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 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 less favorable than our expectations, our new single-family book of business could become unprofitable. See "Outlook—Home Prices" for our current expectations regarding changes in home prices. Also see "Outlook—Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations" in this report

4

and "Risk Factors" in both this report and our 2012 Form 10-K 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 1 below displays information regarding the credit characteristics of the loans in our single-family conventional guaranty book of business as of June 30, 2013 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 1: Selected Credit Characteristics of Single-Family Conventional Loans Held, by Acquisition Period

	As of June 30, 2013			
	Percentage 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	72 %	67 %	5 %	0.33 %
Legacy Single-Family Book of Business:				
2005-2008	18	91	33	9.69
2004 and prior	10	53	4	3.55
Total Single-Family Book of Business	100 %	70 %	10 %	2.77 %

____

(1) Calculated based on the aggregate unpaid principal balance of single-family conventional loans for each category divided by the aggregate unpaid principal balance of loans in our single-family conventional guaranty book of business.

(2) The majority of loans in our new single-family book of business as of June 30, 2013 with mark-to-market loan-to-value ("LTV") ratios over 100% were loans acquired under the Home Affordable Refinance Program. See "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring—HARP and Refi Plus Loans" 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 June 30, 2013 serious delinquency rates of loans in our legacy book of business.

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 the Home Affordable Refinance Program ("HARP").

More detailed information on the risk characteristics of loans in our single-family book of business appears in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring" and in "Table 30: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business" in that section. Information about the impact of HARP on the credit characteristics our new single-family book of business appears in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring—HARP and Refi Plus Loans" and in "Table 31: Selected Credit Characteristics of Single-Family Conventional Loans Acquired under HARP and Refi Plus" in that section.

Guaranty Fees on Recently Acquired Single-Family Loans

Table 2 below displays information regarding our average charged guaranty fee on single-family loans we acquired in the second quarter and first half of 2013 and 2012, as well as the volume of our single-family Fannie Mae MBS issuances for these periods, which is indicative of the volume of single-family loans we acquired.

Table 2: Single-Family Acquisitions Statistics

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
Single-family average charged guaranty fee on new acquisitions (in basis points)[1][2]	56.9	40.3	55.7	34.2
Single-family Fannie Mae MBS issuances (in millions)[3]	$206,978	$175,043	$428,843	$371,798

5

____

(1) Pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, 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 average 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.

The revenue we receive from guaranty fees depends on the volume of our single-family acquisitions, the charged guaranty fee at acquisition and the life of the loans. Because we increased our guaranty fees in 2012 on loans acquired after the increase, we expect to benefit from receiving significantly more revenue from guaranty fees in future periods than we have in prior periods, even after we remit some of this revenue to Treasury as we are required to do under the Temporary Payroll Tax Cut Continuation Act of 2011 (the “TCCA”). The increase in our average charged guaranty fee on newly acquired single-family loans from the first half of 2012 to the first half of 2013 was primarily attributable to the 10 basis point increase on April 1, 2012 mandated by the TCCA, from which the incremental revenue is remitted to Treasury, and an average additional increase of 10 basis points implemented during the fourth quarter of 2012. Although we do not know the specific timing, form or extent of future changes in our guaranty fee pricing, we believe that we will increase our guaranty fees in the future. These increases in guaranty fee pricing support FHFA’s strategic plan to gradually contract our dominant presence in the marketplace and attract private capital. See “Business—Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue” in our 2012 Form 10-K for more information on changes to our guaranty fee pricing.

Expectations Regarding Future Revenues

We currently have two primary sources of revenues: (1) the difference between interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets; and (2) the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties. Our “retained mortgage portfolio” refers to the mortgage-related assets we own (which excludes mortgage-related assets held by consolidated MBS trusts that are owned by third parties). Historically, we have generated the majority of our revenues from the difference between the interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets. As we discuss in our 2012 Form 10-K in “Conservatorship and Treasury Agreements—Treasury Agreements—Covenants under Treasury Agreements,” we are required to reduce the size of our retained 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 retained mortgage portfolio, our revenues generated by our retained mortgage portfolio assets will also decrease. As a result of both the shrinking of our retained mortgage portfolio and the impact of guaranty fee increases, we expect that, in a number of years, guaranty fees will become the primary source of our revenues.

We recognize almost all of our guaranty fee revenue in net interest income in our condensed consolidated statements of operations and comprehensive income. The percentage of our net interest income derived from guaranty fees on loans underlying our Fannie Mae MBS has increased over the past year. We estimate that approximately 35% of our net interest income for the six months ended June 30, 2013 was derived from guaranty fees on loans underlying our Fannie Mae MBS, compared with approximately 30% for the six months ended June 30, 2012.

We expect that, if current housing market conditions continue and if we are not required to sell more of our retained mortgage portfolio assets than we currently anticipate selling, increases in our revenues from guaranty fees will generally offset the expected declines in our revenues generated by our retained mortgage portfolio assets. Any future increases in guaranty fees will likely 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, the life of the loans in our guaranty book of business and the size of our guaranty book of business.

Because loans remain in our book of business for a number of years, the credit quality of and guaranty fees 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 the improvements in the credit quality of our loan acquisitions since 2009 and the increases in our charged guaranty fees on recently acquired loans to contribute significantly to our revenues for years to come, especially because these loans have relatively low interest rates, making them less likely to be refinanced than loans with higher interest rates.

Credit Performance

Table 3 presents information for each of the last six quarters 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 3 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 3: Credit Statistics, Single-Family Guaranty Book of Business[1]

	2013			2012				
	Q2 YTD	Q2	Q1	Full Year	Q4	Q3	Q2	Q1
	(Dollars in millions)							
As of the end of each period:								
Serious delinquency rate[2]	2.77 %	2.77 %	3.02 %	3.29 %	3.29 %	3.41 %	3.53 %	3.67 %
Seriously delinquent loan count	483,253	483,253	527,529	576,591	576,591	599,430	622,052	650,918
Nonperforming loans[3]	$230,494	$230,494	$236,988	$247,823	$247,823	$250,678	$240,472	$243,981
Foreclosed property inventory:								
Number of properties[4]	96,920	96,920	101,449	105,666	105,666	107,225	109,266	114,157
Carrying value	$9,075	$9,075	$9,263	$9,505	$9,505	$9,302	$9,421	$9,721
Combined loss reserves[5]	$49,930	$49,930	$56,626	$58,809	$58,809	$63,100	$63,365	$69,633
Total loss reserves[6]	$52,141	$52,141	$59,114	$61,396	$61,396	$65,685	$66,694	$73,119
During the period:								
Foreclosed property (number of properties):								
Acquisitions[4]	74,823	36,106	38,717	174,479	41,112	41,884	43,783	47,700
Dispositions[4]	(83,569)	(40,635)	(42,934)	(187,341)	(42,671)	(43,925)	(48,674)	(52,071)
Credit-related income (expenses)[7]	$6,715	$5,681	$1,034	$919	$2,419	$(2,130)	$3,015	$(2,385)
Credit losses[8]	$3,044	$1,541	$1,503	$14,392	$2,174	$3,485	$3,778	$4,955
REO net sales prices to unpaid principal balance[9]	66 %	68 %	65 %	59 %	62 %	61 %	59 %	56 %
Short sales net sales price to	66 %	67 %	64 %	61 %	63 %	61 %	60 %	58 %

unpaid principal balance[10]								
Loan workout activity (number of loans):								
Home retention loan workouts[11]	91,417	43,782	47,635	186,741	44,044	45,936	41,226	55,535
Short sales and deeds-in-lieu of foreclosure	33,836	17,710	16,126	88,732	19,184	23,322	24,013	22,213
Total loan workouts	125,253	61,492	63,761	275,473	63,228	69,258	65,239	77,748
Loan workouts as a percentage of delinquent loans in our guaranty book of business[12]	27.82 %	27.31 %	27.53 %	26.38 %	24.22 %	25.18 %	24.14 %	28.85 %

____

(1) Our single-family guaranty book of business consists of (a) single-family mortgage loans of Fannie Mae, (b) single-family mortgage loans underlying Fannie Mae MBS and (c) other credit enhancements that we provide on single-family mortgage assets, such as long-term standby commitments. It excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

(2) Calculated based on the number of single-family conventional loans that are 90 days or more past due and loans that have been referred to foreclosure but not yet foreclosed upon, divided by the number of loans in our single-family conventional guaranty book of business. 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.

(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 condensed 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 single-family loans recognized in our condensed consolidated balance sheets and the reserve for guaranty losses related to both loans backing Fannie Mae MBS that we do not consolidate in our condensed consolidated balance sheets and 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—Benefit 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 period, excluding those subject to repurchase requests made to our seller/servicers, divided by the aggregate unpaid principal balance ("UPB") of the related loans at the time of foreclosure. Net sales price represents the contract sales price less selling costs for the property and other charges paid by the seller at closing.

(10) Calculated as the amount of sale proceeds received on properties sold in short sale transactions during the respective period divided by the aggregate UPB of the related loans. Net sales price represents the contract sales price less the selling costs for the property and other charges paid by the seller at the closing, including borrower relocation incentive payments and subordinate lien(s) negotiated payoffs.

(11) Consists of (a) modifications, which 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 and (b) repayment plans and forbearances completed. See "Table 35: 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.

(12) 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.

We provide information on the credit performance of mortgage loans in our single-family book of business, our loan workouts, our strategies and the actions we are taking to minimize our credit losses in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" in both this report and our 2012 Form 10-K.

Contributions to the Housing and Mortgage Markets Since Entering Conservatorship

Liquidity and Support Activities

We have provided approximately $3.7 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 $3.7 trillion in liquidity we have provided to the mortgage market from 2009 through the second quarter of 2013 through our purchases and guarantees of loans enabled borrowers to complete 11.4 million mortgage refinancings and 3.1 million home purchases and provided financing for 1.9 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 mortgage products, including long-term, fixed-rate mortgages, such as the prepayable 30-year fixed-rate mortgage, which protects homeowners from interest rate swings.
- Through our loan workout efforts from 2009 through the second quarter of 2013, which included providing 962,344 loan modifications, we helped 1.3 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, including through our Refi Plus™ initiative, which offers refinancing flexibility to eligible Fannie Mae borrowers. From April 1, 2009, the date we began accepting delivery of Refi Plus loans, through June 30, 2013, we acquired approximately 3.5 million Refi Plus loans. Refinancings delivered to us

through Refi Plus in the second quarter of 2013 reduced borrowers' monthly mortgage payments by an average of $234. 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 our 2012 Form 10-K in "Business—Business Segments—Capital Markets."

2013 Acquisitions and Market Share

As the leading provider of residential mortgage credit, we enable families to buy, refinance or rent a home. In the first half of 2013, we purchased or guaranteed approximately $468 billion in single-family and multifamily loans, measured by unpaid principal balance, which includes $16.4 billion in delinquent loans we purchased from our single-family MBS trusts. Our activities enabled our lender customers to finance approximately 2.1 million single-family conventional loans and loans for approximately 283,000 units in multifamily properties during the first half of 2013.

One of FHFA's strategic goals for our conservatorship involves gradually contracting our dominant presence in the marketplace. Despite this goal, our market share remained large in the first half of 2013 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 during the second quarter of 2013, with an estimated market share of new single-family mortgage-related securities issuances of 45% in the second quarter of 2013, compared with 48% in the first quarter of 2013 and 46% in the second quarter of 2012.

We remain a constant source of liquidity in the multifamily market. We owned or guaranteed approximately 22% of the outstanding debt on multifamily properties as of March 31, 2013 (the latest date for which information is available).

Housing and Mortgage Market and Economic Conditions

Economic growth accelerated in the second quarter of 2013 compared with the first quarter of 2013. The inflation-adjusted U.S. gross domestic product, or GDP, rose by 1.7% on an annualized basis in the second quarter of 2013, according to the Bureau of Economic Analysis advance estimate, compared with an increase of 1.1% in the first quarter of 2013. We expect growth to pick up modestly in the second half of 2013. The U.S. government may reach the limit on its borrowing authority later this year, but we do not yet know what the impact or timing of this will be, although the limit is not expected to be reached before the fall of 2013. The overall economy gained an estimated 563,000 jobs in the second quarter. According to the U.S. Bureau of Labor Statistics, over the last 12 months ending in June 2013, the economy created 2.2 million non-farm jobs. The unemployment rate was 7.6% in June 2013, unchanged from March 2013. We expect that the housing market will continue to recover if employment continues to improve.

Housing activity showed improvement during the second quarter of 2013. Total existing home sales averaged 5.1 million units annualized in the second quarter of 2013, a 2.4% increase from the first quarter of 2013, according to data from the National Association of REALTORS®. Sales of foreclosed homes and preforeclosure, or "short," sales (together, "distressed sales") accounted for 15% of existing home sales in June 2013, compared with 21% in March 2013 and 26% in June 2012. New single-family home sales strengthened during the second quarter of 2013, averaging an annualized rate of 470,000 units, a 4.7% increase from the first quarter of 2013, according to the Bureau of the Census.

During the second quarter of 2013, the number of months' supply, or the inventory/sales ratio, of available existing homes rose to 5.1 months and the number of months' supply of new homes remained at 4.1 months. The inventory/sales ratio for both existing and new homes remained below their historical average.

The overall mortgage market serious delinquency rate, which has trended down since peaking in the fourth quarter of 2009, remained historically high at 6.4% as of March 31, 2013 (the latest date for which information is available), according to the Mortgage Bankers Association National Delinquency Survey. We provide information about Fannie Mae's serious delinquency rate, which also decreased, in "Credit Performance."

Based on our home price index, we estimate that home prices on a national basis increased by 5.9% in the first half of 2013 and by 7.4% from the second quarter of 2012 to the second quarter of 2013. Despite the recent increases in home prices, we estimate that, through the second quarter of 2013, home prices on a national basis remained 15.6% below their peak in the third quarter of 2006. Our home price estimates are based on preliminary data and are subject to change as additional data become available. The decline in home prices that began in 2006 left many homeowners

with “negative equity” in their homes, which means their principal mortgage balance exceeds the current market value of their home. This increases the likelihood that borrowers will abandon their mortgage obligations and that the loans will become delinquent and proceed to foreclosure. According to CoreLogic, Inc. the number of residential properties with mortgages in a negative equity position in the first quarter of 2013 was approximately 9.7 million, down from 10.5 million in the fourth quarter of 2012. The percentage of properties with mortgages in a negative equity position in the first quarter of 2013 was 19.8%, down from 21.7% in the fourth quarter of 2012 and its peak of 25.7% reached in the fourth quarter of 2009.

Thirty-year mortgage rates have increased substantially since early May. Thirty-year mortgage rates increased from 3.35% for the week of May 2nd to 4.51% for the week of July 11th, and declined slightly to 4.39% for the week of August 1st. See "Outlook—Overall Market Conditions" below for a description of our expectations regarding the impact of this increase in rates on mortgage originations.

During the second quarter of 2013, the multifamily sector benefited from ongoing demand for apartment rentals, albeit at a slightly slower pace than in the first quarter of 2013. Based on preliminary third-party data, both the estimated national multifamily vacancy rate and rental rate for institutional investment-type apartment properties improved during the second quarter of 2013. Multifamily vacancies declined to an estimated 5.10% as of June 30, 2013, compared with an estimated 5.25% as of March 31, 2013 and an estimated 5.50% as of December 31, 2012.

In addition, national asking rents increased by an estimated 0.5% during the second quarter of 2013. Continued demand for multifamily rental units is reflected in the estimated positive net absorption (that is, the net change in the number of occupied rental units during the time period) of nearly 32,000 units during the second quarter of 2013, according to preliminary data from Reis, Inc.

As a result of the continued demand for multifamily rental units over the past few years, there has been an increase in the amount of new multifamily construction development nationally. It is expected that there will be over 200,000 new multifamily units completed this year, according to the most recent data from McGraw Hill Construction. The bulk of this new supply is concentrated in about 10 metropolitan areas. As a result, multifamily fundamentals could be impacted in certain localized areas, producing a temporary slowdown in net absorption rates, occupancy levels, and effective rents later this year.

Outlook

Financial Results and Dividend Payments to Treasury. Our pre-tax income was $12.1 billion for the second quarter of 2013 and $20.2 billion for the first half of 2013. We expect to remain profitable for the foreseeable future. While we expect our annual earnings to remain strong over the next few years, our earnings may vary significantly from quarter to quarter due to many different factors, such as changes in interest rates or home prices. The estimated 5.9% increase in home prices on a national basis in the first half of the year contributed significantly to the record pre-tax income we reported for the second quarter and first half of 2013. As noted in "Home Prices" below, we expect a slower rate of home price growth in the second half of the year. For a discussion of our expectations regarding our future revenues, see "Strengthening Our Book of Business."

In compliance with our dividend obligation to Treasury, we will retain only a limited amount of any future earnings because we must 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. Through June 30, 2013, we have received a total of $116.1 billion under the senior preferred stock purchase agreement. This funding has provided us with the capital and liquidity needed to fulfill our mission of providing liquidity and support to the nation's housing finance markets and to avoid a trigger of mandatory receivership under the Federal Housing Finance Regulatory Reform Act of 2008 (the "2008 Reform Act"). We have not received funds from Treasury under the agreement since the first quarter of 2012. Under the terms of the senior preferred stock purchase agreement, dividend payments cannot be used to offset prior Treasury draws, and we are not permitted to pay down draws we have made under the agreement except in limited circumstances. Accordingly, Treasury still maintains a liquidation preference of $117.1 billion on the senior preferred stock, even though we have paid $95.0 billion in dividends through June 30, 2013 and, with our dividend payment of $10.2 billion in the third quarter of 2013, we will have paid $105.3 billion in dividends. We expect that the amount of dividends we pay Treasury will exceed the amounts we have drawn.

Because we expect our annual earnings to remain strong over the next few years, in addition to dividend payments, we expect to make substantial federal income tax payments to Treasury going forward.

Overall Market Conditions. We expect that single-family mortgage loan delinquency and severity rates will continue their downward trend, but that single-family serious delinquency, default and severity rates will remain high compared with pre-housing crisis levels. Despite steady demand and stable fundamentals at the national level, the multifamily sector may continue to exhibit below average fundamentals in certain local markets and with certain properties. We

expect the level of multifamily foreclosures for 2013 overall will generally remain commensurate with 2012 levels. Conditions may worsen if the unemployment rate increases on either a national or regional basis.

We believe that the recent increase in mortgage rates and expected further mortgage rate increases this year will result in a decline in overall single-family mortgage originations in 2013 as compared with 2012, driven by a decline in refinancings. We currently forecast that total originations in the U.S. single-family mortgage market in 2013 will decrease from 2012 levels by approximately 19%, from an estimated $2.03 trillion in 2012 to $1.65 trillion in 2013, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will decrease from an estimated $1.48 trillion in 2012 to $1.03 trillion in 2013. In the second quarter of 2013, refinancings comprised approximately 75% of our single-family business volume, compared with approximately 83% in the first quarter of 2013 and approximately 79% for all of 2012.

Home Prices. Based on our home price index, we estimate that home prices on a national basis increased by an estimated 5.9% in the first half of 2013. We expect home prices will continue to increase on a national basis for the remainder of 2013; however, we expect a slower rate of home price growth in the second half of the year as compared with the first half of the year. Future home price changes may be very different from our expectations as a result of significant inherent uncertainty in the current market environment, including uncertainty about the effect of recent and future changes in mortgage rates; actions the federal government has taken and may take with respect to 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 global economic conditions. We also expect significant regional variation in the timing and rate of home price growth.

Credit Losses. Our credit losses, which include our charge-offs, net of recoveries, reflect our realization of losses on our loans. 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 will decrease in the future as a result of the higher credit quality of our new book of business, the decrease in our legacy book and anticipated positive home price growth, which reduces the level of defaults we expect on our new book of business and our legacy book, and lowers severity at the time of charge off. However, we continue to expect our credit losses to remain elevated in 2013 relative to pre-housing crisis levels. In addition, to the extent the slow pace of foreclosures continues in the second half of 2013, our realization of some credit losses will be delayed.

Loss Reserves. Our total loss reserves were $53.1 billion as of June 30, 2013, down from $62.6 billion as of December 31, 2012 and their peak of $76.9 billion as of December 31, 2011. If delinquencies continue to trend downward and home prices continue to increase, we expect our loss reserves will continue to decline, but at a slower pace than in recent quarters due to our expectation that the pace of home price growth will slow. Although our loss reserves have declined substantially from their peak and are expected to decline further, 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.

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, what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated and whether we will continue to exist following conservatorship. We expect this uncertainty to continue.

We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding long-term reform of the GSEs. See "Business—Legislative and Regulatory Developments" in our 2012 Form 10-K and "Legislative and Regulatory Developments" in this report for discussions of proposals for GSE reform that could materially affect our business, including two bills introduced in Congress in recent months that, among other things, would require the wind down of Fannie Mae and Freddie Mac. See "Risk Factors" in our 2012 Form 10-K 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 regarding our future performance, including estimates and expectations regarding our future financial results and profitability, our future dividend and income tax

payments to Treasury, our future revenues, the profitability and performance of single-family loans we have acquired, our future acquisitions, our future delinquency, default and severity rates, our future credit losses and our future loss reserves. We also present a number of estimates and expectations in this executive summary regarding future housing market conditions, including expectations regarding future mortgage originations and future home prices. These estimates and expectations are forward-looking statements based on our current assumptions regarding numerous factors. Our future estimates of our performance and housing market conditions, as well as the actual results, may differ materially from our current estimates and expectations as a result of: the timing and level of, as well as regional variation in, home price changes; changes in interest rates,

unemployment rates and other macroeconomic and housing market variables; our future guaranty fee pricing and the impact of that pricing on our competitive environment; 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 our 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; resolution or settlement agreements we may enter into with our counterparties; 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 other factors, including those discussed in "Forward-Looking Statements," "Risk Factors" and elsewhere in this report and in our 2012 Form 10-K. 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.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

The information in this section updates and supplements information regarding legislative and regulatory developments set forth in "Business—Legislative and Regulatory Developments" and "Business—Our Charter and Regulation of Our Activities" in our 2012 Form 10-K and in "MD&A—Legislative and Regulatory Developments" in our quarterly report on Form 10-Q for the quarter ended March 31, 2013 ("First Quarter 2013 Form 10-Q"). Also see "Risk Factors" in our 2012 Form 10-K for a discussion of risks relating to legislative and regulatory matters.

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. See "Business—Legislative and Regulatory Developments" in our 2012 Form 10-K and "MD&A—Legislative and Regulatory Developments" in our First Quarter 2013 Form 10-Q for a description of activities relating to GSE reform that occurred in 2011, 2012 and early 2013, including a description of: the Administration's February 2011 report on GSE reform, which discusses potential options for a new long-term structure for the housing finance system following the wind down of Fannie Mae and Freddie Mac; certain FHFA objectives for Fannie Mae and Freddie Mac included in its 2013 conservatorship scorecard that are designed to help build a new infrastructure for the secondary mortgage market and reduce the GSEs' dominant presence in the marketplace while simplifying and shrinking our operations; and legislation introduced in the last congressional session relating to housing finance system reform and the GSEs.

On August 6, 2013, President Obama publicly discussed the Administration's housing policy priorities, including a core principle that included winding down Fannie Mae and Freddie Mac through a responsible transition. In a paper released by the White House, the Administration endorsed several initiatives to facilitate this transition, including the reduction of Fannie Mae's and Freddie Mac's investment portfolios by at least 15% per year through 2018, engaging in credit risk transfer pilot programs and continuing the work to develop a common securitization platform.

Congress has continued to consider and take action relating to housing finance system reform and the GSEs during the current congressional session. For example:

- In March 2013, the Senate passed an amendment to its budget resolution that makes it more difficult for Congress to require an increase in our guaranty fees to offset government spending.
- In March 2013, the "Jumpstart GSE Reform Act" was introduced in the Senate. The bill would prohibit an increase in a GSE's guaranty fees to offset spending unrelated to the business operations at the GSEs. The bill would also prohibit Treasury from disposing of its senior preferred stock of the GSEs until legislation has been enacted that includes specific instruction for its disposition.
- In June 2013, the "Let the GSEs Pay Us Back Act of 2013" was introduced in the House of Representatives. This bill would require the amendment of Fannie Mae's and Freddie Mac's senior preferred stock purchase agreements with Treasury to:

terminate the dividends on the senior preferred stock;
treat the funds received by a GSE from Treasury under the agreement, both before and after the amendment, as a fully amortizing loan with a maturity of 30 years and an annual interest rate of 5%; and

12

---

credit the dividends previously paid by a GSE to Treasury on the senior preferred stock as payments of principal and interest under the loan.

- In June 2013, the "Housing Finance Reform and Taxpayer Protection Act of 2013" was introduced in the Senate with bi-partisan co-sponsors. Among other things, the bill would:

require the wind down of Fannie Mae and Freddie Mac. The companies' charters would be repealed within five years of enactment (except for charter provisions relating to the rights of holders of the companies' debt and MBS obligations) and the companies would then have no authority to conduct new business. A full faith and credit U.S. government guaranty would be extended to the companies' then-outstanding debt and MBS obligations;

require that any proceeds from the wind down go first to Fannie Mae's and Freddie Mac's senior preferred shareholders, then preferred shareholders and then common shareholders, with the amount of proceeds to be paid to these shareholders to be determined by the U.S. government;

set requirements for the disposition of the functions, activities, infrastructure and property of Fannie Mae and Freddie Mac; and

decrease conforming loan limits in high cost areas and require the gradual reduction of Fannie Mae's and Freddie Mac's retained mortgage portfolios.

- In July 2013, the Financial Services Committee of the House of Representatives approved the "Protecting American Taxpayers and Homeowners Act of 2013." Among other things, the bill would:

require FHFA to place Fannie Mae and Freddie Mac into receivership within five years of enactment, or potentially longer in certain circumstances. The companies' charters would then be repealed (except for charter provisions relating to the rights of holders of the companies' debt and MBS obligations) and the companies would then have no authority to conduct new business. A full faith and credit U.S. government guaranty would be extended to the companies' then-outstanding debt and MBS obligations; and

place certain restrictions on Fannie Mae's and Freddie Mac's activities prior to being placed into receivership, including decreasing conforming loan limits in high cost areas, gradually reducing the size of Fannie Mae's and Freddie Mac's retained mortgage portfolios to $250 billion, likely requiring the companies to increase guaranty fees and requiring the companies to enter into additional risk sharing transactions to cover at least 10% of their new single-family business each year.

We expect Congress to continue to consider housing finance system reform in the current congressional session, including conducting hearings on GSE reform and considering legislation that would alter the housing finance system or the activities or operations of the GSEs. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding the future status of the GSEs.

Lawsuits Challenging the Senior Preferred Stock Purchase Agreements and Conservatorship

Several lawsuits have been filed in recent months by preferred and common stockholders of Fannie Mae and Freddie Mac against the U.S. government and, in some cases, the Secretary of the Treasury and the Acting Director of FHFA challenging actions taken by Treasury and FHFA relating to the senior preferred stock purchase agreements and conservatorships of Fannie Mae and Freddie Mac. We are not a party to these lawsuits, except for the Cacciapelle, American European Insurance Company and Dennis suits described in "Note 17, Commitments and Contingencies." The legal claims being advanced by these lawsuits include challenges to the net worth sweep provisions of the senior preferred stock, which were implemented pursuant to the third amendments to the senior preferred stock purchase agreements entered into in August 2012. These lawsuits seek various forms of relief, including monetary damages and injunctive relief nullifying the third amendments to the senior preferred stock purchase agreements. For a description of the third amendment to our senior preferred stock purchase agreement with Treasury, see our current report on Form 8-K filed with the SEC on August 17, 2012. We cannot predict the course or the outcome of these lawsuits, or the actions the U.S. government (including Treasury or FHFA) may take in response to any ruling or finding in any of these lawsuits. Accordingly, we cannot predict what impact, if any, these lawsuits will have on our business.

Lawsuit Regarding the Housing Trust Fund

In July 2013, a lawsuit was filed against FHFA and the Acting Director of FHFA challenging FHFA's decision to suspend Fannie Mae's and Freddie Mac's contributions to the Department of Housing and Urban Development's ("HUD") Housing Trust Fund. See "Legal Proceedings" for a description of this lawsuit and its potential impact on our financial

results.

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 condensed 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" in this report and in our 2012 Form 10-K.

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" in our 2012 Form 10-K for a discussion of the risks associated with the need for management to make judgments and estimates in applying our accounting policies and methods. We have identified 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

See "MD&A—Critical Accounting Policies and Estimates" in our 2012 Form 10-K for a detailed discussion of these critical accounting policies and estimates. We describe below significant changes in the judgments and assumptions we made during the first half of 2013 in applying our critical accounting policies and significant changes to our critical estimates.

Total Loss Reserves

Our total single-family and multifamily 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.

We continually monitor prepayment, default and loss severity trends and periodically make changes in our historically developed assumptions to better reflect present conditions of loan performance. In the second quarter of 2013, we updated the assumptions and data used to estimate our allowance for loan losses for individually impaired single-family loans based on current observable performance trends as well as future expectations of payment behavior. These updates reflect faster prepayment and lower default expectations for these loans primarily as a result of improvements in loan performance, in part due to increases in home prices. Increases in home prices reduce the mark-to-market loan-to-value ("LTV") ratios on these loans and, as such, borrowers build equity. Faster prepayment and lower default expectations shortened the expected average life of modified loans which reduced the expected credit losses and lowered concessions on modified loans. This resulted in a decrease to our allowance for loan losses as of June 30, 2013 and an incremental benefit for credit losses of approximately $2.2 billion for the second quarter of 2013.

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;
- whether or not there are 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.

After weighing all of the evidence, we determined that the positive evidence in favor of releasing the valuation allowance, particularly the evidence that was objectively verifiable, outweighed the negative evidence against releasing the allowance as of March 31, 2013. Therefore, we concluded that it is more likely than not that our deferred tax assets, except the deferred tax assets relating to capital loss carryforwards, will be realized. As a result, we released the valuation allowance on our deferred tax assets as of March 31, 2013, except for amounts that will be released against income before federal income taxes for the remainder of the year. However, we retained $491 million of the valuation allowance that pertains to our capital loss carryforwards, which we believe will expire unused. We recognized a benefit for federal income taxes of $48.6 billion in our condensed consolidated statements of operations and comprehensive income in the first half of 2013 primarily due to the release of the valuation allowance.

The positive evidence that weighed in favor of releasing the allowance as of March 31, 2013 and ultimately outweighed the negative evidence against releasing the allowance was the following:

- our profitability in 2012 and the first quarter of 2013 and our expectations regarding the sustainability of these profits;
- our three-year cumulative income position as of March 31, 2013;
- 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
- that our net operating loss carryforwards will not expire until 2030 through 2031 and we expect to utilize all of these carryforwards within the next few years.

As discussed in our 2012 Form 10-K in “MD&A—Critical Accounting Policies and Estimates—Deferred Tax Assets,” releasing all or a portion of the valuation allowance in any period after December 31, 2012 did not reduce the funding available to us under the senior preferred stock purchase agreement and therefore did not result in regulatory actions that would limit our business operations to ensure our safety and soundness. In addition, we transitioned from a three-year cumulative loss position over the three years ended December 31, 2012 to a three-year cumulative income position over the three years ended March 31, 2013. The change in these conditions during the first quarter of 2013 removed negative evidence that supported maintaining the valuation allowance against our net deferred tax assets as of December 31, 2012. The balance of our net deferred tax assets was $48.7 billion as of June 30, 2013 compared with net deferred tax liabilities of $509 million as of December 31, 2012.

We expect that the remaining valuation allowance not related to capital loss carryforwards will be reduced against income before federal income taxes throughout the remaining quarters of 2013 until that amount is reduced to zero as of December 31, 2013. The timing of the reduction of this remaining valuation allowance will be determined by our estimated income recognition for 2013.

Income before federal income taxes recorded in the remainder of 2013 may be greater or less than our estimate used for the first quarter of 2013. In the second quarter of 2013, we updated our estimate of income before federal income taxes for 2013 and determined it was greater than our estimate used as of March 31, 2013. Therefore, we recognized a provision for federal income taxes of $2.0 billion for the second quarter of 2013. For the first half of 2013, we recognized a benefit for federal income taxes of $48.6 billion. We did not recognize a benefit or provision for federal income taxes for the second quarter or first half of 2012. Starting in 2014, we expect that our effective tax rate will approach the statutory tax rate.

CONSOLIDATED RESULTS OF OPERATIONS

This section provides a discussion of our condensed consolidated results of operations for the periods indicated and should be read together with our condensed consolidated financial statements, including the accompanying notes.

Table 4 displays a summary of our condensed consolidated results of operations for the periods indicated.

Table 4: Summary of Condensed Consolidated Results of Operations

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Variance	2013	2012	Variance
	(Dollars in millions)					
Net interest income	$5,667	$5,428	$239	$11,971	$10,625	$1,346
Fee and other income	485	395	90	1,053	770	283
Net revenues	6,152	5,823	329	13,024	11,395	1,629
Investment gains, net	290	131	159	408	247	161
Net other-than-temporary impairments	(6)	(599)	593	(15)	(663)	648
Fair value gains (losses), net	829	(2,449)	3,278	1,663	(2,166)	3,829
Administrative expenses	(626)	(567)	(59)	(1,267)	(1,131)	(136)
Credit-related income						
Benefit for credit losses	5,383	3,041	2,342	6,340	1,041	5,299
Foreclosed property income (expense)	332	70	262	592	(269)	861
Total credit-related income	5,715	3,111	2,604	6,932	772	6,160
Other non-interest expenses[1]	(274)	(331)	57	(551)	(617)	66
Income before federal income taxes	12,080	5,119	6,961	20,194	7,837	12,357
(Provision) benefit for federal income taxes	(1,985)	—	(1,985)	48,586	—	48,586
Net income	10,095	5,119	4,976	68,780	7,837	60,943
Less: Net income attributable to noncontrolling interest	(11)	(5)	(6)	(11)	(4)	(7)
Net income attributable to Fannie Mae	$10,084	$5,114	$4,970	$68,769	$7,833	$60,936
Total comprehensive income attributable to Fannie Mae	$10,250	$5,442	$4,808	$69,589	$8,523	$61,066

____

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

Net Interest Income

Table 5 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 6 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 5: Analysis of Net Interest Income and Yield

	For the Three Months Ended June 30,					
	2013			2012		
	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	$332,779	$3,209	3.86 %	$373,943	$3,599	3.85 %
Mortgage loans of consolidated trusts	2,690,045	24,847	3.69	2,614,284	28,424	4.35
Total mortgage loans[1]	3,022,824	28,056	3.71	2,988,227	32,023	4.29
Mortgage-related securities	218,313	2,489	4.56	274,585	3,266	4.76
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(140,139)	(1,629)	4.65	(177,235)	(2,178)	4.92
Total mortgage-related securities, net	78,174	860	4.40	97,350	1,088	4.47
Non-mortgage securities[2]	53,711	13	0.10	54,451	20	0.15
Federal funds sold and securities purchased under agreements to resell or similar arrangements	72,228	22	0.12	21,916	10	0.18
Advances to lenders	5,452	27	1.96	5,637	30	2.11
Total interest-earning assets	$3,232,389	$28,978	3.59 %	$3,167,581	$33,171	4.19 %
Interest-bearing liabilities:						
Short-term debt[3]	$105,098	$36	0.14 %	$89,820	$30	0.13 %
Long-term debt	508,768	2,552	2.01	569,211	2,997	2.11
Total short-term and long-term funding debt	613,866	2,588	1.69	659,031	3,027	1.84
Debt securities of consolidated trusts	2,772,111	22,352	3.23	2,684,443	26,894	4.01
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(140,139)	(1,629)	4.65	(177,235)	(2,178)	4.92
Total debt securities of consolidated trusts held by third parties	2,631,972	20,723	3.15	2,507,208	24,716	3.94
Total interest-bearing liabilities	$3,245,838	$23,311	2.87 %	$3,166,239	$27,743	3.50 %
Net interest income/net interest yield		$5,667	0.70 %		$5,428	0.69 %

	For the Six Months Ended June 30,					
	2013			2012		
	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	$339,209	$7,039	4.15 %	$375,983	$7,168	3.81 %
Mortgage loans of consolidated trusts	2,679,643	50,241	3.75	2,605,744	57,425	4.41
Total mortgage loans[(1)]	3,018,852	57,280	3.79	2,981,727	64,593	4.33
Mortgage-related securities	227,310	5,172	4.55	281,518	6,724	4.78
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(146,562)	(3,426)	4.68	(181,725)	(4,483)	4.93
Total mortgage-related securities, net	80,748	1,746	4.32	99,793	2,241	4.49
Non-mortgage securities[(2)]	48,325	26	0.11	61,693	43	0.14
Federal funds sold and securities purchased under agreements to resell or similar arrangements	71,023	49	0.14	29,701	23	0.15
Advances to lenders	5,767	57	1.97	5,343	55	2.04
Total interest-earning assets	$3,224,715	$59,158	3.67 %	$3,178,257	$66,955	4.21 %
Interest-bearing liabilities:						
Short-term debt[(3)]	$108,923	$78	0.14 %	$111,564	$71	0.13 %
Long-term debt	511,339	5,227	2.04	573,683	6,182	2.16
Total short-term and long-term funding debt	620,262	5,305	1.71	685,247	6,253	1.82
Debt securities of consolidated trusts	2,763,662	45,308	3.28	2,673,505	54,560	4.08
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(146,562)	(3,426)	4.68	(181,725)	(4,483)	4.93
Total debt securities of consolidated trusts held by third parties	2,617,100	41,882	3.20	2,491,780	50,077	4.02
Total interest-bearing liabilities	$3,237,362	$47,187	2.92 %	$3,177,027	$56,330	3.55 %
Net interest income/net interest yield		$11,971	0.74 %		$10,625	0.67 %

	As of June 30,	
	2013	2012
Selected benchmark interest rates[(4)]		
3-month LIBOR	0.27 %	0.46 %
2-year swap rate	0.51	0.55
5-year swap rate	1.57	0.97
30-year Fannie Mae MBS par coupon rate	3.32	2.57

____

(1) Includes mortgage loans on nonaccrual status. Interest income on nonaccrual mortgage loans is recognized when cash is received.

(2) Includes cash equivalents.

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

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

18

Table 6: Rate/Volume Analysis of Changes in Net Interest Income

	For the Three Months Ended June 30, 2013 vs. 2012			For the Six Months Ended June 30, 2013 vs. 2012		
	Total	Variance Due to:[1]		Total	Variance Due to:[1]	
	Variance	Volume	Rate	Variance	Volume	Rate
	(Dollars in millions)					
Interest income:						
Mortgage loans of Fannie Mae	$(390)	$(397)	$7	$(129)	$(734)	$605
Mortgage loans of consolidated trusts	(3,577)	804	(4,381)	(7,184)	1,590	(8,774)
Total mortgage loans	(3,967)	407	(4,374)	(7,313)	856	(8,169)
Total mortgage-related securities, net	(228)	(210)	(18)	(495)	(414)	(81)
Non-mortgage securities[2]	(7)	—	(7)	(17)	(8)	(9)
Federal funds sold and securities purchased under agreements to resell or similar arrangements	12	16	(4)	26	29	(3)
Advances to lenders	(3)	(1)	(2)	2	4	(2)
Total interest income	(4,193)	212	(4,405)	(7,797)	467	(8,264)
Interest expense:						
Short-term debt[3]	6	5	1	7	(2)	9
Long-term debt	(445)	(308)	(137)	(955)	(648)	(307)
Total short-term and long-term funding debt	(439)	(303)	(136)	(948)	(650)	(298)
Total debt securities of consolidated trusts held by third parties	(3,993)	1,290	(5,283)	(8,195)	2,619	(10,814)
Total interest expense	(4,432)	987	(5,419)	(9,143)	1,969	(11,112)
Net interest income	$239	$(775)	$1,014	$1,346	$(1,502)	$2,848

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

[2] Includes cash equivalents.

[3] Includes federal funds purchased and securities sold under agreements to repurchase.

Net interest income increased in the second quarter and first half of 2013, compared with the second quarter and first half of 2012, primarily due to accelerated net amortization income on loans and debt of consolidated trusts, lower interest expense on funding debt, a reduction in the amount of interest income not recognized for nonaccrual mortgage loans, and higher guaranty fees. These factors were partially offset by lower interest income on mortgage loans and securities held in our retained mortgage portfolio. The primary drivers of these changes were:

- accelerated net amortization income related to mortgage loans and debt of consolidated trusts driven by a high volume of prepayments due to continued low interest rates;
- higher 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 condensed consolidated balance sheet declined as we continued to complete a high number of loan workouts and foreclosures, and fewer loans became seriously delinquent;
- higher guaranty fees, primarily due to an average increase of 10 basis points implemented during the fourth quarter of 2012 and the 10 basis point increase related to the TCCA, which increased guaranty fees on all single-family residential mortgages delivered to Fannie Mae starting on April 1, 2012. The incremental TCCA-related guaranty fees are remitted to Treasury and recorded in “Other expenses” in our condensed consolidated statements of operations and comprehensive income; and
- lower interest income on mortgage loans and securities held in our retained mortgage portfolio due to lower mortgage rates and a decrease in their average balance, as we continued to reduce our retained mortgage portfolio pursuant to the requirements of the senior preferred stock purchase agreement. This decrease in interest income was partially

offset by lower interest expense on funding debt due to lower borrowing rates and funding needs, which allowed us to continue to replace higher-cost debt with lower-cost debt.

Additionally, in the first quarter of 2013 we recognized higher interest income on mortgage loans of Fannie Mae as a result of our resolution agreement with Bank of America. Upon settlement of the resolution agreement, the basis adjustments on the loans repurchased by Bank of America were recognized into interest income.

We amortize cost basis adjustments, including premiums and discounts on mortgage loans and securities, as a yield adjustment over the contractual or estimated life of the loan or security as a component of net interest income. Net unamortized premiums on debt of consolidated trusts exceeded net unamortized premiums on the related mortgage loans by $22.3 billion as of June 30, 2013, compared with $16.8 billion as of December 31, 2012. This net premium position represents deferred revenue which is amortized within net interest income. This deferred revenue primarily relates to upfront fees we receive from lenders in lieu of charging a higher guaranty fee for loans with greater credit risk and 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. The increase in net unamortized premiums from December 31, 2012 to June 30, 2013 is primarily due to continued high refinancing volumes with higher upfront fees.

We had $14.9 billion in net unamortized discounts and other cost basis adjustments on mortgage loans of Fannie Mae included in our condensed consolidated balance sheets as of June 30, 2013 compared with $15.8 billion as of December 31, 2012. These discounts and other cost basis adjustments were primarily recorded upon the acquisition of credit-impaired loans and the extent to which we may record them as income in future periods will be based on the actual performance of the loans.

Table 7 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 7: Impact of Nonaccrual Loans on Net Interest Income

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2013		2012		2013		2012	
	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]	Interest Income Not Recognized for Nonaccrual Loans[1]	Reduction in Net Interest Yield[2]
	(Dollars in millions)							
Mortgage loans of Fannie Mae	$(633)		$(896)		$(1,284)		$(1,878)	
Mortgage loans of consolidated trusts	(85)		(147)		(197)		(327)	
Total mortgage loans	$(718)	(9) bps	$(1,043)	(13) bps	$(1,481)	(9) bps	$(2,205)	(14) bps

(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."

Fee and Other Income

Fee and other income includes transaction fees, technology fees, multifamily fees and other miscellaneous income. Fee and other income increased in the second quarter of 2013 compared with the second quarter of 2012 primarily as a result of a legal settlement related to certain private-label securities recognized in the second quarter of 2013. Fee and other income increased in the first half of 2013 compared with the first half of 2012 primarily as a result of higher yield maintenance fees related to large multifamily loan prepayments in the first half of 2013.

Other-Than-Temporary Impairment of Investment Securities

Net other-than-temporary impairments decreased in the second quarter and first half of 2013 compared with the second quarter and first half of 2012 primarily due to an update to the assumptions used to project cash flow estimates on our Alt-A and subprime private-label securities in 2012, which resulted in a significant decrease in the net present value of projected cash flows. We updated our assumptions due to observable market trends, including extending the time it takes to liquidate the loans and increasing loss severity rates for loans where the servicers stopped advancing payments.

Fair Value Gains (Losses), Net

Table 8 displays the components of our fair value gains and losses.

Table 8: Fair Value Gains (Losses), Net

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Risk management derivatives fair value gains (losses) attributable to:				
Net contractual interest expense accruals on interest rate swaps	$(181)	$(391)	$(381)	$(765)
Net change in fair value during the period	872	(1,430)	1,503	(877)
Total risk management derivatives fair value gains (losses), net	691	(1,821)	1,122	(1,642)
Mortgage commitment derivatives fair value gains (losses), net	497	(562)	628	(767)
Total derivatives fair value gains (losses), net	1,188	(2,383)	1,750	(2,409)
Trading securities (losses) gains, net	(228)	(14)	168	270
Other, net[1]	(131)	(52)	(255)	(27)
Fair value gains (losses), net	$829	$(2,449)	$1,663	$(2,166)

	2013	2012
5-year swap rate:		
As of January 1	0.86%	1.22%
As of March 31	0.95%	1.27%
As of June 30	1.57%	0.97%

____

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

Risk Management Derivatives Fair Value Gains (Losses), Net

Risk management derivative instruments are an integral part of our interest rate risk management strategy. We supplement our issuance of debt securities with derivative instruments to further reduce duration risk, which includes prepayment risk. We recognized risk management derivative fair value gains in the second quarter and first half of 2013 primarily as a result of increases in the fair value of our pay-fixed derivatives due to increases in swap rates during the periods. We recognized risk management derivatives fair value losses in the second quarter and first half of 2012 primarily as a result of decreases in the fair value of our pay-fixed derivatives due to decreases in swap rates during the periods.

We present, by derivative instrument type, the fair value gains and losses, net on our derivatives for the three and six months ended June 30, 2013 and 2012 in "Note 9, Derivative Instruments."

Mortgage Commitment Derivatives Fair Value Gains (Losses), Net

We recognized fair value gains on our mortgage commitments in the second quarter and first half of 2013 primarily due to gains on commitments to sell mortgage-related securities as a result of a decrease in prices as interest rates increased during the commitment period. We recognized fair value losses on our mortgage commitments in the second quarter and first half of 2012 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.

Trading Securities (Losses) Gains, Net

Losses from trading securities in the second quarter of 2013 were primarily driven by lower prices on commercial mortgage-backed securities ("CMBS") due to a widening of credit spreads and higher interest rates. Gains from trading securities in the first half of 2013 were primarily driven by gains from higher prices on Alt-A and subprime private label securities, due to the narrowing of credit spreads on these securities as well as improvements in the credit outlook of certain financial guarantors of

21

these securities in the first quarter of 2013. These gains were partially offset by the losses on CMBS in the second quarter of 2013.

Losses from trading securities in the second quarter of 2012 were primarily driven by the widening of credit spreads on CMBS. Gains from trading securities in the first half of 2012 were primarily due to the narrowing of credit spreads on CMBS in the first quarter of 2012, partially offset by the widening of credit spreads in the second quarter of 2012.

Credit-Related Income

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

Benefit 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 reduce our loss reserves, we record a benefit for credit losses. 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 9 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 condensed 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 9 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 9: Total Loss Reserves

	As of June 30, 2013	December 31, 2012
	(Dollars in millions)	
Allowance for loan losses	$49,643	$58,795
Reserve for guaranty losses[1]	1,230	1,231
Combined loss reserves	50,873	60,026
Allowance for accrued interest receivable	1,379	1,737
Allowance for preforeclosure property taxes and insurance receivable[2]	849	866
Total loss reserves	53,101	62,629
Fair value losses previously recognized on acquired credit-impaired loans[3]	12,206	13,694
Total loss reserves and fair value losses previously recognized on acquired credit-impaired loans	$65,307	$76,323

____

(1) Amount included in "Other liabilities" in our condensed consolidated balance sheets.

(2) Amount included in "Other assets" in our condensed consolidated balance sheets.

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

Table 10 displays changes in the total allowance for loan losses, reserve for guaranty losses and the total combined loss reserves for the periods indicated.

Table 10: Allowance for Loan Losses and Reserve for Guaranty Losses (Combined Loss Reserves)

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Changes in combined loss reserves:				
Allowance for loan losses:				
Beginning balance	$56,461	$70,109	$58,795	$72,156
Benefit for loan losses	(5,449)	(3,387)	(6,433)	(1,407)
Charge-offs[1]	(2,218)	(3,991)	(4,938)	(8,787)
Recoveries	572	485	1,844	971
Other[2]	277	159	375	442
Ending balance	$49,643	$63,375	$49,643	$63,375
Reserve for guaranty losses:				
Beginning balance	$1,203	$997	$1,231	$994
Provision for guaranty losses	66	346	93	366
Charge-offs	(39)	(49)	(95)	(100)
Recoveries	—	26	1	60
Ending balance	$1,230	$1,320	$1,230	$1,320
Combined loss reserves:				
Beginning balance	$57,664	$71,106	$60,026	$73,150
Total benefit for credit losses	(5,383)	(3,041)	(6,340)	(1,041)
Charge-offs[1]	(2,257)	(4,040)	(5,033)	(8,887)
Recoveries	572	511	1,845	1,031
Other[2]	277	159	375	442
Ending balance	$50,873	$64,695	$50,873	$64,695

	As of June 30, 2013	December 31, 2012
	(Dollars in millions)	
Allocation of combined loss reserves:		
Balance at end of each period attributable to:		
Single-family	$49,930	$58,809
Multifamily	943	1,217
Total	$50,873	$60,026
Single-family and multifamily combined loss reserves as a percentage of applicable guaranty book of business:		
Single-family	1.76 %	2.08 %
Multifamily	0.46	0.59
Combined loss reserves as a percentage of:		
Total guaranty book of business	1.67 %	1.97 %
Recorded investment in nonperforming loans	21.76	23.92

---

(1) Includes accrued interest of $122 million and $238 million for the three months ended June 30, 2013 and 2012, respectively, and $237 million and $511 million for the six months ended June 30, 2013 and 2012, respectively.

(2) Amounts represent the net activity recorded in our allowances for accrued interest receivable and preforeclosure property taxes and insurance receivable from borrowers. The benefit 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 benefit for credit losses continues to be a key driver of our results for each period presented. The amount of our benefit 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 benefit for credit losses and our loss reserves can be impacted by updates to the assumptions and data used in determining our allowance for loan losses.

Our benefit for credit losses increased in the second quarter and first half of 2013 compared with the second quarter and first half of 2012. Factors that impacted our benefit for credit losses include:

- Home prices increased by 4.1% in the second quarter of 2013 compared with an increase of 3.2% in the second quarter of 2012 and increased by 5.9% in the first half of 2013 compared with an increase of 2.9% in the first half of 2012. Historically, we have seen seasonal improvement in homes prices in the second quarter; however, the home price increases in the second quarter and first half of 2013 were greater than the second quarter and first half of 2012 due to improving market conditions. Higher home prices decrease the likelihood that loans will default and reduce the amount of credit loss on loans that default.
- Sales prices on dispositions of our REO properties improved in the second quarter and first half of 2013 as a result of strong demand compared with the prior year. We received net proceeds from our REO sales equal to 68% of the loans' unpaid principal balance in the second quarter of 2013 compared with 59% in the second quarter of 2012 and 66% in the first half of 2013 compared with 58% in the first half of 2012. The increase in sales prices contributed to a reduction in the single-family initial charge-off severity rate to 24.93% for the second quarter of 2013 from 30.59% for the second quarter of 2012, and to 26.09% for the first half of 2013 from 32.07% for the first half of 2012. The decrease in our charge-off severity rate indicates a lower amount of credit loss at foreclosure and, accordingly, a lower provision for credit losses.
- In the second quarter of 2013, we updated the assumptions and data used to estimate our allowance for loan losses for individually impaired single-family loans, which resulted in a decrease to our allowance for loan losses. For additional information, see "Critical Accounting Policies and Estimates—Total Loss Reserves."
- The number of seriously delinquent loans declined 22% to approximately 483,000 as of June 30, 2013 from approximately 622,000 as of June 30, 2012 and the number of "early stage" delinquent loans (loans that are 30 to 89 days past due) declined 9% to approximately 410,000 as of June 30, 2013 from approximately 451,000 as of June 30, 2012. The reduction in the number of delinquent loans was 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. A decline in the number of loans becoming delinquent or seriously delinquent reduces our total loss reserves and provision for credit losses.

The factors that contributed to our benefit for credit losses for the second quarter and first half of 2013 were partially offset by lower cash flow projections on our individually impaired loans due to increasing mortgage interest rates in the second quarter and first half of 2013. Higher mortgage interest rates lengthen the expected lives of modified loans and thus increase the impairment related to concessions on these loans, resulting in an increase to the provision for credit losses.

In the second quarter and first half of 2012, we identified misstatements in our estimate of the allowance for loan losses and reserve for guaranty losses. To correct these misstatements, we recorded an out-of-period adjustment of $1.1 billion to reduce the "Benefit for credit losses" in our condensed consolidated statement of operations and comprehensive income for the first half of 2012. See "Note 1, Summary of Significant Accounting Policies" in our 2012

Form 10-K for additional information.
We discuss our expectations regarding our future loss reserves in "Executive Summary—Outlook—Loss Reserves."

Nonperforming Loans

Our balance of nonperforming single-family loans remained high as of June 30, 2013 due to high levels of loans modified as 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 11 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."

Table 11: Nonperforming Single-Family and Multifamily Loans

	As of June 30, 2013	December 31, 2012
	(Dollars in millions)	
On-balance sheet nonperforming loans including loans in consolidated Fannie Mae MBS trusts:		
Nonaccrual loans	$96,402	$114,761
TDRs on accrual status	137,340	136,064
Total on-balance sheet nonperforming loans	233,742	250,825
Off-balance sheet nonperforming loans in unconsolidated Fannie Mae MBS trusts[1]	54	72
Total nonperforming loans	233,796	250,897
Allowance for loan losses and allowance for accrued interest receivable related to individually impaired on-balance sheet nonperforming loans	(41,191)	(45,776)
Total nonperforming loans, net of allowance	$192,605	$205,121
Accruing on-balance sheet loans past due 90 days or more[2]	$753	$3,580

	For the Six Months Ended June 30, 2013	2012
	(Dollars in millions)	
Interest related to on-balance sheet nonperforming loans:		
Interest income forgone[3]	$3,730	$4,318
Interest income recognized for the period[4]	3,029	2,981

---

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

(2) 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. 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.

(3) 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.

(4) Represents interest income recognized during the period for on-balance sheet loans classified as nonperforming as of the end of each period. Primarily includes amounts accrued while the loans were performing and cash payments received on nonaccrual loans.

Foreclosed Property (Income) Expense

Foreclosed property income increased in the second quarter of 2013 to $332 million compared with $70 million in the second quarter of 2012, primarily due to improved sales prices on dispositions of our REO properties, resulting from strong demand relative to REO supply. Additionally, we recognized foreclosed property income in the second quarter of 2013 resulting from cash received under the terms of the resolution agreement with CitiMortgage, Inc. and

Citibank, N.A. (collectively, “CitiMortgage”) related to previously charged off loans. See “MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management” for additional information on the CitiMortgage resolution agreement.

We recognized foreclosed property income of $592 million in the first half of 2013 compared with foreclosed property expense of $269 million in the first half of 2012 primarily due to the reasons described above. Additionally, we recognized foreclosed property income in the first half of 2013 resulting from cash received under the terms of the resolution agreements with Bank of America and GMAC Mortgage, LLC in the first quarter of 2013 related to previously charged off loans. See “MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management” and “Note 20, Subsequent Events” in our 2012 Form 10-K for additional information on the Bank of America and GMAC Mortgage, LLC resolution agreements.

Credit Loss Performance Metrics

Our credit-related income 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, 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 12 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 12: Credit Loss Performance Metrics

	For the Three Months Ended June 30,				For the Six Months Ended June 30,			
	2013		2012		2013		2012	
	Amount	Ratio[1]	Amount	Ratio[1]	Amount	Ratio[1]	Amount	Ratio[1]
	(Dollars in millions)							
Charge-offs, net of recoveries	$1,685	22.2 bps	$3,529	46.3 bps	$3,188	21.0 bps	$7,856	51.7 bps
Foreclosed property (income) expense	(332)	(4.4)	(70)	(0.9)	(592)	(3.9)	269	1.8
Credit losses including the effect of fair value losses on acquired credit-impaired loans	1,353	17.8	3,459	45.4	2,596	17.1	8,125	53.5
Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property (income) expense[2]	251	3.3	369	4.8	506	3.3	794	5.2
Credit losses and credit loss ratio	$1,604	21.1 bps	$3,828	50.2 bps	$3,102	20.4 bps	$8,919	58.7 bps
Credit losses attributable to:								
Single-family	$1,541		$3,778		$3,044		$8,733	
Multifamily	63		50		58		186	
Total	$1,604		$3,828		$3,102		$8,919	
Single-family default rate		0.31 %		0.41 %		0.63 %		0.82 %
Single-family initial charge-off severity rate[3]		24.93 %		30.59 %		26.09 %		32.07 %

Average multifamily default rate	0.11 %	0.10 %	0.12 %	0.25 %
Average multifamily initial charge-off severity rate[3]	30.07 %	30.86 %	28.06 %	38.78 %

---

(1) Basis points are based on the annualized 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.

26

(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 and third-party sales.

Credit losses decreased in the second quarter and first half of 2013 compared with the second quarter and first half of 2012 primarily due to improved sales prices of our REO properties and lower REO acquisitions primarily driven by lower delinquencies in the second quarter and first half of 2013. Additionally, our resolution agreements with Bank of America, GMAC Mortgage, LLC and CitiMortgage in the first half of 2013 relating to repurchase requests resulted in recoveries of previously charged off loans, which also contributed to the decrease in our credit losses in the first half of 2013. See "MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management" for additional information on the CitiMortgage resolution agreement. See "MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management" and "Note 20, Subsequent Events" in our 2012 Form 10-K for additional information on the Bank of America and GMAC Mortgage, LLC resolution agreements.

We discuss our expectations regarding our future credit losses in "Executive Summary—Outlook—Credit Losses."

Regulatory Hypothetical Stress Test Scenario

Under a September 2005 agreement with FHFA's predecessor, the Office of Federal Housing Enterprise Oversight, 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 13 displays the credit loss sensitivities as of the dates indicated for first-lien single-family loans that are in our retained mortgage 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 13: Single-Family Credit Loss Sensitivity(1)

	As of June 30, 2013	As of December 31, 2012
	(Dollars in millions)	
Gross single-family credit loss sensitivity	$11,694	$13,508
Less: Projected credit risk sharing proceeds	(1,225)	(2,206)
Net single-family credit loss sensitivity	$10,469	$11,302
Single-family loans in our retained mortgage portfolio and loans underlying Fannie Mae MBS	$2,776,464	$2,765,460
Single-family net credit loss sensitivity as a percentage of outstanding single-family loans in our retained mortgage portfolio and Fannie Mae MBS	0.38%	0.41%

(1) Represents total economic credit losses, which consist of credit losses and forgone interest. Calculations are based on 98% of our total single-family guaranty book of business as of June 30, 2013 and December 31, 2012. 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 retained mortgage portfolio or held by third parties), excluding certain whole loan Real Estate Mortgage Investment Conduits ("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.

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.

Federal Income Taxes

We recognized a provision for federal income taxes of $2.0 billion in the second quarter of 2013 and a benefit for federal income taxes of $48.6 billion for the first half of 2013. We did not recognize a benefit or provision for federal income taxes for the second quarter or first half of 2012. In the first quarter of 2013, we released the substantial majority of the valuation allowance against our deferred tax assets. We discuss the factors that led us to release our valuation allowance against our deferred tax assets in "Critical Accounting Policies and Estimates—Deferred Tax Assets" and "Note 10, Income Taxes."

BUSINESS SEGMENT RESULTS

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 condensed 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 condensed 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 condensed consolidated results of operations. We describe the management reporting and allocation process used to generate our segment results in "Note 13, Segment Reporting" in our 2012 Form 10-K.

In this section, we summarize our segment results for the second quarter and first half of 2013 and 2012 in the tables below and provide a comparative discussion of these results. This section should be read together with our comparative discussion of our condensed consolidated results of operations in "Consolidated Results of Operations." See "Note 12, Segment Reporting" for a reconciliation of our segment results to our condensed consolidated results.

During the first quarter of 2013, we released the substantial majority of our valuation allowance against our deferred tax assets, except for amounts that will be released against income before federal income taxes for the remainder of the year and the portion of the valuation allowance that pertains to our capital loss carryforwards. This resulted in a significant benefit for income taxes during the first half of 2013. See "Critical Accounting Policies and Estimates—Deferred Tax Assets" and "Note 10, Income Taxes" for additional information regarding the factors that led to our conclusion to release the valuation allowance against our deferred tax assets. The benefit for income taxes allocated to each business segment represents the release of the valuation allowance against deferred tax assets that primarily are directly attributable to that segment based on the nature of the item.

Single-Family Business Results

Table 14 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, net interest (loss) income and administrative expenses.

Table 14: Single-Family Business Results

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Variance	2013	2012	Variance
	(Dollars in millions)					
Net interest (loss) income[1]	$(50)	$(215)	$165	$470	$(594)	$1,064
Guaranty fee income[2][3]	2,544	1,970	574	4,919	3,881	1,038
Credit-related income[4]	5,681	3,015	2,666	6,715	630	6,085
Other expenses[3][5]	(627)	(416)	(211)	(1,235)	(831)	(404)
Income before federal income taxes	7,548	4,354	3,194	10,869	3,086	7,783
(Provision) benefit for federal income taxes[6]	(1,050)	—	(1,050)	30,528	—	30,528
Net income attributable to Fannie Mae	$6,498	$4,354	$2,144	$41,397	$3,086	$38,311
Other key performance data:						
Single-family effective guaranty fee rate (in basis points)[3][7]	35.8	27.7		34.7	27.3	
Single-family average charged guaranty fee on new acquisitions (in basis points)[3][8]	56.9	40.3		55.7	34.2	
Average single-family guaranty book of business[9]	$2,838,865	$2,848,947		$2,837,002	$2,846,754	
Single-family Fannie Mae MBS issuances[10]	$206,978	$175,043		$428,843	$371,798	

____

(1) Includes the cost to reimburse the Capital Markets group for interest income not recognized for loans in our retained mortgage portfolio on nonaccrual status, the cost to reimburse MBS trusts for interest income not recognized for loans in consolidated trusts on nonaccrual status and income from cash payments received on loans that have been placed on nonaccrual status.

(2) Guaranty fee income related to unconsolidated Fannie Mae MBS trusts and other credit enhancement arrangements is included in fee and other income in our condensed consolidated statements of operations and comprehensive income.

(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 average charged guaranty fee.

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

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

(6) The benefit for the first half of 2013 primarily represents the release in the first quarter of 2013 of the substantial majority of our valuation allowance against the portion of our deferred tax assets that we attribute to our single-family segment based on the nature of the item.

(7) Calculated based on annualized Single-Family segment guaranty fee income divided by the average single-family guaranty book of business, expressed in basis points.

(8) 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.

(9) Consists of single-family mortgage loans held in our retained 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 mortgage portfolio and other credit enhancements that we provide on single-family

mortgage assets. Excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

(10) Reflects unpaid principal balance of Fannie Mae MBS issued and guaranteed by the Single-Family segment during the period.

Pre-tax income increased in the second quarter and first half of 2013 compared with the second quarter and first half of 2012, primarily due to an increase in credit-related income. Credit-related income for the second quarter and first half of 2013 primarily resulted from a continued increase in home prices, including higher average sales prices on our REO properties. In addition, in the second quarter of 2013, we updated the assumptions and data used to estimate our allowance for loan losses for individually impaired single-family loans to reflect faster prepayment and lower default expectations for these loans, which resulted in an increase in credit-related income in the second quarter and first half of 2013. See “Critical Accounting Policies and Estimates—Total Loss Reserves” for additional information. The positive impact of these factors on our credit-related income for the second quarter and first half of 2013 was partially offset by lower cash flow projections on our individually impaired loans due to increasing mortgage interest rates in the second quarter and first half of 2013. Higher mortgage interest rates lengthen the expected lives of modified loans and thus increase the impairment related to concessions

on these loans, resulting in an increase to the provision for credit losses. Our single-family credit-related income represents the substantial majority of our consolidated activity. We provide a discussion of our credit-related income and credit losses in "Consolidated Results of Operations—Credit-Related Income."

Net interest loss decreased in the second quarter of 2013 compared with the second quarter of 2012, primarily due to a reduction in the amount of interest income not recognized for nonaccrual mortgage loans in our condensed consolidated balance sheets due to a decline in the number of delinquent loans in our single-family guaranty book of business. We recognized net interest income in the first half of 2013 compared with net interest loss in the first half of 2012, primarily due to the reduction in the amount of interest income not recognized for nonaccrual mortgage loans, as well as our resolution agreement with Bank of America in the first quarter of 2013, which resulted in the recovery of unamortized cost basis adjustments on the loans repurchased by Bank of America. See "Note 20, Subsequent Events" in our 2012 Form 10-K for additional information on this agreement.

Guaranty fee income increased in the second quarter and first half of 2013 compared with the second quarter and first half of 2012 due to the impact of price increases, including a 10 basis point increase on April 1, 2012 mandated by the TCCA and an additional average increase of 10 basis points implemented during the fourth quarter of 2012, and higher amortization income on risk-based fees. As described in "Business—Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue" in our 2012 Form 10-K, 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 $233 million for the second quarter of 2013 compared with $26 million for the second quarter of 2012 and $419 million for the first half of 2013 compared with $26 million for the first half of 2012 for this obligation due to Treasury. We expect the guaranty fees collected and expenses incurred to increase in the future.

Net income in the second quarter of 2013 included a provision for federal income taxes, as our current estimate of income before federal income taxes for 2013 was greater than our estimate as of March 31, 2013. There was no provision for federal income taxes recognized for the second quarter of 2012. Net income in the first half of 2013 included a benefit for federal income taxes that primarily represents the release in the first quarter of 2013 of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our single-family segment. Those assets primarily related to the allowance for loan losses and guaranty fee income. See "Note 10, Income Taxes" for additional information.

The increase in the single-family average charged guaranty fee on new acquisitions in the second quarter and first half of 2013 compared with the second quarter and first half of 2012 was primarily due to price increases implemented during 2012, as discussed above. Although we do not know the specific timing, form or extent of future changes in our guaranty fee pricing, we believe that we will increase our guaranty fees in the future. Increases in our guaranty fee pricing support FHFA's strategic plan to gradually contract our dominant presence in the marketplace and attract private capital. We expect that any future increases to guaranty fee pricing will likely further increase our guaranty fee revenue.

Our estimated market share of new single-family mortgage-related securities issuances, which excludes previously securitized mortgages, remained high at 45% for the second quarter of 2013 and 46% for the first half of 2013. Despite our continued high market share, our average single-family guaranty book of business remained flat in the second quarter and first half of 2013 compared with the second quarter and first half of 2012, primarily due to the decline in U.S. residential mortgage debt outstanding.

Multifamily Business Results

Multifamily business results primarily reflect our multifamily guaranty business. Our multifamily business results also include activity relating to our low-income housing tax credit ("LIHTC") 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 15 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 and administrative expenses.

Table 15: Multifamily Business Results

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Variance	2013	2012	Variance
	(Dollars in millions)					
Guaranty fee income[1]	$300	$252	$48	$591	$495	$96
Fee and other income	38	49	(11)	89	96	(7)
Gains from partnership investments[2]	104	18	86	163	29	134
Credit-related income[3]	34	96	(62)	217	142	75
Other expenses[4]	(80)	(57)	(23)	(153)	(125)	(28)
Income before federal income taxes	396	358	38	907	637	270
(Provision) benefit for federal income taxes[5]	(10)	—	(10)	7,978	—	7,978
Net income attributable to Fannie Mae	$386	$358	$28	$8,885	$637	$8,248
Other key performance data:						
Multifamily effective guaranty fee rate (in basis points)[6]	58.4	51.0		57.5	50.3	
Multifamily credit loss performance ratio (in basis points)[7]	12.3	10.1		5.6	18.9	
Average multifamily guaranty book of business[8]	$205,466	$197,691		$205,704	$196,855	
Multifamily new business volumes[9]	$7,765	$6,738		$15,981	$13,897	
Multifamily units financed from new business volumes	140,000	119,000		283,000	236,000	
Multifamily Fannie Mae MBS issuances[10]	$8,201	$7,542		$17,275	$16,393	
Multifamily Fannie Mae structured securities issuances (issued by Capital Markets group)	$2,972	$1,186		$6,208	$3,424	
Additional net interest income earned on Fannie Mae multifamily mortgage loans and MBS (included in Capital Markets group's results)[11]	$178	$215		$376	$419	
Average Fannie Mae multifamily mortgage loans and MBS in Capital Markets group's mortgage portfolio[12]	$78,409	$100,639		$82,166	$102,368	

	As of June 30, 2013	December 31, 2012
	(Dollars in millions)	
Multifamily serious delinquency rate	0.28 %	0.24 %
Percentage of multifamily guaranty book of business with credit enhancement	91 %	90 %
Fannie Mae percentage of total multifamily mortgage debt outstanding[13]	22 %	22 %
Multifamily Fannie Mae MBS outstanding[14]	$140,182	$128,477

---

(1) Guaranty fee income related to unconsolidated Fannie Mae MBS trusts and other credit enhancement arrangements is included in fee and other income in our condensed consolidated statements of operations and comprehensive income.

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

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

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

(5) The benefit for the first half of 2013 primarily represents the release in the first quarter of 2013 of the substantial majority of our valuation allowance against the portion of our deferred tax assets that we attribute to our multifamily segment based on the nature of the item.

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

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

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

(9) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued (excluding portfolio securitizations) and multifamily loans purchased during the period.

(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 $602 million and $817 million for the three months ended June 30, 2013 and 2012, respectively, and $1.4 billion and $2.4 billion for the six months ended June 30, 2013 and 2012, respectively, and (c) conversions of adjustable-rate loans to fixed-rate loans and discount MBS (“DMBS”) to MBS of $27 million for the three months ended June 30, 2012, and $44 million and $190 million for the six months ended June 30, 2013 and 2012, respectively. There were no conversions recognized for the second quarter of 2013.

(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 retained mortgage portfolio.

(12) Based on unpaid principal balance.

(13) Includes mortgage loans and Fannie Mae MBS guaranteed by the Multifamily segment. Information labeled as of June 30, 2013 is as of March 31, 2013 and is based on the Federal Reserve’s March 2013 mortgage debt outstanding release, the latest date for which the Federal Reserve has estimated mortgage debt outstanding for multifamily residences. Prior period amounts may have been changed to reflect revised historical data from the Federal Reserve.

(14) Includes $25.0 billion and $28.1 billion of Fannie Mae multifamily MBS held in the retained mortgage portfolio, the vast majority of which have been consolidated to loans in our condensed consolidated balance sheets, as of June 30, 2013 and December 31, 2012, respectively, and $1.2 billion and $1.3 billion of Fannie Mae MBS collateralized by bonds issued by state and local housing finance agencies as of June 30, 2013 and December 31, 2012, respectively.

Pre-tax income increased in the second quarter of 2013 compared with the second quarter of 2012 primarily due to increased guaranty fee income and increased gains from partnership investments, partially offset by decreased credit-related income. Pre-tax income increased in the first half of 2013 compared with the first half of 2012 primarily due to increased guaranty fee income, increased credit-related income and increased gains from partnership investments.

Guaranty fee income increased in the second quarter and first half of 2013 compared with the second quarter and first half of 2012 as we continue to acquire loans with higher guaranty fees. Loans with higher guaranty fees have become a larger part of our multifamily guaranty book of business, while loans with lower guaranty fees continue to liquidate.

Credit-related income decreased in the second quarter of 2013 compared with the second quarter of 2012, primarily due to a smaller reduction in our multifamily loss reserves in the second quarter of 2013. Multifamily loss reserves decreased by a larger amount in the second quarter of 2012 due to a greater improvement in default and loss severity trends compared with the second quarter of 2013. Credit-related income increased in the first half of 2013 compared with the first half of 2012, primarily due to improvements in the sales prices of our REO properties and reductions to our total loss reserves resulting from an improvement in national multifamily market fundamentals.

Gains from partnership investments increased in the second quarter and first half of 2013 compared with the second quarter and first half of 2012 as the continued strength of national multifamily market fundamentals resulted in improved property-level operating performance and increased gains on the sale of investments.

Net income in the second quarter of 2013 included a provision for federal income taxes, as our current estimate of income before federal income taxes for 2013 was greater than our estimate as of March 31, 2013. There was no provision for federal income taxes recognized for the second quarter of 2012. Net income in the first half of 2013 included a benefit for federal income taxes that primarily represents the release in the first quarter of 2013 of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our multifamily segment. Those assets primarily related to partnership and other equity investment losses and credits. See "Note 10, Income Taxes" for additional information.

Capital Markets Group Results

Table 16 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 "Risk Management—Market Risk Management, Including Interest Rate Risk Management—Derivative Instruments" in our 2012 Form 10-K and "Note 9, Derivative Instruments" in this report and our 2012 Form 10-K. 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 (losses), investment gains, allocated guaranty fee expense and administrative expenses.

Table 16: Capital Markets Group Results

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2013	2012	Variance	2013	2012	Variance
	(Dollars in millions)					
Net interest income[1]	$2,680	$3,443	$(763)	$5,422	$6,984	$(1,562)
Investment gains, net[2]	898	1,458	(560)	2,247	2,465	(218)
Net other-than-temporary impairments	(6)	(597)	591	(15)	(661)	646
Fair value gains (losses), net[3]	841	(2,461)	3,302	1,716	(2,291)	4,007
Fee and other income	255	186	69	604	366	238
Other expenses[4]	(428)	(556)	128	(854)	(1,086)	232
Income before federal income taxes	4,240	1,473	2,767	9,120	5,777	3,343
(Provision) benefit for federal income taxes[5]	(925)	—	(925)	10,080	—	10,080
Net income attributable to Fannie Mae	$3,315	$1,473	$1,842	$19,200	$5,777	$13,423

____

(1) Includes contractual interest income, excluding recoveries, on nonaccrual loans received from the Single-Family segment of $1.0 billion and $1.3 billion for the three months ended June 30, 2013 and 2012, respectively, and $2.1 billion and $2.7 billion for the six months ended June 30, 2013 and 2012, respectively. The Capital Markets group's net interest income is reported based on the mortgage-related assets held in the segment's retained mortgage portfolio and excludes interest income on mortgage-related assets held by consolidated MBS trusts that are owned by third parties and the interest expense on the corresponding debt of such trusts.

(2) We include the securities that we own regardless of whether the trust has been consolidated in reporting of gains and losses on securitizations and sales of available-for-sale securities.

(3) Includes fair value gains or losses on derivatives and trading securities that we own, regardless of whether the trust has been consolidated.

(4) Includes allocated guaranty fee expense, debt extinguishment gains (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.

(5) The benefit for the first half of 2013 primarily represents the release in the first quarter of 2013 of the substantial majority of our valuation allowance against the portion of our deferred tax assets that we attribute to our Capital Markets group based on the nature of the item.

Pre-tax income increased in the second quarter and first half of 2013 compared with the second quarter and first half of 2012 primarily due to fair value gains in the second quarter and first half of 2013 compared with fair value losses in the second quarter and first half of 2012 and a decrease in net other-than-temporary impairments, partially offset by a decrease in net interest income and a decrease in investment gains.

Fair value gains in the second quarter and first half of 2013 were primarily due to derivatives fair value gains driven by an increase in swap rates during the periods. Fair value losses in the second quarter and first half of 2012 were primarily due to derivatives fair value losses driven by a decrease in swap rates during the periods.

The net other-than-temporary impairments recognized by the Capital Markets group are consistent with our condensed consolidated statements of operations and comprehensive income 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 decrease in net interest income in the second quarter and first half of 2013 compared with the second quarter and first half of 2012 was primarily due to a decrease in our mortgage-related assets and lower interest rates on mortgage assets in our Capital Market group's 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.

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 gains (losses), net" and is displayed in "Table 8: Fair Value Gains (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 $181 million in the second quarter of 2013 compared with a decrease of $391 million in the second quarter of 2012, and would have decreased by $381 million in the first half of 2013 compared with a decrease of $765 million in the first half of 2012.

Investment gains decreased in the second quarter and first half of 2013 compared with the second quarter and first half of 2012 primarily due to decreased gains on the sale of available-for-sale ("AFS") securities due to an increase in interest rates in the second quarter of 2013.

Net income in the second quarter of 2013 included a provision for federal income taxes, as our current estimate of income before federal income taxes for 2013 was greater than our estimate as of March 31, 2013. There was no provision for federal income taxes recognized for the second quarter of 2012. Net income in the first half of 2013 included a benefit for federal income taxes that primarily represents the release in the first quarter of 2013 of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our Capital Markets group. Those assets primarily related to debt and derivative instruments and mortgage and mortgage-related assets. See "Note 10, Income Taxes" for additional information.

The Capital Markets Group's Mortgage Portfolio

The Capital Markets group's mortgage portfolio, which we also refer to as our retained mortgage portfolio, consists of mortgage loans and mortgage-related securities that we own. Mortgage-related securities held by the Capital Markets group include Fannie Mae MBS and non-Fannie Mae mortgage-related securities. The Fannie Mae MBS that we own are maintained as securities on the Capital Markets group's balance sheets. Mortgage-related assets held by consolidated MBS trusts that are owned by third-parties are not included in the Capital Markets group's mortgage portfolio.

The amount of mortgage assets that we may own is restricted by our senior preferred stock purchase agreement with Treasury. By December 31 of each year, we are required to reduce our mortgage assets to 85% of the maximum allowable amount that we were permitted to own as of December 31 of the immediately preceding calendar year, until the amount of our mortgage assets reaches $250 billion. Under the agreement, the maximum allowable amount of mortgage assets we may own as of December 31, 2013 is $552.5 billion. As of June 30, 2013, we owned $565.2 billion in mortgage assets, compared with $633.1 billion as of December 31, 2012. Additionally, our 2013 conservatorship scorecard includes a goal to sell 5%, or $21.1 billion, of the non-agency mortgage-related assets we held in our retained mortgage portfolio as of December 31, 2012. During the first half of 2013, we sold $2.2 billion of non-agency assets. For additional information regarding our 2013 conservatorship scorecard, see our current report on Form 8-K filed with the SEC on March 8, 2013.

Table 17 displays our Capital Markets group's mortgage portfolio activity for the periods indicated.

Table 17: Capital Markets Group's Mortgage Portfolio Activity[1]

	For the Three Months Ended June 30,	For the Six Months Ended June 30,