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

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012
Commission File No.: 0-50231
Federal National Mortgage Association
(Exact name of registrant as specified in its charter)
Fannie Mae

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

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

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

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

5.375% Non-Cumulative Preferred Stock, Series I, stated value $50 per share
(Title of class)
5.81% Non-Cumulative Preferred Stock, Series H, stated value $50 per share
(Title of class)
Variable Rate Non-Cumulative Preferred Stock, Series G, stated value $50 per share
(Title of class)
Variable Rate Non-Cumulative Preferred Stock, Series F, stated value $50 per share
(Title of class)
5.10% Non-Cumulative Preferred Stock, Series E, stated value $50 per share
(Title of class)
5.25% Non-Cumulative Preferred Stock, Series D, stated value $50 per share
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant computed by reference to the last reported sale price of the common stock quoted on the OTC Bulletin Board on June 30, 2012 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $301 million.

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

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MD&A TABLE REFERENCE

PART I

We have been under conservatorship, with the Federal Housing Finance Agency ("FHFA") acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. Our directors do not have any fiduciary duties to any person or entity except to the conservator and, accordingly, are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator. We describe the rights and powers of the conservator, key provisions of our agreements with the U.S. Department of the Treasury ("Treasury"), and their impact on shareholders in "Business—Conservatorship and Treasury Agreements." This report contains forward-looking statements that are based on management's current expectations and are subject to significant uncertainties and changes in circumstances. Please review "Business—Forward-Looking Statements" for more information on the forward-looking statements in this report. Our actual results may differ materially from those reflected in our forward-looking statements due to a variety of factors including, but not limited to, those discussed in "Risk Factors" and elsewhere in this report.

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

Item 1. Business

INTRODUCTION

Fannie Mae is a government-sponsored enterprise ("GSE") that was chartered by Congress in 1938. Our public mission is to support liquidity and stability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold, and increase the supply of affordable housing. Our charter does not permit us to originate loans and lend money directly to consumers in the primary mortgage market. However, as the leading source of residential mortgage credit in the secondary market, we indirectly enable families to buy, refinance or rent a home. Our most significant activity is securitizing mortgage loans originated by lenders into Fannie Mae mortgage-backed securities that we guarantee, which we refer to as Fannie Mae MBS. We also purchase mortgage loans and mortgage-related securities. We use the term "acquire" in this report to refer to both our securitizations and our purchases of mortgage-related assets. We obtain funds to support our business activities by issuing a variety of debt securities in the domestic and international capital markets.

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

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

Our conservatorship has no specified termination date, and we do not know when or how the conservatorship will be terminated, whether we will continue to exist following conservatorship, or what changes to our business structure will be made during or following the conservatorship. Our agreements with Treasury that provide for financial support also include covenants that significantly restrict our business activities. We provide additional information on the conservatorship, the provisions of our agreements with Treasury, and its impact on our business below under "Conservatorship and Treasury Agreements" and "Risk Factors." We discuss the uncertainty of our future and its impact on us in "Executive Summary—Outlook" and "Risk Factors."

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

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

EXECUTIVE SUMMARY

Please read this Executive Summary together with our MD&A and our consolidated financial statements as of December 31, 2012 and related notes.

Our Business Objectives and Strategy

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

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

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

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

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

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

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

Summary of Our Financial Performance for 2012

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

Comprehensive Income (Loss)

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

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

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

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

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

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

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

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

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

Net Worth

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

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

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

Table 1: Treasury Draws and Senior Preferred Stock Dividend Payments

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

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

(2)

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

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

Total Loss Reserves

Our total loss reserves consist of (1) our allowance for loan losses, (2) our allowance for accrued interest receivable, (3) our allowance for preforeclosure property taxes and insurance receivables, and (4) our reserve for guaranty losses. Our total loss reserves, which reflect our estimate of the probable losses we have incurred in our guaranty book of business, including concessions we granted borrowers upon modification of their loans, decreased to $62.6 billion as of December 31, 2012 from $66.9 billion as of September 30, 2012 and $76.9 billion as of December 31, 2011. Our total loss reserve coverage to total nonperforming loans was 25% as of December 31, 2012 compared with 26% as of September 30, 2012 and 31% as of December 31, 2011.

Deferred Tax Asset Valuation Allowance

Each quarter, we evaluate the recoverability of our deferred tax assets, weighing all positive and negative evidence. We are required to establish or maintain a valuation allowance for these assets if we determine that it is more likely than not that some or all of the deferred tax assets will not be realized. We established a valuation allowance against our deferred tax assets in 2008 and have maintained it since then.

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

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

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

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

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

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

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

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

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

Under the terms of the senior preferred stock purchase agreement, the amount of funding available to us after December 31, 2012 is adjusted based on our positive net worth as of December 31, 2012 and is not affected by any positive net worth we may have on future dates. See "Conservatorship and Treasury Agreements—Treasury Agreements—Senior Preferred Stock Purchase Agreement" for a discussion of this adjustment. Accordingly, the amount of funding available under the senior preferred stock purchase agreement will be reduced only to the extent that we draw funds from Treasury under the agreement in the future. A decision to release the valuation allowance in 2013 will not reduce the funding available to us under the senior preferred stock purchase agreement.

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

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

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

Strengthening Our Book of Business

Credit Risk Profile

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

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

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

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

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

(1) Calculated based on the aggregate unpaid principal balance of single-family loans for each category divided by the aggregate unpaid principal balance of loans in our single-family conventional guaranty book of business as of December 31, 2012.

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

(3) The serious delinquency rates for loans acquired in more recent years will be higher after the loans have aged, but we do not expect them to approach the levels of the December 31, 2012 serious delinquency rates of loans in our legacy book of business. The serious delinquency rate as of December 31, 2012 for loans we acquired in 2009, the oldest vintage in our new book of business, was 0.97%.

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

Guaranty Fees on Recently Acquired Single-Family Loans

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

Table 3: Single-Family Acquisitions Statistics

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

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

(2) Calculated based on the average contractual fee rate for our single-family guaranty arrangements entered into during the period plus the recognition of any upfront cash payments ratably over an estimated average life, expressed in basis points.

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

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

Credit Risk Characteristics of Loans Acquired under HARP

Since 2009, our acquisitions have included a significant number of loans that are refinancings of existing Fannie Mae loans under the Administration's Home Affordable Refinance Program ("HARP"). HARP is designed to expand refinancing opportunities for borrowers who may otherwise be unable to refinance their mortgage loans due to a decline in home values. Accordingly, HARP loans have LTV ratios at origination in excess of 80%. In addition, a HARP loan cannot (1) be an adjustable-rate mortgage loan, or ARM, if the initial fixed period is less than five years; (2) have an interest-only feature, which permits the payment of interest without a payment of principal; (3) be a balloon mortgage loan; or (4) have the potential for negative amortization. We acquire HARP loans under our Refi Plus™ initiative, which provides expanded refinance opportunities for eligible Fannie Mae borrowers. In the fourth quarter of 2012, we revised how we present these loans to reflect all Refi Plus loans with LTV ratios at origination in excess of 80% as HARP loans. Previously we did not reflect loans that were backed by second homes or investor properties as HARP loans.

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

Loans we acquire under HARP represent refinancings of loans that are already in our guaranty book of business. The credit risk associated with loans we acquire under HARP essentially replaces the credit risk that we already held prior to the refinancing. Loans we acquire under HARP have higher serious delinquency rates and may not perform as well as the other loans we have acquired since the beginning of 2009. However, we expect these loans will perform better than the loans they replace because HARP loans should reduce the borrowers' monthly payments and/or provide more stable terms than the borrowers' old loans (for example, by refinancing into a mortgage with a fixed interest rate instead of an adjustable rate).

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

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

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

Whether the loans we acquire in the future will exhibit an overall credit profile and performance similar to our more recent acquisitions will depend on a number of factors, including our future pricing and eligibility standards and those of mortgage insurers and the Federal Housing Administration ("FHA"), the percentage of loan originations representing refinancings, our future objectives, government policy, market and competitive conditions, and the volume and characteristics of loans we acquire under HARP. See "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" for more detail regarding the credit risk characteristics of our single-family guaranty book of business.

Reducing Credit Losses on Our Legacy Book of Business

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

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

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

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

We provide information on our efforts to reduce our credit losses in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" and "MD&A—Risk Management—Institutional Counterparty Credit Risk Management." See also "Risk Factors," where we describe factors that may adversely affect the success of our efforts, including our reliance on third parties to service our loans, conditions in the foreclosure environment, and risks relating to our mortgage insurer counterparties.

Credit Performance

Table 4 presents information for each of the last three years about the credit performance of mortgage loans in our single-family guaranty book of business and our workouts. The term "workouts" refers to home retention solutions and foreclosure alternatives. The workout information in Table 4 does not reflect repayment plans and forbearances that have been initiated but not completed, nor does it reflect trial modifications that have not become permanent.

Table 4: Credit Statistics, Single-Family Guaranty Book of Business[1]

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

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

(2) Calculated based on the number of single-family conventional loans that are 90 days or more past due and loans that have been referred to foreclosure but not yet foreclosed upon, divided by the number of loans in our single-family conventional guaranty book of business. We include all of the single-family conventional loans that we own and those that back Fannie Mae MBS in the calculation of the single-family serious delinquency rate. As of January 31, 2013, our single-family serious delinquency rate was 3.18%.

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

(4) Includes held-for-use properties (properties that we do not intend to sell or that are not ready for immediate sale in their current condition), which are reported in our consolidated balance sheets as a component of "Other assets" and acquisitions through deeds-in-lieu of foreclosure.

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

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

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

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

(9) Calculated as the amount of sale proceeds received on disposition of REO properties during the respective periods, excluding those subject to repurchase requests made to our seller/servicers, divided by the aggregate UPB of the related loans at the time of foreclosure. Net sales price represents the contract sale price less selling costs for the property and other charges paid by the seller at closing.

(10) Consists of (a) modifications, which do not include trial modifications or repayment plans or forbearances that have been initiated but not completed and (b) repayment plans and forbearances completed. See "Table 47: Statistics on Single-Family Loan Workouts" in

"Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Problem Loan Management—Loan Workout Metrics" for additional information on our various types of loan workouts.

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

Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010. The decrease in our serious delinquency rate is primarily the result of home retention solutions, foreclosure alternatives and completed foreclosures, as well as our acquisition of loans with stronger credit profiles since the beginning of 2009.

Although our serious delinquency rate has decreased, our serious delinquency rate and the period of time that loans remain seriously delinquent continue to be negatively impacted by the length of time required to complete a foreclosure. High levels of foreclosures, changes in state foreclosure laws, new federal and state servicing requirements imposed by regulatory actions and legal settlements, and the need for servicers to adapt to these changes have lengthened the time it takes to foreclose on a mortgage loan in many states. The length of the foreclosure process, the pace of loan modifications and changes in home prices and other macroeconomic conditions all influence serious delinquency rates. We expect the number of single-family loans in our legacy book of business that are seriously delinquent to remain well above pre-2008 levels for years. In addition, we anticipate that it will take a significant amount of time before our REO inventory is reduced to pre-2008 levels.

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

Contributions to the Housing and Mortgage Markets Since Entering Conservatorship

Liquidity and Support Activities

We have provided approximately $3.3 trillion in liquidity to the housing market since 2009, enabling families to buy, refinance or rent a home. Since we entered into conservatorship in September 2008, we have provided critical liquidity and support to the U.S. mortgage market in a number of important ways:

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

2012 Acquisitions and Market Share

As the leading provider of residential mortgage credit, we enable families to buy, refinance or rent a home. During 2012, we purchased or guaranteed approximately $918 billion in single-family and multifamily loans, measured by unpaid principal balance, which includes $45.8 billion in delinquent loans we purchased from our single-family MBS trusts. Our 2012 single-family acquisitions exceeded our 2011 acquisitions by more than a million loans, primarily as a result of lower interest rates

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in 2012 and the implementation of changes to HARP. Our activities enabled our lender customers to finance approximately 3,898,000 single-family conventional loans and loans for approximately 559,000 units in multifamily properties during 2012.

One of FHFA's strategic goals for our conservatorship involves gradually contracting our dominant presence in the marketplace. Despite this goal, our market share remains large and even increased in 2012 as we have continued to meet the needs of the single-family mortgage market in the absence of substantial private capital. We currently estimate that our single-family market share was 43% in 2012, compared with 37% in 2011. These amounts represent our single-family mortgage acquisitions for each year, excluding delinquent loans we purchased from our MBS trusts, as a percentage of the single-family first-lien mortgages we currently estimate were originated in the United States that year. Because our estimate of mortgage originations in prior periods is subject to change as additional data become available, these market share estimates may change in the future, perhaps materially.

We remained the largest single issuer of mortgage-related securities in the secondary market during the fourth quarter of 2012, with an estimated market share of new single-family mortgage-related securities issuances of 48%, compared with 52% in the third quarter of 2012 and 54% in the fourth quarter of 2011. For all of 2012, we estimate our market share of new single-family mortgage-related securities issuances was 49%, compared with 48% for 2011.

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

Helping to Build a New Housing Finance System

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

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

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

Liquidity

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

Outlook

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

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

In compliance with our dividend obligation to Treasury, we will retain only a limited amount of any future earnings we have, and we will pay Treasury each quarter the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. This capital reserve amount is $3.0 billion for each quarter of 2013 and decreases annually until it reaches zero in 2018.

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

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

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

Home Prices. After declining by an estimated 23.8% from their peak in the third quarter of 2006 to the first quarter of 2012, based on our home price index, we estimate that home prices on a national basis increased by 4.7% in 2012 overall and by 0.5% in the fourth quarter of 2012. Although home price growth may not continue at 2012 rates, we expect that, if current market trends continue, home prices will increase on a national basis overall in 2013. Future home price changes may be very different from our expectations as a result of significant inherent uncertainty in the current market environment, including uncertainty about the effect of actions the federal government has taken and may take with respect to tax policies, spending cuts, mortgage finance programs and policies, and housing finance reform; the management of the Federal Reserve's MBS holdings; the impact of those actions on and changes generally in unemployment and the general economic and interest rate environment; and the impact on the U.S. economy of the economic uncertainty in Europe. Because of these uncertainties, the actual home price changes we experience may differ significantly from our expectations. We also expect significant regional variation in the timing and rate of home price growth.

Credit Losses. Our credit losses, which include our charge-offs, net of recoveries, reflect our realization of losses on our loans. We realize losses on loans, through our charge-offs, when foreclosure sales are completed or when we accept short sales or deeds-in-lieu of foreclosure. We expect our credit losses to remain high in 2013 relative to pre-housing crisis levels. In addition, to the extent the slow pace of foreclosures continues in 2013, our realization of some credit losses will be delayed.

Loss Reserves. We expect the trends of improving home prices and declining single-family serious delinquency rates to continue. As a result of these trends, we believe that our total loss reserves peaked at $76.9 billion as of December 31, 2011. However, we expect our loss reserves will remain significantly elevated relative to historical levels for an extended period because (1) we expect future defaults on loans that we acquired prior to 2009 and the resulting charge-offs will occur over a period of years and (2) a significant portion of our reserves represents concessions

granted to borrowers upon modification of their loans and our reserves will continue to reflect these concessions until the loans are fully repaid or default.
Future Revenues and Profitability. Historically, we have generated the majority of our net revenues from the difference between the interest income earned on the assets in our mortgage portfolio and the interest expense associated with the debt funding of those assets. As we discuss in “Conservatorship and Treasury Agreements—Treasury Agreements—Covenants under Treasury Agreements,” we are required to reduce the size of our mortgage portfolio each year until we hold no more

than $250 billion in mortgage assets by the end of 2018. As we reduce the size of our mortgage portfolio, our revenues generated by our mortgage portfolio assets will also decrease. If current market conditions continue, we expect that these declines in our revenues will generally be offset by rising guaranty fee revenue received for managing the credit risk on loans underlying Fannie Mae MBS held by third parties. We recognize almost all of our guaranty fee revenue in net interest income in our consolidated statements of operations and comprehensive income (loss). We expect that, in a number of years, guaranty fees will become the primary source of our revenues as a result of both the shrinking of our portfolio and the impact of guaranty fee increases in 2011 and 2012. Any future increases in guaranty fees will likely only further increase our guaranty fee revenue. The amount of our guaranty fee revenue in future periods will be impacted by many factors, including adjustments to guaranty fee pricing we may make in the future, which we discuss in "Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue."
As our effective guaranty fee revenue increases in future periods, we expect our credit losses will decrease as a result of the higher credit quality of our new book of business, the decrease in our legacy book, and anticipated lower severity at the time of charge-off.

Uncertainty Regarding our Future Status. There is significant uncertainty regarding the future of our company, including how long the company will continue to be in its current form, the extent of our role in the market, what form we will have, and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated. We expect this uncertainty to continue.

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

Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations. We present a number of estimates and expectations in this executive summary, including estimates and expectations regarding our future financial results and profitability, our future dividend payments to Treasury, our future revenues from guaranty fees, the profitability and performance of single-family loans we have acquired, our future acquisitions, our future REO inventory, our future delinquency, default and severity rates, our future credit losses and loss reserves, future housing market conditions, performance and volumes and future home prices. These estimates and expectations are forward-looking statements based on our current assumptions regarding numerous factors, especially future home prices and the future performance of our loans. Our future estimates of our performance, as well as the actual amounts, may differ materially from our current estimates and expectations as a result of: the timing and level of, as well as regional variation in, home price changes; changes in interest rates, unemployment rates and other macroeconomic and housing market variables; our future guaranty fee pricing; our future serious delinquency rates; future legislative or regulatory requirements that have a significant impact on our business, such as a requirement that we implement a principal forgiveness program; future updates to our models relating to our loss reserves, including the assumptions used by these models; future changes to accounting policies relating to our loss reserves; significant changes in modification and foreclosure activity; changes in borrower behavior, such as an increasing number of underwater borrowers who strategically default on their mortgage loan; the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies; whether our counterparties meet their obligations in full; changes in the fair value of our assets and liabilities; impairments of our assets; changes in generally accepted accounting principles ("GAAP"); credit availability; natural and other disasters and many other factors, including those discussed in "Forward-Looking Statements," "Risk Factors" and elsewhere in this report. Due to the large size of our guaranty book of business, even small changes in these factors could have a significant impact on our financial results for a particular period.

RESIDENTIAL MORTGAGE MARKET

The U.S. Residential Mortgage Market

We conduct business in the U.S. residential mortgage market and the global securities market. According to the Federal Reserve, total U.S. residential mortgage debt outstanding, which includes $9.9 trillion of single-family mortgage debt outstanding, was estimated to be approximately $10.8 trillion as of December 31, 2012. After increasing every quarter since record keeping began in 1952 until the second quarter of 2008, single-family mortgage debt outstanding has been steadily declining since then. We owned or guaranteed mortgage assets representing approximately 29% of total U.S. residential mortgage debt outstanding as of December 31, 2012.

We operate our business solely in the United States and its territories, and accordingly, we generate no revenue from and have no long-lived assets other than financial instruments in geographic locations other than the United States and its territories.

Housing and Mortgage Market and Economic Conditions

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

The most comprehensive measure of the unemployment rate, which includes those working part-time who would rather work full-time (part-time workers for economic reasons) and those not looking for work but who want to work and are available for work (discouraged workers), was 14.3% in February 2013, substantially lower than the record high of 17.1% in October 2009.

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

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

The table below presents several key indicators related to the total U.S. residential mortgage market.

Table 5: Housing and Mortgage Market Indicators[1]

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

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(1) The sources of the housing and mortgage market data in this table are the Federal Reserve Board, the Bureau of the Census, the Department of Housing and Urban Development, the National Association of Realtors, and the Mortgage Bankers Association. Home sales data are based on information available through January 2013. Single-family mortgage originations, as well as refinance shares, are based on February 2013 estimates from Fannie Mae's Economic & Strategic Research group. The adjustable-rate mortgage share is based on the number of conventional mortgage applications data reported by the Mortgage Bankers Association. Certain previously reported data may have been changed to reflect revised historical data from any or all of these organizations.

(2) Calculated internally using property data information on loans purchased by Fannie Mae, Freddie Mac and other third-party home sales data. Fannie Mae's HPI is a weighted repeat transactions index, measuring average price changes in repeat sales on the same properties. Fannie Mae's HPI excludes prices on properties sold in foreclosure. The reported home price change reflects the percentage change in Fannie Mae's HPI from the fourth quarter of the prior year to the fourth quarter of the reported year.

(3) Based on the annual average 30-year fixed-rate mortgage interest rate reported by Freddie Mac.

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

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

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

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

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

Vacancy rates and rents are important to loan performance because multifamily loans are generally repaid from the cash flows generated by the underlying property. Several years of improvement in these fundamentals, followed by a leveling off in the second half of 2012, have helped boost property values in most metropolitan areas in 2012, as well as new construction development. As a result, over-supply may occur over the next 24 months in some localized areas. Nevertheless, the overall national rental market supply and demand is expected to remain in balance over the longer term, based on expected construction completions, expected obsolescence, positive household formation trends and expected increases in the population of 20- to 34-year olds, which as a group rents multifamily housing at a higher rate than other groups.

MORTGAGE SECURITIZATIONS

We support market liquidity by securitizing mortgage loans, which means we place loans in a trust and Fannie Mae MBS backed by the mortgage loans are then issued. We guarantee to the MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the trust certificates. In return for this guaranty, we receive guaranty fees.

Below we discuss (1) two broad categories of securitization transactions: lender swaps and portfolio securitizations; (2) features of our MBS trusts; (3) circumstances under which we purchase loans from MBS trusts; and (4) single-class and multi-class Fannie Mae MBS.

Lender Swaps and Portfolio Securitizations

We currently securitize a majority of the single-family and multifamily mortgage loans we acquire. Our securitization transactions primarily fall within two broad categories: lender swap transactions and portfolio securitizations.

Our most common type of securitization transaction is our “lender swap transaction.” Mortgage lenders that operate in the primary mortgage market generally deliver pools of mortgage loans to us in exchange for Fannie Mae MBS backed by these mortgage loans. A pool of mortgage loans is a group of mortgage loans with similar characteristics. After receiving the mortgage loans in a lender swap transaction, we place them in a trust that is established for the sole purpose of holding the mortgage loans separate and apart from our assets. We deliver to the lender (or its designee) Fannie Mae MBS that are backed by the pool of mortgage loans in the trust and that represent an undivided beneficial ownership interest in each of the mortgage loans. We guarantee to each MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the related Fannie Mae MBS. We retain a portion of the interest payment as the fee for providing our guaranty. Then, on behalf of the trust, we make monthly distributions to the Fannie Mae MBS certificateholders from the principal and interest payments and other collections on the underlying mortgage loans.

In contrast to our lender swap securitizations, in which lenders deliver pools of mortgage loans to us that we immediately place in a trust for securitization, our “portfolio securitization transactions” involve creating and issuing Fannie Mae MBS using mortgage loans and mortgage-related securities that we hold in our mortgage portfolio.

Features of Our MBS Trusts

We serve as trustee for our MBS trusts, each of which is established for the sole purpose of holding mortgage loans separate and apart from our assets. Our MBS trusts hold either single-family or multifamily mortgage loans or mortgage-related securities. Each trust operates in accordance with a trust agreement or a trust indenture. Each MBS trust is also governed by an issue supplement documenting the formation of that MBS trust, the identification of its related assets and the issuance of the related Fannie Mae MBS. The trust agreement or the trust indenture, together with the issue supplement and any amendments, are considered the “trust documents” that govern an individual MBS trust.

Purchases of Loans from our MBS Trusts

Under the terms of our MBS trust documents, we have the option or, in some instances, the obligation, to purchase mortgage loans that meet specific criteria from an MBS trust. For example, we have the option under the terms of the trust documents to purchase a loan from an MBS trust if the loan is delinquent as to four or more consecutive monthly payments. We generally have the obligation to purchase a mortgage loan from an MBS trust when the mortgage loan becomes delinquent as to 24 monthly payments. Our acquisition cost for these loans is the unpaid principal balance of the loan plus accrued interest.

In deciding whether and when to exercise our option to purchase a loan from a single-family MBS trust, we consider a variety of factors, including: our legal ability to purchase loans under the terms of the trust documents; whether we have agreed to modify the loan, which we cannot do while it remains in the trust; our mission and public policy; our loss mitigation strategies and the exposure to credit losses we face under our guaranty; our cost of funds; the impact on our results of operations; relevant market yields; the accounting impact; the administrative costs associated with purchasing and holding the loans; counterparty exposure to lenders that have agreed to cover losses associated with delinquent loans; and general market conditions. The weight we give to these factors changes depending on market circumstances and other factors.

The cost of purchasing most delinquent loans from Fannie Mae MBS trusts and holding them in our portfolio is currently less than the cost of advancing delinquent payments to security holders. We generally purchase loans from MBS trusts as they become four or more consecutive monthly payments delinquent. During 2012, we purchased delinquent loans with an unpaid principal balance of approximately $45.8 billion from our single-family MBS trusts. We expect to continue purchasing loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity, and other constraints, including the limit on the amount of mortgage assets that we may own pursuant to the senior preferred stock purchase agreement.

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

Single-Class and Multi-Class Fannie Mae MBS

Fannie Mae MBS trusts may be single-class or multi-class. Single-class MBS are MBS in which the investors receive principal and interest payments in proportion to their percentage ownership of the MBS issuance. Multi-class MBS are MBS, including Real Estate Mortgage Investment Conduits (“REMICs”), in which the cash flows on the underlying mortgage assets are divided, creating several classes of securities, each of which represents an undivided beneficial ownership interest in the assets of the related MBS trust and entitles the related holder to a specific portion of cash flows. Terms to maturity of some multi-class Fannie Mae MBS, particularly REMIC classes, may match or be shorter than the maturity of the underlying mortgage loans and/or mortgage-related securities. After these classes expire, cash flows received on the underlying mortgage assets are allocated to the remaining classes in accordance with the terms of the securities’ structures. As a result, each of the classes in a multi-class MBS may have a different coupon rate, average life, repayment sensitivity or final maturity. Structured Fannie Mae MBS are either multi-class MBS or single-class MBS that are typically resecuritizations of other single-class Fannie Mae MBS. In a resecuritization, pools of MBS are collected and securitized.

BUSINESS SEGMENTS

We have three business segments for management reporting purposes: Single-Family Credit Guaranty, Multifamily, and Capital Markets. In this report we refer to our business groups that run these segments as our "Single-Family business," our "Multifamily business" and our "Capital Markets group." These groups engage in complementary business activities in pursuing our mission of providing liquidity, stability and affordability to the U.S. housing market. These activities are summarized in the table below and described in more detail following this table. We also summarize in the table below the key sources of revenue for each of our segments and the primary expenses.

Business Segment	Primary Business Activities	Primary Drivers of Revenue	Primary Drivers of Expense
Single-Family	Mortgage acquisitions: Works with our lender customers to acquire single-family mortgage loans through lender swap transactions or, working also with our Capital Markets group, through purchases of loans Credit risk management: Prices and manages the credit risk on loans in our single-family guaranty book of business Credit loss management: Works to prevent foreclosures and reduce costs of defaulted loans through home retention solutions and foreclosure alternatives, through management of REO, and through pursuing contractual remedies from lenders, servicers and providers of credit enhancement	Guaranty fees: Compensation for assuming and managing the credit risk on our single-family guaranty book of business Interest income not recognized: Consists of reimbursement costs for interest income not recognized for loans on nonaccrual status in our mortgage portfolio or in consolidated trusts, which are recorded as a reduction to our interest income Fee and other income: Compensation received for providing lender services	Credit-related expenses: Consists of provision for single-family loan losses, provision for single-family guaranty losses and foreclosed property expense on loans underlying our single-family guaranty book of business Administrative expenses: Consists of salaries and benefits, occupancy costs, professional services, and other expenses associated with our Single-Family business operations Remittances to Treasury of a portion of our guaranty fees: Consists of amounts remitted to Treasury, which we expect will increase in future periods, from increases in our guaranty fees required by the TCCA
Multifamily	Mortgage securitizations: Works with our lender customers to securitize multifamily mortgage loans delivered to us by lenders into Fannie Mae MBS in lender swap transactions Credit risk management: Prices and manages the credit risk on loans in our multifamily guaranty book of business Credit loss management: Works to prevent foreclosures and reduce costs of defaulted loans through foreclosure alternatives, through management of foreclosures and REO, and through pursuing contractual remedies from lenders, servicers	Guaranty fees: Compensation for assuming and managing the credit risk on our multifamily guaranty book of business Fee and other income: Compensation received for engaging in multifamily transactions and bond credit enhancements	Credit-related expenses: Consists of provision for multifamily loan losses, provision for multifamily guaranty losses and foreclosed property expense on loans underlying our multifamily guaranty book of business Administrative expenses: Consists of salaries and benefits, occupancy costs, professional services, and other expenses associated with our Multifamily business operations

and providers of credit enhancement

Business Segment	Primary Business Activities	Primary Drivers of Revenue	Primary Drivers of Expense
Capital Markets	Mortgage and other investments: Purchases mortgage assets and makes investments in non-mortgage interest-earning assets Mortgage securitizations: Purchases loans from a large group of lenders, securitizes them, and may sell the securities to dealers and investors Structured mortgage securitizations and other customer services: Issues structured Fannie Mae MBS for customers in exchange for a transaction fee and provides other fee-related services to our lender customers Interest rate risk management: Manages the interest rate risk on our portfolio by issuing a variety of debt securities in a wide range of maturities and by using derivatives	Net interest income: Generated from the difference between the interest income earned on our interest-earning assets and the interest expense associated with the debt funding those assets Fee and other income: Compensation received for engaging in structured transactions and providing other lender services	Fair value gains and losses: Primarily consists of fair value gains and losses on derivatives and trading securities Investment gains and losses: Primarily consists of gains and losses on the sale or securitization of mortgage assets Other-than-temporary impairment: Consists of impairment recognized on our investments Administrative expenses: Consists of salaries and benefits, occupancy costs, professional services, and other expenses associated with our Capital Markets business operations

Revenues from our Business Segments

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

Business Segment Revenues(1)

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

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

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

Single-Family Business

Working with our lender customers, our Single-Family business provides funds to the mortgage market by acquiring single-family loans through lender swap transactions or, working also with our Capital Markets group, through purchases of loans. Our Single-Family business has primary responsibility for pricing and managing the credit risk on our single-family guaranty book of business, which consists of single-family mortgage loans underlying Fannie Mae MBS and single-family loans held in our mortgage portfolio.

A single-family loan is secured by a property with four or fewer residential units. Our Single-Family business and Capital Markets group securitize and purchase primarily conventional (not federally insured or guaranteed) single-family fixed-rate or adjustable-rate, first-lien mortgage loans, or mortgage-related securities backed by these types of loans. We also securitize or purchase loans insured by FHA, loans guaranteed by the Department of Veterans Affairs (“VA”), loans guaranteed by the Rural Development Housing and Community Facilities Program of the Department of Agriculture (the “Department of Agriculture”), manufactured housing loans and other mortgage-related securities.

Revenues for our Single-Family business are derived primarily from guaranty fees received as compensation for assuming the credit risk on the mortgage loans underlying single-family Fannie Mae MBS. We also allocate guaranty fee revenues to the Single-Family business for assuming and managing the credit risk on the single-family mortgage loans held in our portfolio. The aggregate amount of single-family guaranty fees we receive or that are allocated to our Single-Family business in any period depends on the amount of single-family Fannie Mae MBS outstanding and loans held in our mortgage portfolio during the period and the applicable guaranty fee rates. The amount of Fannie Mae MBS outstanding at any time is primarily determined by the rate at which we issue new Fannie Mae MBS and by the repayment rate for the loans underlying our outstanding Fannie Mae MBS. Other factors affecting the amount of Fannie Mae MBS outstanding are the extent to which (1) borrower defaults lead us to purchase loans from our MBS trusts (with the amount of these purchases affected by the rate of borrower defaults on the loans and the extent of loan modification programs in which we engage) and (2) sellers and servicers repurchase loans from us upon our demand based on a breach in the selling representations and warranties provided upon delivery of the loans.

We describe the credit risk management process employed by our Single-Family business, including its key strategies in managing credit risk and key metrics used in measuring and evaluating our single-family credit risk in "MD&A—Risk Management—Credit Risk Management—Single-Family Credit Risk Management."

Single-Family Mortgage Securitizations and Other Acquisitions

Our Single-Family business securitizes single-family mortgage loans and issues single-class Fannie Mae MBS, which are described above in "Mortgage Securitizations—Single-Class and Multi-Class Fannie Mae MBS," for our lender customers. Unlike our Capital Markets group, which securitizes loans from our portfolio, our Single-Family business securitizes loans solely in lender swap transactions, in which lenders deliver to us pools of mortgage loans, which are placed immediately in a trust, in exchange for Fannie Mae MBS backed by these loans. We describe lender swap transactions, and how they differ from portfolio securitizations, in "Mortgage Securitizations—Lender Swaps and Portfolio Securitizations." Our Single-Family business also works with our Capital Markets group to acquire single-family loans through purchases of loans.

Loans from our lender customers are delivered to us through either our "flow" or "bulk" transaction channels. In our flow business, we enter into agreements that generally set agreed-upon guaranty fee prices for a lender's future delivery of individual loans to us over a specified time period. Our bulk business generally consists of transactions in which a set of loans is delivered to us in bulk, typically with guaranty fees and other contract terms negotiated individually for each transaction.

Single-Family Mortgage Servicing, REO Management, and Lender Repurchases

Servicing

Generally, the servicing of the mortgage loans that are held in our mortgage portfolio or that back our Fannie Mae MBS is performed by mortgage servicers on our behalf. Typically, lenders who sell single-family mortgage loans to us service these loans for us. For loans we own or guarantee, the lender or servicer must obtain our approval before selling servicing rights to another servicer.

Our mortgage servicers typically collect and deliver principal and interest payments, administer escrow accounts, monitor and report delinquencies, perform default prevention activities, evaluate transfers of ownership interests, respond to requests for partial releases of security, and handle proceeds from casualty and condemnation losses. Our mortgage servicers are the primary point of contact for borrowers and perform a key role in the effective implementation of our homeownership assistance initiatives, negotiation of workouts of troubled loans, and other loss mitigation activities. If necessary, mortgage servicers inspect and preserve properties and process foreclosures and bankruptcies. Because we generally delegate the servicing of our mortgage loans to mortgage servicers and do not have our own servicing function, our ability to actively manage troubled loans that we own or guarantee is limited. For more information on the risks of our reliance on servicers, refer to "Risk Factors" and "MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management."

We compensate servicers primarily by permitting them to retain a specified portion of each interest payment on a serviced mortgage loan as a servicing fee. Servicers also generally retain prepayment premiums, assumption fees, late payment charges and other similar charges, to the extent they are collected from borrowers, as additional servicing compensation. We also compensate servicers for negotiating workouts on problem loans.

REO Management

If a loan defaults and we acquire a home through foreclosure or a deed-in-lieu of foreclosure, we market and sell the home through local real estate professionals. Our primary objectives are both to minimize the severity of loss to Fannie Mae by maximizing sales prices and to stabilize neighborhoods—to prevent empty homes from depressing home values. In cases where the property does not sell, we use alternative methods of disposition, including selling homes to cities, municipalities and other public entities, and selling properties in bulk or through public auctions.

Lender Repurchase Evaluations

We conduct post-purchase quality control file reviews to ensure that loans sold to, and serviced for, us meet our guidelines. If we discover violations through reviews, we issue repurchase demands to the seller or other responsible party and seek to collect on our repurchase claims. We discuss changes we are making to our post-purchase loan review process in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards."

Multifamily Business

A core part of Fannie Mae's mission is to support the U.S. multifamily housing market to help serve the nation's rental housing needs, focusing on low- to middle-income households and communities. Our Multifamily business provides mortgage market liquidity for properties with five or more residential units, which may be apartment communities, cooperative properties, seniors housing, dedicated student housing or manufactured housing communities.

Our Multifamily business works with our lender customers to provide funds to the mortgage market primarily by securitizing multifamily mortgage loans into Fannie Mae MBS. We also purchase multifamily mortgage loans and provide credit enhancement for bonds issued by state and local housing finance authorities to finance multifamily housing. We have also offered debt financing structures that can be used to facilitate construction loans. Our Multifamily business also works with our Capital Markets group to facilitate the purchase and securitization of multifamily mortgage loans and securities for Fannie Mae's portfolio, as well as to facilitate portfolio securitization and resecuritization activities. Our multifamily guaranty book of business consists of multifamily mortgage loans underlying Fannie Mae MBS and multifamily loans and securities held in our mortgage portfolio. Our Multifamily business has primary responsibility for pricing the credit risk on our multifamily guaranty book of business and for managing the credit risk on multifamily loans and Fannie Mae MBS backed by multifamily loans that are held in our mortgage portfolio.

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

We describe the credit risk management process employed by our Multifamily business, along with our Multifamily Enterprise Risk Management group, including its key strategies in managing credit risk and key metrics used in measuring and evaluating our multifamily credit risk, in "MD&A—Risk Management—Credit Risk Management—Multifamily Mortgage Credit Risk Management."

Key Characteristics of the Multifamily Mortgage Market and Multifamily Transactions

The multifamily mortgage market and our transactions in that market have a number of key characteristics that affect our multifamily activities and distinguish them from our activities in the single-family residential mortgage market.

- Funding sources: The multifamily market is made up of a wide variety of lending sources, including commercial banks, life insurance companies, investment banks, FHA, state and local housing finance agencies and the GSEs.
- Number of lenders; lender relationships: During 2012, we executed multifamily transactions with 33 lenders. Of these, 24 lenders delivered loans to us under our Delegated Underwriting and Servicing, or DUS®, product line. In determining whether to do business with a multifamily lender, we consider the lender's financial strength, multifamily underwriting and servicing experience, portfolio performance and willingness and ability to share in the risk of loss associated with the multifamily loans they originate.
- Loan size: The average size of a loan in our multifamily guaranty book of business is $5 million. A significant number of our multifamily loans are under $5 million, and some of our multifamily loans are greater than $25 million.
- Collateral: Multifamily loans are collateralized by properties that generate cash flows and effectively operate as businesses, such as garden and high-rise apartment complexes, seniors housing communities, cooperatives, dedicated student housing and manufactured housing communities.

Borrower and sponsor profile: Multifamily borrowers are entities that are typically owned, directly or indirectly, by for-profit corporations, limited liability companies, partnerships, real estate investment trusts and individuals who invest in real estate for cash flow and equity returns in exchange for their original investment in the asset. The ultimate owners of a multifamily borrower are referred to as the borrower's "sponsors." In this report, we refer to both the borrowing entities and their sponsors as "borrowers." Because borrowing entities are typically single-asset entities, with the property as their only asset, in evaluating a borrowing entity we also evaluate its sponsors. Multifamily loans are generally non-recourse to the sponsors. When considering a multifamily borrower, creditworthiness is evaluated through a combination of quantitative and qualitative data including liquid assets, net worth, number of units owned, experience in a market and/or property type, multifamily portfolio performance, access to additional liquidity, debt maturities, asset/property management platform, senior management experience, reputation and lender exposure.

- Borrower and lender investment: Borrowers are required to contribute equity into multifamily properties on which they borrow, while lenders generally share in any losses realized from the loans that we purchase.
- Underwriting process: Multifamily loans require detailed underwriting similar in many respects to that required for loans for an operating business. Our underwriting includes an evaluation of the property's ability to support the loan, property quality, market and submarket factors, ability to exit at maturity and an initial risk categorization for the loan.
- Term and lifecycle: In contrast to the standard 30-year single-family residential loan, multifamily loans typically have terms of 5, 7 or 10 years, with balloon payments due at maturity.
- Prepayment terms: Multifamily Fannie Mae loans and MBS trade in a market in which investors expect commercial investment terms, particularly limitations on prepayments of loans and the imposition of prepayment premiums.

Multifamily Mortgage Securitizations and Acquisitions

Our Multifamily business generally creates multifamily Fannie Mae MBS in lender swap transactions in a manner similar to our Single-Family business, as described in "Single-Family Business—Single-Family Mortgage Securitizations and Acquisitions." Our multifamily lender customers typically deliver only one mortgage loan, often a fixed-rate loan, to back each multifamily Fannie Mae MBS. The characteristics of each mortgage loan are used to establish guaranty fees on a risk-adjusted basis. Securitizing a single multifamily mortgage loan into a Fannie Mae MBS facilitates its sale into the secondary market.

Delegated Underwriting and Servicing (DUS)

In an effort to promote product standardization in the multifamily marketplace, in 1988 Fannie Mae initiated the DUS product line for acquiring individual multifamily loans.

DUS is a unique business model in the commercial mortgage industry. The standard industry practice for a multifamily loan requires the purchaser or guarantor to underwrite or re-underwrite each loan prior to deciding whether to purchase or guaranty the loan. Under our model, DUS lenders are pre-approved and delegated the authority to underwrite and service loans on behalf of Fannie Mae. In exchange for this authority, DUS lenders are required to share with us the risk of loss over the life of the loan, as discussed in more detail in "MD&A—Risk Management—Credit Risk Management—Multifamily Mortgage Credit Risk Management—Multifamily Acquisition Policy and Underwriting Standards." Since DUS lenders share in the credit risk, the servicing fee to the lenders includes compensation for credit risk. Delegation permits lenders to respond to customers more rapidly, as the lender generally has the authority to approve a loan within prescribed parameters, which provides an important competitive advantage.

We believe our DUS model aligns the interests of the borrower, lender and Fannie Mae. Our current 24-member DUS lender network, which is comprised of large financial institutions and independent mortgage lenders, continues to be our principal source of multifamily loan deliveries.

Multifamily Mortgage Servicing

As with the servicing of single-family mortgages, multifamily mortgage servicing is typically performed by the lenders who sell the mortgages to us. Multifamily mortgage servicers that are members of our DUS network have agreed to accept loss sharing, which we believe increases the alignment of interests between us and our multifamily loan servicers. Because of our loss-sharing arrangements with our multifamily lenders, transfers of multifamily servicing rights are infrequent, and we carefully monitor all our servicing relationships and enforce our right to approve all servicing transfers. As a seller-servicer, the lender is responsible for evaluating the financial condition of properties and property owners, administering various types of agreements (including agreements regarding replacement reserves, completion or repair, and operations and maintenance), as well as conducting routine property inspections.

The Multifamily Markets in which We Operate

In the multifamily mortgage market, we aim to address the rental housing needs of a wide range of the population, from those at the lower end of the income range up through middle-income households. Our mission requires us to serve the market steadily, rather than moving in and out depending on market conditions. Through the secondary mortgage market, we support rental housing for the workforce, for senior citizens and students, and for families with the greatest economic need. Our Multifamily business is organized and operated as an integrated commercial real estate finance business, addressing the spectrum of multifamily housing finance needs, including the needs described below.

- To meet the growing need for smaller multifamily property financing, we focus on the acquisition of multifamily loans up to \$3 million (\$5 million in high cost areas). We acquire these loans primarily from DUS lenders; however, we have also acquired these loans from other financial institutions. Over the years, we have been an active purchaser of these loans from both DUS and non-DUS lenders, and, as of December 31, 2012, they represented 66% of our multifamily guaranty book of business by loan count and 15% based on unpaid principal balance.
- To serve low- and very low-income households, we have a team that focuses exclusively on relationships with lenders financing privately-owned multifamily properties that receive public subsidies in exchange for maintaining long-term affordable rents. We enable borrowers to leverage housing programs and subsidies provided by local, state and federal agencies. These public subsidy programs are largely targeted to providing housing to families earning less than 60% of area median income (as defined by HUD) and are structured to ensure that the low and very low-income households who benefit from the subsidies pay no more than 30% of their gross monthly income for rent and utilities. As of December 31, 2012, this type of financing represented approximately 14% of our multifamily guaranty book of business, based on unpaid principal balance, including \$15.7 billion in bond credit enhancements.

Capital Markets

Our Capital Markets group manages our investment activity in mortgage-related assets and other interest-earning non-mortgage investments. We fund our investments primarily through proceeds we receive from the issuance of debt securities in the domestic and international capital markets. Our Capital Markets group has primary responsibility for managing the interest rate risk associated with our investments in mortgage assets.

Our Capital Markets group's business activity is primarily focused more on making short-term use of our balance sheet than on long-term investments. As a result, our Capital Markets group works with lender customers to provide funds to the mortgage market through short-term financing and investing activities. Activities we are undertaking to provide liquidity to the mortgage market include the following:

- Whole Loan Conduit. Whole loan conduit activities involve our purchase of single-family loans principally for the purpose of securitizing them. We purchase loans from a large group of lenders and then securitize them as Fannie Mae MBS, which may then be sold to dealers and investors.
- Early Funding. Lenders who deliver whole loans or pools of whole loans to us in exchange for MBS typically must wait between 30 and 45 days from the closing and settlement of the loans or pools and the issuance of the MBS. This delay may limit lenders' ability to originate new loans. Under our early lender funding programs, we purchase whole loans or pools of loans on an accelerated basis, allowing lenders to receive quicker payment for the whole loans and pools, which replenishes their funds and allows them to originate more mortgage loans.
- REMICs and Other Structured Securitizations. We issue structured Fannie Mae MBS (including REMICs), typically for our lender customers or securities dealer customers, in exchange for a transaction fee.
- MBS Trading. We regularly enter into purchase and sale transactions with other market participants involving mortgage-backed securities issued by Fannie Mae, Freddie Mac, and Ginnie Mae, which we refer to as "agency MBS." These transactions can provide for the future delivery of mortgage-backed securities with underlying single-family loans that share certain general characteristics (often referred to as the "TBA market"). These purchase and sale transactions also can provide for the future delivery of specifically identified mortgage-backed securities with underlying loans that have other characteristics considered desirable by some investors (often referred to as the "Specified Pools market"). Through our trading activity in the TBA and Specified Pools markets, we provide significant liquidity to the agency MBS markets.

Securitization Activities

Our Capital Markets group is engaged in issuing both single-class and multi-class Fannie Mae MBS through both portfolio securitizations and structured securitizations involving third party assets.

- Portfolio securitizations. Our Capital Markets group creates single-class and multi-class Fannie Mae MBS from mortgage-related assets held in our mortgage portfolio. Our Capital Markets group may sell these Fannie Mae MBS into the secondary market or may retain the Fannie Mae MBS in our investment portfolio.
- Structured securitizations: Our Capital Markets group creates single-class and multi-class structured Fannie Mae MBS, typically for our lender customers or securities dealer customers, in exchange for a transaction fee. In these transactions, the customer "swaps" a mortgage-related asset that it owns (typically a mortgage security) in exchange for a structured Fannie Mae MBS we issue. Our Capital Markets group earns transaction fees for creating structured Fannie Mae MBS for third parties. The process for issuing Fannie Mae MBS in a structured securitization is similar to the process involved in our lender swap securitizations. For more information about that process and how it differs from portfolio securitizations, see "Mortgage Securitizations—Lender Swaps and Portfolio Securitizations."

For a description of single-class Fannie Mae MBS, see "Mortgage Securitizations—Single-Class and Multi-Class Fannie Mae MBS."

Other Customer Services

Our Capital Markets group provides our lender customers with services that include offering to purchase a wide variety of mortgage assets, including non-standard mortgage loan products; segregating customer portfolios to obtain optimal pricing for their mortgage loans; and assisting customers with hedging their mortgage business. These activities provide a significant flow of assets for our mortgage portfolio, help to create a broader market for our customers and enhance liquidity in the secondary mortgage market.

Mortgage Asset Portfolio

Although our Capital Markets group's business activities are focused on short-term financing and investing, revenue from our Capital Markets group is derived primarily from the difference, or spread, between the interest we earn on our mortgage and non-mortgage investments and the interest we incur on the debt we issue to fund these assets. Our Capital Markets revenues are primarily derived from our mortgage asset portfolio. Over time, we expect these revenues to decrease as the maximum allowable amount of mortgage assets we may own decreases each year to 85% of the amount we were permitted to own the previous year under our senior preferred stock purchase agreement with Treasury. See "Conservatorship and Treasury Agreements—Treasury Agreements—Covenants under Treasury Agreements" for more information on the decreasing limits on the amount of mortgage assets we are permitted to hold.

We describe the interest rate risk management process employed by our Capital Markets group, including its key strategies in managing interest rate risk and key metrics used in measuring and evaluating our interest rate risk, in "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management."

Investment and Financing Activities

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

Our Capital Markets group funds its investments primarily through the issuance of a variety of debt securities in a wide range of maturities in the domestic and international capital markets. The most active investors in our debt securities include commercial bank portfolios and trust departments, investment fund managers, insurance companies, pension funds, state and local governments, and central banks. The approved dealers for underwriting various types of Fannie Mae debt securities may differ by funding program. See "MD&A—Liquidity and Capital Management—Liquidity Management" for information on the composition of our outstanding debt and a discussion of our liquidity and debt activity.

Our Capital Markets group's investment and financing activities are affected by market conditions and the target rates of return that we expect to earn on the equity capital underlying our investments. Our investment activities also are subject to contractual limitations, including the provisions of the senior preferred stock purchase agreement with Treasury, capital requirements (although our regulator has announced that these are not binding on us during conservatorship) and other regulatory constraints, to the extent described below under "Conservatorship and Treasury Agreements" and "Our Charter and Regulation of Our Activities."

CONSERVATORSHIP AND TREASURY AGREEMENTS

Conservatorship

On September 6, 2008, the Director of FHFA appointed FHFA as our conservator, pursuant to its authority under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act of 2008, or 2008 Reform Act (together, the "GSE Act"). The conservatorship is a statutory process designed to preserve and conserve our assets and property and put the company in a sound and solvent condition.

The conservatorship has no specified termination date and there continues to be uncertainty regarding the future of our company, including how long the company will continue to exist in its current form, the extent of our role in the market, what form we will have, and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated. For more information on the risks to our business relating to the conservatorship and uncertainties regarding the future of our company and business, as well as the adverse effects of the conservatorship on the rights of holders of our common stock, see "Risk Factors."

Management of the Company during Conservatorship

Upon its appointment, the conservator immediately succeeded to (1) all rights, titles, powers and privileges of Fannie Mae, and of any shareholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and (2) title to the books, records and assets of any other legal custodian of Fannie Mae. The conservator subsequently delegated specified authorities to our Board of Directors and delegated to management the authority to conduct our day-to-day operations. In connection with its delegation of authority, in November 2008 FHFA instructed the Board to consult with and obtain FHFA's approval before taking action in certain specified areas. In November 2012, FHFA revised and replaced these instructions, increasing the number of matters that require conservator approval before we may take action. Management must consult with and obtain the written approval of the conservator before taking action in any of the areas specified in "Directors, Executive Officers and Corporate Governance—Corporate Governance—Conservatorship and Delegation of Authority to Board of Directors." The conservator retains the authority to amend or withdraw its delegations at any time.

Our directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, where required, of the conservator. Our directors do not have any fiduciary duties to any person or entity except to the conservator. Accordingly, our directors are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator. In addition, the conservator directed the Board to consult with and obtain the approval of the conservator before taking action in specified areas, as described in "Directors, Executive Officers and Corporate Governance—Corporate Governance—Conservatorship and Delegation of Authority to Board of Directors."

Because we are in conservatorship, our common shareholders currently do not have the ability to elect directors or to vote on other matters. The conservator eliminated common and preferred stock dividends (other than dividends on the senior preferred stock issued to Treasury) during the conservatorship, and we are no longer managed with a strategy to maximize shareholder returns. For additional information about our business strategy and the goals of the conservatorship, see "Executive Summary—Our Business Objectives and Strategy" and "—Helping to Build a New Housing Finance System."

Powers of the Conservator under the GSE Act

FHFA has broad powers when acting as our conservator. As conservator, FHFA can direct us to enter into contracts or enter into contracts on our behalf. Further, FHFA may transfer or sell any of our assets or liabilities (subject to limitations and post-transfer notice provisions for transfers of certain types of financial contracts), without any approval, assignment of rights or consent of any party. The GSE Act provides, however, that mortgage loans and mortgage-related assets that have been transferred to a Fannie Mae MBS trust must be held by the conservator for the beneficial owners of the Fannie Mae MBS and cannot be used to satisfy the general creditors of the company. As of April 2, 2013, FHFA has not exercised its power to transfer or sell our assets or liabilities. For more information on FHFA's powers as conservator and the rules governing conservatorship and receivership operations for the GSEs, see "Our Charter and Regulation of Our Activities—Regulation and Oversight of Our Activities—Receivership."

Neither the conservatorship nor the terms of our agreements with Treasury change our obligation to make required payments on our debt securities or perform under our mortgage guaranty obligations.

Under the GSE Act, FHFA must place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations (that is, we have a net worth deficit) or if we have not been paying our debts, in either case, for a period of 60 days. In addition, the Director of FHFA may place us in receivership at his discretion at any time for other reasons, including conditions that FHFA has already asserted existed at the time the Director of FHFA placed us into conservatorship. Placement into receivership would have a material adverse effect on holders of our common stock, preferred stock, debt securities and Fannie Mae MBS. Should we be placed into receivership, different assumptions would be required to determine the carrying value of our assets, which could lead to substantially different financial results. For more information on the risks to our business relating to conservatorship and uncertainties regarding the future of our business, see "Risk Factors."

Treasury Agreements

On September 7, 2008, we, through FHFA, in its capacity as conservator, and Treasury entered into a senior preferred stock purchase agreement, which was subsequently amended on September 26, 2008, May 6, 2009, December 24, 2009 and August 17, 2012. Unless the context indicates otherwise, references in this report to the senior preferred stock purchase agreement refer to the agreement as amended through August 17, 2012. The terms of the senior preferred stock purchase agreement, senior preferred stock and the warrant discussed below will continue to apply to us even if we are released from the conservatorship. See "Risk Factors" for a description of the risks to our business relating to the Treasury agreements, as well as the adverse effects of the senior preferred stock and the warrant on the rights of holders of our common stock and other series of preferred stock.

August 2012 Amendment to Senior Preferred Stock Purchase Agreement with Treasury

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

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

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

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

Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant

Senior Preferred Stock Purchase Agreement

Under the senior preferred stock purchase agreement, we issued to Treasury (a) one million shares of Variable Liquidation Preference Senior Preferred Stock, Series 2008-2, which we refer to as the "senior preferred stock," and (b) a warrant to purchase, for a nominal price, shares of common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised, which we refer to as the "warrant."

The senior preferred stock and warrant were issued to Treasury as an initial commitment fee in consideration of the commitment from Treasury to provide funds to us under the terms and conditions set forth in the senior preferred stock purchase agreement. The senior preferred stock purchase agreement provides that, on a quarterly basis, we generally may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected in our consolidated balance sheet, prepared in accordance with GAAP, for the applicable fiscal quarter (referred to as the "deficiency amount").

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

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

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

In announcing the December 24, 2009 amendments to the senior preferred stock purchase agreement and to Treasury's preferred stock purchase agreement with Freddie Mac, Treasury noted that the amendments "should leave no uncertainty about the Treasury's commitment to support [Fannie Mae and Freddie Mac] as they continue to play a vital role in the housing market during this current crisis." The senior preferred stock purchase agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process.

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

The senior preferred stock purchase agreement provides that the Treasury's funding commitment will terminate under any of the following circumstances: (1) the completion of our liquidation and fulfillment of Treasury's obligations under its funding commitment at that time, (2) the payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guaranty obligations), or (3) the funding by Treasury of the maximum amount that may be funded under the agreement. In addition, Treasury may terminate its funding commitment and declare the senior preferred stock purchase agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the conservator or otherwise curtails the conservator's powers. Treasury may not terminate its funding commitment under the agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change

in our financial condition.
The senior preferred stock purchase agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury's aggregate funding commitment or add conditions to Treasury's funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or guaranteed Fannie Mae MBS.
In the event of our default on payments with respect to our debt securities or guaranteed Fannie Mae MBS, if Treasury fails to perform its obligations under its funding commitment and if we and/or the conservator are not diligently pursuing remedies

in respect of that failure, the holders of our debt securities or Fannie Mae MBS may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of (1) the amount necessary to cure the payment defaults on our debt and Fannie Mae MBS and (2) the lesser of (a) the deficiency amount and (b) the maximum amount that may be funded under the agreement less the aggregate amount of funding previously provided under the commitment. Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the senior preferred stock purchase agreement that will increase the liquidation preference of the senior preferred stock.

Senior Preferred Stock

Pursuant to the senior preferred stock purchase agreement, we issued one million shares of senior preferred stock to Treasury on September 8, 2008 with an aggregate initial liquidation preference of $1.0 billion. The stock's liquidation preference is subject to adjustment. For any dividend period for which dividends are payable, to the extent that dividends are not paid in cash they will accrue and be added to the liquidation preference. In addition, any amounts Treasury pays to us pursuant to its funding commitment under the senior preferred stock purchase agreement and any quarterly commitment fees that are either not paid in cash to Treasury or not waived by Treasury will be added to the liquidation preference. Accordingly, the aggregate liquidation preference of the senior preferred stock was $117.1 billion as of December 31, 2012.

Treasury, as holder of the senior preferred stock, is entitled to receive, when, as and if declared by our Board of Directors, out of legally available funds, cumulative quarterly cash dividends. Beginning in 2013, the method for calculating the amount of dividends for each quarter was changed from an annual rate of 10% per year on the then-current liquidation preference of the senior preferred stock to an amount determined based on our net worth as of the end of the immediately preceding fiscal quarter. Our net worth as defined by the agreement is the amount, if any, by which our total assets (excluding Treasury's funding commitment and any unfunded amounts related to the commitment) exceed our total liabilities (excluding any obligation in respect of capital stock), in each case as reflected on our balance sheet prepared in accordance with GAAP. For each dividend period from January 1, 2013 through and including December 31, 2017, the dividend amount will be the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. The capital reserve amount will be $3.0 billion during 2013 and will be reduced by $600 million each year until it reaches zero on January 1, 2018. For each dividend period beginning in 2018, the dividend amount will be the entire amount of our net worth, if any, as of the end of the immediately preceding fiscal quarter. As a result of these dividend payment provisions, when we have quarterly earnings that result in a net worth greater than the applicable capital reserve amount, we will pay dividends to Treasury in the next quarter; but if our net worth does not exceed the applicable capital reserve amount as of the end of a quarter, then we will not be required to accrue or pay any dividends in the next quarter. See "Risk Factors" for a discussion of the risks relating to our dividend obligations to Treasury on the senior preferred stock.

The senior preferred stock ranks ahead of our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. The senior preferred stock provides that we may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the senior preferred stock unless (1) full cumulative dividends on the outstanding senior preferred stock (including any unpaid dividends added to the liquidation preference) have been declared and paid in cash, and (2) all amounts required to be paid with the net proceeds of any issuance of capital stock for cash (as described in the following paragraph) have been paid in cash. Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock.

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment under the senior preferred stock purchase agreement. Moreover, we are not permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock except to the extent of (1) accrued and unpaid dividends previously added to the liquidation preference and not previously paid down; and (2) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition, if we issue any shares of capital stock for cash while the senior preferred stock is outstanding, the net proceeds of the issuance must be used to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury's funding commitment. Following the termination of Treasury's funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part.

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Common Stock Warrant

Pursuant to the senior preferred stock purchase agreement, on September 7, 2008, we, through FHFA, in its capacity as conservator, issued a warrant to purchase common stock to Treasury. The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise, for an exercise price of $0.00001 per share. The warrant may be exercised in whole or in part at any time on or before September 7, 2028.

Covenants under Treasury Agreements

The senior preferred stock purchase agreement and warrant contain covenants that significantly restrict our business activities and require the prior written consent of Treasury before we can take certain actions. These covenants prohibit us from taking a number of actions, including:

- paying dividends or other distributions on or repurchasing our equity securities (other than the senior preferred stock or warrant);
- issuing additional equity securities (except in limited instances);
- selling, transferring, leasing or otherwise disposing of any assets, except for dispositions for fair market value in limited circumstances including if the transaction is in the ordinary course of business and consistent with past practice or in one transaction or a series of related transactions if the assets have a fair market value individually or in the aggregate of less than $250 million;
- issuing subordinated debt; and
- entering into any new compensation arrangements or increasing amounts or benefits payable under existing compensation arrangements for any of our executive officers (as defined by rules of the Securities and Exchange Commission (the "SEC")) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury.

We also are subject to limits, which are described below, on the amount of mortgage assets that we may own and the total amount of our indebtedness. As a result, we can no longer obtain additional equity financing (other than pursuant to the senior preferred stock purchase agreement) and we are limited in the amount and type of debt financing we may obtain.

- Mortgage Asset Limit. We are restricted in the amount of mortgage assets that we may own. The maximum allowable amount was reduced to $650 billion on December 31, 2012. In the absence of the August 2012 amendment to the senior preferred stock purchase agreement, the amount would have been reduced to $656.1 billion. Based on the senior preferred stock purchase agreement's definition of mortgage asset, our mortgage assets on December 31, 2012 were $633.1 billion. On each December 31 thereafter, we are required to reduce our mortgage assets to 85% of the maximum allowable amount that we were permitted to own as of December 31 of the immediately preceding calendar year (rather than 90% as provided by the agreement prior to its August 2012 amendment), until the amount of our mortgage assets reaches $250 billion. Accordingly, the maximum allowable amount of mortgage assets we may own on December 31, 2013 is $552.5 billion. For purposes of the agreement, the definition of mortgage asset is based on the unpaid principal balance of such assets and does not reflect market valuation adjustments, allowance for loan losses, impairments, unamortized premiums and discounts and the impact of our consolidation of variable interest entities. We disclose the amount of our mortgage assets on a monthly basis under the caption "Gross Mortgage Portfolio" in our Monthly Summaries, which are available on our Web site and announced in a press release.
- Debt Limit. We are subject to a limit on the amount of our indebtedness. Our debt limit in 2012 was $874.8 billion and in 2013 is $780.0 billion. For every year thereafter, our debt cap will equal 120% of the amount of mortgage assets we are allowed to own on December 31 of the immediately preceding calendar year. The definition of indebtedness for purposes of our debt cap is based on the par value of each applicable loan and does not reflect the impact of consolidation of variable interest entities. Under this definition, our indebtedness as of December 31, 2012 was $621.8 billion. We disclose the amount of our indebtedness on a monthly basis under the caption "Total Debt Outstanding" in our Monthly Summaries, which are available on our Web site and announced in a press release.

Annual Risk Management Plan Covenant. We are required to provide an annual risk management plan to Treasury not later than December 15 of each year we remain in conservatorship, beginning in 2012. Each annual risk management plan is required to set out our strategy for reducing our risk profile and to describe the actions we will take to reduce the financial and operational risk associated with each of our business segments. Each plan delivered after the first plan must include an assessment of our performance against the planned actions described in the prior year’s plan.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

GSE Reform

Policymakers and others have focused significant attention in recent years on how to reform the nation's housing finance system, including what role, if any, the GSEs should play. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was signed into law in July 2010, calls for enactment of meaningful structural reforms of Fannie Mae and Freddie Mac. The Dodd-Frank Act also required the Treasury Secretary to submit a report to Congress with recommendations for ending the conservatorships of Fannie Mae and Freddie Mac. In February 2011, the Administration released a white paper on the future of housing finance reform. The report provides that the Administration will work with FHFA to determine the best way to responsibly reduce Fannie Mae's and Freddie Mac's role in the market and ultimately wind down both institutions.

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

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

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

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

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

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

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

In sum, there continues to be uncertainty regarding the future of our company, including how long the company will continue to exist in its current form, the extent of our role in the market, what form we will have, and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated. See "Risk Factors" for discussions of the risks to our business relating to the uncertain future of our company and of how the uncertain future of our company may adversely affect our ability to retain and recruit well-qualified employees, including senior management.

Financial Regulatory Reform Legislation: The Dodd-Frank Act

The Dodd-Frank Act is significantly changing the regulation of the financial services industry, resulting in new standards related to regulatory oversight of systemically important financial companies, derivatives transactions, asset-backed securitization, mortgage underwriting and consumer financial protection. The Dodd-Frank Act has affected and will continue to directly affect our business through new and expanded regulatory oversight and standards that apply or will apply to us. We may also be affected by provisions of the Dodd-Frank Act and implementing regulations that impact the activities of our customers and counterparties in the financial services industry. Extensive regulatory guidance is still needed to implement and clarify many of the provisions of the Dodd-Frank Act and regulators have not completed many of the required administrative processes, which has created uncertainty for industry participants in some areas. It is therefore difficult to assess fully the impact of this legislation on our business and industry at this time. We discuss the potential risks to our business resulting from the Dodd-Frank Act in "Risk Factors." Below we summarize some key provisions of the legislation, as well as some rules that have been proposed by various government agencies to implement provisions of the Dodd-Frank Act. We are currently evaluating these proposed rules and how they may impact our business and the housing finance industry.

Enhanced supervision and prudential standards. The Dodd-Frank Act established the Financial Stability Oversight Council (the "FSOC"), chaired by the Secretary of the Treasury, to ensure that all financial companies whose failure could pose a threat to the financial stability of the United States—not just banks—will be subject to strong oversight. Under the Dodd-Frank Act, the FSOC is responsible for designating systemically important nonbank financial companies, while the Federal Reserve is responsible for establishing stricter prudential standards that will apply to certain bank holding companies and to FSOC-designated systemically important nonbank financial companies. The Federal Reserve must establish standards related to risk-based capital, leverage limits, liquidity, credit concentrations, resolution plans, reporting credit exposures and other risk management measures. On December 20, 2011, the Board of Governors of the Federal Reserve System issued proposed rules addressing a number of these enhanced prudential standards. The Federal Reserve may also impose other standards related to contingent capital, enhanced public disclosure, short-term debt limits and other requirements as appropriate.

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

Depending on the scope and final form of the Federal Reserve's enhanced standards, and the extent to which they apply to us if we are designated by the FSOC as a systemically important nonbank financial company, or to our customers and other counterparties, their adoption and application could increase our costs, pose operational challenges and adversely affect demand for Fannie Mae debt and MBS. We have not received any notification of possible designation as a systemically important financial institution.

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

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

We have reviewed these rules and determined that we are not a swap dealer, security-based swap dealer, major swap participant or major security-based swap participant for purposes of the Dodd-Frank Act. Accordingly, we do not need to register with the CFTC or the SEC. Nevertheless, because we are a user of interest rate swaps, the Dodd-Frank Act requires us, among other items, to submit new swap transactions for clearing to a derivatives clearing organization. Additionally, the Federal Reserve Board, the Federal Deposit Insurance Corporation (the "FDIC"), FHFA, the Farm Credit Administration and the Office of the Comptroller of the Currency have proposed rules under the Dodd-Frank Act governing margin and capital requirements applicable to entities that are subject to their oversight. These proposed rules would require that, for all trades that have not been submitted to a derivatives clearing organization, we collect from and provide to our counterparties collateral in excess of the amounts we have historically collected or provided.

Ability to Repay. The Dodd-Frank Act requires creditors to determine that borrowers have a "reasonable ability to repay" mortgage loans prior to making such loans. On January 10, 2013, the Consumer Financial Protection Bureau (the "CFPB") issued a final rule pursuant to the Dodd-Frank Act that, among others things, requires creditors to determine a borrower's "ability to repay" a mortgage loan under Regulation Z, which implements the Truth in Lending Act. If a creditor fails to comply, a borrower may be able to offset amounts owed in a foreclosure proceeding or recoup monetary damages. The rule offers several options for complying with the ability to repay requirement, including making loans that meet certain terms and characteristics (so-called "qualified mortgages"), which may provide creditors with special protection from liability. While Fannie Mae and Freddie Mac remain in conservatorship or, if earlier, until January 10, 2021, a loan will generally be a qualified mortgage under the rule if, among other things, (1) the points and fees paid in connection with the loan do not exceed 3% of the total loan amount, (2) the loan term does not exceed 30 years, (3) the loan is fully amortizing with no negative amortization, interest-only or balloon features and (4) the loan conforms to the standards set forth in Fannie Mae's or Freddie Mac's single-family selling guides or is determined to be eligible for purchase by Fannie Mae's or Freddie Mac's automated underwriting system. There are comparable provisions for loans insured or guaranteed by FHA, the VA or the Department of Agriculture. A loan that is not eligible for sale to a GSE pursuant to its selling guide or automated underwriting system can still be a qualified mortgage if it meets the other criteria listed above, the debt-to-income ratio on the loan does not exceed 43% using the maximum interest rate applicable in the first five years of the loan, taking into account all-mortgage related obligations, and the borrower's income and assets are verified in accordance with the method prescribed in the rule. The rule is scheduled to become effective January 10, 2014. However, there is some uncertainty regarding the timing and final provisions of the rule as a result of legal challenges to the appointment of the CFPB's director. We are currently evaluating the potential impact of the rule and the uncertainty surrounding its adoption on our business.

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

proposal.
Changes to Our Single-Family Guaranty Fee Pricing and Revenue
At the direction of FHFA, effective April 1, 2012, we increased the guaranty fee on all single-family residential mortgages delivered to us by 10 basis points. This fee increase was required by the TCCA and helps offset the cost of a two-month extension of the payroll tax cut from January 1, 2012 through February 29, 2012. FHFA and Treasury have advised us to remit this fee increase to Treasury with respect to all loans acquired by us on or after April 1, 2012 and before January 1, 2022, and to continue to remit these amounts to Treasury on and after January 1, 2022 with respect to loans we acquired

before this date until those loans are paid off or otherwise liquidated. As of December 31, 2012, we paid $104 million to Treasury for our obligations through September 30, 2012 under the TCCA.

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

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

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

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

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

Principal Forgiveness

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

FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans

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

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

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

OUR CHARTER AND REGULATION OF OUR ACTIVITIES

Charter Act

We are a shareholder-owned corporation, originally established in 1938, organized and existing under the Federal National Mortgage Association Charter Act, as amended, which we refer to as the Charter Act or our charter. The Charter Act sets forth the activities that we are permitted to conduct, authorizes us to issue debt and equity securities, and describes our general corporate powers. The Charter Act states that our purposes are to:

- provide stability in the secondary market for residential mortgages;
- respond appropriately to the private capital market;
- provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and
- promote access to mortgage credit throughout the nation (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

It is from these sections of the Charter Act that we derive our mission of providing liquidity, increasing stability and promoting affordability in the residential mortgage market. In addition to the alignment of our overall strategy with these purposes, all of our business activities must be permissible under the Charter Act. Our charter authorizes us to: purchase, service, sell, lend on the security of, and otherwise deal in certain mortgage loans; issue debt obligations and mortgage-related securities; and "do all things as are necessary or incidental to the proper management of [our] affairs and the proper conduct of [our] business."

Loan Standards

Mortgage loans we purchase or securitize must meet the following standards required by the Charter Act.

- Principal Balance Limitations. Our charter permits us to purchase and securitize mortgage loans secured by either a single-family or multifamily property. Single-family conventional mortgage loans are subject to maximum original principal balance limits, known as "conforming loan limits." The conforming loan limits are established each year based on the average prices of one-family residences.

The national conforming loan limit for mortgages that finance one-family residences is $417,000 in 2013, as it was in 2010 through 2012, with higher limits for mortgages secured by two- to four-family residences and in four statutorily-designated states and territories (Alaska, Hawaii, Guam and the U.S. Virgin Islands). Higher loan limits also apply in high-cost areas (counties or county-equivalent areas) that are designated by FHFA annually. Our charter sets permanent loan limits for high-cost areas up to 150% of the national loan limit ($625,500 for a one-family residence; higher for two- to four-family residences and in the four statutorily-designated states and territories).
No statutory limits apply to the maximum original principal balance of multifamily mortgage loans that we purchase or securitize. In addition, the Charter Act imposes no maximum original principal balance limits on loans we purchase or securitize that are insured by FHA or guaranteed by the VA.

- Loan-to-Value and Credit Enhancement Requirements. The Charter Act generally requires credit enhancement on any single-family conventional mortgage loan that we purchase or securitize if it has a loan-to-value ratio over 80% at the time of purchase. We also do not purchase or securitize second lien single-family mortgage loans when the combined loan-to-value ratio exceeds 80%, unless the second lien mortgage loan has credit enhancement in accordance with the requirements of the Charter Act. The credit enhancement required by our charter may take the form of one or more of the following: (1) insurance or a guaranty by a qualified insurer of the over-80% portion of the unpaid principal balance of the mortgage; (2) a seller's agreement to repurchase or replace the mortgage in the event of default (for such period and under such circumstances as we may require); or (3) retention by the seller of at least a 10% participation interest

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in the mortgage. Regardless of loan-to-value ratio, the Charter Act does not require us to obtain credit enhancement to purchase or securitize loans insured by FHA or guaranteed by the VA.

Authority of U.S. Treasury to Purchase GSE Securities

Pursuant to our charter, at the discretion of the Secretary of the Treasury, Treasury may purchase our obligations up to a maximum of $2.25 billion outstanding at any one time. Treasury temporarily received expanded authority, which expired on December 31, 2009, to purchase our obligations and other securities in unlimited amounts (up to the national debt limit) under the 2008 Reform Act. We describe Treasury's investment in our senior preferred stock and a common stock warrant pursuant to this expanded temporary authority under "Conservatorship and Treasury Agreements—Treasury Agreements."

Other Charter Act Provisions

The Charter Act has the following additional provisions.

- Issuances of Our Securities. We are authorized, upon the approval of the Secretary of the Treasury, to issue debt obligations and mortgage-related securities. Neither the U.S. government nor any of its agencies guarantees, directly or indirectly, our debt or mortgage-related securities.
- Exemptions for Our Securities. The Charter Act generally provides that our securities are exempt under the federal securities laws administered by the SEC. As a result, we are not required to file registration statements with the SEC under the Securities Act of 1933 with respect to offerings of any of our securities. Our non-equity securities are also exempt securities under the Securities Exchange Act of 1934 (the "Exchange Act"). However, our equity securities are not treated as exempted securities for purposes of Sections 12, 13, 14 or 16 of the Exchange Act. Consequently, we are required to file periodic and current reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.
- Exemption from Specified Taxes. Fannie Mae is exempt from taxation by states, territories, counties, municipalities and local taxing authorities, except for taxation by those authorities on our real property. We are not exempt from the payment of federal corporate income taxes.
- Other Limitations and Requirements. We may not originate mortgage loans or advance funds to a mortgage seller on an interim basis, using mortgage loans as collateral, pending the sale of the mortgages in the secondary market. In addition, we may only purchase or securitize mortgages on properties located in the United States and its territories.

Regulation and Oversight of Our Activities

As a federally chartered corporation, we are subject to government regulation and oversight. FHFA is an independent agency of the federal government with general supervisory and regulatory authority over Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks ("FHLBs"). FHFA was established in July 2008, assuming the duties of our former safety and soundness regulator, the Office of Federal Housing Enterprise Oversight ("OFHEO"), and our former mission regulator, HUD. HUD remains our regulator with respect to fair lending matters. Our regulators also include the SEC and Treasury.

The GSE Act provides FHFA with safety and soundness authority that is comparable to and in some respects broader than that of the federal banking agencies. Even if we were not in conservatorship, the GSE Act gives FHFA the authority to raise capital levels above statutory minimum levels, regulate the size and content of our portfolio and approve new mortgage products, among other things.

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

Capital. The GSE Act provides FHFA with broad authority to increase the level of our required minimum capital and to establish capital or reserve requirements for specific products and activities. FHFA also has broad authority to establish risk-based capital requirements, to ensure that we operate in a safe and sound manner and maintain sufficient capital and reserves. During the conservatorship, FHFA has suspended our capital classifications. We continue to submit capital reports to FHFA during the conservatorship, and FHFA continues to monitor our capital levels. We describe our capital requirements below under "Capital Adequacy Requirements."

Portfolio. The GSE Act requires FHFA to establish standards governing our portfolio holdings, to ensure that they are backed by sufficient capital and consistent with our mission and safe and sound operations. FHFA is also required to monitor our portfolio and, in some circumstances, may require us to dispose of or acquire assets. In 2010, FHFA published a final rule adopting, as the standard for our portfolio holdings, the portfolio limits specified in the senior preferred stock purchase agreement described under “Treasury Agreements—Covenants under Treasury Agreements,” as it may be amended from time to time. The rule is effective for as long as we remain subject to the terms and obligations of the senior preferred stock purchase agreement.

New Products. The GSE Act requires us to obtain FHFA's approval before initially offering any product, subject to certain exceptions. The GSE Act also requires us to provide FHFA with written notice before commencing any new activity. In July 2009, FHFA published an interim final rule implementing these provisions of the GSE Act. Subsequently, the Acting Director of FHFA concluded that permitting us to offer new products at this time is inconsistent with the goals of the conservatorship. He therefore instructed us not to submit requests for approval of new products under the interim final rule. We cannot predict when or if FHFA will permit us to submit new product requests under the rule.

Receivership. Under the GSE Act, FHFA must place us into receivership if it determines that our assets are less than our obligations for 60 days, or we have not been paying our debts as they become due for 60 days. FHFA has notified us that the measurement period for any mandatory receivership determination with respect to our assets and liabilities would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days thereafter. FHFA has advised us that if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency amount under the senior preferred stock purchase agreement, the Director of FHFA will not make a mandatory receivership determination.

In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons, including conditions that FHFA has already asserted existed at the time the then-Director of FHFA placed us into conservatorship. The statutory grounds for discretionary appointment of a receiver include: a substantial dissipation of assets or earnings due to unsafe or unsound practices; the existence of an unsafe or unsound condition to transact business; an inability to meet our obligations in the ordinary course of business; a weakening of our condition due to unsafe or unsound practices or conditions; critical undercapitalization; the likelihood of losses that will deplete substantially all of our capital; or by consent.

In June 2011, FHFA issued a final rule establishing a framework for conservatorship and receivership operations for the GSEs. The rule is part of FHFA's implementation of the powers provided by the 2008 Reform Act, and does not seek to anticipate or predict future conservatorships or receiverships. The final rule, which became effective on July 20, 2011, establishes procedures for conservatorship and receivership, and priorities of claims for contract parties and other claimants. For example, the final rule clarifies that:

- the powers of the conservator or receiver include continuing our mission and ensuring that our operations foster liquid, efficient, competitive and resilient national housing finance markets;
- the conservator or receiver may disaffirm or repudiate any contract or lease to which we are a party for up to 18 months following the appointment of a conservator or receiver;
- we are prohibited from making capital distributions while in conservatorship unless authorized by the Director of FHFA; and
- claims by current or former shareholders (including securities litigation claims) would receive the lowest priority in a receivership, behind: (1) administrative expenses of the receiver (or an immediately preceding conservator), (2) our other general or senior liabilities, and (3) obligations subordinated to those of general creditors.

The rule also provides that FHFA, as conservator, will not pay securities litigation claims against us during conservatorship, unless the Director of FHFA determines it is in the interest of the conservatorship. An action, which was brought by the Ohio Public Employees Retirement System and the State Teachers Retirement System of Ohio, is currently pending in the U.S. District Court for the District of Columbia against FHFA and FHFA's Acting Director challenging the rule's provisions regarding nonpayment of securities litigation claims.

Prudential Management and Operational Standards. As required by the GSE Act, in June 2012, FHFA published a final rule establishing prudential standards relating to the management and operations of Fannie Mae, Freddie Mac and the FHLBs in the following ten areas: (1) internal controls and information systems; (2) independence and adequacy of internal audit systems; (3) management of market risk exposure; (4) management of market risk—measurement systems, risk limits, stress testing, and monitoring and reporting; (5) adequacy and maintenance of liquidity and reserves; (6) management of asset and investment portfolio growth; (7) investments and acquisitions of assets; (8) overall risk management processes; (9) management of credit and counterparty risk; and (10) maintenance of adequate records. These standards were established as guidelines, which the Director of FHFA may modify, revoke or add to at any time by order or notice. The rule also specifies actions FHFA may take if a regulated entity fails to meet one or more of the standards or fails to comply with the rule, such as requiring the entity to submit a corrective plan or increasing its capital requirements.

Affordable Housing Goals and Duty to Serve. We discuss our affordable housing goals and our duty to serve underserved markets below under "Housing Goals and Duty to Serve Underserved Markets."

Affordable Housing Allocations. The GSE Act requires us to set aside in each fiscal year an amount equal to 4.2 basis points for each dollar of the unpaid principal balance of our total new business acquisitions, and to allocate such amount to certain government funds. The GSE Act also allows FHFA to suspend allocations on a temporary basis. In November 2008, FHFA advised us that it was suspending our allocations until further notice.

Executive Compensation. The Charter Act provides that the company has the power to pay compensation to our executives that the Board of Directors determines is reasonable and comparable with the compensation of executives performing similar duties in similar businesses, except that a significant portion of potential compensation must be based on our performance. Further, the GSE Act directs FHFA to prohibit us from providing unreasonable or non-comparable compensation to our executive officers. FHFA may at any time review the reasonableness and comparability of an executive officer's compensation and may require us to withhold any payment to the officer during such review. FHFA is also authorized to prohibit or limit certain golden parachute and indemnification payments to directors, officers and certain other parties. FHFA has issued rules relating to golden parachute payments, setting forth factors to be considered by the Director of FHFA in acting upon his authority to limit such payments.

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

Capital Adequacy Requirements

The GSE Act establishes capital adequacy requirements. The statutory capital framework incorporates two different quantitative assessments of capital—a minimum capital requirement and a risk-based capital requirement. The minimum capital requirement is ratio-based, while the risk-based capital requirement is based on simulated stress test performance. The GSE Act requires us to maintain sufficient capital to meet both of these requirements in order to be classified as "adequately capitalized." However, during the conservatorship, FHFA has suspended capital classification of us and announced that our existing statutory and FHFA-directed regulatory capital requirements will not be binding. FHFA has advised us that, because we are under conservatorship, we will not be subject to corrective action requirements that would ordinarily result from our receiving a capital classification of "undercapitalized."

Minimum Capital Requirement. Under the GSE Act, we must maintain an amount of core capital that equals or exceeds our minimum capital requirement. The GSE Act defines core capital as the sum of the stated value of outstanding common stock (common stock less treasury stock), the stated value of outstanding non-cumulative perpetual preferred stock, paid-in capital, and retained earnings, as determined in accordance with GAAP. Our minimum capital requirement is generally equal to the sum of 2.50% of on-balance sheet assets and 0.45% of off-balance sheet obligations. For purposes of minimum capital, FHFA has directed us to continue reporting loans backing Fannie Mae MBS held by third parties based on 0.45% of the unpaid principal balance regardless of whether these loans have been consolidated pursuant to accounting rules. FHFA retains authority under the GSE Act to raise the minimum capital requirement for any of our assets or activities.

Risk-Based Capital Requirement. The GSE Act requires FHFA to establish risk-based capital requirements for Fannie Mae and Freddie Mac, to ensure that we operate in a safe and sound manner. Existing risk-based capital regulation ties our capital requirements to the risk in our book of business, as measured by a stress test model. The stress test simulates our financial performance over a ten-year period of severe economic conditions characterized by both extreme interest rate movements and high mortgage default rates. FHFA has stated that it does not intend to publish our risk-based capital level during the conservatorship and has discontinued stress test simulations under the existing rule. We continue to submit detailed profiles of our books of business to FHFA to support FHFA's monitoring of our business activity and their research into future risk-based capital rules.

Critical Capital Requirement. The GSE Act also establishes a critical capital requirement, which is the amount of core capital below which we would be classified as "critically undercapitalized." Under the GSE Act, such classification is a discretionary ground for appointing a conservator or receiver. Our critical capital requirement is generally equal to the sum of 1.25% of on-balance sheet assets and 0.25% of off-balance sheet obligations. FHFA has directed us, for purposes of critical capital, to continue reporting loans backing Fannie Mae MBS held by third parties based on 0.25% of the unpaid principal balance, notwithstanding our consolidation of substantially all of the loans backing these

securities. FHFA has stated that it does not intend to publish our critical capital level during the conservatorship.
Bank Capital, Liquidity and Other Supervisory Standards. In the wake of the financial crisis and as a result of the Dodd-Frank Act and of actions by international bank regulators, the capital, liquidity and other risk regimes for the banking industry are undergoing major changes, as we discuss above in “Legislative and Regulatory Developments—Financial Regulatory Reform Legislation: The Dodd-Frank Act—Enhanced supervision and prudential standards.” Although the GSEs are not currently subject to bank capital, liquidity and other requirements, any revised framework for GSE standards may be

based on bank requirements, particularly if the GSEs are deemed to be systemically important financial companies subject to Federal Reserve oversight.

Housing Goals and Duty to Serve Underserved Markets

Since 1993, we have been subject to housing goals. The structure of our housing goals changed in 2010 as a result of the 2008 Reform Act. The 2008 Reform Act also created a new duty for us to serve three underserved markets, which we discuss below.

Housing Goals

On November 13, 2012, FHFA published a final rule establishing the following single-family home purchase and refinance housing goal benchmarks for 2012 to 2014 for Fannie Mae and Freddie Mac. A home purchase mortgage may be counted toward more than one home purchase benchmark.

- Low-Income Families Home Purchase Benchmark: At least 23% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to low-income families (defined as income equal to or less than 80% of area median income).
- Very Low-Income Families Home Purchase Benchmark: At least 7% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to very low-income families (defined as income equal to or less than 50% of area median income).
- Low-Income Areas Home Purchase Goal Benchmark: The benchmark level for our acquisitions of single-family owner-occupied purchase money mortgage loans for families in low-income areas is set annually by notice from FHFA, based on the benchmark level for the low-income areas home purchase subgoal (below), plus an adjustment factor reflecting the additional incremental share of mortgages for moderate-income families (defined as income equal to or less than 100% of area median income) in designated disaster areas.
- Low-Income Areas Home Purchase Subgoal Benchmark: At least 11% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to families in low-income census tracts or to moderate-income families in high-minority census tracts.
- Low-Income Families Refinancing Benchmark: At least 20% of our acquisitions of single-family owner-occupied refinance mortgage loans must be affordable to low-income families.

Private-label mortgage-related securities, second liens and single-family government loans do not count towards our housing goals. In addition, only permanent modifications of mortgages under HAMP completed during the year count towards our housing goals; trial modifications will not be counted. Moreover, these modifications count only towards our single-family low-income families refinance goal, not any of the home purchase goals. Refinancings under HARP also count toward our single-family low-income families refinancing goal.

If we do not meet these benchmarks, we may still meet our goals. Our single-family housing goals performance is measured against benchmarks and against goals-qualifying originations in the primary mortgage market after the release of data reported under the Home Mortgage Disclosure Act ("HMDA"). HMDA data are typically released each year in the fall. We will be in compliance with the housing goals if we meet either the benchmarks or market share measures.

To meet FHFA's housing goals, our multifamily mortgage acquisitions must finance a certain number of units affordable to low-income families and a certain number of units affordable to very low-income families. The specific requirements for each year are set forth in Table 6 below. There is no market-based alternative measurement for the multifamily goals.

Table 6: Multifamily Housing Goals for 2012 to 2014

	Goals for 2012	2013	2014
	(in units)		
Affordable to low-income families	285,000	265,000	250,000
Affordable to very low-income families	80,000	70,000	60,000

In adopting the rule in 2010 establishing the structure of our housing goals, FHFA indicated "FHFA does not intend for [Fannie Mae] to undertake uneconomic or high-risk activities in support of the [housing] goals. However, the fact that [Fannie Mae is] in conservatorship should not be a justification for withdrawing support from these market segments."

If our efforts to meet our goals prove to be insufficient, FHFA determines whether the goals were feasible. If FHFA finds that our goals were feasible, we may become subject to a housing plan that could require us to take additional steps that could have an adverse effect on our results of operations and financial condition. The housing plan must describe the actions we would take to meet the goal in the next calendar year and be approved by FHFA. The potential penalties for failure to comply with housing plan requirements include a cease-and-desist order and civil money penalties. See "Risk Factors" for a description of how we may be unable to meet our housing goals and how actions we may take to meet these goals and other regulatory requirements could adversely affect our business, results of operations and financial condition.

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

Table 7: Housing Goals Performance

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

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

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

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

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

Duty to Serve

The 2008 Reform Act created the duty to serve underserved markets in order for us and Freddie Mac to “provide leadership to the market in developing loan products and flexible underwriting guidelines to facilitate a secondary market for very low-, low-, and moderate-income families” with respect to three underserved markets: manufactured housing, affordable housing preservation, and rural areas.

In June 2010, FHFA published a proposed rule to implement our duty to serve. Under the proposed rule, we would be required to submit an underserved markets plan establishing benchmarks and objectives against which FHFA would evaluate and rate our performance. A final rule has not been issued.

The 2008 Reform Act requires FHFA to separately evaluate the following four assessment factors:

- The loan product assessment factor requires evaluation of our "development of loan products, more flexible underwriting guidelines, and other innovative approaches to providing financing to each" underserved market.
- The outreach assessment factor requires evaluation of "the extent of outreach to qualified loan sellers and other market participants." We are expected to engage market participants and pursue relationships with qualified sellers that serve each underserved market.
- The loan purchase assessment factor requires FHFA to consider the volume of loans acquired in each underserved market relative to the market opportunities available to us. The 2008 Reform Act prohibits the establishment of specific quantitative targets by FHFA. However, in its evaluation FHFA could consider the volume of loans acquired in past years.
- The investment and grants assessment factor requires evaluation of the amount of investment and grants in projects that assist in meeting the needs of underserved markets.

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

OUR CUSTOMERS

Our principal customers are lenders that operate within the primary mortgage market where mortgage loans are originated and funds are loaned to borrowers. Our customers include mortgage banking companies, savings and loan associations, savings banks, commercial banks, credit unions, community banks, insurance companies, and state and local housing finance agencies. Lenders originating mortgages in the primary mortgage market often sell them in the secondary mortgage market in the form of whole loans or in the form of mortgage-related securities.

We have a diversified funding base of domestic and international investors. Purchasers of our Fannie Mae MBS and debt securities include fund managers, commercial banks, pension funds, insurance companies, foreign central banks, corporations, state and local governments and other municipal authorities.

During 2012, approximately 1,100 lenders delivered single-family mortgage loans to us, either for securitization or for purchase. We acquire a significant portion of our single-family mortgage loans from several large mortgage lenders. During 2012, our top five lender customers, in the aggregate, accounted for approximately 46% of our single-family business volume, down from approximately 60% in 2011. Wells Fargo Bank, N.A., together with its affiliates, was the only customer that accounted for more than 10% of our single-family business volume in 2012, with approximately 23%.

A number of factors impacted our customers in 2012 and affected the volume of business and mix of customers with whom we and our competitors do business. We obtained fewer single-family loans from large mortgage lenders in 2012 than in prior years as a result of (1) exits from correspondent or broker lending by several large lenders who are focusing instead on lending through their retail channels, and (2) a number of large mortgage lenders having gone out of business since 2006. At the same time, we sought and continue to seek to provide liquidity to a broader, more diverse set of mortgage lenders. Doing more business with a more diverse set of mortgage lenders has lowered to a degree the significant exposure concentration we have built up with a few large institutions. However, the potentially lesser financial strength and operational capacity of many of these smaller sellers/servicers may negatively affect their ability to service the loans on our behalf or to satisfy their repurchase or compensatory fee obligations. The decrease in the concentration of our business with large institutions could increase both our institutional counterparty credit risk and our mortgage credit risk and, as a result, could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

See "Risk Factors" for a discussion of risks relating to our institutional counterparties, changes in the mortgage industry and our acquisition of a significant portion of our mortgage loans from several large mortgage lenders.

COMPETITION

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

One of FHFA's strategic goals for our conservatorship involves gradually contracting our dominant presence in the marketplace. Despite this goal, our market share remains large and even increased in 2012 as we have continued to meet the needs of the single-family mortgage market in the absence of substantial private capital. We remained the largest single issuer of mortgage-related securities in the secondary market in 2012. During 2012, our primary competitors for the issuance of mortgage-related securities were Ginnie Mae and Freddie Mac. We currently estimate that our single-family market share was 43% in 2012, compared with 37% in 2011. These amounts represent our single-family mortgage acquisitions for each year, excluding delinquent loans we purchased from our MBS trusts, as a percentage of the single-family first-lien mortgages we currently estimate were originated in the United States that year. Because our estimate of mortgage originations in prior periods is subject to change as additional data become available, these market share estimates may change in the future, perhaps materially.

We compete to acquire mortgage assets in the secondary market. We also compete for the issuance of mortgage-related securities to investors. Competition in these areas is affected by many factors, including the number of residential mortgage loans offered for sale in the secondary market by loan originators and other market participants, the nature of the residential mortgage loans offered for sale (for example, whether the loans represent refinancings), the current demand for mortgage assets from mortgage investors, the interest rate risk investors are willing to assume and the yields they will require as a result, and the credit risk and prices associated with available mortgage investments.

Competition to acquire mortgage assets is significantly affected by pricing and eligibility standards. We compete with Freddie Mac and, especially for loans with higher LTV ratios to finance home purchases, with FHA. We expect our guaranty fees may increase in coming years, which would likely affect our competitive environment. See "Our Charter and Regulation of Our Activities—Charter Act—Loan Standards" for more information about our loan limits, and "Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue," for a discussion of anticipated pricing increases.

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

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

EMPLOYEES

As of February 28, 2013, we employed approximately 7,200 personnel, including full-time and part-time employees, term employees and employees on leave.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We make available free of charge through our Web site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all other SEC reports and amendments to those reports as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. Our Web site address is www.fanniemae.com. Materials that we file with the SEC are also available from the SEC's Web site, www.sec.gov. You may also request copies of any filing from us, at no cost, by calling the Fannie Mae Fixed-Income Securities Helpline at 1-888-BOND-HLP (1-888-266-3457) or 1-202-752-7115 or by writing to Fannie Mae, Attention: Fixed-Income Securities, 3900 Wisconsin Avenue, NW, Area 2H-3N, Washington, DC 20016.

All references in this report to our Web site addresses or the Web site address of the SEC are provided solely for your information. Information appearing on our Web site or on the SEC's Web site is not incorporated into this annual report on Form 10-K.

FORWARD-LOOKING STATEMENTS

This report includes statements that constitute forward-looking statements within the meaning of Section 21E of the Exchange Act. In addition, our senior management may from time to time make forward-looking statements orally to analysts, investors, the news media and others. Forward-looking statements often include words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," "forecast," "project," "would," "should," "could," "likely," "may,

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

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

- Our expectation that the number of our single-family loans in our legacy book of business that are seriously delinquent will remain well above pre-2008 levels for years;
- Our expectation that it will take a significant amount of time before our REO inventory is reduced to pre-2008 levels;
- Our belief that changes or perceived changes in federal government support of our business and the financial markets or our status as a GSE could materially and adversely affect our liquidity, financial condition and results of operations;
- Our expectation that single-family mortgage loan delinquency and severity rates will continue their downward trend, but that single-family delinquency, default and severity rates will remain high compared to pre-housing crisis levels;
- Our expectation that certain local multifamily markets and rental properties will continue to exhibit weak fundamentals, despite multifamily sector improvement at the national level;
- Our expectation that multifamily foreclosures in 2013 will remain generally commensurate with 2012 levels, although conditions may worsen if the unemployment rate increases on either a national or regional basis;
- Our forecast that total originations in the U.S. single-family mortgage market in 2013 will decrease from 2012 levels by approximately 15% from an estimated \$1.93 trillion to \$1.65 trillion, and that the amount of originations in the U.S. single family mortgage market that are refinancings will decrease from an estimated \$1.40 trillion in 2012 to \$1.03 trillion in 2013;
- Our expectation that home prices may increase on a national basis overall in 2013, if current market trends continue, although home price growth may not continue at 2012 rates;
- Our expectation of significant regional variation in the timing and rate of home price growth;
- Our expectation that our credit losses will remain high in 2013 relative to pre-housing crisis levels;
- Our expectation that, to the extent the slow pace of foreclosures continue in 2013, our realization of some credit losses will be delayed;
- Our expectation that the trends of improving home prices and declining single-family serious delinquency rates will continue;
- Our belief that our total loss reserves peaked at \$76.9 billion as of December 31, 2011;
- Our expectation that our loss reserves will remain significantly elevated relative to historical levels for an extended period because (1) we expect future defaults on loans we acquired prior to 2009 and the resulting charge-offs will occur over a period of years and (2) a significant portion of our reserves represents concessions granted to borrowers upon modification of their loans and our reserves will continue to reflect these concessions until the loans are fully repaid or in default;
- Our expectation that revenues generated from the difference between the interest income earned on the assets in our mortgage portfolio and the interest expense associated with the debt funding of those assets will decrease as we reduce the size of our mortgage portfolio;
- Our expectation that any future increases in guaranty fees will likely only further increase our guaranty fee revenue;
- Our expectation that in future periods our effective guaranty fee revenue will increase and our credit losses will decrease as a result of the higher credit quality of our new book of business, the decrease in our legacy book, and anticipated lower severity at the time of charge-off;
- Our expectation that uncertainty regarding the future of our company will continue;
- Our expectation that the unemployment rate will continue to decline gradually in 2013;
- Our belief that there is a potential for over-supply in multifamily properties in some localized areas over the next 24 months;
- Our expectation that the overall national rental market's supply and demand will remain in balance over the longer term, based on expected construction completions, expected obsolescence, positive household formation trends and expected increases in the population of 20- to 34-year olds, which as a group rents multifamily housing at a higher rate than other groups;
- Our expectation that Congress will continue consideration of housing finance reform in the current congressional session, including hearings on GSE reform, and the consideration of legislation that may alter the housing finance reform system or the activities or operations of the GSEs;

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

Forward-looking statements reflect our management's expectations, forecasts or predictions of future conditions, events or results based on various assumptions and management's estimates of trends and economic factors in the markets in which we are active, as well as our business plans. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. There are a number of factors that could cause actual conditions, events or results to differ materially from those described in the forward-looking statements contained in this report, including, but not limited to, the following: the uncertainty of our future; legislative and regulatory changes affecting us; our future guaranty fee pricing; challenges we face in retaining and hiring qualified employees; the deteriorated credit performance of many loans in our guaranty book of business; the conservatorship and its effect on our business; the investment by Treasury and its effect on our business; adverse effects from activities we undertake to support the mortgage market and help borrowers; a decrease in our credit ratings; limitations on our ability to access the debt capital markets; further disruptions in the housing and credit markets; defaults by one or more institutional counterparties; our need to rely on third parties to fully achieve some of our corporate objectives; our reliance on mortgage servicers; guidance by the Financial Accounting Standards Board ("FASB"); operational control weaknesses; our reliance on models; the level and volatility of interest rates and credit spreads; changes in the structure and regulation of the financial services industry; natural or other disasters; and those factors described in "Risk Factors," as well as the factors described in "Executive Summary—Outlook—Factors that Could Cause Actual Results to be Materially Different from our Estimates and Expectations."

Readers are cautioned to place forward-looking statements in this report or that we make from time to time into proper context by carefully considering the factors discussed in this report. These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under the federal securities laws.

Item 1A. Risk Factors

Refer to "MD&A—Risk Management" for more detailed descriptions of the primary risks to our business and how we seek to manage those risks.

The risks we face could materially adversely affect our business, results of operations, financial condition, liquidity and net worth, and could cause our actual results to differ materially from our past results or the results contemplated by forward-looking statements contained in this report. However, these are not the only risks we face. In addition to the risks we discuss below, we face risks and uncertainties not currently known to us or that we currently believe are immaterial.

RISKS RELATING TO OUR BUSINESS

The future of our company is uncertain.

There is significant uncertainty regarding the future of our company, including how long the company will continue to exist in its current form, the extent of our role in the market, what form we will have, and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated.

In 2011, Treasury and HUD released a report to Congress on ending the conservatorships of the GSEs and reforming America's housing finance market. The report provides that the Administration will work with FHFA to determine the best way to responsibly reduce Fannie Mae's and Freddie Mac's role in the market and ultimately wind down both institutions. The report also addresses three options for a reformed housing finance system. The report does not state whether or how the existing infrastructure or human capital of Fannie Mae may be used in the establishment of such a reformed system. The report emphasizes the importance of proceeding with a careful transition plan and providing the necessary financial support to Fannie Mae and Freddie Mac during the transition period. In his February 2012 letter to Congress, the Acting Director of FHFA wrote that, with "no near-term resolution [of Fannie Mae and Freddie Mac's conservatorships] in sight, it is time to update and extend the goals and directions of the conservatorships." He provided a strategic plan for Fannie Mae and Freddie Mac's conservatorships that included, among its three strategic goals, gradually contracting Fannie Mae and Freddie Mac's dominant presence in the marketplace while simplifying and shrinking our and Freddie Mac's operations.

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

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

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

In compliance with our dividend obligation to Treasury, we will retain only a limited amount of our future earnings, and we will pay Treasury each quarter the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. This capital reserve amount is $3.0 billion for each quarter of 2013 and decreases by $600 million annually until it reaches zero in 2018. Accordingly, our dividend obligations will result in our retaining a limited and decreasing amount of our earnings each year until 2018. Beginning in 2018, we will no longer retain any of our earnings, as the entire amount of our net worth will be paid to Treasury as dividends on the senior preferred stock.

Because we are permitted to retain only a limited and decreasing amount of capital reserves through 2017, we may not have sufficient reserves to avoid a net worth deficit if we experience a comprehensive loss in a future quarter. In addition, beginning in 2018, we are not permitted to retain any capital reserves against losses in subsequent quarters; therefore, if we have a comprehensive loss for a quarter we will also have a net worth deficit for that quarter. For any quarter for which we have a net worth deficit, we will be required to draw funds from Treasury under the senior preferred stock purchase agreement in order to avoid being placed into receivership.

Our regulator is authorized or required to place us into receivership under specified conditions, which would result in the liquidation of our assets. Amounts recovered from the liquidation may not be sufficient to repay the liquidation preference of any series of our preferred stock or to provide any proceeds to common shareholders.

FHFA has an obligation to place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations for a period of 60 days after the filing deadline for our Form 10-K or Form 10-Q with the SEC. Although Treasury committed to providing us funds in accordance with the terms of the senior preferred stock purchase agreement, if we need funding from Treasury to avoid triggering FHFA's obligation, Treasury may not provide these funds to us within the required 60 days if it has exhausted its borrowing authority, if there is a government shutdown or if we need more funds than remain available to us under the agreement. As of December 31, 2012, $117.6 billion remained available to us under the senior preferred stock purchase agreement. In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons, including conditions that FHFA has already asserted existed at the time the former Director of FHFA placed us into conservatorship.

A receivership would terminate the conservatorship. In addition to the powers FHFA has as our conservator, the appointment of FHFA as our receiver would terminate all rights and claims that our shareholders and creditors may have against our assets or under our charter arising from their status as shareholders or creditors, except for their right to payment, resolution or other satisfaction of their claims as permitted under the GSE Act. Unlike a conservatorship, the purpose of which is to conserve our assets and return us to a sound and solvent condition, the purpose of a receivership is to liquidate our assets and resolve claims against us.

To the extent we are placed into receivership and do not or cannot fulfill our guaranty to the holders of our Fannie Mae MBS, the MBS holders could become unsecured creditors of ours with respect to claims made under our guaranty.

In the event of a liquidation of our assets, only after payment of the administrative expenses of the receiver and the immediately preceding conservator, the secured and unsecured claims against the company (including repaying all outstanding debt obligations), and the liquidation preference of the senior preferred stock, would any liquidation proceeds be available to repay the liquidation preference on any other series of preferred stock. Finally, only after the liquidation preference on all series of preferred stock is repaid would any liquidation proceeds be available for distribution to the holders of our common stock. In light of the amended dividend requirements under the senior preferred stock purchase agreement, there may not be sufficient proceeds to make any distribution to holders of our preferred stock or common stock, other than to Treasury as a holder of our senior preferred stock.

Our business and results of operations may be materially adversely affected if we are unable to retain and hire qualified employees.

Our business processes are highly dependent on the talents and efforts of our employees. The conservatorship, the uncertainty of our future, limitations on employee compensation, the heightened scrutiny of our actions by Congress and regulators and the working environment created thereby, and negative publicity concerning the GSEs have had and are likely to continue to have an adverse effect on our ability to retain and recruit well-qualified employees. Turnover in key management positions and challenges in integrating new management could harm our ability to manage our business effectively and ultimately adversely affect our financial performance.

Actions taken by Congress, FHFA and Treasury to date, or that may be taken by them or other government agencies in the future, may have an adverse effect on the retention and recruitment of senior executives, management and other employees. We are subject to significant restrictions on the amount and type of compensation we may pay our executives and other employees under conservatorship. For example, in April 2012, the Stop Trading on Congressional Knowledge Act (the "STOCK Act") was enacted, which includes a provision that prohibits senior executives at Fannie Mae and Freddie Mac from receiving bonuses during any period of conservatorship on or after the date of enactment of the law. In addition, we are unable to offer equity-based compensation.

The compensation we pay our senior executives is significantly less than executives' compensation at many comparable companies. As discussed more fully in "Executive Compensation—Compensation Discussion and Analysis—Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data," total target direct compensation for 2012 under our 2012 executive compensation program for each of our executives identified as a named executive was more than 30% below the market median for comparable firms and, in the case of our Chief Executive Officer, was more than 70% below the market median.

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

We face competition from within the financial services industry and from businesses outside of the financial services industry for qualified employees. Additionally, an improving economy is putting additional pressures on turnover, as attractive opportunities become available to our employees. Our competitors for talent are able to provide market-based compensation and to link employees' pay to performance. The constraints on our compensation could adversely affect our ability to attract qualified candidates. While we engage in succession planning for our senior management and other critical positions and have been able to fill a number of important positions internally, our inability to offer market-based compensation may limit our ability to attract and retain qualified employees below the senior executive level that could fill our senior executive level positions if there is further turnover.

If we are unable to retain, promote and attract employees with the necessary skills and talent, we would face increased risks for operational failures. Our ability to conduct our business and our results of operations would likely be materially adversely affected.

Our business activities are significantly affected by the conservatorship and the senior preferred stock purchase agreement.

We are currently under the control of our conservator, FHFA, and we do not know when or how the conservatorship will be terminated. As conservator, FHFA can direct us to enter into contracts or enter into contracts on our behalf, and generally has the power to transfer or sell any of our assets or liabilities. In addition, our directors do not have fiduciary duties to any person or entity except to the conservator. Accordingly, our directors are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS in making or approving a decision unless specifically directed to do so by the conservator.

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

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

The senior preferred stock purchase agreement with Treasury includes a number of covenants that significantly restrict our business activities. We cannot, without the prior written consent of Treasury: pay dividends (except on the senior preferred stock); sell, issue, purchase or redeem Fannie Mae equity securities; sell, transfer, lease or otherwise dispose of assets in specified situations; engage in transactions with affiliates other than on arm's-length terms or in the ordinary course of business; issue subordinated debt; or incur indebtedness that would result in our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are allowed to own. In deciding whether to consent to any request for approval it receives from us under the agreement, Treasury has the right to withhold its consent for any reason and is not required by the agreement to consider any particular factors, including whether or not management believes that the transaction would benefit the company. For example, in November 2009, Treasury withheld its consent under these covenants to our proposed transfer of interests in low-income housing tax credit ("LIHTC") investments, eliminating our ability to transfer the assets for value and resulting in our recognizing a $5 billion loss with respect to these investments in that quarter. Pursuant to the senior preferred stock purchase agreement, the maximum allowable amount of mortgage assets we are permitted to own was reduced to $650 billion on December 31, 2012, and on each December 31 thereafter, our mortgage assets may not exceed 85% of the maximum allowable amount that we were permitted to own as of December 31 of the immediately preceding calendar year until the amount of our mortgage assets reaches $250 billion. This limit on the amount of mortgage assets we are permitted to hold could constrain the amount of delinquent loans we purchase from single-family MBS trusts, which could increase our costs.

Actions taken by the conservator and the restrictions set forth in the senior preferred stock purchase agreement could adversely affect our business, results of operations, financial condition, liquidity and net worth.

The conservatorship and investment by Treasury have had, and will continue to have, a material adverse effect on our common and preferred shareholders.

We do not know when or how the conservatorship will be terminated. Moreover, even if the conservatorship is terminated, we remain subject to the terms of the senior preferred stock purchase agreement, senior preferred stock and warrant, which can only be canceled or modified by mutual consent of Treasury and the conservator. The conservatorship and investment by Treasury have had, and will continue to have, material adverse effects on our common and preferred shareholders, including the following:

No voting rights during conservatorship. The rights and powers of our shareholders are suspended during the conservatorship. The conservatorship has no specified termination date. During the conservatorship, our common shareholders do not have the ability to elect directors or to vote on other matters unless the conservator delegates this authority to them.

Dividends to common and preferred shareholders, other than to Treasury, have been eliminated. Under the terms of the senior preferred stock purchase agreement, dividends may not be paid to common or preferred shareholders (other than on the senior preferred stock) without the consent of Treasury, regardless of whether we are in conservatorship.

Liquidation preference of senior preferred stock is high and could increase. The senior preferred stock ranks prior to our common stock and all other series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and distributions upon liquidation. Accordingly, if we are liquidated, the senior preferred stock is entitled to its then-current liquidation preference, plus any accrued but unpaid dividends, before any distribution is made to the holders of our common stock or other preferred stock. The liquidation preference on the senior preferred stock is currently $117.1 billion and would increase if we draw on Treasury's funding commitment in any future quarters or if we do not pay dividends owed on the senior preferred stock. If we are liquidated, it is unlikely that there would be sufficient funds remaining after payment of amounts to our creditors and to Treasury as holder of the senior preferred stock to make any distribution to holders of our common stock and other preferred stock.

Exercise of the Treasury warrant would substantially dilute investment of current shareholders. If Treasury exercises its warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis, the ownership interest in the company of our then existing common shareholders will be substantially diluted, and we would thereafter have a controlling shareholder.

No longer managed for the benefit of shareholders. Because we are in conservatorship, we are no longer managed with a strategy to maximize shareholder returns.

For additional description of the restrictions on us and the risks to our shareholders, see "Business—Conservatorship and Treasury Agreements."

We may incur additional credit-related expenses, particularly in light of the poor credit performance of loans we acquired prior to 2009.

Some of the mortgage loans we acquired prior to 2009 have performed poorly, which increased our credit losses and credit-related expenses, and our risk of future credit losses and credit-related expenses, as a result of borrowers failing to make required payments of principal and interest on their mortgage loans. Home price declines from 2006 to 2011 and other adverse conditions in the housing market contributed to our legacy book of business's poor credit performance, resulting in elevated serious delinquency rates and negatively impacting default rates and average loan loss severity on the mortgage loans in our legacy book of business. High delinquencies, default rates and loss severity cause us to experience higher credit-related expenses. The credit performance of our book of business was also negatively affected by the extent and duration of high unemployment. Further, home price declines have resulted in a large number of borrowers with "negative equity" in their properties (that is, they owe more on their mortgage loans than their houses are worth), which increases the likelihood that either these borrowers will strategically default on their mortgage loans even if they have the ability to continue to pay the loans or that distressed homeowners will sell their homes in a "short sale" for significantly less than the unpaid amount of the loans. We present detailed information about the risk characteristics of our single-family conventional guaranty book of business in "MD&A—Risk Management—Credit Risk Management—Mortgage Credit Risk Management," and we present detailed information on our 2012 credit-related expenses, credit losses and results of operations in "MD&A—Consolidated Results of Operations." The credit performance of loans in our guaranty book of business, particularly those in our legacy book of business, could deteriorate in the future, particularly if we experience national and regional declines in home prices, weakening economic conditions and high unemployment.

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

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

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

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

A failure in our operational systems or infrastructure, or those of third parties, could materially adversely affect our business, impair our liquidity, cause financial losses and harm our reputation.

Shortcomings or failures in our internal processes, people or systems could disrupt our business or have a material adverse effect on our risk management, liquidity, financial statement reliability, financial condition and results of operations. Such a failure could result in legislative or regulatory intervention, liability to customers, financial losses and damage to our reputation. For example, our business is highly dependent on our ability to manage and process, on a daily basis, an extremely large number of transactions, many of which are highly complex, across numerous and diverse markets and in an environment in which we must make frequent changes to our core processes in response to changing external conditions. These transactions are subject to various legal, accounting and regulatory standards. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled, adversely affecting our ability to process these transactions. In addition, we rely on information provided by third parties in processing many of our transactions; that information may be incorrect or we may fail to properly manage or analyze it.

The magnitude of the many new initiatives we are undertaking, including as part of our effort to help build a new housing finance system, may increase our operational risk. Some actions we have been directed to take by FHFA also present significant operational challenges for us, and we believe that implementing these directives will increase our operational risk and could result in one or more significant deficiencies or material weaknesses in our internal control over financial reporting in a future period. In April 2012, FHFA issued supervisory guidance requiring that we change our method of accounting for delinquent loans. This directive, which is described in "Business—Legislative and Regulatory Developments—FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans," creates significant operational burdens and costs for us. We are also currently working on implementing a number of other FHFA directives and initiatives that may increase our operational burdens and our costs. In addition, FHFA, other agencies of the U.S. government or Congress may direct us to take actions in the future that could further increase our operational risk.

While implementation of each individual initiative and directive creates operational challenges, implementing multiple directives during the same time period significantly increases these challenges. Implementing these directives requires a substantial time commitment from management and the employees responsible for implementing the changes, which could adversely affect our ability to retain these employees. In addition, some of these directives require significant changes to our accounting methods and systems. Due to the operational complexity associated with these changes and the limited time periods for implementing them, we believe there is a significant risk that implementing these changes could result in one or more significant deficiencies or material weaknesses in our internal control over financial reporting in a future period. If this were to occur, we could experience material errors in our reported financial results.

We rely upon business processes that are highly dependent on people, legacy technology and the use of numerous complex systems and models to manage our business and produce books and records upon which our financial statements are prepared. This reliance increases the risk that we may be exposed to financial, reputational or other losses as a result of inadequately designed internal processes or systems, or failed execution of our systems. While we continue to enhance our technology, operational controls and organizational structure in order to reduce our operational risk, these actions may not be effective to manage these risks and may create additional operational risk as we execute these enhancements. In addition, our increased use of third-party service providers for some of our business functions increases the risk that an operational failure by a third party will adversely affect us.

We also face the risk of operational failure, termination or capacity constraints of any of the clearing agents, exchanges, clearinghouses or other financial intermediaries we use to facilitate our securities and derivatives transactions. Any such failure, termination or constraint could adversely affect our ability to effect transactions or manage our exposure to risk, and could have a significant adverse impact on our business, liquidity, financial condition, net worth and results of operations.

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

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

We may undertake efforts that adversely affect our business, results of operations, financial condition, liquidity and net worth.

In conservatorship our business is no longer managed with a strategy to maximize shareholder returns while fulfilling our mission. Our conservator previously directed us to focus primarily on minimizing our credit losses from delinquent mortgages and providing assistance to struggling homeowners to help them remain in their homes. More recently, our conservator has announced two strategic goals for our conservatorship—building a new infrastructure for the secondary mortgage market and gradually contracting our dominant presence in the marketplace while simplifying and shrinking our operations. In pursuit of these or other goals prescribed by our conservator, we may take a variety of actions that could adversely affect our economic returns, possibly significantly, such as encouraging increased competition in our markets; modifying loans to defer principal, lower the interest rate or extend the maturity; or engaging in principal reduction. We are already taking some of these actions. These activities may have short- and long-term adverse effects on our business, results of operations, financial condition, liquidity and net worth.

Other agencies of the U.S. government or Congress also may ask us to undertake significant efforts to support the housing and mortgage markets, as well as struggling homeowners. They may also ask us to take actions in support of other goals. For example, as we discuss in "Business—Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue," in December 2011 Congress enacted the TCCA under which, at the direction of FHFA, we increased the guaranty fee on all single-family residential mortgages delivered to us by 10 basis points effective April 1, 2012. This fee increase helps offset the cost of a two-month extension of the payroll tax cut from January 1, 2012 through February 29, 2012. FHFA and Treasury advised us to remit this fee increase to Treasury with respect to all loans acquired by us on or after April 1, 2012 and before January 1, 2022, and to continue to remit these amounts to Treasury on and after January 1, 2022 with respect to loans we acquired before this date until those loans are paid off or otherwise liquidated.

In addition, to meet our housing goals, a portion of the mortgage loans we acquire must be for low- and very-low income families, families in low-income census tracts and moderate-income families in minority census tracts or designated disaster areas. We may take actions to meet our housing goals obligations that could increase our credit losses and credit-related expenses. We discuss our housing goals in "Business—Our Charter and Regulation of Our Activities—Regulation and Oversight of Our Activities—Housing Goals and Duty to Serve Underserved Markets."

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

Many state and local governments are seeking ways to address the effects of the housing crisis, including high levels of foreclosures. State and local governments are also seeking ways to address declining tax revenues. Some of the legislative, regulatory or litigation-related actions governments take to address these issues may adversely affect us by, for example, increasing our costs or affecting our ability to achieve our business goals efficiently and effectively.

For example, a number of lawsuits have been filed against us challenging our right to claim an exemption, under our charter, from transfer taxes in connection with the recordation of deeds upon transfers of real property. Additional similar lawsuits could be filed against us, and taxing authorities in jurisdictions that do not normally impose a tax on the transfer of real property could also seek to impose transfer taxes on us. If we were to become subject to real property transfer taxes in a large number of states and localities, and if we were required to pay a number of years of past transfer taxes in these states and localities, it would increase our costs going forward and could have an adverse effect on our financial results.

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

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

Limitations on our ability to access the debt capital markets could have a material adverse effect on our ability to fund our operations and generate net interest income.

Our ability to fund our business depends primarily on our ongoing access to the debt capital markets. Our level of net interest income depends on how much lower our cost of funds is compared with what we earn on our mortgage assets. Market concerns about matters such as the extent of government support for our business, the future of our business (including future profitability, future structure, regulatory actions and GSE status) and the creditworthiness of the U.S. government could cause a severe negative effect on our access to the unsecured debt markets, particularly for long-term debt. We believe that our ability in 2011 and 2012 to issue debt of varying maturities at attractive pricing resulted from federal government support of us and the financial markets. As a result, we believe that our status as a GSE and continued federal government support is essential to maintaining our access to debt funding. Changes or perceived changes in federal government support of our business and the financial markets or our status as a GSE could materially and adversely affect our liquidity, financial condition and results of operations. There can be no assurance that the government will continue to support us or the markets, or that our current level of access to debt funding will continue. In addition, due to our reliance on the U.S. government's support, our access to debt funding also could be materially adversely affected by a change or perceived change in the creditworthiness of the U.S. government.

Future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, as well as our liquidity position. If we are unable to issue both short- and long-term debt securities at attractive rates and in amounts sufficient to operate our business and meet our obligations, it likely would interfere with the operation of our business and have a material adverse effect on our liquidity, results of operations, financial condition and net worth.

Our liquidity contingency plans may be difficult or impossible to execute during a liquidity crisis.

We believe that our liquidity contingency plans may be difficult or impossible to execute during a liquidity crisis. If we cannot access the unsecured debt markets, our ability to repay maturing indebtedness and fund our operations could be eliminated or significantly impaired. In this event, our alternative sources of liquidity—consisting of our cash and other investments portfolio and the unencumbered mortgage assets in our mortgage portfolio—may not be sufficient to meet our liquidity needs.

We believe that the amount of mortgage-related assets that we could successfully sell or borrow against in the event of a liquidity crisis or significant market disruption is substantially lower than the amount of mortgage-related assets we hold. Due to the large size of our portfolio of mortgage assets, current market conditions and the significant amount of distressed assets in our mortgage portfolio, there would likely be insufficient market demand for large amounts of these assets over a prolonged period of time, which would limit our ability to borrow against or sell these assets.

To the extent that we are able to obtain funding by pledging or selling mortgage-related securities as collateral, we anticipate that a discount would be applied that would reduce the value assigned to those securities. Depending on market conditions at the time, this discount could result in proceeds significantly lower than the current market value of these securities and could thereby reduce the amount of financing we obtain. In addition, our primary source of collateral is Fannie Mae MBS that we own. In the event of a liquidity crisis in which the future of our company is uncertain, counterparties may be unwilling to accept Fannie Mae MBS as collateral. As a result, we may not be able to sell or borrow against these securities in sufficient amounts to meet our liquidity needs.

A decrease in the credit ratings on our senior unsecured debt could have an adverse effect on our ability to issue debt on reasonable terms and trigger additional collateral requirements, and would likely do so if such a decrease were not based on a similar action on the credit ratings of the U.S. government.

Credit ratings on our senior unsecured debt, as well as the credit ratings of the U.S. government, are primary factors that could affect our borrowing costs and our access to the debt capital markets. Credit ratings on our debt are subject to revision or withdrawal at any time by the rating agencies. Actions by governmental entities impacting the support we receive from Treasury could adversely affect the credit ratings on our senior unsecured debt.

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

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

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

As of March 25, 2013, our long-term debt continued to be rated “AA+” by S&P, “Aaa” by Moody’s and “AAA” by Fitch. S&P, Moody’s and Fitch have all indicated that they would likely lower their ratings on the debt of Fannie Mae and certain other government-related entities if they were to lower their ratings on the U.S. government. We currently cannot predict whether one or more of these rating agencies will downgrade our debt ratings in the future, nor can we predict the potential impact. Although S&P’s downgrade of our credit rating has not increased our borrowing costs or limited our access to the debt capital markets to date, an additional reduction in our credit ratings could have a material adverse impact on our access to debt funding or on the cost of our debt funding, and would likely do so if it were not based on a similar action on the credit ratings of the U.S. government.

An additional reduction in our credit ratings may also trigger additional collateral requirements under our derivatives contracts because a majority of our derivatives contracts contain provisions that require our senior unsecured debt to maintain a minimum credit rating from S&P and Moody's. If our senior unsecured debt credit ratings were downgraded to established thresholds in our derivatives contracts, which range from A+ to BBB+, we could be required to provide additional collateral to or terminate transactions with certain counterparties. The aggregate fair value of all derivatives with credit-risk-related contingent features that were in a net liability position as of December 31, 2012 was $6.4 billion, for which we posted collateral of $6.3 billion in the normal course of business. If our senior unsecured debt had been downgraded to AA or Aa1, or even to AA- or Aa2, we would not have been required to post any additional collateral as of December 31, 2012. If all of the credit-risk-related contingency features underlying these agreements had been triggered, an additional $159 million would have been required either to be posted as collateral or to immediately settle our positions based on the individual agreements and our fair value position as of December 31, 2012. An additional reduction in our credit ratings may also materially adversely affect our liquidity, our ability to conduct our normal business operations, our financial condition and our results of operations. Our credit ratings and ratings outlook are included in "MD&A—Liquidity and Capital Management—Liquidity Management—Credit Ratings."

One or more of our institutional counterparties may fail to fulfill their contractual obligations to us, resulting in financial losses, business disruption and decreased ability to manage risk.

We face the risk that one or more of our institutional counterparties may fail to fulfill their contractual obligations to us. Our primary exposures to institutional counterparty risk are with mortgage sellers/servicers that service the loans we hold in our mortgage portfolio or that back our Fannie Mae MBS; sellers/servicers that are obligated to repurchase loans from us or reimburse us for losses in certain circumstances; third-party providers of credit enhancement on the mortgage assets that we hold in our mortgage portfolio or that back our Fannie Mae MBS, including mortgage insurers, lenders with risk sharing arrangements and financial guarantors; issuers of securities held in our cash and other investments portfolio; and derivatives counterparties.

We may have multiple exposures to one counterparty as many of our counterparties provide several types of services to us. For example, our lender customers or their affiliates also act as derivatives counterparties, mortgage servicers, custodial depository institutions or document custodians. Accordingly, if one of these counterparties were to become insolvent or otherwise default on its obligations to us, it could harm our business and financial results in a variety of ways.

An institutional counterparty may default in its obligations to us for a number of reasons, such as changes in financial condition that affect its credit rating, a reduction in liquidity, operational failures or insolvency. Although the liquidity and financial condition of some of our institutional counterparties improved in 2012 compared with 2011, there is still significant risk to our business of defaults by these counterparties due to bankruptcy or receivership, lack of liquidity, insufficient capital, operational failure or other reasons. Counterparty defaults or limitations on their ability to do business with us could result in significant financial losses or hamper our ability to do business, which would adversely affect our business, results of operations, financial condition, liquidity and net worth. For example, failure by a significant seller/servicer counterparty, or a number of sellers/servicers, to fulfill repurchase obligations to us could result in a significant increase in our credit losses and have a material adverse effect on our results of operations and financial condition.

We routinely execute a high volume of transactions with counterparties in the financial services industry. Many of the transactions we engage in with these counterparties expose us to credit risk relating to the possibility of a default by our counterparties. In addition, to the extent these transactions are secured, our credit risk may be exacerbated to the extent that the collateral we hold cannot be realized or can be liquidated only at prices too low to recover the full amount of the loan or derivative exposure. We have exposure to these financial institutions in the form of unsecured debt instruments and derivatives transactions. As a result, we could incur losses relating to defaults under these instruments or relating to impairments to the carrying value of our assets represented by these instruments. These losses could materially and adversely affect our business, results of operations, financial condition, liquidity and net worth.

We depend on our ability to enter into derivatives transactions in order to manage the duration and prepayment risk of our mortgage portfolio. If we lose access to our derivatives counterparties, it could adversely affect our ability to manage these risks, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

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

We rely heavily on mortgage insurers to provide insurance against borrower defaults on single-family conventional mortgage loans with LTV ratios over 80% at the time of acquisition. Several of our mortgage insurer counterparties continued to incur losses in 2012, and their risk-to-capital positions continued to erode, which may increase the risk that these counterparties will fail to fulfill their obligations to pay in full our claims under insurance policies.

Three of our largest mortgage insurance counterparties—PMI Mortgage Insurance Co. (“PMI”), Triad Guaranty Insurance Corporation (“Triad”) and Republic Mortgage Insurance Company (“RMIC”)—are under various forms of supervised control by their state regulator and are in run-off. A mortgage insurer that is in run-off continues to collect renewal premiums on its existing insurance business, but no longer writes new insurance. Entering run-off may close off a source of profits and liquidity that may have otherwise assisted a mortgage insurer in paying claims under insurance policies, and could also cause the quality and speed of its claims processing to deteriorate. PMI, Triad and RMIC are currently paying only a portion of policyholder claims and deferring the remaining portion. Currently, PMI is paying only 50% of claims under its mortgage guaranty insurance policies in cash and is deferring the remaining 50%, and both Triad and RMIC are paying 60% of claims in cash and deferring the remaining 40%. It is uncertain when, or if, regulators for PMI, Triad or RMIC will allow them to begin paying deferred policyholder claims and/or increase or decrease the amount of cash they pay on claims.

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

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

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

From time to time we assess our mortgage insurer counterparties’ ability to fulfill their obligations to us, and our loss reserves take into account this assessment. If our assessment indicates their ability to pay claims has deteriorated significantly or if our projected claim amounts have increased, it could result in a significant increase in our loss reserves and our credit losses.

Beginning in 2007, many mortgage insurers stopped insuring new mortgages with certain higher risk characteristics such as higher LTV ratios, lower borrower FICO credit scores or select property types. Under HARP, we allow our borrowers who have mortgage loans with current LTV ratios above 80% to refinance their mortgages without obtaining new mortgage insurance in excess of what is already in place. Except as permitted under HARP, our charter specifically requires us to obtain credit enhancement on single-family conventional mortgage loans with loan-to-value ratios over 80% at the time of purchase. As a result, an inability to obtain mortgage insurance may inhibit our ability to serve and support the housing and mortgage markets, meet our housing goals, and help borrowers remain in their homes by acquiring refinancings into more affordable loans. In addition, access to fewer mortgage insurer counterparties increases our concentration risk with the remaining mortgage insurers in the industry.

Changes in the mortgage industry may negatively impact our business.

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

The loss of business volume from a key lender customer could adversely affect our business and result in a decrease in our revenues, especially if we are unable to replace the business volume that customer provided to us.

Our ability to generate revenue from the purchase and securitization of mortgage loans depends on our ability to acquire a steady flow of mortgage loans from the originators of those loans. Although we are acquiring an increasing portion of our single-family business volume directly from smaller financial institutions, we continue to acquire a significant portion of our mortgage loans from several large mortgage lenders, with our top five lender customers in terms of single-family business acquisition volume, in the aggregate, accounting for approximately 46% of our single-family business acquisition volume in 2012. Accordingly, maintaining our current business relationships and business volumes with our top lender customers is important to our business. To the extent a key lender customer significantly reduces the volume or quality of mortgage loans that the lender delivers to us or that we are willing to buy from them, we could lose significant business volume that we might be unable to replace, which could adversely affect our business and result in a decrease in our revenues. In addition, a significant reduction in the volume of mortgage loans that we securitize could reduce the liquidity of Fannie Mae MBS, which in turn could have an adverse effect on their market value.

Our reliance on third parties to service our mortgage loans may impede our efforts to keep people in their homes and adversely affect the re-performance rate of loans we modify.

Mortgage servicers, or their agents and contractors, typically are the primary point of contact for borrowers on our loans. We rely on these mortgage servicers to identify and contact troubled borrowers as early as possible, to assess the situation and offer appropriate options for resolving the problem and to successfully implement a solution. Over the past few years, the demands placed on experienced mortgage loan servicers to service delinquent loans have increased significantly across the industry, straining servicer capacity. To the extent that mortgage servicers are hampered by limited resources or other factors, they may not be successful in conducting their servicing activities in a manner that fully accomplishes our objectives within the timeframe we desire. Further, our servicers have advised us that they have not been able to reach many of the borrowers who may need help with their mortgage loans even when repeated efforts have been made to contact the borrower.

For these reasons, our ability to actively manage the troubled loans that we own or guarantee, and to implement our homeownership assistance and foreclosure prevention efforts quickly and effectively, is limited by our reliance on our mortgage servicers. This reliance could have a material adverse effect on our business, results of operations and financial condition.

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

The processing of foreclosures continues to be slow in many states, primarily as a result of the elevated level of foreclosures caused by the housing market downturn that began in 2006, changes in state foreclosure laws, new federal and state servicing requirements imposed by regulatory actions and legal settlements, and the need for servicers to adapt to these changes.

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

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

Challenges to the MERS® company, system and processes could pose operational, reputational and legal risks for us.
MERSCORP Holdings, Inc. ("MERSCORP") is a privately held company that maintains an electronic registry (the "MERS System") that tracks servicing rights and ownership of loans in the United States. Mortgage Electronic Registration Systems, Inc. ("MERS"), a wholly owned subsidiary of MERSCORP, can serve as a nominee for the owner of a mortgage loan and, in that role, become the mortgagee of record for the loan in local land records. Fannie Mae sellers/servicers may choose to use MERS as a nominee; however, we have prohibited servicers from initiating foreclosures on Fannie Mae loans in MERS's name. Approximately half of the loans we own or guarantee are registered in MERS's name and the related servicing rights are tracked in the MERS System. The MERS System is widely used by participants in the mortgage finance industry. Along with a number of other organizations in the mortgage finance industry, we are a shareholder of MERSCORP.
Several legal challenges have been made disputing MERS's ability to initiate foreclosures, act as nominee in local land records, and/or assign mortgages or take other action on behalf of the loan owner. These challenges seek judicial relief ranging from money damages to injunctive/declaratory relief seeking the prevention of mortgage assignments by MERS and/or the voiding of completed foreclosures in which MERS appeared in the chain of title. These challenges have focused public attention on MERS and on how loans are recorded in local land records. As a result, these challenges could negatively affect MERS's ability to serve as the mortgagee of record in some jurisdictions, which could cause additional costs and time in the recordation process. These challenges also could result in court decisions that substantially delay new or pending foreclosures, or void completed foreclosures in certain jurisdictions, which would require that we re-foreclose on the affected properties, thereby increasing our costs and lengthening the time it takes for us to foreclose on and dispose of the properties.
In addition, where MERS is the mortgagee of record, it must execute assignments of mortgages, affidavits and other legal documents in connection with foreclosure proceedings. In April 2011, federal banking regulators and FHFA announced that they were taking enforcement action against MERS and MERSCORP to address significant weaknesses in, among other things, oversight, management supervision and corporate governance at MERS and MERSCORP that were uncovered as part of the regulators' review of mortgage servicers' foreclosure processing. Failures by MERS or MERSCORP to apply prudent and effective process controls and to comply with legal and other requirements could pose counterparty, operational, reputational and legal risks for us. If investigations or new regulation or legislation restricts servicers' use of MERS, our counterparties may be required to record all mortgage transfers in land records, incurring additional costs and time in the recordation process. At this time, we cannot predict the ultimate outcome of these legal challenges to, or the enforcement action against, MERS and MERSCORP or the impact on our business, results of operations or financial condition.
Changes in accounting standards and policies can be difficult to predict and can materially impact how we record and report our financial results.
Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the FASB or the SEC changes the financial accounting and reporting standards or the policies that govern the preparation of our financial statements. In addition, FHFA provides guidance that affects our adoption or implementation of financial accounting or reporting standards. These changes can be difficult to predict and expensive to implement, and can materially impact how we record and report our financial condition and results of operations. We could be required to apply new or revised guidance retrospectively, which may result in the revision of prior period financial statements by material amounts. The implementation of new or revised accounting guidance could have a material adverse effect on our financial results or net worth and result in or contribute to the need for additional draws from Treasury under the senior preferred stock purchase agreement.
Legislative and regulatory changes affecting the mortgage market may negatively impact our business, results of operations or financial condition.
As a result of action by Congress or government agencies, significant changes may be effected in the mortgage market that could negatively impact our business, results of operation or financial condition. These effects could be the result of actions taken in connection with housing finance reform. Alternatively, changes aimed at addressing other issues could affect us. For example, if Congress addresses fiscal issues by restricting the deductibility of mortgage interest, depending on the extent and nature of the restrictions, our business and financial results could be significantly adversely affected.

Basel III capital and liquidity rules could materially and adversely affect demand by banks for our debt and MBS securities in the future and otherwise could affect the future business practices of our customers and counterparties. Recently published international bank liquidity requirements may adversely affect demand by banks for our debt and Fannie Mae MBS securities in the future, which could in turn have a material adverse effect on our business, results of operations, financial condition, liquidity or net worth. Basel III, a set of global regulatory standards on bank capital adequacy and liquidity developed by the Basel Committee on Banking Supervision, was initially issued in December 2010. Basel III

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generally narrowed the definition of capital that can be used to meet risk-based standards and raised the amount of capital that must be held by banks. Basel III also established liquidity requirements for banks. On January 6, 2013, the Basel Committee revised these liquidity rules to require banks subject to Basel III to hold a specified level of high-quality liquid assets, no more than 40% of which may be composed of certain types of assets, including debt and mortgage-related securities of Fannie Mae, Freddie Mac and the other GSEs. These requirements will be phased in from 2015 through 2018. U.S. banking regulators are already working to update Basel capital standards in the United States. We believe substantially more than 40% of U.S. banks' liquid assets are currently composed of GSE debt and mortgage-related securities. Depending on how the Basel III liquidity rules are implemented in the United States, in the future they could materially, adversely affect demand by banks for our debt securities and Fannie Mae MBS.

In addition, Basel III's revisions to international capital requirements, depending on how they are implemented in the United States, could limit some lenders' ability to count the value of their rights to service mortgage loans as assets in meeting their regulatory capital requirements, which may reduce the economic value of mortgage servicing rights. As a result, a number of our customers and counterparties may change their business practices, including reducing the amount of loans they service or exiting servicing altogether.

Material weaknesses in our internal control over financial reporting could result in errors in our reported results or disclosures that are not complete or accurate.

Management has determined that, as of the date of this filing, we have ineffective disclosure controls and procedures and a material weakness in our internal control over financial reporting. In addition, our independent registered public accounting firm, Deloitte & Touche LLP, has expressed an adverse opinion on our internal control over financial reporting because of the material weakness. Our ineffective disclosure controls and procedures and material weakness could result in errors in our reported results or disclosures that are not complete or accurate, which could have a material adverse effect on our business and operations.

Our material weakness relates specifically to the impact of the conservatorship on our disclosure controls and procedures. Because we are under the control of FHFA, some of the information that we may need to meet our disclosure obligations may be solely within the knowledge of FHFA. As our conservator, FHFA has the power to take actions without our knowledge that could be material to our shareholders and other stakeholders, and could significantly affect our financial performance or our continued existence as an ongoing business. Because FHFA currently functions as both our regulator and our conservator, there are inherent structural limitations on our ability to design, implement, test or operate effective disclosure controls and procedures relating to information within FHFA's knowledge. As a result, we have not been able to update our disclosure controls and procedures in a manner that adequately ensures the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws, including disclosures affecting our financial statements. Given the structural nature of this material weakness, it is likely that we will not remediate this weakness while we are under conservatorship. See "Controls and Procedures" for further discussion of management's conclusions on our disclosure controls and procedures and internal control over financial reporting.

In many cases, our accounting policies and methods, which are fundamental to how we report our financial condition and results of operations, require management to make judgments and estimates about matters that are inherently uncertain. Management also relies on models in making these estimates.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in applying many of these accounting policies and methods so that these policies and methods comply with GAAP and reflect management's judgment of the most appropriate manner to report our financial condition and results of operations. In some cases, management must select the appropriate accounting policy or method from two or more alternatives, any of which might be reasonable under the circumstances but might affect the amounts of assets, liabilities, revenues and expenses that we report. See "Note 1, Summary of Significant Accounting Policies" for a description of our significant accounting policies.

We have identified some of our accounting policies as being critical to the presentation of our financial condition and results of operations. These accounting policies are described in "MD&A—Critical Accounting Policies and Estimates." We believe these policies are critical because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions.

Because our financial statements involve estimates for amounts that are very large, even a small change in the estimate can have a significant impact for the reporting period. For example, because our total loss reserves are so large, even a change that has a small impact relative to the size of our loss reserves can have a meaningful impact on our results for the quarter in which we make the change.

Due to the complexity of the critical accounting policies we have identified, our accounting methods relating to these policies involve substantial use of models. Models are inherently imperfect predictors of actual results because they are based on assumptions, including assumptions about future events. Our models may not include assumptions that reflect very positive or very negative market conditions and, accordingly, our actual results could differ significantly from those generated by our models. As a result of the above factors, the estimates that we use to prepare our financial statements, as well as our estimates of our future results of operations, may be inaccurate, perhaps significantly.

Failure of our models to produce reliable results may adversely affect our ability to manage risk and make effective business decisions.

We make significant use of quantitative models to measure and monitor our risk exposures and to manage our business. For example, we use models to measure and monitor our exposures to interest rate, credit and market risks, and to forecast credit losses. The information provided by these models is used in making business decisions relating to strategies, initiatives, transactions, pricing and products.

Models are inherently imperfect predictors of actual results because they are based on historical data and assumptions regarding factors such as future loan demand, borrower behavior, creditworthiness and home price trends. Other potential sources of inaccurate or inappropriate model results include errors in computer code, bad data, misuse of data, or use of a model for a purpose outside the scope of the model's design. Modeling often assumes that historical data or experience can be relied upon as a basis for forecasting future events, an assumption that may be especially tenuous in the face of unprecedented events.

Given the challenges of predicting future behavior, management judgment is used at every stage of the modeling process, from model design decisions regarding core underlying assumptions, to interpreting and applying final model output. To control for these inherent imperfections, our primary models are vetted by an independent model risk oversight team within our Enterprise Risk Division.

When market conditions change quickly and in unforeseen ways, there is an increased risk that the model assumptions and data inputs for our models are not representative of the most recent market conditions. Under such circumstances, we must rely on management judgment to make adjustments or overrides to our models. A formal model update is typically an extensive process that involves basic research, testing, independent validation and production implementation. In a rapidly changing environment, it may not be possible to update existing models quickly enough to properly account for the most recently available data and events. Management adjustments to modeled results are applied within the confines of the governance structure provided by a combination of our model risk oversight team and our business, finance, and risk committees.

If our models fail to produce reliable results on an ongoing basis, we may not make appropriate risk management decisions, including decisions affecting loan purchases, management of credit losses, guaranty fee pricing, asset and liability management and the management of our net worth. Any of these decisions could adversely affect our businesses, results of operations, liquidity, net worth and financial condition. Furthermore, strategies we employ to manage and govern the risks associated with our use of models may not be effective or fully reliable.

Changes in interest rates or our loss of the ability to manage interest rate risk successfully could adversely affect our net interest income and increase interest rate risk.

We fund our operations primarily through the issuance of debt and invest our funds primarily in mortgage-related assets that permit mortgage borrowers to prepay their mortgages at any time. These business activities expose us to market risk, which is the risk of adverse changes in the fair value of financial instruments resulting from changes in market conditions. Our most significant market risks are interest rate risk and prepayment risk. We describe these risks in more detail in "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management."

Changes in interest rates affect both the value of our mortgage assets and prepayment rates on our mortgage loans.

Changes in interest rates could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. Our ability to manage interest rate risk depends on our ability to issue debt instruments with a range of maturities and other features, including call provisions, at attractive rates and to engage in derivatives transactions. We must exercise judgment in selecting the amount, type and mix of debt and derivatives instruments that will most effectively manage our interest rate risk. The amount, type and mix of financial instruments that are available to us may not offset possible future changes in the spread between our borrowing costs and the interest we earn on our mortgage assets.

Our business is subject to laws and regulations that restrict our activities and operations, which may prohibit us from undertaking activities that management believes would benefit our business and limit our ability to diversify our business.

As a federally chartered corporation, we are subject to the limitations imposed by the Charter Act, extensive regulation, supervision and examination by FHFA and regulation by other federal agencies, including Treasury, HUD and the SEC. As a company under conservatorship, our primary regulator has management authority over us in its role as our conservator. We are also subject to other laws and regulations that affect our business, including those regarding taxation and privacy.

The Charter Act defines our permissible business activities. For example, we may not originate mortgage loans or purchase single-family loans in excess of the conforming loan limits, and our business is limited to the U.S. housing finance sector. In addition, our conservator has determined that, while in conservatorship, we will not be permitted to engage in new products and will be limited to continuing our existing business activities and taking actions necessary to advance the goals of the conservatorship. As a result of these limitations on our ability to diversify our operations, our financial condition and results of operations depend almost entirely on conditions in a single sector of the U.S. economy, specifically, the U.S. housing market. Weak or unstable conditions in the housing market, as we have seen in recent years, can therefore have a significant adverse effect on our results of operations, financial condition and net worth.

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

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

An active trading market in our equity securities may cease to exist, which would adversely affect the market price and liquidity of our common and preferred stock.

Our common stock and preferred stock are now traded exclusively in the over-the-counter market. We cannot predict the actions of market makers, investors or other market participants, and can offer no assurances that the market for our securities will be stable. If there is no active trading market in our equity securities, the market price and liquidity of the securities will be adversely affected.

Mortgage fraud could result in significant financial losses and harm to our reputation.

We use a process of delegated underwriting in which lenders make specific representations and warranties about the characteristics of the mortgage loans we purchase and securitize. As a result, we do not independently verify most borrower information that is provided to us. This exposes us to the risk that one or more of the parties involved in a transaction (the borrower, seller, broker, appraiser, title agent, lender or servicer) will engage in fraud by misrepresenting facts about a mortgage loan. Similarly, we rely on delegated servicing of loans and use of a variety of external resources to manage our REO. We have experienced financial losses resulting from mortgage fraud, including institutional fraud perpetrated by counterparties. In the future, we may experience additional financial losses or reputational damage as a result of mortgage fraud.

RISKS RELATING TO OUR INDUSTRY

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

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

In addition, our business volume is affected by the rate of growth in total U.S. residential mortgage debt outstanding and the size of the U.S. residential mortgage market. Since the second quarter of 2008, single-family mortgage debt outstanding has been steadily declining. A decline in mortgage debt outstanding reduces the unpaid principal balance of mortgage loans available for us to securitize or purchase, which in turn could reduce our guaranty fee income and net interest income. Even if we were able to increase our share of the secondary mortgage market, it may not be sufficient to make up for the decline in the rate of growth in mortgage originations, which could adversely affect our results of operations and financial condition.

The Dodd-Frank Act and regulatory changes in the financial services industry may negatively impact our business.

The Dodd-Frank Act is significantly changing the regulation of the financial services industry, resulting in new standards related to regulatory oversight of systemically important financial companies, derivatives transactions, asset-backed securitization, mortgage underwriting and consumer financial protection. This legislation is affecting and will, in the future, directly and indirectly affect many aspects of our business and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. The Dodd-Frank Act and related regulatory changes could require us to change certain business practices, cause us to incur significant additional costs, limit the products we offer, require us to increase our regulatory capital or otherwise adversely affect our business. Additionally, implementation of this legislation will result in increased supervision and more comprehensive regulation of our customers and counterparties in the financial services industry, which may have a significant impact on the business practices of our customers and counterparties, as well as on our counterparty credit risk.

Examples of aspects of the Dodd-Frank Act and related regulatory changes that may affect us include mandatory clearing of certain derivatives transactions, which imposes significant additional costs on us; minimum standards for residential mortgage loans, which could subject us to increased legal risk for some loans we acquire; and the development of credit risk retention regulations applicable to residential mortgage loan securitizations, which could impact the types and volume of loans sold to us. Uncertainty regarding the CFPB's "ability to repay" rule may increase our legal risk for loans we acquire. Enhanced prudential standards that become applicable to certain bank holding companies and nonbank financial companies could affect investor demand for our debt and MBS securities. We could also be designated as a systemically important nonbank financial company subject to supervision and regulation by the Federal Reserve. If this were to occur, the Federal Reserve would have the authority to examine us and could impose stricter prudential standards on us, including risk-based capital requirements, leverage limits, liquidity requirements, credit concentration limits, resolution plan and credit exposure reporting requirements, overall risk management requirements, contingent capital requirements, enhanced public disclosures and short-term debt limits.

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

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

In addition, the actions of Treasury, the CFTC, the SEC, the FDIC, the Federal Reserve and international central banking authorities directly or indirectly impact financial institutions' cost of funds for lending, capital-raising and investment activities, which could increase our borrowing costs or make borrowing more difficult for us. Changes in monetary policy are beyond our control and difficult to anticipate.

Overall, these legislative and regulatory changes could affect us in substantial and unforeseeable ways and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. In particular, these changes could affect our ability to issue debt and may reduce our customer base.

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

We conduct our business in the residential and multifamily mortgage markets and own or guarantee the performance of mortgage loans throughout the United States. The occurrence of a major natural or environmental disaster, terrorist attack, pandemic, or similar event (a "major disruptive event") in a regional geographic area of the United States could negatively impact our credit losses and credit-related expenses in the affected area.

The occurrence of a major disruptive event could negatively impact a geographic area in a number of different ways, depending on the nature of the event. A major disruptive event that either damages or destroys residential or multifamily real estate securing mortgage loans in our book of business or negatively impacts the ability of borrowers to continue to make principal and interest payments on mortgage loans in our book of business could increase our delinquency rates, default rates and average loan loss severity of our book of business in the affected region or regions, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. While we attempt to create a geographically diverse mortgage credit book of business, there can be no assurance that a major disruptive event, depending on its magnitude, scope and nature, will not generate significant credit losses and credit-related expenses. Additionally, the contingency plans and facilities that we have in place may be insufficient to prevent an adverse effect on our ability to conduct business, which could lead to financial losses. Despite our ongoing protective measures and planning, unforeseen catastrophic events may exceed our recovery capabilities and those of our customers and the marketplace.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own our principal office, which is located at 3900 Wisconsin Avenue, NW, Washington, DC, as well as additional Washington, DC facilities at 3939 Wisconsin Avenue, NW and 4250 Connecticut Avenue, NW. We also own two office facilities in Herndon, Virginia, as well as two additional facilities located in Reston, Virginia; and Urbana, Maryland. These owned facilities contain a total of approximately 1,459,000 square feet of space. We lease the land underlying the 4250 Connecticut Avenue building pursuant to a ground lease that automatically renews on July 1, 2029 for an additional 49 years unless we elect to terminate the lease by providing notice to the landlord of our decision to terminate at least one year prior to the automatic renewal date. In addition, we lease approximately 429,000 square feet of office space, including a conference center, at 4000 Wisconsin Avenue, NW, which is adjacent to our principal office. The lease term for the office and conference center at 4000 Wisconsin Avenue expires in April 2018. We also lease an additional approximately 87,000 square feet of office space at one other location in Washington, DC. We maintain approximately 713,000 square feet of office space in leased premises in Pasadena, California; Irvine, California; Atlanta, Georgia; Chicago, Illinois; Philadelphia, Pennsylvania; and three facilities in Dallas, Texas.

Item 3. Legal Proceedings

This item describes our material legal proceedings. We describe additional material legal proceedings in “Note 18, Commitments and Contingencies,” which is incorporated herein by reference. In addition to the matters specifically described or incorporated by reference in this item, we are involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that do not have a material impact on our business. Litigation claims and proceedings of all types are subject to many factors that generally cannot be predicted accurately.

We record reserves for legal claims when losses associated with the claims become probable and the amounts can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher or lower than the amounts reserved for those claims. For matters where the likelihood or extent of a loss is not probable or cannot be reasonably estimated, we do not recognize in our consolidated financial statements the potential liability that may result from these matters. We presently cannot determine the ultimate resolution of the matters described below or incorporated by reference into this item. We have recorded a reserve for legal claims related to those matters when we were able to determine a loss was both probable and reasonably estimable. If certain of these matters are determined against us, it could have a material adverse effect on our results of operations, liquidity and financial condition, including our net worth.

FHFA Private-Label Mortgage-Related Securities Litigation

In the third quarter of 2011, FHFA, as conservator for us and for Freddie Mac, filed 16 lawsuits on behalf of us and Freddie Mac against various financial institutions, their officers and affiliated and unaffiliated underwriters that were responsible for marketing and selling private-label mortgage-related securities to us. The lawsuits seek to recover losses we and Freddie Mac incurred on the securities. Fourteen of the lawsuits are pending in the U.S. District Court for the Southern District of New York (“SDNY”). These cases are against Bank of America Corp.; Barclays Bank PLC; Citigroup, Inc.; Credit Suisse Holdings (USA), Inc.; Deutsche Bank AG; First Horizon National Corporation; Goldman, Sachs & Co.; HSBC North America Holdings Inc.; JPMorgan Chase & Co.; Merrill Lynch & Co.; Morgan Stanley; Nomura Holding America Inc.; SG Americas, Inc.; and UBS Americas Inc. (“UBS”) and against certain related entities and individuals. FHFA’s lawsuit against Countrywide Financial Corporation (“Countrywide”) and certain related entities and individuals is pending in the U.S. District Court for the Central District of California and its lawsuit against The Royal Bank of Scotland Group PLC (“RBS”) and certain related entities and individuals is pending in the U.S. District Court for the District of Connecticut. The lawsuit against UBS was filed on July 27, 2011, and all the others were filed on September 2, 2011. The lawsuits allege that the defendants violated federal and state securities laws and, in some cases, committed fraud by making material misstatements and omissions regarding the characteristics of the loans underlying the securities in the offering documents for the securities that were sold to Fannie Mae and Freddie Mac. The complaints seek, among other things, rescission and recovery of consideration paid for the securities at issue in the lawsuits, monetary damages, interest and, in certain cases, punitive damages for common law fraud claims. Discovery is ongoing in all cases, except in the Countrywide case.

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

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

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

Investigation into Multifamily Asset Stabilization Program

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

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board under the ticker symbol "FNMA." The transfer agent and registrar for our common stock is Computershare, P.O. Box 43078, Providence, Rhode Island 02940.

Common Stock Data

The following table displays, for the periods indicated, the high and low prices per share of our common stock as reported in the Bloomberg Financial Markets service. These prices represent high and low trade prices. No dividends were declared on shares of our common stock during the periods indicated.

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

Dividends

Our payment of dividends is subject to the following restrictions:

Restrictions Relating to Conservatorship. Our conservator announced on September 7, 2008 that we would not pay any dividends on the common stock or on any series of preferred stock, other than the senior preferred stock.

Restrictions Under Senior Preferred Stock Purchase Agreement. The senior preferred stock purchase agreement prohibits us from declaring or paying any dividends on Fannie Mae equity securities without the prior written consent of Treasury. In addition, in 2012 the terms of the senior preferred stock purchase agreement were amended to ultimately require the payment of our entire net worth to Treasury. As a result, our net income will not be available to common stockholders.

Additional Restrictions Relating to Preferred Stock. Payment of dividends on our common stock is also subject to the prior payment of dividends on our preferred stock and our senior preferred stock. Payment of dividends on all outstanding preferred stock, other than the senior preferred stock, is also subject to the prior payment of dividends on the senior preferred stock. See "MD&A—Liquidity and Capital Management" for information on dividends declared and paid to Treasury on the senior preferred stock.

Statutory Restrictions. Under the GSE Act, FHFA has authority to prohibit capital distributions, including payment of dividends, if we fail to meet our capital requirements. If FHFA classifies us as significantly undercapitalized, approval of the Director of FHFA is required for any dividend payment. Under the GSE Act, we are not permitted to make a capital distribution if, after making the distribution, we would be undercapitalized, except the Director of FHFA may permit us to repurchase shares if the repurchase is made in connection with the issuance of additional shares or obligations in at least an equivalent amount and will reduce our financial obligations or otherwise improve our financial condition.

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

Holders

As of February 28, 2013, we had approximately 14,000 registered holders of record of our common stock, including holders of our restricted stock. In addition, as of February 28, 2013, Treasury held a warrant giving it the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise.

Recent Sales of Unregistered Securities

Under the terms of our senior preferred stock purchase agreement with Treasury, we are prohibited from selling or issuing our equity interests, other than as required by (and pursuant to) the terms of a binding agreement in effect on September 7, 2008, without the prior written consent of Treasury. During the quarter ended December 31, 2012, we did not issue any equity securities.

Information about Certain Securities Issuances by Fannie Mae

Pursuant to SEC regulations, public companies are required to disclose certain information when they incur a material direct financial obligation or become directly or contingently liable for a material obligation under an off-balance sheet arrangement. The disclosure must be made in a current report on Form 8-K under Item 2.03 or, if the obligation is incurred in connection with certain types of securities offerings, in prospectuses for that offering that are filed with the SEC.

Because the securities we issue are exempted securities under the Securities Act of 1933, we do not file registration statements or prospectuses with the SEC with respect to our securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report our incurrence of these types of obligations either in offering circulars or prospectuses (or supplements thereto) that we post on our Web site or in a current report on Form 8-K that we file with the SEC, in accordance with a “no-action” letter we received from the SEC staff in 2004. In cases where the information is disclosed in a prospectus or offering circular posted on our Web site, the document will be posted on our Web site within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.

The Web site address for disclosure about our debt securities is www.fanniemae.com/debtsearch. From this address, investors can access the offering circular and related supplements for debt securities offerings under Fannie Mae’s universal debt facility, including pricing supplements for individual issuances of debt securities.

Disclosure about our obligations pursuant to some of the MBS we issue, some of which may be off-balance sheet obligations, can be found at www.fanniemae.com/mbsdisclosure. From this address, investors can access information and documents about our MBS, including prospectuses and related prospectus supplements.

We are providing our Web site address solely for your information. Information appearing on our Web site is not incorporated into this report.

Our Purchases of Equity Securities

We did not repurchase any of our equity securities during the fourth quarter of 2012.

Item 6. Selected Financial Data

The selected consolidated financial data displayed below are summarized from our results of operations for the five-year period ended December 31, 2012, as well as selected consolidated balance sheet data as of the end of each year within this five-year period. Certain prior period amounts have been reclassified to conform to the current period presentation. This data should be reviewed in conjunction with the audited consolidated financial statements and related notes and with the MD&A included in this annual report on Form 10-K.

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

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

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

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

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

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

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

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

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

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

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

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

(8) Total assets less total liabilities.

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

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

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

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

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

(14) Calculated based on net interest income for the reporting period divided by the average balance of total interest-earning assets during the period, expressed as a percentage.

(15) Consists of (a) charge-offs, net of recoveries and (b) foreclosed property income (expense) for the reporting period (adjusted to exclude the impact of fair value losses resulting from credit-impaired loans acquired from MBS trusts and HomeSaver Advance loans) divided by the average guaranty book of business during the period, expressed in basis points. See "MD&A—Consolidated Results of Operations—Credit-Related (Income) Expenses—Credit Loss Performance Metrics" for a discussion of how our credit loss metrics are calculated.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read this MD&A in conjunction with our consolidated financial statements as of December 31, 2012 and related notes, and with "Business—Executive Summary."

This report contains forward-looking statements that are based upon management's current expectations and are subject to significant uncertainties and changes in circumstances. Please review "Business—Forward-Looking Statements" for more information on the forward-looking statements in this report and "Risk Factors" for a discussion of factors that could cause our actual results to differ, perhaps materially, from our forward-looking statements. Please also see "Glossary of Terms Used in This Report."

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We describe our most significant accounting policies in "Note 1, Summary of Significant Accounting Policies."

We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as necessary based on changing conditions. Management has discussed any significant changes in judgments and assumptions in applying our critical accounting policies with the Audit Committee of our Board of Directors. See "Risk Factors" for a discussion of the risk associated with the need for management to make judgments and estimates in applying our accounting policies and methods. We have identified four of our accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. These critical accounting policies and estimates are as follows:

- Fair Value Measurement
- Total Loss Reserves
- Other-Than-Temporary Impairment of Investment Securities
- Deferred Tax Assets

Fair Value Measurement

The use of fair value to measure our assets and liabilities is fundamental to our financial statements and our fair value measurement is a critical accounting estimate because we account for and record a portion of our assets and liabilities at fair value. In determining fair value, we use various valuation techniques. We describe the valuation techniques and inputs used to determine the fair value of our assets and liabilities and disclose their carrying value and fair value in "Note 17, Fair Value."

The fair value accounting rules provide a three-level fair value hierarchy for classifying financial instruments. This hierarchy is based on whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. Each asset or liability is assigned to a level based on the lowest level of any input that is significant to its fair value measurement. The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities.

Level 3: Unobservable inputs.

The majority of the financial instruments that we report at fair value in our consolidated financial statements fall within the Level 2 category and are valued primarily utilizing inputs and assumptions that are observable in the marketplace, that can be derived from observable market data or that can be corroborated by recent trading activity of similar instruments with similar characteristics. For example, we generally request non-binding prices from at least three independent pricing services to estimate the fair value of our trading and available-for-sale securities at an individual security level. We use the average of these prices to determine the fair value.

In the absence of such information or if we are not able to corroborate these prices by other available, relevant market information, we estimate their fair values based on single source quotations from brokers or dealers or by using internal calculations or discounted cash flow techniques that incorporate inputs, such as prepayment rates, discount rates and

delinquency, default and cumulative loss expectations, that are implied by market prices for similar securities and collateral structure types. Because this valuation technique relies on significant unobservable inputs, the fair value estimation is classified as Level 3. The process for determining fair value using unobservable inputs is generally more subjective and involves a high degree of management judgment and assumptions. These assumptions may have a significant effect on our estimates of fair value, and the use of different assumptions as well as changes in market conditions could have a material effect on our results of operations or financial condition.

Fair Value Hierarchy—Level 3 Assets and Liabilities

The assets and liabilities that we have classified as Level 3 consist primarily of financial instruments for which there is limited market activity and therefore little or no price transparency. As a result, the valuation techniques that we use to estimate the fair value of Level 3 instruments involve significant unobservable inputs, which generally are more subjective and involve a high degree of management judgment and assumptions. Our Level 3 assets and liabilities consist of certain mortgage-backed securities and residual interests, certain mortgage loans, acquired property, certain long-term debt arrangements and certain highly structured, complex derivative instruments.

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

Table 8: Level 3 Recurring Financial Assets at Fair Value

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

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

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

Valuation Control Processes

We have control processes that are designed to ensure that our fair value measurements are appropriate and reliable, that they are based on observable inputs wherever possible and that our valuation approaches are consistently applied and the assumptions used are reasonable. Our control processes consist of a framework that provides for a segregation of duties and oversight of our fair value methodologies and valuations, as well as validation procedures. We provide a detailed discussion of our Valuation Control Processes in "Note 17, Fair Value."

Total Loss Reserves

Our total loss reserves consist of the following components:

- Allowance for loan losses;

- Allowance for accrued interest receivable;
- Reserve for guaranty losses; and
- Allowance for preforeclosure property tax and insurance receivable.

These components can be further allocated into our single-family and multifamily loss reserves.

We maintain an allowance for loan losses and an allowance for accrued interest receivable for loans classified as held for investment, including both loans we hold in our portfolio and loans held in consolidated Fannie Mae MBS trusts. We maintain a reserve for guaranty losses for loans held in unconsolidated Fannie Mae MBS trusts we guarantee and loans we have guaranteed under long-term standby commitments and other credit enhancements we have provided. We also maintain an allowance for preforeclosure property tax and insurance receivable on delinquent loans that is included in "Other assets" in our consolidated balance sheets. These amounts, which we collectively refer to as our total loss reserves, represent probable losses incurred related to loans in our guaranty book of business, including concessions granted to borrowers upon modifications of their loans, as of the balance sheet date.

The allowance for loan losses, allowance for accrued interest receivable and allowance for preforeclosure property tax and insurance receivable are valuation allowances that reflect an estimate of incurred credit losses related to our recorded investment in loans held for investment. The reserve for guaranty losses is a liability account in our consolidated balance sheets that reflects an estimate of incurred credit losses related to our guaranty to each unconsolidated Fannie Mae MBS trust that we will supplement amounts received by the Fannie Mae MBS trust as required to permit timely payments of principal and interest on the related Fannie Mae MBS. As a result, the guaranty reserve considers not only the principal and interest due on the loan at the current balance sheet date, but also an estimate of any additional interest payments due to the trust from the current balance sheet date until the point of loan acquisition or foreclosure. Our loss reserves consist of a specific loss reserve for individually impaired loans and a collective loss reserve for all other loans.

We have an established process, using analytical tools, benchmarks and management judgment, to determine our loss reserves. Our process for determining our loss reserves is complex and involves significant management judgment. Although our loss reserve process benefits from extensive historical loan performance data, this process is subject to risks and uncertainties, including a reliance on historical loss information that may not be representative of current conditions. We continually monitor delinquency and default trends and make changes in our historically developed assumptions and estimates as necessary to better reflect present conditions, including current trends in borrower risk and/or general economic trends, changes in risk management practices, and changes in public policy and the regulatory environment. We also consider the recoveries that we expect to receive on mortgage insurance and other loan-specific credit enhancements entered into contemporaneously with and in contemplation of a guaranty or loan purchase transaction, as such recoveries reduce the severity of the loss associated with defaulted loans.

Single-Family Loss Reserves

We establish a specific single-family loss reserve for individually impaired loans, which includes loans we restructure in TDRs, certain nonperforming loans in MBS trusts and acquired credit-impaired loans that have been further impaired subsequent to acquisition. The single-family loss reserve for individually impaired loans represents the majority of our single-family loss reserves due to the high volume of restructured loans. We typically measure impairment based on the difference between our recorded investment in the loan and the present value of the estimated cash flows we expect to receive, which we calculate using the effective interest rate of the original loan or the effective interest rate at acquisition for an acquired credit-impaired loan. However, when foreclosure is probable on an individually impaired loan, we measure impairment based on the difference between our recorded investment in the loan and the fair value of the underlying property, adjusted for the estimated discounted costs to sell the property and estimated insurance or other proceeds we expect to receive. We then allocate a portion of the reserve to interest accrued on the loans as of the balance sheet date.

We establish a collective single-family loss reserve for all other single-family loans in our single-family guaranty book of business using a model that estimates the probability of default of loans to derive an overall loss reserve estimate given multiple factors such as: origination year, mark-to-market LTV ratio, delinquency status and loan product type. We believe that the loss severity estimates we use in determining our loss reserves reflect current available information on actual events and conditions as of each balance sheet date, including current home prices. Our loss severity estimates do not incorporate assumptions about future changes in home prices. We do, however, use a look back period to develop our loss severity estimates for all loan categories. We then allocate a portion of the reserve to interest accrued on the loans as of the balance sheet date.

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

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

Multifamily Loss Reserves

We establish a collective multifamily loss reserve for all loans in our multifamily guaranty book of business that are not individually impaired using an internal model that applies loss factors to loans in similar risk categories. Our loss factors are developed based on our historical default and loss severity experience. Management may also apply judgment to adjust the loss factors derived from our models, taking into consideration model imprecision and specific, known events, such as current credit conditions, that may affect the credit quality of our multifamily loan portfolio but are not yet reflected in our model-generated loss factors. We then allocate a portion of the reserve to interest accrued on the loans as of the balance sheet date.

We establish a specific multifamily loss reserve for multifamily loans that we determine are individually impaired. We identify multifamily loans for evaluation for impairment through a credit risk assessment process. As part of this assessment process, we stratify multifamily loans into different internal risk categories based on the credit risk inherent in each individual loan and management judgment. We categorize loan credit risk, taking into consideration available operating statements and expected cash flows from the underlying property, the estimated value of the property, the historical loan payment experience and current relevant market conditions that may impact credit quality. If we conclude that a multifamily loan is impaired, we measure the impairment based on the difference between our recorded investment in the loan and the fair value of the underlying property less the estimated discounted costs to sell the property and any lender loss sharing or other proceeds we expect to receive. When a multifamily loan is deemed individually impaired because we have modified it, we measure the impairment based on the difference between our recorded investment in the loan and the present value of expected cash flows discounted at the loan's original interest rate unless foreclosure is probable, at which time we measure impairment the same way we measure it for other individually impaired multifamily loans. We generally obtain property appraisals from independent third-parties to determine the fair value of multifamily loans that we consider to be individually impaired. We also obtain property appraisals and broker price opinions when we foreclose on a multifamily property. We then allocate a portion of the reserve to interest accrued on the loans as of the balance sheet date.

Other-Than-Temporary Impairment of Investment Securities

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

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

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

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

Deferred Tax Assets

We recognize deferred tax assets and liabilities for future tax consequences arising from differences between the carrying amounts of existing assets and liabilities under GAAP and their respective tax bases, and for net operating loss carryforwards and tax credit carryforwards. We evaluate the recoverability of our deferred tax assets, weighing all positive and negative evidence, and are required to establish or maintain a valuation allowance for these assets if we determine that it is more likely than not that some or all of the deferred tax assets will not be realized. The weight given to the evidence is commensurate with the extent to which the evidence can be objectively verified. If negative evidence exists, positive evidence is necessary to support a conclusion that a valuation allowance is not needed.

Our framework for assessing the recoverability of deferred tax assets requires us to weigh all available evidence, including:

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

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

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

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

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

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

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

CONSOLIDATED RESULTS OF OPERATIONS

This section provides a discussion of our consolidated results of operations for the periods indicated and should be read together with our consolidated financial statements, including the accompanying notes. In 2009, FASB concurrently revised the accounting guidance related to the consolidation of variable interest entities and the accounting guidance related to transfers of financial assets. On January 1, 2010, we prospectively adopted the revised guidance for these topics, which had a significant impact on the presentation and comparability of our consolidated financial statements. See “Note 1, Summary of Significant Accounting Policies” for more information on the revised accounting guidance.

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

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

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

Net Interest Income

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

Table 10 displays an analysis of our net interest income, average balances, and related yields earned on assets and incurred on liabilities for the periods indicated. For most components of the average balances, we use a daily weighted average of amortized cost. When daily average balance information is not available, such as for mortgage loans, we use monthly averages. Table 11 displays the change in our net interest income between periods and the extent to which that variance is attributable to: (1) changes in the volume of our interest-earning assets and interest-bearing liabilities or (2) changes in the interest rates of these assets and liabilities.

Table 10: Analysis of Net Interest Income and Yield

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

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

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

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

(2) Includes cash equivalents.

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

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

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

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

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

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

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

(3) Includes cash equivalents.

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

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

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

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

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

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

We initially recognize mortgage loans and debt of consolidated trusts in our consolidated balance sheets at fair value. We recognize the difference between (1) the initial fair value of the consolidated trust's mortgage loans and debt and (2) the unpaid principal balance as cost basis adjustments in our consolidated balance sheets. These cost basis adjustments are amortized over the contractual life of the underlying loans as a component of net interest income. Cost basis adjustments related to consolidated debt that is in a premium position are amortized as an income component within net interest income, while cost basis adjustments related to underlying mortgage loans that are in a premium position are recognized as an expense component within net interest income. Net unamortized premiums on debt of consolidated trusts exceeded net unamortized premiums on the related mortgage loans by $16.8 billion as of December 31, 2012, compared with $8.7 billion as of December 31, 2011. The increase is primarily due to higher prepayment volumes which significantly increased our portfolio securitization transactions during 2012.

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

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

Table 12: Impact of Nonaccrual Loans on Net Interest Income

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

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

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

For a discussion of the interest income from the assets we have purchased and the interest expense from the debt we have issued, see the discussion of our Capital Markets group's net interest income in "Business Segment Results."

Other-Than-Temporary Impairment of Investment Securities

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

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

Fair Value Losses, Net

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

Table 13: Fair Value Losses, Net

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

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

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

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

Risk Management Derivatives Fair Value Losses, Net

Risk management derivative instruments are an integral part of our management of interest rate risk. We supplement our issuance of debt securities with derivative instruments to further reduce duration risk, which includes prepayment risk. We purchase option-based risk management derivatives to economically hedge prepayment risk. In cases where options obtained through callable debt issuances are not needed for risk management derivative purposes, we may sell options in the over-the-counter derivatives market in order to offset the options obtained in the callable debt. Our principal purpose in using derivatives is to manage our aggregate interest rate risk profile within prescribed risk parameters. We generally use only derivatives that are relatively liquid and straightforward to value. We consider the cost of derivatives used in our management of interest rate risk to be an inherent part of the cost of funding and hedging our mortgage investments and economically similar to the interest expense that we recognize on the debt we issue to fund our mortgage investments.

We present, by derivative instrument type, the fair value gains and losses on our derivatives for the years ended December 31, 2012, 2011 and 2010 in "Note 9, Derivative Instruments."

The primary factors affecting the fair value of our risk management derivatives include the following:

- Changes in interest rates: Our derivatives, in combination with our issuances of debt securities, are intended to offset changes in the fair value of our mortgage assets. Mortgage assets tend to increase in value when interest rates decrease and, conversely, decrease in value when interest rates rise. Pay-fixed swaps decrease in value and receive-fixed swaps increase in value as swap rates decrease (with the opposite being true when swap rates increase). Because the composition of our pay-fixed and receive-fixed derivatives varies across the yield curve, the overall fair value gains and losses of our derivatives are sensitive to flattening and steepening of the yield curve.
- Implied interest rate volatility: Our derivatives portfolio includes option-based derivatives, which we purchase to economically hedge the prepayment option embedded in our mortgage investments and sell to offset the options obtained through callable debt issuances when those options are not needed for risk management purposes. A key variable in estimating the fair value of option-based derivatives is implied volatility, which reflects the market's expectation of the magnitude of future changes in interest rates. Assuming all other factors are held equal, including interest rates, a decrease in implied volatility would reduce the fair value of our purchased options and an increase in implied volatility would increase the fair value of our purchased options, while having the opposite effect on the options that we have sold.
- Changes in our derivative activity: As interest rates change, we are likely to rebalance our portfolio to manage our interest rate exposure. As interest rates decrease, expected mortgage prepayments are likely to increase, which reduces the duration of our mortgage investments. In this scenario, we generally will rebalance our existing portfolio to manage this risk by adding receive-fixed swaps, which shortens the duration of our liabilities. Conversely, when interest rates increase and the duration of our mortgage assets increases, we are likely to add pay-fixed swaps, which have the effect of extending the duration of our liabilities. We use derivatives to rebalance our portfolio when the duration of our mortgage assets changes as the result of mortgage purchases or sales. We also use foreign-currency swaps to manage the foreign exchange impact of our foreign currency-denominated debt issuances.
- Time value of purchased options: Intrinsic value and time value are the two primary components of an option's price. The intrinsic value is determined by the amount by which the market rate exceeds or is below the exercise, or strike rate, such that the option is in-the-money. The time value of an option is the amount by which the price of an option exceeds its intrinsic value. Time decay refers to the diminishing value of an option over time as less time remains to exercise the option.

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

Because risk management derivatives are an important part of our interest rate risk management strategy, it is important to evaluate the impact of our derivatives in the context of our overall interest rate risk profile and in conjunction with the other offsetting mark-to-market gains and losses presented in Table 13. For additional information on our use of derivatives to manage interest rate risk, including the economic objective of our use of various types of derivative instruments, changes in our derivatives activity and the outstanding notional amounts, see "Risk Management—Market Risk Management, Including Interest Rate Risk Management—Interest Rate Risk Management."

Mortgage Commitment Derivatives Fair Value Losses, Net

Certain commitments to purchase or sell mortgage-related securities and to purchase single-family mortgage loans are generally accounted for as derivatives. For open mortgage commitment derivatives, we include changes in their fair value in our consolidated statements of operations and comprehensive income (loss). When derivative purchase commitments settle, we include the fair value of the commitment on the settlement date in the cost basis of the loan or security we purchase. When derivative commitments to sell securities settle, we include the fair value of the commitment on the settlement date in the cost basis of the security we sell. Purchases of securities issued by our consolidated MBS trusts are treated as extinguishments of debt; we recognize the fair value of the commitment on the settlement date as a component of debt extinguishment gains and losses. Sales of securities issued by our consolidated MBS trusts are treated as issuances of consolidated debt; we recognize the fair value of the commitment on the settlement date as a component of debt in the cost basis of the debt issued.

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

Trading Securities Gains, Net

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

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

Administrative Expenses

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

Credit-Related (Income) Expenses

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

Benefit (Provision) for Credit Losses

Our total loss reserves provide for an estimate of credit losses incurred in our guaranty book of business, including concessions we granted borrowers upon modification of their loans, as of each balance sheet date. We establish our loss reserves through our provision for credit losses for losses that we believe have been incurred and will eventually be reflected over time in our charge-offs. When we determine that a loan is uncollectible, typically upon foreclosure, we record a charge-off against our loss reserves. We record recoveries of previously charged-off amounts as a reduction to charge-offs.

Table 14 displays the components of our total loss reserves and our total fair value losses previously recognized on loans purchased out of unconsolidated MBS trusts reflected in our consolidated balance sheets. Because these fair value losses lowered our recorded loan balances, we have fewer inherent losses in our guaranty book of business and consequently require lower total loss reserves. For these reasons, we consider these fair value losses as an "effective reserve," apart from our total loss reserves, to the extent that we expect to realize these amounts as credit losses on the acquired loans in the future. The fair value losses shown in Table 14 represent credit losses we expect to realize in the future or amounts that will eventually be recovered, either through net interest income for loans that cure or through foreclosed property income for loans where the

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sale of the collateral exceeds our recorded investment in the loan. We exclude these fair value losses from our credit loss calculation as described in "Credit Loss Performance Metrics."

Table 14: Total Loss Reserves

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

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

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

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

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

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

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

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

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

(3) Amounts represent the net activity recorded in our allowances for accrued interest receivable and preforeclosure property taxes and insurance receivable from borrowers. The provision for credit losses, charge-offs, recoveries and transfer activity included in this table reflects all changes for both the allowance for loan losses and the valuation allowances for accrued interest and preforeclosure property taxes and insurance receivable that relate to the mortgage loans.

Our provision, and in some cases benefit, for credit losses continues to be a key driver of our results for each period presented. The amount of our provision for credit losses varies from period to period based on changes in actual and expected home prices, borrower payment behavior, the types and volumes of loss mitigation activities and foreclosures completed, and actual and estimated recoveries from our lender and mortgage insurer counterparties. See "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management" for information on mortgage insurers and outstanding mortgage seller/servicer repurchase obligations. In addition, our provision for credit losses and our loss reserves can be impacted by updates to our allowance for loan loss models that we use to estimate our loss reserves.

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

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

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

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

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

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

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

Loss Reserves Concentration Analysis

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

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

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

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

Nonperforming Loans

Our balance of nonperforming single-family loans remained high as of December 31, 2012 due to both high levels of delinquencies and an increase in TDRs. When a TDR occurs, the loan may return to a current status, but it will continue to be classified as a nonperforming loan as the loan is not performing in accordance with its original terms. Table 17 displays the composition of our nonperforming loans, which includes our single-family and multifamily held-for-investment and held-for-sale mortgage loans. For information on the impact of TDRs and other individually impaired loans on our allowance for loan losses, see "Note 3, Mortgage Loans." For activity related to our single-family TDRs, see Table 48 in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

Table 17: Nonperforming Single-Family and Multifamily Loans

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

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

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

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

(3) Recorded investment in loans that, as of the end of each period, are 90 days or more past due and continuing to accrue interest. As of December 31, 2012, includes loans with a recorded investment of $2.8 billion which were repurchased in January 2013 pursuant to our resolution agreement with Bank of America. These loans were returned to accrual status to reflect the change in our assessment of collectibility resulting from this agreement, see "Note 20, Subsequent Events." Also includes loans insured or guaranteed by the U.S. government and loans for which we have recourse against the seller in the event of a default.

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

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

Foreclosed Property (Income) Expense

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

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

Credit Loss Performance Metrics

Our credit-related (income) expenses should be considered in conjunction with our credit loss performance metrics. Our credit loss performance metrics, however, are not defined terms within GAAP and may not be calculated in the same manner as similarly titled measures reported by other companies. Because management does not view changes in the fair value of our mortgage loans as credit losses, we adjust our credit loss performance metrics for the impact associated with our acquisition of credit-impaired loans from unconsolidated MBS trusts. We also exclude interest forgone on nonperforming loans in our mortgage portfolio, other-than-temporary impairment losses resulting from deterioration in the credit quality of our mortgage-related securities and accretion of interest income on acquired credit-impaired loans from credit losses. We believe that credit loss performance metrics may be useful to investors as the losses are presented as a percentage of our book of business and have historically been used by analysts, investors and other companies within the financial services industry. Moreover, by presenting credit losses with and without the effect of fair value losses associated with the acquisition of credit-impaired loans, investors are able to evaluate our credit performance on a more consistent basis among periods. Table 18 displays the components of our credit loss performance metrics as well as our average single-family and multifamily default rates and initial charge-off severity rates.

Table 18: Credit Loss Performance Metrics

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

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(1) Basis points are based on the amount for each line item presented divided by the average guaranty book of business during the period.

(2) Includes fair value losses from acquired credit-impaired loans.

(3) Single-family and multifamily rates exclude fair value losses on credit-impaired loans acquired from MBS trusts and any costs, gains or losses associated with REO after initial acquisition through final disposition; single-family rate excludes charge-offs from short sales.

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

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

Table 19: Credit Loss Concentration Analysis

	Percentage of Single-Family Conventional Guaranty Book of Business Outstanding[1]			Percentage of Single-Family Credit Losses		
	As of December 31,			For the Year Ended December 31,		
	2012	2011	2010	2012	2011	2010