FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-Q
May 08, 2009

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

Form 10-Q

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2009

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No.: 0-50231

Federal National Mortgage Association
(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation *(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

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 o

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

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. (Check one):

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

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

As of March 31, 2009, there were 1,107,781,938 shares of common stock of the registrant outstanding.

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PART I FINANCIAL INFORMATION

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

We have been under conservatorship, with the Federal Housing Finance Agency (FHFA) acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. We describe the rights and powers of the conservator, the provisions of our agreements with the U.S. Department of Treasury (Treasury), and changes to our business, liquidity, corporate structure, business strategies and objectives since conservatorship in our Annual Report on Form 10-K for the year ended December 31, 2008 (2008 Form 10-K) in Part I Item 1 Business.

You also should read this Management s Discussion and Analysis of Financial Condition and Results of Operations, or MD&A, in conjunction with our unaudited condensed consolidated financial statements and related notes, and the more detailed information contained in our 2008 Form 10-K. This discussion contains forward-looking statements that are based upon management s current expectations and are subject to significant uncertainties and changes in circumstances. Our actual results may differ materially from those included in these forward-looking statements due to a variety of factors including, but not limited to, those described in this report in Part II Item 1A Risk Factors and in our 2008 Form 10-K in Part I Item 1A Risk Factors. Please also refer to our 2008 Form 10-K in Part I Item 7 MD&A Glossary of Terms Used in This Report for an explanation of terms we use in this report.

INTRODUCTION

Fannie Mae is a government-sponsored enterprise (GSE) that was chartered by Congress in 1938 to support liquidity and stability in the secondary mortgage market, where existing mortgage loans are purchased and sold. We securitize mortgage loans originated by lenders in the primary mortgage market into mortgage-backed securities that we refer to as Fannie Mae MBS, which can then be bought and sold in the secondary mortgage market. We also participate in the secondary mortgage market by purchasing mortgage loans (often referred to as whole loans) and mortgage-related securities, including our own Fannie Mae MBS, for our mortgage portfolio. In addition, we make other investments that increase the supply of affordable housing. Under our charter, we may not lend money directly to consumers in the primary mortgage market. Although we are a corporation chartered by the U.S. Congress, and although our conservator is a U.S. government agency and Treasury owns our senior preferred stock and a warrant to purchase our common stock, the U.S. government does not guarantee, directly or indirectly, our securities or other obligations.

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EXECUTIVE SUMMARY

Housing and Economic Conditions

Mortgage and Housing Market and Economic Conditions

The U.S. residential mortgage market continued to experience significant deterioration in the first quarter of 2009, which adversely affected our financial condition and results.

Virtually all fundamental measures of the housing market s health worsened in the first quarter of 2009 compared with the fourth quarter of 2008. The market experienced declines in new and existing home sales, housing starts and home prices, as well as increases in mortgage delinquencies.

The recession that began in December 2007 continued to deepen in the first quarter. The U.S. gross domestic product, or GDP, for the fourth quarter of 2008 was revised downward to (6.3)% on an annualized basis, and declined further, although at a slower pace, by (6.1)% in the first quarter of 2009. The U.S. has lost a net total of over 5.1 million jobs since the start of the recession, and in the first quarter of 2009, the total number of Americans receiving unemployment benefits increased to the highest levels on record dating back to 1967. The U.S. Bureau of Labor Statistics reported successive increases in the unemployment rate in each month of the first quarter, reaching 8.5% in March. Unemployment rates in Florida, California, Arizona and Nevada rose to 9.7%, 11.2%, 7.8% and 10.4%, respectively, in March 2009.

High levels of unemployment, coupled with severe declines in home equity and household wealth, have contributed to a continued increase in residential mortgage delinquencies.

The actual number of unsold homes in inventory has begun to decline in recent months, but the supply of homes as measured by the inventory/sales ratio remains high since the pace of sales has slowed in recent months in response to rising unemployment. Although affordability measures have risen dramatically since home prices peaked and subsequently began falling, the limited availability of credit for many potential homebuyers and low consumer confidence have dampened purchase activity even at the decreasing price levels. Surveys of bank loan officers by the Federal Reserve showed lenders were still tightening credit standards in the first quarter.

While first quarter housing market indicators were worse than the fourth quarter, there were some tentative signs of improvement. On a seasonally adjusted basis, single-family housing starts, new home sales, and existing home sales were all higher in March than in January, though down from February.

Long-term mortgage rates declined to near-record lows in March, resulting in a wave of mortgage refinancing that drove an increase in mortgage originations overall from approximately $363 billion in the fourth quarter of 2008 to approximately $511 billion in the first quarter of 2009. Approximately 73% of first quarter 2009 mortgage originations were refinancings, compared with 63% in the first quarter of 2008.

Multifamily housing fundamentals are under increasing stress that reflects broader unfavorable economic conditions, including higher unemployment and severely restricted capital. These conditions are negatively affecting multifamily property level cash flows, vacancy rates and rent levels. Property values are declining due to both the downward pressure on cash flows and the higher premium required by investors.

As of December 31, 2008, the latest date for which information was available, the amount of U.S. residential mortgage debt outstanding was estimated by the Federal Reserve to be approximately $11.9 trillion, including $11.0 trillion of single-family mortgages. Total U.S. residential mortgage debt outstanding decreased by 0.3% in 2008, compared with an increase of 7.0% in 2007 and 10.9% in 2006. Our mortgage credit book of business, which includes mortgage assets we hold in our investment portfolio, our Fannie Mae MBS held by third parties and credit enhancements that we provide on mortgage assets, was $3.1 trillion as of December 31, 2008, or approximately 26% of total U.S. residential mortgage debt outstanding. See Part I Item 1A Risk Factors of our 2008 Form 10-K for a description of the risks associated with the housing market downturn and continued home price declines.

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U.S. Government Actions to Stabilize the Markets and Support Economic Recovery

The U.S. government has taken a number of actions intended to strengthen market stability, improve the strength of financial institutions, enhance market liquidity, and provide support to homeowners, including the following actions, which were taken in 2009:

On February 17, 2009, President Barack Obama signed into law the American Recovery and Reinvestment Act of 2009 (2009 Stimulus Act), a $787 billion economic stimulus package aimed at lifting the economy out of recession.

On February 18, 2009, the Obama Administration announced the Homeowner Affordability and Stability Plan (HASP) as part of the Administration s strategy to help reestablish confidence in the housing markets and to support a broader economic recovery. The Administration announced that key components of the plan are (1) providing access to low-cost refinancing for responsible homeowners suffering from falling home prices, (2) creating a $75 billion mortgage loan modification program to reach up to three to four million at-risk homeowners and (3) supporting low mortgage rates by strengthening confidence in Fannie Mae and Freddie Mac. On March 4, 2009, the Obama Administration announced new Treasury guidelines to enable servicers to begin modifications of eligible mortgages under the HASP. The refinancing and modification components of this program, the Making Home Affordable Program, are described in more detail below.

On March 18, 2009, the Federal Reserve announced it would expand a program it first announced in November 2008 to purchase direct obligations of Fannie Mae, Freddie Mac, and the 12 Federal Home Loan Banks (FHLBs), and to purchase mortgage-backed securities guaranteed by Fannie Mae, Freddie Mac and the Government National Mortgage Association (Ginnie Mae). The expansion increased the amounts to be purchased in 2009 from up to $100 billion to up to $200 billion in direct obligations, and from up to $500 billion to up to $1.25 trillion in mortgage-backed securities. The Federal Reserve also announced that, to help improve conditions in private credit markets, it would purchase up to $300 billion of longer-term Treasury securities over the next six months. The Federal Reserve began purchasing our debt and MBS under this program in January 2009.

Our Business Objectives and Strategy

Our Board of Directors and management consult with FHFA, as our conservator, in establishing our strategic direction, and FHFA has approved our business objectives and strategy.

We face a variety of different, and potentially conflicting, objectives, including:

providing liquidity, stability and affordability in the mortgage market;

immediately providing additional assistance to the mortgage market and to the struggling housing market;

limiting the amount of the investment Treasury must make under our senior preferred stock purchase agreement with Treasury in order to eliminate a net worth deficit;

returning to long-term profitability; and

protecting the interests of the taxpayers.

These objectives create conflicts in strategic and day-to-day decision-making that could lead to less than optimal outcomes for some or all of these objectives. For example, limiting the amount of funds Treasury must invest in us

under the senior preferred stock purchase agreement in order to eliminate a net worth deficit could require us to constrain some of our business activities, including activities targeted at providing liquidity, stability and affordability to the mortgage market. Conversely, to the extent we expand our efforts to assist the mortgage market, our financial results are likely to suffer, at least in the short term, which will increase the amount of funds that Treasury is required to provide to us and further limit our ability to return to long-term profitability. We regularly consult with and receive direction from our conservator on how to balance our objectives.

Accordingly, we currently are primarily focusing on the first two objectives listed above:

- providing liquidity, stability and affordability in the mortgage market; and
- immediately providing additional assistance to the mortgage market and to the struggling housing market.

We are concentrating our efforts on keeping people in their homes and preventing foreclosures. We also are continuing to be active in the secondary mortgage market through our guaranty business. The essence of this strategy is to support liquidity and affordability in the mortgage market, while creating and implementing successful foreclosure prevention approaches. Currently, one of the principal ways in which we are focusing on these objectives is through our participation in the government s Making Home Affordable Program, which we describe in more detail below. Focusing on these objectives, rather than on returning to long-term profitability, is likely to contribute to further deterioration in both our results of operations and our net worth. Continuing deterioration in the housing and mortgage markets, along with the continuing deterioration in our guaranty book of business and the costs associated with the objectives on which we are focused, will increase the amount of funds that Treasury is required to provide to us. In turn, these factors put additional pressure on our ability to return to long-term profitability. If, however, the Making Home Affordable Program is successful in reducing foreclosures and keeping borrowers in their homes, it may benefit the overall housing market and help in reducing our long-term credit losses. We therefore consult regularly with our conservator on how to balance these two objectives against the competing objectives we face.

Summary of Our Financial Results for the First Quarter of 2009

Our financial results for the first quarter of 2009 were adversely affected by ongoing deterioration in the housing, mortgage, financial and credit markets.

We recorded a net loss of $23.2 billion and a diluted loss per share of $4.09 for the first quarter of 2009. In comparison, we recorded a net loss of $25.2 billion and a diluted loss per share of $4.47 for the fourth quarter of 2008, and a net loss of $2.2 billion and a diluted loss per share of $2.57 for the first quarter of 2008. Our results for the first quarter of 2009 were driven primarily by credit-related expenses of $20.9 billion, other-than-temporary impairment related to available-for-sale securities of $5.7 billion and fair value losses of $1.5 billion.

The $2.1 billion decrease in our net loss for the first quarter of 2009 from the fourth quarter of 2008 was driven principally by a $10.9 billion reduction in net fair value losses, which was partially offset by an $8.9 billion increase in credit-related expenses. The $21.0 billion increase in our net loss for the first quarter of 2009 compared to the loss we incurred in the first quarter of 2008 was driven principally by the significant increase in credit-related expenses.

Our credit-related expenses included a provision for credit losses of $20.3 billion, compared with a provision for credit losses of $11.0 billion in the fourth quarter of 2008. Our combined loss reserves, which reflect our best estimate of credit losses incurred in our guaranty book of business as of each balance sheet date, increased to $41.7 billion as of March 31, 2009, or 28.78% of our nonperforming loans, from $24.8 billion as of December 31, 2008, or 20.76% of our nonperforming loans. The substantial increase in our loss reserves primarily reflected further deterioration in the credit quality of both our single-family and multifamily guaranty book of business, evidenced by a significant increase in our nonperforming loans (loans for which we believe collectability of interest or principal is not reasonably assured) and seriously delinquent loans (single-family loans three months or more past due or in the foreclosure process or multifamily loans 60 days or more past due), as market conditions such as the severe economic downturn and rising unemployment continued to adversely affect the performance of our guaranty book of business. In addition, our average loss severities increased as a result of the continued decline in home prices during the first quarter of 2009. Because of the existing stress in the housing and credit markets, and the speed and extent to which these markets have deteriorated, our process for determining the adequacy of our loss reserves has become more complex

and involves a greater degree of management judgment. The current state of the housing and mortgage markets is unprecedented in many respects, greatly reducing the usefulness of relying on our historical loan performance data in estimating our loss reserves. To address the limitations in these historical data, we made refinements to

our loss estimation process during the first quarter of 2009. We provide additional information on our loss reserves, including refinements we made to our loss reserve process in response to the rapidly changing and unprecedented conditions in the housing and mortgage markets, in Critical Accounting Policies and Estimates Allowance for Loan Losses and Reserve for Guaranty Losses and in Consolidated Results of Operations Credit Related Expenses.

The other-than-temporary impairment on available-for-sale securities of $5.7 billion that we recognized in the first quarter of 2009 related to additional impairment losses on some of our Alt-A and subprime private-label securities that we had previously impaired, as well as impairment losses on other Alt-A and subprime securities, attributable to a continued deterioration in the credit quality of the loans underlying these securities and further declines in the expected cash flows.

Our mortgage credit book of business remained relatively unchanged at $3.1 trillion as of March 31, 2009, roughly the same level as at December 31, 2008, as high levels of refinancing activity led to high volumes of acquisitions and liquidations. Our estimated market share of new single-family mortgage-related securities issuances was 44.2% for the first quarter of 2009, compared with 41.7% for the fourth quarter of 2008.

We provide more detailed discussions of key factors affecting changes in our results of operations and financial condition in Consolidated Results of Operations, Business Segment Results, Consolidated Balance Sheet Analysis, Supplemental Non-GAAP Information Fair Value Balance Sheets, and Risk Management Credit Risk Management Mortgage Credit Risk Management Mortgage Credit Book of Business.

Homeowner Assistance and Foreclosure Prevention Initiatives

On March 4, 2009, the Obama Administration announced the details of its Making Home Affordable Program. The program includes a Home Affordable Refinance Program, which provides for the refinance of mortgage loans owned or guaranteed by us or Freddie Mac, and the Home Affordable Modification Program, which provides for the modification of mortgage loans owned or guaranteed by us or Freddie Mac, as well as other mortgage loans. On April 28, 2009, the Obama Administration announced the Second Lien Program, which provides participating servicers with alternatives for addressing second-lien loans when the servicers are modifying the associated first-lien mortgage loan under the Home Affordable Modification Program.

On March 4, 2009, we announced our participation in the Home Affordable Refinance and Home Affordable Modification Programs and released guidelines for Fannie Mae sellers and servicers in offering these two programs for Fannie Mae borrowers. These two programs are designed to significantly expand the number of borrowers who can refinance or modify their mortgages to achieve a monthly payment that is more affordable now and into the future. We also are serving as program administrator under the Home Affordable Modification Program and the Second Lien Program for loans we do not own or guarantee.

Key aspects of the Making Home Affordable Program are as follows.

Home Affordable Refinance Program

The Home Affordable Refinance Program is targeted at borrowers who have demonstrated an acceptable payment history on their mortgage loans but have been unable to refinance due to a decline in home prices or the unavailability of mortgage insurance. Loans under this program are available only if the new mortgage loan either reduces the monthly principal and interest payment for the borrower or provides a more stable loan product (such as movement from an adjustable-rate mortgage to a fixed-rate mortgage loan). Other eligibility requirements that must be met under this program include the following.

We must own or guarantee the mortgage loan being refinanced.

The unpaid principal balance on the mortgage loan may not exceed 105% of the current value of the property covered by the mortgage. In other words, the maximum loan-to-value, or LTV, ratio is 105%.

Mortgage insurance for the new mortgage loan is only required if the existing loan has an original LTV ratio greater than 80% and mortgage insurance is currently in force on the existing loan. In that case, mortgage insurance is required only up to the coverage level on the existing loan, which may be less than our standard coverage requirements. FHFA has provided guidance that permits us to implement this feature of the program in compliance with our charter requirements through June 2010.

Reverse mortgage loans, second lien mortgage loans and government mortgage loans (such as loans guaranteed or insured by the Federal Housing Administration, or FHA, the Department of Veterans Affairs or the Rural Development Housing and Community Facilities Program of the Department of Agriculture) do not qualify for refinancing under this program.

The new mortgage loan cannot:

- be an adjustable rate mortgage loan, or ARM, if the initial period for which the interest rate is fixed is less than five years;
- have an interest-only feature that permits the payment of interest without a payment of principal;
- be a balloon mortgage loan; or
- have the potential for negative amortization.

We made the program available for newly refinanced mortgage loans delivered to us on or after April 1, 2009. The program replaced the streamlined refinance options we previously offered. If interest rates remain near record lows, we expect that the Home Affordable Refinance Program will bolster refinance volumes over time as major lenders adopt necessary system changes and consumer awareness continues to build.

Home Affordable Modification Program

The Home Affordable Modification Program is aimed at helping borrowers whose loan either is currently delinquent or is at imminent risk of default by modifying their mortgage loan to make their monthly payments more affordable. The program is designed to provide a uniform, consistent regime for servicers to use in modifying mortgage loans to prevent foreclosures, including loans owned or guaranteed by Fannie Mae and other qualifying mortgage loans. We expect borrowers at risk of foreclosure who are not eligible for a loan refinance under the Home Affordable Refinance Program to be evaluated for eligibility under the Home Affordable Modification Program before any other workout alternative is considered. Borrowers ineligible for the Home Affordable Modification Program may be considered under other workout alternatives we provide, such as HomeSaver Advance[tm] and our recently introduced HomeSaver Forbearance initiative. For modifications under the Home Affordable Modification Program of qualifying mortgage loans that are not owned or guaranteed by Fannie Mae, we serve as the program administrator for Treasury, as described further below.

The key elements of the Home Affordable Modification Program include the following.

Status of Mortgage Loan. The mortgage loan must be delinquent (and may be in foreclosure) or default must be imminent. All borrowers must attest to a financial hardship. Examples include: a reduction or loss of income; a change in household circumstances; an increase in the existing mortgage payment or other expenses; a lack of sufficient cash reserves; or excessive monthly debt obligations, with an overextension of obligations to creditors.

Reduction of Mortgage Payments. Under the Home Affordable Modification Program, the goal is to modify a borrower s mortgage loan to target the borrower s monthly mortgage payment, after adding accrued interest and third-party escrow and other advances to the principal balance, at 31% of the borrower s gross monthly income.

Modifications Permitted. Servicers must apply the permitted modification terms available in the order listed below until the borrower s new monthly mortgage payment achieves the target payment ratio of 31%:

- *Reduction of Interest Rate.* Reduce the interest rate to as low as 2% for the first five years following modification, increasing by 1% per year thereafter generally until it reaches the market rate at the time of modification.

- *Extension of Loan Term.* Extend the loan term to up to 40 years.

- *Deferral of Principal.* Defer payment of a portion of the principal of the loan until (1) the borrower sells the property, (2) the end of the loan term, or (3) the borrower pays off the loan, whichever occurs first.

Limits on Risk Features in Modified Mortgage Loans.

- *ARMs and Interest-Only Loans.* If a borrower has an adjustable-rate or interest-only loan, the loan will convert to a fixed interest rate, fully amortizing loan.

- *Prohibition on Negative Amortization.* Negative amortization is prohibited following the effective date of the modification.

Trial Period Required before Modification. Borrowers must satisfy the terms of a trial modification plan for a trial payment period of three months (for a delinquent loan) or four months (for a loan for which default is imminent). The modification will become effective upon satisfactory completion of the trial period.

Counseling. Borrowers with a total monthly debt-to-income ratio equal to or greater than 55% following modification must agree to work with a HUD-approved housing counselor on a plan to reduce the ratio below 55%.

Pre-Foreclosure Eligibility Evaluation. Servicers have been directed not to refer a loan for foreclosure or proceed with a foreclosure sale until the borrower has been evaluated for a modification under the program and, if eligible, has been extended an offer to participate in the program.

Incentive Payments to Servicers. For each of our loans for which a modification is completed under the Home Affordable Modification Program, we will pay the servicer:

- a $1,000 incentive payment for each completed modification;

- an additional $500 incentive payment for any modified loan that was current when it entered the trial period (*i.e.,* a loan for which default was imminent); and

- an annual pay for success fee of up to $1,000 for any modification that reduces a borrower s monthly payment by 6% or more, payable for each of the first three years after the modification as long as the borrower is continuing to make the payments due under the modified loan.

Incentives to Borrowers. For a completed modification under the Home Affordable Modification Program that reduces the borrower s monthly payment by 6% or more, we will provide the borrower an annual reduction in the outstanding principal balance of the modified loan of up to $1,000 for each of the first five years after the modification as long as the borrower is continuing to make the payments due under the modified loan.

Costs of Modifications. We bear all of the costs of modifying our loans under the Home Affordable Modification Program, including any additional amounts we are required to provide under our guarantees for loans owned by one of our MBS trusts during a trial payment period or any other mortgage-backed securities for which we have provided a guaranty.

The Home Affordable Modification Program expires on December 31, 2012.

Our Role as Program Administrator of the Home Affordable Modification Program and Second Lien Program

Treasury has engaged us to serve as program administrator for loans modified under the Home Affordable Modification Program that are not owned or guaranteed by us. In April 2009, we released guidance to servicers for adoption and implementation of the Home Affordable Modification Program for mortgage loans that are not owned or guaranteed by us or Freddie Mac. Freddie Mac maintains guidelines for modification under the program of loans it owns or guarantees. Freddie Mac bears the costs of loan modifications under the Home Affordable Modification Program for all loans owned or guaranteed by Freddie Mac, and Treasury bears the costs for loans other than Fannie Mae s or Freddie Mac s modified under the program. Treasury also generally will compensate investors (other than Fannie Mae or Freddie Mac) for 50% of the amount by which

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a payment is reduced due to the modification, subject to certain limits, and will pay an up-front incentive fee of $1,500 to such investors if the borrower was current on the loan before the trial period and the borrower s monthly mortgage payment was reduced by 6% or more.

Our principal activities as program administrator include the following:

Implementing the guidelines and policies within which the program will operate;

Preparing the requisite forms, tools and training to facilitate efficient loan modifications by servicers;

Creating and making available a process for servicers to report modification activity and program performance;

Acting as paying agent to calculate and remit subsidies and compensation consistent with program guidelines;

Acting as record-keeper for executed loan modifications and program administration;

Coordinating with Treasury and other parties toward achievement of the program s goals; and

Performing other tasks as directed by Treasury from time to time.

Treasury also has engaged us to serve as program administrator of the Second Lien Program for loans that are not owned or guaranteed by us. Our principal activities as program administrator for the Second Lien Program are similar to those described above for the Home Affordable Modification Program.

Expected Impact of the Making Home Affordable Program

The actions we are taking and the initiatives we have introduced to assist homeowners and limit foreclosures, including those described above, are significantly different from our historical approach to delinquencies, defaults and problem loans. As a result, it will take time for us to assess and provide statistical information both on the relative success of these efforts and their effect on our results of operations and financial condition. Some of the initiatives we undertook prior to the Making Home Affordable Program have not achieved the results we expected. We will continue to work with our conservator as we move forward under the Making Home Affordable Program to help us best fulfill our objective of helping homeowners and the mortgage market. As we gain more experience under these programs, we may supplement them with other initiatives to help us assist more homeowners. We have included data relating to our borrower loss mitigation activities for the first quarter and prior periods in Risk Management Credit Risk Management Mortgage Credit Risk Management. Given the timing of implementation of the Making Home Affordable Program, these data do not include activities under the program.

The nature of the Making Home Affordable Program is unprecedented. As a result, it is difficult for us to predict the full extent of our activities under the program and how those will affect us, the response rates we will experience, or the costs that we will incur. We do expect modifications of loans to increase in 2009 as a result of the Home Affordable Modification Program, however, we cannot predict the degree of increase in part due to the complexity involved in the process from the time we identify a potential loan for modification to actually modifying the loan. The steps in the process, which are generally performed by servicers, include:

Identifying loans within our portfolio and Fannie Mae MBS that are candidates for modification;

Making contact with the borrower;

Obtaining current financial information from the borrower;

Evaluating whether Home Affordable Modification Program is a viable workout option;

Structuring the terms of the modification;

Communicating the terms to the borrower together with the legal documentation; and

Receiving agreement of the borrower to the terms of the modification.

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We are working with servicers to effectively implement the program and reach borrowers who are eligible for a modification under the program. However, the need to complete the steps detailed above, including having multiple servicer contacts with the borrower, creates significant uncertainty in our ability to estimate the number of modifications we will accomplish. It is also uncertain whether the borrower and servicer incentives under the Home Affordable Modification Program will provide sufficient motivation for modifications.

We expect modifications under the Home Affordable Modification Program of loans we own or guarantee in particular to adversely affect our financial results and condition for several reasons, including:

- Fair value loss charge-offs under Statement of Position No. 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer (* SOP 03-3), against the Reserve for guaranty losses at the time we acquire loans, which we must do prior to any modification of a loan held in a Fannie Mae MBS trust;

- Incentive and pay for success fees paid to our servicers for modification of loans we own or guarantee;

- Principal balance reductions on loans if certain borrowers perform on the loans following modification; and

- The effect of holding these modified loans in our mortgage portfolio, as the loans will provide a below market yield that may be lower than our cost of funds.

We also expect to incur additional operational expenses associated with the Making Home Affordable Program. Accordingly, the Making Home Affordable Program will likely have a material adverse effect on our business, results of operations and financial condition, including our net worth. If the program is successful in reducing foreclosures and keeping borrowers in their homes, however, it may benefit the overall housing market and help in reducing our long-term credit losses.

Providing Mortgage Market Liquidity and Other Market Support

Ongoing provision of liquidity to the mortgage markets. During the first quarter of 2009, we purchased or guaranteed an estimated $175.4 billion in new business, measured by unpaid principal balance. These purchases and guarantees consisted primarily of single-family mortgage loans, providing financing for approximately 730,000 conventional single-family loans. Our purchase or guarantee of approximately $3.8 billion of new and existing multifamily loans during the first quarter of 2009 helped to finance approximately 87,000 multifamily units. The $175.4 billion in new business for the quarter consisted of $125.4 billion in Fannie Mae MBS that were acquired by third parties, and $50.0 billion in mortgage loans and mortgage-related securities we purchased for our mortgage investment portfolio. Our estimated market share of new single-family mortgage-related securities issuances was 44.2% for the first quarter of 2009, compared with 41.7% for the fourth quarter of 2008, making us the largest single provider of mortgage-related securities in the secondary market.

Suspension of foreclosures. We maintained a suspension of foreclosures from November 26, 2008 through January 31, 2009, and from February 17, 2009 through March 6, 2009. We extended the suspension to allow us time to implement the Making Home Affordable Program.

Adoption of National Real Estate Owned Rental Policy. In January 2009, we adopted our National Real Estate Owned Rental Policy, which is designed to allow qualified renters in Fannie Mae-owned foreclosed properties to stay in their homes. Under the policy, eligible renters are offered a new month-to-month lease with Fannie Mae or financial assistance for their transition to new housing should they choose to vacate the property.

Enhancing multifamily Fannie Mae MBS. Our HCD business is proactively working with our DUS lenders and other parties to expand our Fannie Mae multifamily MBS product suite to increase third-party investor interest and provide liquidity and stability in the multifamily market. Third-party multifamily Fannie Mae MBS execution was 32% of total multifamily commitment volume during the first quarter of 2009, compared with 2% of total multifamily commitment volume during the first quarter of 2008.

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Increased flexibility to allow more loans to one borrower. In February 2009, we modified our policies to allow investor and second home borrowers to own up to ten financed properties if they meet certain eligibility, underwriting and delivery requirements. We previously limited the number of properties to five.

HomeSaver Forbearance. On March 4, 2009, we introduced HomeSaver Forbearance, which is a new loss mitigation option available for borrowers whose loan either is delinquent or is at imminent risk of default and who do not qualify for a modification under the Home Affordable Modification Program. We have directed servicers to offer forbearance if an eligible borrower has a willingness and ability to make reduced monthly payments of at least one-half of their contractual monthly payment amount. The forbearance period lasts for six months, during which time the servicer works with the borrower to identify a more permanent foreclosure prevention alternative. We have instructed servicers to identify such an alternative during the first three months of the forbearance period and implement the alternative by the end of the six-month period.

Increase in conforming loan limit for 2009. In March 2009, we announced our requirements for the acquisition of high-balance mortgage loans during 2009 under temporary authority granted under the 2009 Stimulus Act. This authority set the conforming loan limit for a one-family residence in high cost areas at a maximum of $729,750 for 2009.

New multifamily trust documents. In January 2009, we introduced new master trust agreements for multifamily Fannie Mae MBS. The new agreements, which include an amendment and restatement of a prior master trust agreement, are designed to increase flexibility in managing delinquent loans backing multifamily Fannie Mae MBS issued on or after February 1, 2009, without requiring a repurchase of the affected loans or a change to an investor s cash flows.

Credit Overview

We continued to experience a deterioration in the credit performance of mortgage loans in our guaranty book of business during the first quarter of 2009, reflecting the ongoing impact of the adverse conditions in the housing market, as well as the deepening economic recession and rising unemployment. We expect these conditions to continue to adversely affect our credit results in 2009. Table 1 below presents information about the credit performance of mortgage loans in our single-family guaranty book of business for the year ended December 31, 2008 and for each subsequent quarter, illustrating the worsening trend in performance throughout 2008 and continuing in the first quarter of 2009.

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

	2009	2008					2007
	Q1	Full Year	Q4	Q3	Q2	Q1	Full Year
	(Dollars in millions)						
As of the end of each period:							
Serious delinquency rate[2]	3.15%	2.42%	2.42%	1.72%	1.36%	1.15%	0.98%
On-balance sheet nonperforming	$ 23,145	$ 20,484	$ 20,484	$ 14,148	$ 11,275	$ 10,947	$ 10,067

loans[3]							
Off-balance sheet nonperforming loans[4]	$ 121,378	$ 98,428	$ 98,428	$ 49,318	$ 34,765	$ 23,983	$ 17,041
Combined loss reserves[5]	$ 41,082	$ 24,649	$ 24,649	$ 15,528	$ 8,866	$ 5,140	$ 3,318
Foreclosed property inventory (number of properties)[6]	62,371	63,538	63,538	67,519	54,173	43,167	33,729
During the period:							
Loan modifications (number of loans)[7]	12,418	33,249	6,276	5,262	10,190	11,521	26,421
HomeSaver Advance problem loan workouts (number of loans)[8]	20,424	70,943	25,783	27,267	16,742	1,151	
Foreclosed property acquisitions (number of properties)[9]	25,374	94,652	20,998	29,583	23,963	20,108	49,121
Single-family credit-related expenses[10]	$ 20,330	$ 29,725	$ 11,917	$ 9,215	$ 5,339	$ 3,254	$ 5,003
Single-family credit losses[11]	$ 2,465	$ 6,467	$ 2,197	$ 2,164	$ 1,249	$ 857	$ 1,331

(1) The single-family guaranty book of business consists of single-family mortgage loans held in our mortgage portfolio, single-family Fannie Mae MBS held in our mortgage portfolio, single-family Fannie Mae MBS held by third parties, and other credit enhancements that we provide on single-family mortgage assets. Excludes non-Fannie Mae mortgage-related securities held in our investment portfolio for which we do not provide a guarantee.

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

(3) Represents the total amount of nonaccrual loans, troubled debt restructurings, and first-lien loans associated with unsecured HomeSaver Advance loans inclusive of troubled debt restructurings and HomeSaver Advance first-lien loans on accrual status. A troubled debt restructuring is a modification to the contractual terms of a loan that results in a concession to a borrower experiencing financial difficulty. Prior to the fourth quarter of 2008, we generally classified loans as nonperforming when the payment of principal or interest on the loan was three months or more past due. In the fourth quarter of 2008, we began classifying loans as nonperforming at an earlier stage in the delinquency cycle, generally when the payment of principal or interest on the loan is two months or more past due.

(4) Represents unpaid principal balance of nonperforming loans in our outstanding and unconsolidated Fannie Mae MBS held by third parties, including first-lien loans associated with unsecured HomeSaver Advance loans that are not seriously delinquent. Prior to the fourth quarter of 2008, we generally classified loans as nonperforming when the payment of principal or interest on the loan was three months or more past due. In the fourth quarter of 2008, we began classifying loans as nonperforming at an earlier stage in the delinquency cycle, generally when the payment of principal or interest on the loan is two months or more past due.

(5) Consists of the allowance for loan losses for loans held for investment in our mortgage portfolio and reserve for guaranty losses related to loans backing Fannie Mae MBS and loans that we have guaranteed under long-term standby commitments.

(6) Reflects the number of single-family foreclosed properties we held in inventory as of the end of each period. Includes deeds in lieu of foreclosure.

(7) Modifications include troubled debt restructurings and other modifications to the contractual terms of the loan that do not result in concessions to the borrower. A troubled debt restructuring involves some economic concession to the borrower, and is the only form of modification in which we do not expect to collect the full original contractual principal and interest amount due under the loan, although other resolutions and modifications may result in our receiving the full amount due, or certain installments due, under the loan over a period of time that is longer than the period of time originally provided for under the loans.

(8) Represents number of first-lien loans associated with unsecured HomeSaver Advance loans.

(9) Includes deeds in lieu of foreclosure.

(10) Consists of the provision for credit losses and foreclosed property expense.

(11) Consists of (a) charge-offs, net of recoveries and (b) foreclosed property expense; adjusted to exclude the impact of SOP 03-3 and HomeSaver Advance fair value losses for the reporting period. Interest forgone on single-family nonperforming loans in our mortgage portfolio is not reflected in our credit losses total. In addition, other-than-temporary impairment losses resulting from deterioration in the credit quality of our mortgage-related securities and accretion of interest income on single-family loans subject to Statement of Position No. 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer* (SOP 03-3), are excluded from credit losses. Please see Consolidated Results of Operations Credit-Related Expenses Provision Attributable to SOP 03-3 and HomeSaver Advance Fair Value Losses for a discussion of SOP 03-3.

Our entire guaranty book of business, including loans with lower risk characteristics, has begun to experience increases in delinquency and default rates as a result of the sharp rise in unemployment, the continued decline in home prices, the prolonged downturn in the economy, and the resulting increase in mark-to-market LTV ratios. In addition, certain loan types have continued to contribute disproportionately to the increases in serious delinquencies and credit losses we reported for the first quarter of 2009. These include loans on properties in California, Florida, Arizona and Nevada; loans originated in 2006 and 2007; and loans in higher-risk categories such as Alt-A loans and interest-only loans.

Alt-A loans generally refers to mortgage loans that can be underwritten with reduced or alternative documentation than that required for a full documentation mortgage loan but may also include other alternative product features. In reporting our credit exposure, we classify mortgage loans as Alt-A if the lenders that deliver the mortgage loans to us have classified the loans as Alt-A based on documentation or other product features. We have classified loans as nonperforming, and placed them on nonaccrual status, when we believe collectability of interest or principal on the loan is not reasonably assured.

Net Worth and Fair Value Deficit

Net Worth and Fair Value Deficit Amounts

Under the senior preferred stock purchase agreement that was entered into between us and Treasury in September 2008 and amended in May 2009, Treasury committed to provide us funds of up to $200 billion, on a quarterly basis, in the amount, if any, by which our total liabilities exceed our total assets at the end of the applicable fiscal quarter. This net worth deficit equals the total deficit that we report in our condensed consolidated balance sheets, and is calculated by subtracting our total liabilities from our total assets, each as shown on our condensed consolidated balance sheets prepared in accordance with generally accepted accounting principles (GAAP) for that fiscal quarter. We describe the amended terms of the agreement in more detail below in Amendment to Senior Preferred Stock Purchase Agreement and we describe the terms of the agreement prior to its May 2009 amendment, most of which continue to apply, in our 2008 Form 10-K in Part I Item 1 Business Conservatorship, Treasury Agreements, Our Charter and Regulation of Our Activities Treasury Agreements.

Our net worth as of March 31, 2009 was negative and is presented in our condensed consolidated GAAP balance sheets as a total deficit of $18.9 billion as of March 31, 2009, which is an increase of $3.8 billion over our total deficit of $15.2 billion as of December 31, 2008. The increase in our net worth deficit was primarily attributable to the net loss we recorded during the first quarter of 2009, partially offset by the $15.2 billion we received from Treasury.

Our fair value deficit as of March 31, 2009, which is reflected in our supplemental non-GAAP fair value balance sheet, was $110.3 billion, an increase of $5.2 billion over our fair value deficit of $105.2 billion as of December 31, 2008. The amount that Treasury committed to provide us under the senior preferred stock purchase agreement is determined based on our GAAP balance sheet, not our non-GAAP fair value balance sheet. There are significant differences between our GAAP balance sheet and our non-GAAP fair value balance sheet, which we describe in greater detail in Supplemental Non-GAAP Information Fair Value Balance Sheets.

Due to current trends in the housing and financial markets, we expect to have a net worth deficit in future periods, and therefore will be required to obtain additional funding from Treasury pursuant to the senior preferred stock purchase agreement.

Request for and Effect of Treasury Funding

Under the Federal Housing Finance Regulatory Reform Act (Regulatory Reform Act), FHFA must place us into receivership if the Director of FHFA makes a written determination that our assets are, and during the preceding 60 days have been, less than our obligations. FHFA has notified us that the measurement period for such a determination begins no earlier than the date of the SEC filing deadline for our quarterly and annual financial statements and continues for a period of 60 days after that date. FHFA also has advised us that, if we receive funds from Treasury during that 60-day period in order to eliminate our net worth deficit as of the prior period end in accordance with the senior preferred stock purchase agreement, the Director of FHFA will not make a mandatory receivership determination. On March 31, 2009, we received our first investment from Treasury under the senior preferred stock purchase agreement of $15.2 billion, which eliminated our net worth deficit as of December 31, 2008.

The Director of FHFA submitted a request to Treasury on May 6, 2009 for $19.0 billion on our behalf under the terms of the senior preferred stock purchase agreement to eliminate our net worth deficit as of March 31, 2009, and requested receipt of those funds on or prior to June 30, 2009.

When Treasury provides the additional funds that FHFA requested on our behalf, the aggregate liquidation preference of our senior preferred stock will total $35.2 billion and the annualized dividend on the senior preferred stock will be

$3.5 billion, based on the 10% dividend rate. This dividend amount exceeds 50% of our reported annual net income in six of the past seven years, in most cases by a significant margin. If we do not make cash payments on time, the dividend rate increases to 12% annually, and the unpaid dividend is added to the liquidation preference, further increasing the amount of the annual dividends.

Significance of Net Worth Deficit, Fair Value Deficit and Combined Loss Reserves

Our net worth deficit, which equals our total deficit reported on our consolidated GAAP balance sheet, includes the combined loss reserves of $41.7 billion that we recorded in our consolidated balance sheet as of March 31, 2009. Our non-GAAP fair value balance sheet presents all of our assets and liabilities at estimated fair value as of the balance sheet date. Fair value represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, which is also referred to as the exit price. In determining fair value, we use a variety of valuation techniques and processes. In general, fair value incorporates the market s current view of the future, and that view is reflected in the current price of the asset or liability. However, future market conditions may be different from what the market has currently estimated and priced into these fair value measures. We describe our use of assumptions and management judgment and our valuation techniques and processes for determining fair value in more detail in Supplemental Non-GAAP information Fair Value Balance Sheets, Critical Accounting Policies and Estimates Fair Value of Financial Instruments and Notes to Condensed Consolidated Financial Statements Note 18, Fair Value of Financial Instruments.

Neither our GAAP combined loss reserves nor our estimate of the fair value of our guaranty obligations, which we disclose in our consolidated non-GAAP fair value balance sheet, reflects our estimate of the future credit losses inherent in our existing guaranty book of business. Rather, our combined loss reserves reflect only probable losses that we believe we have already incurred as of the balance sheet date, while the fair value of our guaranty obligation is based not only on future expected credit losses over the life of the loans underlying our guarantees as of March 31, 2009, but also on the estimated profit that a market participant would require to assume that guaranty obligation. Because of the severe deterioration in the mortgage and credit markets, there is significant uncertainty regarding the full extent of future credit losses in the mortgage industry as a whole, as well as to any participant in the industry. Therefore, we are not currently providing guidance or other estimates of the credit losses that we will experience in the future.

Amendment to Senior Preferred Stock Purchase Agreement

Treasury and FHFA, acting on our behalf in its capacity as our conservator, entered into an amendment to the senior preferred stock purchase agreement between us and Treasury on May 6, 2009. Unless the context indicates otherwise, references in this report to the senior preferred stock purchase agreement refer to the agreement as amended on May 6, 2009. The May 6, 2009 amendment revised the terms of the senior preferred stock purchase agreement in the following ways:

Treasury s maximum funding commitment to us under the agreement was increased from $100 billion to $200 billion.

The covenant limiting the amount of mortgage assets we can own on December 31, 2009 was increased from $850 billion to $900 billion. We continue to be required to reduce our mortgage assets, beginning on December 31, 2010 and each year thereafter, to 90% of the amount of our mortgage assets as of December 31 of the immediately preceding calendar year, until the amount of our mortgage assets reaches $250 billion.

The covenant limiting the amount of our indebtedness was changed. Prior to the amendment, our debt cap was equal to 110% of our indebtedness as of June 30, 2008. As amended, our debt cap through December 30, 2010 equals $1,080 billion. Beginning December 31, 2010, and on December 31 of each year thereafter, our debt cap that will apply through December 31 of the following year will equal 120% of the amount of mortgage assets we are allowed to own on December 31 of the immediately preceding calendar year.

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We estimate that our indebtedness as of March 31, 2009 totaled $869.3 billion, which was approximately $22.7 billion below our estimated debt limit of $892.0 billion in effect at that time and approximately $210.7 billion below our revised debt limit.

- º Our calculation of our indebtedness for purposes of complying with our debt cap, which has not been confirmed by Treasury, reflects the unpaid principal balance of our debt outstanding or, in the case of

long-term zero coupon bonds, the unpaid principal balance at maturity. Our calculation excludes debt basis adjustments and debt recorded from consolidations.

The definition of indebtedness in the May 6, 2009 amendment was revised to clarify that it does not give effect to any change that may be made in respect of SFAS No. 140, *Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities (a replacement of FASB Statement No. 125)* (SFAS 140) or any similar accounting standard. The agreement continues to provide that, for purposes of evaluating our compliance with the limitation on the amount of mortgage assets we may own, the effect of changes in generally accepted accounting principles that occur subsequent to the date of the agreement and that require us to recognize additional mortgage assets on our balance sheet (for example, proposed amendments to SFAS 140), will not be considered.

The limitation on entering into or changing compensation arrangements with our named executive officers (as defined by SEC rules) was broadened to apply to all of our executive officers (as defined by SEC rules). The agreement provides that we may not enter into any new compensation arrangements or increase amounts or benefits payable under existing compensation arrangements for these officers without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury. As amended this requirement now applies to twelve of our current officers, instead of the five to whom it applied prior to the amendment. The executives who served as our executive officers as of February 26, 2009 are identified in Part III Item 10 Directors, Executive Officers and Corporate Governance in our 2008 Form 10-K.

Liquidity

We fund our purchases of mortgage loans primarily from the proceeds from sales of our debt securities. In September 2008, Treasury made available to us two additional sources of funds: the Treasury credit facility and the senior preferred stock purchase agreement.

The dynamics of our funding program have improved significantly since late November 2008, including demand for our long-term and callable debt. As a result of our improved access to the long-term debt markets, we have decreased the portion of our total outstanding debt represented by short-term debt to 32% as of March 31, 2009 from 38% as of December 31, 2008, and the aggregate weighted-average maturity of our debt increased to 45 months as of March 31, 2009 from 42 months as of December 31, 2008.

We believe the improvement in our debt funding is due to actions taken by the federal government to support us and our debt securities, including the senior preferred stock purchase agreement entered into in September 2008, Treasury s program announced in September 2008 to purchase MBS of the GSEs, the Treasury credit facility made available to us in September 2008 and the Federal Reserve s program announced in November 2008 to purchase up to $100 billion in debt securities of Fannie Mae, Freddie Mac and the FHLBs and up to $500 billion in mortgage-backed securities of Fannie Mae, Freddie Mac and Ginnie Mae. On February 18, 2009, Treasury announced that it will continue to purchase Fannie Mae and Freddie Mac mortgage-backed securities to promote stability and liquidity in the marketplace. On March 18, 2009, the Federal Reserve announced that it intended to increase purchases of debt securities of Fannie Mae, Freddie Mac and the FHLBs and of Fannie Mae, Freddie Mac and Ginnie Mae mortgage-backed securities under its program to a total of up to $200 billion and $1.25 trillion, respectively.

There can be no assurance that the improvements in our access to the unsecured debt markets and in our ability to issue long-term and callable debt will continue. We believe the improvements stem from federal government support, such as the support described above, and, as a result, changes or perceived changes in the government s support of us may have a material adverse affect on our ability to fund our operations. In particular, to the extent the market for our debt securities has improved due to the availability to us of the Treasury credit facility, we believe that the actual and perceived risk that we will be unable to refinance our debt as it becomes due is likely to increase substantially as we

progress toward December 31, 2009, which is the date on which the Treasury credit facility terminates. Accordingly, we continue to have significant roll-over risk notwithstanding improved access to long-term funding, and this risk is likely to increase as we approach expiration of the Treasury credit facility. See Liquidity and Capital Management Liquidity

Management Debt Funding for more information on our debt funding activities and Part II Item 1A Risk Factors of this report and Part I Item 1A Risk Factors of our 2008 Form 10-K for a discussion of the risks to our business posed by our reliance on the issuance of debt to fund our operations.

Outlook

We anticipate that adverse market dynamics and certain of our activities undertaken to stabilize and support the housing and mortgage markets will negatively affect our financial condition and performance through the remainder of 2009.

Overall Market Conditions. We expect the current financial market crisis to continue through 2009. We expect further home price declines and rising default and severity rates, all of which may worsen if unemployment rates continue to increase and if the U.S. continues to experience a broad-based recession. We continue to expect the level of foreclosures and single-family delinquency rates to increase further in 2009, as well as the level of multifamily defaults and loss severities. We expect growth in residential mortgage debt outstanding to be flat in 2009.

Home Price Declines: Following a decline of approximately 10% in 2008, we expect that home prices will decline another 7% to 12% on a national basis in 2009. We also continue to expect that we will experience a peak-to-trough home price decline of 20% to 30%. These estimates are based on our home price index, which is calculated differently from the S&P/Case-Schiller index and therefore results in lower percentages for comparable declines. These estimates also contain significant inherent uncertainty in the current market environment, due to historically unprecedented levels of uncertainty regarding a variety of critical assumptions we make when formulating these estimates, including: the effect of actions the federal government has taken and may take with respect to national economic recovery; the impact of those actions on home prices, unemployment and the general economic environment; and the rate of unemployment and/or wage decline. Because of these uncertainties, the actual home price decline we experience may differ significantly from these estimates. We also expect significant regional variation in home price decline percentages.

Our estimate of a 7% to 12% home price decline for 2009 compares with a home price decline of approximately 12% to 18% using the S&P/Case-Schiller index method, and our 20% to 30% peak-to- trough home price decline estimate compares with an approximately 33% to 46% peak-to-trough decline using the S&P/Case-Schiller index method. Our estimates differ from the S&P/Case-Schiller index in two principal ways: (1) our estimates weight expectations for each individual property by number of properties, whereas the S&P/Case-Schiller index weights expectations of home price declines based on property value, causing declines in home prices on higher priced homes to have a greater effect on the overall result; and (2) our estimates do not include sales of foreclosed homes because we believe that differing maintenance practices and the forced nature of the sales make foreclosed home prices less representative of market values, whereas the S&P/Case-Schiller index includes sales of foreclosed homes. The S&P/Case-Schiller comparison numbers shown above are calculated using our models and assumptions, but modified to use these two factors (weighting of expectations based on property value and the inclusion of foreclosed property sales). In addition to these differences, our estimates are based on our own internally available data combined with publicly available data, and are therefore based on data collected nationwide, whereas the S&P/Case-Schiller index is based only on publicly available data, which may be limited in certain geographic areas of the country. Our comparative calculations to the S&P/Case-Schiller index provided above are not modified to account for this data pool difference.

Credit Losses and Credit-Related Expenses. We continue to expect our credit losses and our credit loss ratio (each of which excludes fair value losses under SOP 03-3 and our HomeSaver Advance product) in 2009 will exceed our credit losses and our credit loss ratio in 2008. We also expect a significant increase in our SOP 03-3 fair value losses as we increase the number of loans we repurchase from MBS trusts in order to modify them. In addition, if our book of business continues to be adversely affected by market and economic conditions or other factors, we expect our

credit-related expenses to be higher in 2009 than they were in 2008, although we believe that our credit-related expenses for the first quarter of 2009 are not necessarily indicative of the expenses we will incur in subsequent quarters during 2009. Because of the current state of the market

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and a focus on keeping people in their homes and supporting liquidity and stability in the mortgage market, we are no longer providing guidance on expected changes in our combined loss reserves during 2009.

Expected Lack of Profitability for Foreseeable Future. We expect to continue to have losses as our guaranty book of business continues to deteriorate and as we continue to incur ongoing costs in our efforts to keep people in homes and provide liquidity to the mortgage market. We expect that we will not operate profitably for the foreseeable future.

Uncertainty Regarding our Future Status and Long-Term Financial Sustainability: We expect that we will experience adverse financial effects because of our strategy of concentrating our efforts on keeping people in their homes and preventing foreclosures, including our efforts under the Making Home Affordable Program, while remaining active in the secondary mortgage market. In addition, future activities that our regulators, other U.S. government agencies or Congress may request or require us to take to support the mortgage market and help borrowers may contribute to further deterioration in our results of operations and financial condition. Although Treasury s additional funds under the senior preferred stock purchase agreement permit us to remain solvent and avoid receivership, the resulting dividend payments are substantial and will increase as we request additional funds from Treasury under the senior preferred stock purchase agreement. As a result of these factors, along with current and expected market and economic conditions and the deterioration in our single-family and multifamily books of business, there is significant uncertainty as to our long-term financial sustainability. We expect that for the foreseeable future the earnings of the company, if any, will not be sufficient to pay the dividends on the senior preferred stock. As a result, future dividend payments will be paid from equity drawn from the Treasury. Further, the conservatorship that we are under has no specified termination date, and the future structure of our business during and following termination of the conservatorship is uncertain.

HOUSING GOALS

Proposed 2009 Housing Goals

As described in our 2008 Form 10-K, the Regulatory Reform Act provides that the housing goals previously established by the Department of Housing and Urban Development for 2008 remain in effect for 2009; however, the Regulatory Reform Act also includes a requirement that the Director of FHFA review these goals to determine their feasibility for 2009 in light of current market conditions and, after seeking public comment, make appropriate adjustments to the goals consistent with these market conditions.

In April 2009, FHFA issued a proposed rule lowering our 2009 housing goals from the 2008 levels. FHFA determined that, in light of current market conditions, the previously established 2009 housing goals were not feasible unless adjusted. FHFA s proposed adjustments would reduce our 2009 housing goals approximately to the levels that prevailed in 2004 through 2006. FHFA s proposed rule would also permit loan modifications that we make in accordance with HASP to be treated as mortgage purchases and count towards the housing goals. In addition, the proposed rule would exclude from counting towards the 2009 housing goals any purchases of loans on one-to four-unit properties with a maximum original principal balance higher than the nationwide conforming loan limit (currently set at $417,000). The adverse market conditions that FHFA took into consideration in its determination that the existing 2009 goals were not feasible included tighter underwriting practices, the sharply increased standards of private mortgage insurers, the increased role of the FHA in the marketplace, the collapse of the private-label mortgage-related securities market, increasing unemployment, multifamily market volatility and the prospect of a refinancing surge in 2009. These conditions contribute to fewer goals-qualifying mortgages available for purchase by us. FHFA s proposed rule notes that, even with these reductions, the proposed 2009 goals are generally at the upper end of FHFA s market estimates for 2009.

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The following table sets forth FHFA s proposed 2009 housing goals and subgoals, and for comparative purposes our 2008 housing goals and subgoals, and our performance against those goals and subgoals. The 2008 performance results have not yet been validated by FHFA.

Table 2: Housing Goals and Subgoals

	2009 Proposed Goal	2008 Result[1]	2008 Goal
Housing goals:[2]			
Low- and moderate-income housing	51.0%	53.6%	56.0%
Underserved areas	37.0	39.4	39.0
Special affordable housing	23.0	26.0	27.0
Housing subgoals:			
Home purchase subgoals:[3]			
Low- and moderate-income housing	40.0%	38.9%	47.0%
Underserved areas	30.0	30.4	34.0
Special affordable housing	14.0	13.6	18.0
Multifamily special affordable housing subgoal ($ in billions)[4]	$ 5.49	$ 13.42	$ 5.49

(1) Results presented for 2008 were reported to FHFA in Fannie Mae s Annual Housing Activities Report. They have not yet been validated by FHFA.

(2) Goals are expressed as a percentage of the total number of dwelling units financed by eligible mortgage loan purchases during the period.

(3) Home purchase subgoals measure our performance by the number of loans (not dwelling units) providing purchase money for owner-occupied single-family housing in metropolitan areas.

(4) The multifamily subgoal is measured by loan amount and expressed as a dollar amount.

Determination by FHFA Regarding 2008 Housing Goals Compliance

As described above and in our 2008 Form 10-K, we believe that we did not meet our two income-based housing goals (the low- and moderate-income housing goal and the special affordable housing goal) or any of our three home purchase subgoals for 2008. In March 2009, FHFA notified us of its determination that achievement of these housing goals and subgoals was not feasible due to housing and economic conditions and our financial condition in 2008. As a result, we will not be required to submit a housing plan for failure to meet these goals and subgoals pursuant to the Federal Housing Enterprises Safety and Soundness Act of 1992.

For additional background information on our housing goals and subgoals, refer to Part I Item 1 Business Conservatorship, Treasury Agreements, Our Charter and Regulation of Our Activities Regulation and Oversight of Our Activities Housing Goals and Subgoals of our 2008 Form 10-K.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the condensed consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We describe our most significant accounting policies in Notes to Consolidated Financial Statements Note 2, Summary of Significant Accounting Policies of our 2008 Form 10-K and in Notes to Condensed Consolidated Financial Statements Note 2, Summary of Significant Accounting Policies of this report.

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

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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 of Financial Instruments

Other-than-temporary Impairment of Investment Securities

Allowance for Loan Losses and Reserve for Guaranty Losses

Deferred Tax Assets

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. We describe below significant changes in the judgments and assumptions we made during the first quarter of 2009 in applying our critical accounting policies and estimates. Management has discussed any changes in judgments and assumptions in applying our critical accounting policies with the Audit Committee of the Board of Directors. See Part II Item 7 MD&A Critical Accounting Policies and Estimates of our 2008 Form 10-K for additional information about our critical accounting policies and estimates.

Fair Value of Financial Instruments

The use of fair value to measure our financial instruments is fundamental to our financial statements and is a critical accounting estimate because we account for and record a substantial portion of our assets and liabilities at fair value. SFAS No. 157, *Fair Value Measurements* (SFAS 157), defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price). SFAS 157 establishes a three-level fair value hierarchy for classifying financial instruments that 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 the fair value measurement. The three levels of the SFAS 157 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.

In determining fair value, we use various valuation techniques. We disclose the carrying value and fair value of our financial assets and liabilities and describe the specific valuation techniques used to determine the fair value of these financial instruments in Notes to Condensed Consolidated Financial Statements Note 18, Fair Value of Financial Instruments. The majority of our financial instruments carried at fair value 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 four independent pricing services to estimate the fair value of our trading and available-for-sale investment 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 items

classified as level 3 are valued using significant unobservable inputs, the process for determining the fair value of these items 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.

In April 2009, the Financial Accounting Standards Board (FASB) issued two FASB Staff Positions (FSPs) to clarify the guidance on fair value measurement and to amend the recognition, measurement and presentation requirements of other-than-temporary impairments for debt securities. These FSPs consist of:

(1) FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly* and (2) FSP FAS 115-2 and FAS 124-2, *Recognition and Presentation of Other-Than-Temporary Impairments*. These FSPs are effective for interim and annual periods ending after June 15, 2009 with early adoption permitted. See Notes to Condensed Consolidated Financial Statements Note 2, Summary of Significant Accounting Policies for additional information, including the expected impact of these recently issued pronouncements on our condensed consolidated financial statements.

Fair Value Hierarchy Level 3 Assets and Liabilities

Our level 3 assets and liabilities consist primarily of financial instruments for which the fair value is estimated using valuation techniques that involve significant unobservable inputs because there is limited market activity and therefore little or no price transparency. We generally consider a market to be inactive if the following conditions exist: (1) there are few transactions for the financial instruments; (2) the prices in the market are not current; (3) the price quotes we receive vary significantly either over time or among independent pricing services or dealers; and (4) there is a limited availability of public market information.

Our level 3 financial instruments include certain mortgage- and asset-backed securities and residual interests, certain performing residential mortgage loans, nonperforming mortgage-related assets, our guaranty assets and buy-ups, our master servicing assets and certain highly structured, complex derivative instruments. We use the term buy-ups to refer to upfront payments that we make to lenders to adjust the monthly contractual guaranty fee rate so that the pass-through coupon rates on Fannie Mae MBS are in more easily tradable increments of a whole or half percent.

The following discussion identifies the types of financial assets and liabilities within each balance sheet category that are based on level 3 inputs and the valuation techniques we use to determine their fair values, including key inputs and assumptions.

Trading and Available-for-Sale Investment Securities. Our financial instruments within these asset categories that are classified as level 3 primarily consist of mortgage-related securities backed by Alt-A loans, subprime loans and manufactured housing loans and mortgage revenue bonds. We have relied on external pricing services to estimate the fair value of these securities and validated those results with our internally derived prices, which may incorporate spread, yield, or vintage and product matrices, and standard cash flow discounting techniques. The inputs we use in estimating these values are based on multiple factors, including market observations, relative value to other securities, and non-binding dealer quotations. When we are not able to corroborate vendor-based prices, we rely on management s best estimate of fair value.

Derivatives. Our derivative financial instruments that are classified as level 3 primarily consist of a limited population of certain highly structured, complex interest rate risk management derivatives. Examples include certain swaps with embedded caps and floors that reference non-standard indices. We determine the fair value of these derivative instruments using indicative market prices obtained from independent third parties. If we obtain a price from a single source and we are not able to corroborate that price, the fair value measurement is classified as level 3.

Guaranty Assets and Buy-ups. We determine the fair value of our guaranty assets and buy-ups based on the present value of the estimated compensation we expect to receive for providing our guaranty. We generally estimate the fair value using proprietary internal models that calculate the present value of expected cash flows. Key model inputs and assumptions include prepayment speeds, forward yield curves and discount rates that are commensurate with the level of estimated risk.

Guaranty Obligations. The fair value of all guaranty obligations, measured subsequent to their initial recognition, reflects our estimate of a hypothetical transaction price that we would receive if we were to issue our guaranty to an unrelated party in a standalone arm s-length transaction at the measurement date. We estimate the fair value of the guaranty obligations using internal valuation models that calculate the present value of expected cash flows based on management s best estimate of certain key assumptions, such as default rates, severity rates and a required rate of return. During 2008, we further adjusted the model-generated values based on our current market pricing to arrive at our estimate of a hypothetical

transaction price for our existing guaranty obligations. Beginning in the first quarter of 2009, we concluded that the credit characteristics of the pools of loans upon which we were issuing new guarantees increasingly did not reflect the credit characteristics of our existing guaranteed pools; thus, current market prices for our new guarantees were not a relevant input to our estimate of the hypothetical transaction price for our existing guaranty obligations. Therefore, at March 31, 2009, we based our estimate of the fair value of our existing guaranty obligations solely upon our model without further adjustment.

Fair value measurements related to financial instruments that are reported at fair value in our condensed consolidated financial statements each period, such as our trading and available-for-sale securities and derivatives, are referred to as recurring fair value measurements. Fair value measurements related to financial instruments that are not reported at fair value each period, such as held-for-sale mortgage loans, are referred to as non-recurring fair value measurements.

Table 3 presents a comparison, by balance sheet category, of the amount of financial assets carried in our consolidated balance sheets at fair value on a recurring basis and classified as level 3 as of March 31, 2009 and December 31, 2008. 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 3: Level 3 Recurring Financial Assets at Fair Value

Balance Sheet Category	As of March 31, 2009	As of December 31, 2008
	(Dollars in millions)	
Trading securities	$ 10,308	$ 12,765
Available-for-sale securities	40,412	47,837
Derivatives assets	331	362
Guaranty assets and buy-ups	1,179	1,083
Level 3 recurring assets	$ 52,230	$ 62,047
Total assets	$ 919,638	$ 912,404
Total recurring assets measured at fair value	$ 349,759	$ 359,246
Level 3 recurring assets as a percentage of total assets	6%	7%
Level 3 recurring assets as a percentage of total recurring assets measured at fair value	15%	17%
Total recurring assets measured at fair value as a percentage of total assets	38%	39%

Level 3 recurring assets totaled $52.2 billion, or 6% of our total assets, as of March 31, 2009, compared with $62.0 billion, or 7% of our total assets, as of December 31, 2008. The decrease in assets classified as level 3 during the first quarter of 2009 was principally the result of a net transfer of approximately $6.5 billion in assets to level 2 from level 3. The transferred assets consisted primarily of private-label mortgage-related securities backed by non-fixed rate Alt-A loans. The market for Alt-A securities continues to be relatively illiquid. However, during the first quarter of 2009, price transparency improved as a result of recent transactions, and we noted some convergence in prices obtained from third party vendors. As a result, we determined that it was appropriate to rely on level 2 inputs to value these securities.

Financial assets measured at fair value on a non-recurring basis and classified as level 3, which are not presented in the table above, include held-for-sale loans that are measured at lower of cost or fair value and that were written down to fair value during the period. Held-for-sale loans that were reported at fair value, rather than amortized cost, totaled $2.1 billion and $1.3 billion as of March 31, 2009 and December 31, 2008, respectively. In addition, certain other financial assets carried at amortized cost that have been written down to fair value during the period due to impairment are classified as non-recurring. The fair value of these level 3 non-recurring financial assets, which primarily consisted of certain guaranty assets, low income housing tax credit (LIHTC) partnership investments and acquired property, totaled $13.4 billion and $22.4 billion as of March 31, 2009 and December 31, 2008, respectively.

Our LIHTC investments trade in a market with limited observable transactions. There is decreased market demand for LIHTC investments because there are fewer tax benefits derived from these investments by traditional investors, as these investors are currently projecting much lower levels of future profits than in

previous years. This decreased demand has reduced the value of these investments. We determine the fair value of our LIHTC investments using internal models that estimate the present value of the expected future tax benefits (tax credits and tax deductions for net operating losses) expected to be generated from the properties underlying these investments. Our estimates are based on assumptions that other market participants would use in valuing these investments. The key assumptions used in our models, which require significant management judgment, include discount rates and projections related to the amount and timing of tax benefits. We compare the model results to the limited number of observed market transactions and make adjustments to reflect differences between the risk profile of the observed market transactions and our LITHC investments.

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 $867 million and $2.9 billion as of March 31, 2009 and December 31, 2008, respectively, and derivatives liabilities with a fair value of $23 million and $52 million as of March 31, 2009 and December 31, 2008, respectively.

Fair Value 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 and validation procedures.

Our Valuation Oversight Committee, which includes senior representation from business areas, our Enterprise Risk Office and our Finance Division, is responsible for reviewing and approving the valuation methodologies and pricing models used in our fair value measurements and any significant valuation adjustments, judgments, controls and results. Actual valuations are performed by personnel independent of our business units. Our Price Verification Group, which is an independent control group separate from the group that is responsible for obtaining the prices, also is responsible for performing monthly independent price verification. The Price Verification Group also performs independent reviews of the assumptions used in determining the fair value of products we hold that have material estimation risk because observable market-based inputs do not exist.

Our validation procedures are intended to ensure that the individual prices we receive are consistent with our observations of the marketplace and prices that are provided to us by pricing services or other dealers. We verify selected prices using a variety of methods, including comparing the prices to secondary pricing services, corroborating the prices by reference to other independent market data, such as non-binding broker or dealer quotations, relevant benchmark indices, and prices of similar instruments, checking prices for reasonableness based on variations from prices provided in previous periods, comparing prices to internally calculated expected prices and conducting relative value comparisons based on specific characteristics of securities. In addition, we compare our derivatives valuations to counterparty valuations as part of the collateral exchange process. We have formal discussions with the pricing services as part of our due diligence process in order to maintain a current understanding of the models and related assumptions and inputs that these vendors use in developing prices. The prices provided to us by independent pricing services reflect the existence of credit enhancements, including monoline insurance coverage, and the current lack of liquidity in the marketplace. If we determine that a price provided to us is outside established parameters, we will further examine the price, including having follow-up discussions with the specific pricing service or dealer. If we conclude that a price is not valid, we will adjust the price for various factors, such as liquidity, bid-ask spreads and credit considerations. These adjustments are generally based on available market evidence. In the absence of such evidence, management s best estimate is used. All of these processes are executed before we use the prices in the financial statement process.

We continually refine our valuation methodologies as markets and products develop and the pricing for certain products becomes more or less transparent. While we believe our valuation methods are appropriate and consistent with those of other market participants, using different methodologies or assumptions to determine fair value could result in a materially different estimate of the fair value of some of our financial instruments.

Allowance for Loan Losses and Reserve for Guaranty Losses

We maintain an allowance for loan losses for loans in our mortgage portfolio classified as held-for-investment. We maintain a reserve for guaranty losses for loans that back Fannie Mae MBS we guarantee and loans that we have guaranteed under long-term standby commitments. We report the allowance for loan losses and reserve for guaranty losses as separate line items in the consolidated balance sheets. These amounts, which we collectively refer to as our combined loss reserves, represent our best estimate of credit losses incurred in our guaranty book of business as of the balance sheet date.

We have an established process, using analytical tools, benchmarks and management judgment, to determine our loss reserves. 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. It is our practice to continually monitor delinquency and default trends and make changes in our historically developed assumptions and estimates as necessary to better reflect the impact of 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.

Because of the current stress in the housing and credit markets, and the speed and extent to which these markets have deteriorated, our process for determining our loss reserves has become more complex and involves a greater degree of management judgment. As a result of the continued decline in home prices, more limited opportunities for refinancing due to the tightening of the credit markets and the sharp rise in unemployment, mortgage delinquencies have reached record levels. Our historical loan performance data indicates a pattern of default rates and credit losses that typically occur over time, which are strongly dependent on the age of a mortgage loan. However, we have witnessed significant changes in traditional loan performance and delinquency patterns, including an increase in early-stage delinquencies for certain loan categories and faster transitions to later stage delinquencies. We believe that recently announced government policies and our initiatives under these policies have partly contributed to these newly observed delinquency patterns. For example, our level of foreclosures and associated charge-offs were lower in the first quarter of 2009 than they otherwise would have been due to foreclosure delays resulting from our foreclosure suspension, our requirement that loan modification options be pursued with the borrower before proceeding to a foreclosure sale, and state-driven changes in foreclosure rules to slow and extend the foreclosure process. As a result, we determined that it was necessary to refine our loss reserve estimation process to reflect these newly observed delinquency patterns, as we describe in more detail below.

We historically have relied on internally developed default loss curves derived from observed default trends in our single-family guaranty book of business to determine our single-family loss reserve. These loss curves are shaped by the normal pattern of defaults, based on the age of the book, and informed by historical default trends and the performance of the loans in our book to date. We develop the loss curves by aggregating homogeneous loans into pools based on common underlying risk characteristics, such as origination year and seasoning, original LTV ratio and loan product type, to derive an overall estimate. We use these loss curve models to estimate, based on current events and conditions, the number of loans that will default (default rate) and how much of a loan s balance will be lost in the event of default (loss severity). For the majority of our loan risk categories, our default rate estimates have traditionally been based on loss curves developed from available historical loan performance data dating back to 1980. However, we have recently used a shorter, more near-term default loss curve based on a one quarter look-back period to generate estimated default rates for loans originated in 2006 and 2007 and for Alt-A loans originated in 2005. More recently, we also have relied on a one-quarter look back period to develop loss severity estimates for all of our loan categories.

We experienced a substantial reduction in foreclosures and charge-offs during the periods November 26, 2008 through January 31, 2008 and February 17, 2009 through March 6, 2009 when our foreclosure suspension was in effect and a

surge in foreclosures during the two-week period of February 1, 2009 through February 16, 2009. Since February 16, 2009, we have continued to observe a reduced level of foreclosures as our servicers, in keeping with our guidelines, evaluate borrowers for newly introduced workout options before proceeding to a foreclosure. Because of the distortion in defaults caused by these temporary events, we adjusted our loss curves to incorporate default estimates derived from an assessment of our most recently observed loan

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delinquencies and the related transition of loans through the various delinquency categories. We used this delinquency assessment and our most recent default information prior to the foreclosure suspension to estimate the number of defaults that we would have expected to occur during the first quarter of 2009 if the foreclosure moratorium had not been in effect. We then used these estimated defaults, rather than the actual number of defaults that occurred during the first quarter of 2009, to estimate our loss curves and derive the default rates used in determining our loss reserves. Consistent with our approach during the fourth quarter of 2008, we also made management adjustments to our model-generated results to capture incremental losses that may not be fully reflected in our models related to geographically concentrated areas that are experiencing severe stress as a result of significant home price declines and the sharp rise in unemployment rates.

We also made several enhancements to the models used in determining our multifamily loss reserves to reflect the impact of the deterioration in the credit performance of loans in our multifamily guaranty book of business resulting from current market conditions, including the severe economic downturn and lack of liquidity in the multifamily mortgage market. Our model enhancements involved weighting more heavily our recent loan performance experience to derive the key parameters used in calculating our expected default rates. We expect increased multifamily defaults and loss severities in 2009.

Our combined loss reserves increased by $17.0 billion during the first quarter of 2009 to $41.7 billion as of March 31, 2009, reflecting further deterioration in both our single-family and multifamily guaranty book of business, as evidenced by the significant increase in delinquent, seriously delinquent and nonperforming loans, as well as an increase in our average loss severities as a result of the continued decline in home prices during the first quarter of 2009. The incremental management adjustment to our loss reserves for geographic and unemployment stresses accounted for approximately $5.6 billion of our combined loss reserves of $41.7 billion as of March 31, 2009, compared with approximately $2.3 billion of our combined loss reserves of $24.8 billion as of December 31, 2008.

We provide additional information on our combined loss reserves and the impact of adjustments to our loss reserves on our condensed consolidated financial statements in Consolidated Results of Operations Credit-Related Expenses and Notes to Condensed Consolidated Financial Statements Note 5, Allowance for Loan Losses and Reserve for Guaranty Losses.

CONSOLIDATED RESULTS OF OPERATIONS

Our business generates revenues from three principal sources: net interest income; guaranty fee income; and fee and other income. Other significant factors affecting our results of operations include: fair value gains and losses; the timing and size of investment gains and losses; credit-related expenses; losses from partnership investments; administrative expenses and our effective tax rate. We expect high levels of period-to-period volatility in our results of operations and financial condition, principally 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 expected interest rate volatility, as well as activity related to these financial instruments.

Table 4 presents a condensed summary of our consolidated results of operations for the three months ended March 31, 2009 and 2008 and selected performance metrics that we believe are useful in evaluating changes in our results between periods.

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Table 4: Summary of Condensed Consolidated Results of Operations and Performance Metrics

	For the Three Months Ended March 31,		Variance	
	2009	2008	$	%
	(Dollars in millions, except per share amounts)			
Net interest income	$ 3,248	$ 1,690	$ 1,558	92%
Guaranty fee income	1,752	1,752		
Trust management income	11	107	(96)	(90)
Fee and other income	181	227	(46)	(20)
Net revenues	**5,192**	**3,776**	**1,416**	**38**
Investment losses, net	(5,430)	(111)	(5,319)	(4,792)
Fair value losses, net[1]	(1,460)	(4,377)	2,917	67
Losses from partnership investments	(357)	(141)	(216)	(153)
Administrative expenses	(523)	(512)	(11)	(2)
Credit-related expenses[2]	(20,872)	(3,243)	(17,629)	(544)
Other non-interest expenses[3]	(358)	(505)	147	29
Loss before federal income taxes and extraordinary losses	(23,808)	(5,113)	(18,695)	(366)
Benefit for federal income taxes	623	2,928	(2,305)	(79)
Extraordinary losses, net of tax effect		(1)	1	100
Net loss	**(23,185)**	**(2,186)**	**(20,999)**	**(961)**
Less: Net loss attributable to the noncontrolling interest	17		17	
Net loss attributable to Fannie Mae	**$ (23,168)**	**$ (2,186)**	**$ (20,982)**	**(960)%**
Diluted loss per common share	**$ (4.09)**	**$ (2.57)**	**$ (1.52)**	**(59)%**
Performance metrics:				
Net interest yield[4]	1.45%	0.82%		
Average effective guaranty fee rate (in basis points)[5]	27.4bp	29.5bp		
Credit loss ratio (in basis points)[6]	33.2	12.6		

(1) Consists of the following: (a) derivatives fair value gains (losses), net; (b) trading securities gains (losses), net; (c) debt foreign exchange gains (losses), net; and (d) debt fair value gains (losses), net.

(2) Consists of provision for credit losses and foreclosed property expense.

(3) Consists of the following: (a) debt extinguishment gains (losses), net; and (b) other expenses.

(4) 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.

(5) Calculated based on guaranty fee income for the reporting period divided by average outstanding Fannie Mae MBS and other guarantees during the period, expressed in basis points.

(6) Calculated based on (a) charge-offs, net of recoveries; plus (b) foreclosed property expense; adjusted to exclude (c) the impact of SOP 03-3 and HomeSaver Advance fair value losses for the reporting period divided by the average guaranty book of business during the period, expressed in basis points.

The section below provides a comparative discussion of our condensed consolidated results of operations for the three months ended March 31, 2009 and 2008. Following this section, we provide a discussion of our business segment results. You should read this section together with our Executive Summary where we discuss trends and other factors that we expect will affect our future results of operations.

Net Interest Income

Net interest income represents the difference between interest income and interest expense and is a primary source of our revenue. Our net interest yield represents the difference between the yield on our interest-earning assets and the cost of our debt. We supplement our issuance of debt with interest rate-related derivatives to manage the prepayment and duration risk inherent in our mortgage investments. The effect of these derivatives, in particular the periodic net interest expense accruals on interest rate swaps, is not reflected in net interest income. See Fair Value Gains (Losses), Net for additional information.

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We expect net interest income and our net interest yield to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities. Table 5 presents an analysis of our net interest income and net interest yield for the first quarters of 2009 and 2008.

Table 5: Analysis of Net Interest Income and Yield

	For the Three Months Ended March 31,					
	2009			2008		
	Average Balance[1]	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance[1]	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans[2]	$ 431,918	$ 5,598	5.18%	$ 410,318	$ 5,662	5.52%
Mortgage securities	346,923	4,620	5.33	315,795	4,144	5.25
Non-mortgage securities[3]	48,349	91	0.75	66,630	678	4.03
Federal funds sold and securities purchased under agreements to resell	64,203	104	0.65	36,233	393	4.29
Advances to lenders	4,256	23	2.16	4,229	65	6.08
Total interest-earning assets	$ 895,649	$ 10,436	4.66%	$ 833,205	$ 10,942	5.25%
Interest-bearing liabilities:						
Short-term debt	$ 330,434	$ 1,107	1.34%	$ 257,445	$ 2,558	3.93%
Long-term debt	554,806	6,081	4.38	545,549	6,691	4.91
Federal funds purchased and securities sold under agreements to repurchase	79			448	3	2.65
Total interest-bearing liabilities	$ 885,319	$ 7,188	3.25%	$ 803,442	$ 9,252	4.59%
Impact of net non-interest bearing funding	$ 10,330		0.04%	$ 29,763		0.16%
Net interest income/net interest yield[4]		$ 3,248	1.45%		$ 1,690	0.82%
Selected benchmark interest rates at end of period:[5]						
3-month LIBOR			1.19%			2.69%
2-year swap interest rate			1.38			2.45
5-year swap interest rate			2.22			3.31
30-year Fannie Mae MBS par coupon rate			3.88			5.25

(1) We have calculated the average balances for mortgage loans based on the average of the amortized cost amounts as of the beginning of the year and as of the end of each month in the period. For all other categories, the average balances have been calculated based on a daily average.

(2) Average balance amounts include nonaccrual loans with an average balance totaling $18.4 billion and $8.2 billion for the three months ended March 31, 2009 and 2008, respectively. Interest income includes interest income on loans purchased from MBS trusts subject to SOP 03-3, which totaled $153 million and $145 million for the three months ended March 31, 2009 and 2008, respectively. These interest income amounts included accretion of $65 million and $35 million for the three months ended March 31, 2009 and 2008, respectively, relating to a portion of the fair value losses recorded upon the acquisition of loans subject to SOP 03-3.

(3) Includes cash equivalents.

(4) We compute net interest yield by dividing net interest income for the period by the average balance of our total interest-earning assets during the period.

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

Net interest income of $3.2 billion for the first quarter of 2009 reflected an increase of 92% over net interest income of $1.7 billion for the first quarter of 2008, driven by a 77% (63 basis point) expansion of our net interest yield to 1.45% and a 7% increase in our average interest-earning assets.

Table 6 presents 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 6: Rate/Volume Analysis of Net Interest Income

	For the Three Months Ended March 31, 2009 vs. 2008		
	Total	Variance Due to:[1]	
	Variance	Volume	Rate
	(Dollars in millions)		
Interest income:			
Mortgage loans	$ (64)	$ 290	$ (354)
Mortgage securities	476	414	62
Non-mortgage securities[2]	(587)	(148)	(439)
Federal funds sold and securities purchased under agreements to resell	(289)	181	(470)
Advances to lenders	(42)		(42)
Total interest income	(506)	737	(1,243)
Interest expense:			
Short-term debt	(1,451)	581	(2,032)
Long-term debt	(610)	112	(722)
Federal funds purchased and securities sold under agreements to repurchase	(3)	(1)	(2)
Total interest expense	(2,064)	692	(2,756)
Net interest income	$ 1,558	$ 45	$ 1,513

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

(2) Includes cash equivalents.

The 63 basis point increase in our net interest yield during the first quarter of 2009 was attributable to a 134 basis point reduction in the average cost of our debt to 3.25%, which more than offset the 59 basis point decline in the average yield on our interest-earning assets to 4.66%. The reduction in our borrowing costs was attributable to a decline in short-term borrowing rates and a shift in our funding mix to more short-term debt because of the reduced demand for our longer-term and callable debt securities during the second half of 2008. In addition, our net interest yield for the first quarter of 2008 reflected a benefit from the redemption of step-rate debt securities, which reduced the average cost of our debt. Because we paid off these securities prior to maturity, we reversed a portion of the interest expense that we had previously accrued.

Although we consider the periodic net contractual interest accruals on our interest rate swaps to be part of the cost of funding our mortgage investments, these amounts are not reflected in our net interest income and net interest yield. Instead, these amounts are included in our derivatives gains (losses) and reflected in our consolidated statements of operations as a component of Fair value losses, net. As shown in Table 10 below, we recorded net contractual interest

expense on our interest rate swaps totaling $940 million and $26 million for the first quarter of 2009 and 2008, respectively. The economic effect of the interest accruals on our interest rate swaps increased our funding costs by approximately 42 basis points for the first quarter of 2009 and approximately 1 basis point for the first quarter of 2008.

The 7% increase in our average interest-earning assets was attributable to an increase in portfolio purchases during the second half of 2008, as mortgage-to-debt spreads reached historic highs, and a reduction in liquidations due to the disruption in the housing and credit markets. In the first quarter of 2009, we significantly reduced our purchases of agency MBS, largely due to the significant narrowing of spreads on agency MBS during the quarter in response to the Federal Reserve s agency MBS purchase program, which was announced in November 2008 and expanded in March 2009 to include the purchase of up to $1.25 trillion of agency MBS by the end of 2009. The Federal Reserve currently is the primary purchaser of agency MBS.

Under the senior preferred stock purchase agreement, we are prohibited from issuing debt in amount greater than 120% of the amount of mortgage assets we are allowed to own. Through December 30, 2010, our debt cap equals $1,080 billion. Beginning December 31, 2010, and on December 31 of each year thereafter, our debt cap that will apply through December 31 of the following year will equal 120% of the amount of mortgage assets we are allowed to own on December 31 of the immediately preceding calendar year. We are permitted to increase our mortgage portfolio up to $900 billion through December 31, 2009. Beginning in

2010, we are required to reduce our mortgage portfolio by 10% per year, until the amount of our mortgage assets reaches $250 billion. Although the debt and mortgage portfolio caps did not have a significant impact on our portfolio activities during the first quarter of 2009, these limits may have significant adverse impact on our future portfolio activities and net interest income. For additional information on our portfolio investment and funding activity, see Consolidated Balance Sheet Analysis Mortgage Investments and Liquidity and Capital Management Liquidity Management Debt Funding. For a description of the amended terms of the senior preferred stock purchase agreement, see Executive Summary Amendment to Senior Preferred Stock Purchase Agreement and see Part I Item 1 Business Conservatorship, Treasury Agreements, Our Charter and Regulation of Our Activities Treasury Agreements of our 2008 Form 10-K for a description the terms of the agreement prior to its May 2009 amendment, most of which continue to apply.

Guaranty Fee Income

Guaranty fee income primarily consists of contractual guaranty fees related to both Fannie Mae MBS held in our portfolio and held by third-party investors, adjusted for the amortization of upfront fees over the estimated life of the loans underlying the MBS and impairment of guaranty assets, net of a proportionate reduction in the related guaranty obligation and deferred profit, and impairment of buy-ups. The average effective guaranty fee rate reflects our average contractual guaranty fee rate adjusted for the impact of amortization of upfront fees and buy-up impairment.

Table 7 shows the components of our guaranty fee income, our average effective guaranty fee rate and Fannie Mae MBS activity for the first quarters of 2009 and 2008.

Table 7: Guaranty Fee Income and Average Effective Guaranty Fee Rate[1]

	For the Three Months Ended March 31,				
	2009		2008		
	Amount	Rate[2]	Amount	Rate[2]	% Change
	(Dollars in millions)				
Guaranty fee income/average effective guaranty fee rate, excluding certain fair value adjustments and buy-up impairment	$ 1,726	27.0 bp	$ 1,719	29.0 bp	%
Net change in fair value of buy-ups and certain guaranty assets	46	0.7	62	1.0	(26)
Buy-up impairment	(20)	(0.3)	(29)	(0.5)	31
Guaranty fee income/average effective guaranty fee rate	$ 1,752	27.4 bp	$ 1,752	29.5 bp	%
Average outstanding Fannie Mae MBS and other guarantees[3]	$ 2,559,424		$ 2,374,033		8%
Fannie Mae MBS issues[4]	154,320		168,592		(8)

(1) Guaranty fee income includes the accretion of losses recognized at inception on certain guaranty contracts for periods prior to January 1, 2008.

(2)

Presented in basis points and calculated based on guaranty fee income components divided by average outstanding Fannie Mae MBS and other guarantees for each respective period.

(3) Includes unpaid principal balance of other guarantees totaling $26.5 billion and $27.8 billion as of March 31, 2009 and December 31, 2008, respectively.

(4) Reflects unpaid principal balance of Fannie Mae MBS issued and guaranteed by us, including mortgage loans held in our portfolio that we securitized during the period and Fannie Mae MBS issued during the period that we acquired for our portfolio.

Our guaranty fee income in the first quarter of 2009 was at the same level as the first quarter of 2008. We experienced an 8% increase in average outstanding Fannie Mae MBS and other guarantees, which was offset by a 7% decrease in the average effective guaranty fee rate to 27.4 basis points from 29.5 basis points for the first quarter of 2008. We experienced an increase in our average outstanding Fannie Mae MBS and other guarantees as our MBS issuances exceeded liquidations throughout 2008 and in early 2009. Our market share

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of MBS issuances remained strong during 2008 and into 2009, reflecting the continuing shift in the composition of originations in the primary mortgage market to agency-conforming loans.

The decrease in our average effective guaranty fee rate for the first quarter of 2009 was attributable to the guaranty fee pricing changes we implemented during 2008 to address the current risks in the housing market. As result of these pricing changes, coupled with changes in our underwriting standards, we reduced or eliminated our acquisitions of higher risk, higher fee product categories, such as Alt-A, subprime, high LTV and low FICO score loans. As a result, we experienced a shift in the composition of our new business and overall guaranty book of business to a greater proportion of higher-quality, lower risk and lower guaranty fee mortgages. The average charged guaranty fee on our new single-family business for the first quarter of 2009 was 21.0 basis points, compared with 25.7 basis points for the first quarter of 2008. The average charged fee represents the average contractual fee rate for our single-family guaranty arrangements plus the recognition of any upfront cash payments ratably over an estimated average life. Beginning in 2009, we extended the estimated average life used in calculating the recognition of upfront cash payments for the purpose of determining our single-family new business average charged guaranty fee to reflect a longer expected duration because of the record low interest rate environment. This change did not have a material impact on the average charged guaranty fee on our new single-family business in the first quarter of 2009.

Our guaranty fee income includes an estimated $192 million and $297 million for the first quarter of 2009 and 2008, respectively, related to the accretion of deferred amounts on guaranty contracts where we recognized losses at the inception of the contract.

Trust Management Income

Trust management income consists of the fees we earn as master servicer, issuer and trustee for Fannie Mae MBS. We derive these fees from the interest earned on cash flows between the date of remittance of mortgage and other payments to us by servicers and the date of distribution of these payments to MBS certificateholders, which we refer to as float income. Trust management income decreased to $11 million for the first quarter of 2009, from $107 million for the first quarter of 2008. This decrease was attributable to the significant decline in short-term interest rates.

Fee and Other Income

Fee and other income consists of transaction fees, technology fees and multifamily fees. These fees are largely driven by our business volume. Fee and other income decreased to $181 million for the first quarter of 2009, from $227 million for the first quarter of 2008. The decrease was primarily attributable to lower multifamily fees due to slower multifamily loan prepayments during the first quarter of 2009 relative to the first quarter of 2008.

Investment Gains (Losses), Net

Investment gains and losses, net includes other-than-temporary impairment on available-for-sale securities; lower of cost or fair value adjustments on held-for-sale loans; gains and losses recognized on the securitization of loans or securities from our portfolio and from the sale of available-for-sale securities; and other investment losses. Investment gains and losses may fluctuate significantly from period to period depending upon our portfolio investment and securitization activities and changes in market and credit conditions that may result in other-than-temporary impairment. Table 8 details the components of investment gains and losses for the first quarters of 2009 and 2008.

Table 8: Investment Gains (Losses), Net

	For the Three Months Ended March 31,	
	2009	2008
	(Dollars in millions)	
Other-than-temporary impairment on available-for-sale securities[1]	$ (5,653)	$ (55)
Lower of cost or fair value adjustments on held-for-sale loans	(205)	(71)
Gains on Fannie Mae portfolio securitizations, net	320	42
Gains on sale of available-for-sale securities, net	136	33
Other investment losses, net	(28)	(60)
Investment losses, net	$ (5,430)	$ (111)

(1) Excludes other-than-temporary impairment on guaranty assets and buy-ups as these amounts are recognized as a component of guaranty fee income. Refer to Table 7: Guaranty Fee Income and Average Effective Guaranty Fee Rate.

The $5.3 billion increase in investment losses for the first quarter of 2009 over the first quarter of 2008 was primarily attributable to an increase in other-than-temporary impairment on available-for- sale securities. The other-than-temporary impairment of $5.7 billion that we recognized in the first quarter of 2009 included additional impairment losses on some of our Alt-A and subprime private-label securities that we had previously impaired, as well as impairment losses on other Alt-A and subprime securities, due to continued deterioration in the credit quality of the loans underlying these securities and further declines in the expected cash flows. See Consolidated Balance Sheet Analysis Trading and Available-for-Sale Investment Securities Investments in Private-Label Mortgage-Related Securities for additional information on the other-than-temporary impairment recognized on our investments in Alt-A and subprime private-label mortgage-related securities. See Part II Item 1A Risk Factors for a discussion of the risks associated with possible future write-downs of our investment securities.

Fair Value Gains (Losses), Net

Fair value gains and losses, net consists of (1) derivatives fair value gains and losses; (2) trading securities gains and losses; (3) foreign exchange gains and losses on our foreign-denominated debt; and (4) fair value gains and losses on certain debt securities carried at fair value. By presenting these items together in our consolidated results of operations, we are able to show the net impact of mark-to-market adjustments that generally result in offsetting gains and losses attributable to changes in interest rates.

We generally have expected that gains and losses on our agency MBS and commercial mortgage-backed securities backed by multifamily mortgage loans (CMBS) classified as trading securities, to the extent they are attributable to changes in interest rates, would offset a portion of the losses and gains on our derivatives because changes in the fair value of our trading securities typically moved inversely to changes in the fair value of our derivatives.

We seek to eliminate our exposure to fluctuations in foreign exchange rates by entering into foreign currency swaps that effectively convert debt denominated in a foreign currency to debt denominated in U.S. dollars. The foreign currency exchange gains and losses on our foreign-denominated debt are offset in part by corresponding losses and gains on foreign currency swaps.

Table 9 summarizes the components of fair value gains (losses), net for the first quarter of 2009 and 2008. The decrease in fair value losses in the first quarter of 2009 from the first quarter of 2008 was largely due to a decline in losses on our derivatives and net gains on our trading securities.

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Table 9: Fair Value Gains (Losses), Net

	For the Three Months Ended March 31,	
	2009	2008
	(Dollars in millions)	
Derivatives fair value losses, net	$ (1,706)	$ (3,003)
Trading securities gains (losses) net	167	(1,227)
Fair value losses on derivatives and trading securities, net	(1,539)	(4,230)
Debt foreign exchange gains (losses), net	55	(157)
Debt fair value gains, net	24	10
Fair value losses, net	$ (1,460)	$ (4,377)

Derivatives Fair Value Gains (Losses), Net

Derivative instruments are an integral part of our management of interest rate risk. We supplement our issuance of debt with derivative instruments to further reduce duration and prepayment risks. Table 10 presents, by type of derivative instrument, the fair value gains and losses on our derivatives for the first quarters of 2009 and 2008. Table 10 also includes an analysis of the components of derivatives fair value gains and losses attributable to net contractual interest accruals on our interest rate swaps, the net change in the fair value of terminated derivative contracts through the date of termination and the net change in the fair value of outstanding derivative contracts. The 5-year swap interest rate, which is shown below in Table 10, is a key reference interest rate that affects the fair value of our derivatives.

Table 10: Derivatives Fair Value Gains (Losses), Net

	For the Three Months Ended March 31,	
	2009	2008
	(Dollars in millions)	
Risk management derivatives:		
Swaps:		
Pay-fixed	$ 3,314	$ (15,895)
Receive-fixed	(1,362)	12,792
Basis	(23)	5
Foreign currency[(1)]	(73)	146
Swaptions:		

Pay-fixed	(15)	(189)
Receive-fixed	(3,238)	273
Interest rate caps		(1)
Other[(2)]	29	64
Total risk management derivatives fair value losses, net	(1,368)	(2,805)
Mortgage commitment derivatives fair value losses, net	(338)	(198)
Total derivatives fair value losses, net	$ (1,706)	$ (3,003)
Risk management derivatives fair value gains (losses) attributable to:		
Net contractual interest income (expense) accruals on interest rate swaps	$ (940)	$ (26)
Net change in fair value of terminated derivative contracts from end of prior year to date of termination	2	204
Net change in fair value of outstanding derivative contracts, including derivative contracts entered into during the period	(430)	(2,983)
Total risk management derivatives fair value losses, net[(3)]	$ (1,368)	$ (2,805)

	2009	2008
5-year swap interest rate:		
As of January 1	2.13%	4.19%
As of March 31	2.22	3.31

(1) Includes the effect of net contractual interest income accruals of approximately $6 million and interest expense accruals of approximately $3 million for the three months ended March 31, 2009 and 2008, respectively. The change in fair value of foreign currency swaps excluding this item resulted in a net loss of $79 million for the three months ended March 31, 2009 and a net gain of $149 million for the three months ended March 31, 2008.

(2) Includes MBS options, swap credit enhancements, mortgage insurance contracts and certain forward starting debt.

(3) Reflects net derivatives fair value losses, excluding mortgage commitments, recognized in the condensed consolidated statements of operations.

The derivatives fair value losses of $1.7 billion for the first quarter of 2009 were primarily attributable to fair value losses on our option-based derivatives due to the combined effect of a decrease in implied volatility and the time decay of these options.

The derivatives fair value losses of $3.0 billion for the first quarter of 2008 were driven by a decline in interest rates during the quarter. The 5-year swap interest rate fell by 88 basis points to 3.31% as of March 31, 2008, resulting in fair value losses on our pay-fixed swaps that exceeded the fair value gains on our receive-fixed swaps. We experienced partially offsetting fair value gains on our option-based derivatives due to an increase in implied volatility that more than offset the combined effect of the time decay of these options and the decrease in swap interest rates during the first quarter of 2008.

For additional information on our interest rate risk management strategy and our use of derivatives in managing our interest rate risk, see Part II Item 7 MD&A Risk Management Interest Rate Risk Management and Other Market Risks Interest Rate Risk Management Strategies of our 2008 Form 10-K. Also see Consolidated Balance Sheet Analysis Derivative Instruments for a discussion of the effect of derivatives on our condensed consolidated balance sheets.

Trading Securities Gains (Losses), Net

We recorded net gains on trading securities of $167 million for the first quarter of 2009, compared with net losses of $1.2 billion for the first quarter of 2008. The gains on our trading securities during the first quarter of 2009 were attributable to the significant decline in mortgage interest rates and the narrowing of spreads on agency MBS during the quarter. These gains were partially offset by a continued decrease in the fair value of the private-label mortgage-related securities backed by Alt-A and subprime loans that we hold. The losses on our trading securities during the first quarter of 2008 were attributable to a significant widening of credit spreads during the quarter, particularly related to private-label mortgage-related securities backed by Alt-A and subprime loans and CMBS.

We provide additional information on our trading and available-for-sale securities in Consolidated Balance Sheet Analysis Trading and Available-for-Sale Investment Securities and disclose the sensitivity of changes in the fair value of our trading securities to changes in interest rates in Risk Management Interest Rate Risk Management and Other Market Risks Interest Rate Risk Metrics.

Losses from Partnership Investments

Our partnership investments, which primarily include investments in LIHTC partnerships as well as investments in other affordable rental and for-sale housing partnerships, totaled approximately $8.9 billion as of March 31, 2009, compared with $9.3 billion as of December 31, 2008. Losses from partnership investments increased to $357 million for the first quarter of 2009, from $141 million for the first quarter of 2008. The increase in losses was largely due to the recognition of additional other-than-temporary impairment of $147 million in the first quarter of 2009 on a portion of our LIHTC and other affordable housing investments, reflecting the decline in value of these investments as result of the severe economic downturn. In addition, our

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partnership losses for the first quarter of 2008 were partially reduced by a gain on the sale of some of our LIHTC investments. We did not have any sales of LIHTC investments during the first quarter of 2009.

Administrative Expenses

Administrative expenses include ongoing operating costs, such as salaries and employee benefits, professional services, occupancy costs and technology expenses. Administrative expenses increased to $523 million for the first quarter of 2009, from $512 million for the first quarter of 2008. We took steps in the fourth quarter of 2008 and the first quarter of 2009 to realign our organization, personnel and resources to focus on our most critical priorities, which include providing liquidity to the mortgage market and preventing foreclosures. As part of this realignment, we reduced staffing levels in some areas of the company during the first quarter of 2009. This reduction in staff, however, was partially offset by an increase in employee and contractor staffing levels in other areas, particularly those divisions of the company that focus on our foreclosure-prevention efforts.

Credit-Related Expenses

Credit-related expenses included in our consolidated statements of operations consist of the provision for credit losses and foreclosed property expense. We detail the components of our credit-related expenses below in Table 11. The substantial increase in our credit-related expenses in the first quarter of 2009 from the first quarter of 2008 was largely due to the significant increase in our provision for credit losses, reflecting the deteriorating credit performance of the loans in our guaranty book of business given the current economic environment, including continued weakness in the housing market and rising unemployment.

Table 11: Credit-Related Expenses

	For the Three Months Ended March 31,	
	2009	2008
	(Dollars in millions)	
Provision for credit losses attributable to guaranty book of business	$ 18,809	$ 2,340
Provision for credit losses attributable to SOP 03-3 and HomeSaver Advance fair value losses	1,525	733
Total provision for credit losses[1]	20,334	3,073
Foreclosed property expense	538	170
Credit-related expenses	$ 20,872	$ 3,243

[1] Reflects total provision for credit losses reported in our condensed consolidated statements of operations and in Table 12 below under Combined loss reserves.

Provision for Credit Losses Attributable to Guaranty Book of Business

Our allowance for loan losses and reserve for guaranty losses, which we collectively refer to as our combined loss reserves, provide for probable credit losses inherent in our guaranty book of business as of each balance sheet date. We build our loss reserves through the 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 the charge-off against our loss reserves. We record recoveries of previously charged-off amounts as a credit to our loss reserves. Table 12, which summarizes changes in our loss reserves for the three months ended March 31, 2009 and 2008, details the provision for credit losses recognized in our condensed consolidated statements of operations each period and the charge-offs recorded against our combined loss reserves.

Table 12: Allowance for Loan Losses and Reserve for Guaranty Losses (Combined Loss Reserves)

	For the Three Months Ended March 31,	
	2009	2008
	(Dollars in millions)	
Changes in combined loss reserves:		
Allowance for loan losses:		
Beginning balance[1]	$ 2,923	$ 698
Provision for credit losses[2]	2,509	544
Charge-offs[3]	(637)	(279)
Recoveries	35	30
Ending balance[1]	$ 4,830	$ 993
Reserve for guaranty losses:		
Beginning balance	$ 21,830	$ 2,693
Provision for credit losses	17,825	2,529
Charge-offs[4][5]	(2,944)	(1,037)
Recoveries	165	17
Ending balance	$ 36,876	$ 4,202
Combined loss reserves:		
Beginning balance	$ 24,753	$ 3,391
Provision for credit losses[2]	20,334	3,073
Charge-offs[3][4][5]	(3,581)	(1,316)
Recoveries	200	47
Ending balance[1]	$ 41,706	$ 5,195

	As of	
	March 31, 2009	December 31, 2008
	(Dollars in millions)	
Combined loss reserves	$ 41,706	$ 24,753
Allocation of combined loss reserves:		
Balance at end of each period attributable to:		
Single-family	$ 41,082	$ 24,649
Multifamily	624	104

Total	$ 41,706	$ 24,753
Single-family and multifamily loss reserve ratios:[6]		
Single-family loss reserves as a percentage of single-family guaranty book of business	1.45%	0.88%
Multifamily loss reserves as a percentage of multifamily guaranty book of business	0.36	0.06
Combined loss reserves as a percentage of:		
Total guaranty book of business	1.38%	0.83%
Total nonperforming loans[7]	28.78	20.76

(1) Includes $197 million and $50 million as of March 31, 2009 and 2008, respectively, and $150 million as of December 31, 2008 for acquired loans subject to the application of SOP 03-3.

(2) Includes an increase in the allowance for loan losses for HomeSaver Advance first-lien loans held in MBS trusts that are consolidated on our balance sheets.

(3) Includes accrued interest of $247 million and $78 million for the three months ended March 31, 2009 and 2008, respectively.

(4) Includes charges of $115 million and $5 million for the three months ended March 31, 2009 and 2008, respectively, related to unsecured HomeSaver Advance loans.

(5) Includes charges recorded at the date of acquisition totaling $1.4 billion and $728 million for the three months ended March 31, 2009 and 2008, respectively, for acquired loans subject to the application of SOP 03-3 where the acquisition cost exceeded the fair value of the acquired loan.

(6) Represents amount of loss reserves attributable to each loan type as a percentage of the guaranty book of business for each loan type.

(7) Loans are classified as nonperforming when we believe collectability of interest or principal on the loan is not reasonably assured, which typically occurs when payment of principal or interest on the loan is two months or more past due. Additionally, troubled debt restructurings and HomeSaver Advance first-lien loans are classified as nonperforming loans. See Table 45: Nonperforming Single-Family and Multifamily Loans for additional information on our nonperforming loans.

We have continued to build our combined loss reserves through provisions that have been well in excess of our charge-offs due to the general deterioration in the overall credit performance of loans in our guaranty book of business. This deterioration continues to be concentrated in certain states, certain higher risk loan categories and our 2006 and 2007 loan vintages. Our mortgage loans in the Midwest, which has experienced prolonged economic weakness, and California, Florida, Arizona and Nevada, which previously experienced rapid home price increases and continue to experience steep declines in home prices, have exhibited much higher delinquency rates and accounted for a disproportionate share of our foreclosures and charge-offs. Loans in our Alt-A book, particularly the 2006 and 2007 loan vintages, also have exhibited significantly higher delinquency rates and represented a disproportionate share of our foreclosures and charge-offs. We also are beginning to experience some deterioration in the credit performance of loans in our single-family guaranty book of business with lower risk characteristics, reflecting the adverse impact of the sharp rise in unemployment and the continued decline in home prices.

The provision for credit losses attributable to our guaranty book of business of $18.8 billion for the first quarter of 2009 exceeded net charge-offs of $1.9 billion and included an incremental build in our combined loss reserves of $16.9 billion for the quarter. In comparison, we recorded a provision for credit losses attributable to our guaranty book of business of $2.3 billion for the first quarter of 2008. Our increased provision levels were largely driven by a substantial increase in nonperforming single-family loans, higher delinquencies and an increase in the average loss severity, or initial charge-off per default. Our conventional single-family serious delinquency rate increased to 3.15% as of March 31, 2009, from 2.42% as of December 31, 2008 and 1.15% as of March 31, 2008. The average default rate and loss severity, excluding fair value losses related to SOP 03-3 and HomeSaver Advance loans, was 0.17% and 36%, respectively, for the first quarter of 2009, compared with 0.13% and 19%, respectively, for the first quarter of 2008.

As a result of our higher loss provisioning levels, we substantially increased our combined loss reserves in the first quarter of 2009, both in absolute terms and as a percentage of our total guaranty book of business, to $41.7 billion, or 1.38% of our total guaranty book of business, as of March 31, 2009, from $24.8 billion, or 0.83% of our total guaranty book of business, as of December 31, 2008. Our combined loss reserves as a percentage of our total nonperforming loans increased to 28.78% as of March 31, 2009, from 20.76% as of December 31, 2008.

We increased the portion of our combined loss reserves attributable to our multifamily guaranty book of business by $520 million during the first quarter of 2009, to $624 million, or 0.36% of our multifamily guaranty book of business, as of March 31, 2009, from $104 million, or 0.06% of our multifamily guaranty book of business, as of December 31,

2008. This increase reflects the stress on our multifamily guaranty book of business due to the severe economic downturn and lack of liquidity in the market, which has adversely affected multifamily property values, vacancy rates and rent levels, as well as the cash flows generated from these investments and refinancing options. These conditions have contributed to higher delinquency and default rates.

Provision for Credit Losses Attributable to SOP 03-3 and HomeSaver Advance Fair Value Losses

In our capacity as guarantor of our MBS trusts, we have the option under the trust agreements, to purchase specified mortgage loans from our MBS trusts. We generally are not permitted to complete a modification of a

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loan while the loan is held in the MBS trust. As a result, we must exercise our option to purchase any delinquent loan that we intend to modify from an MBS trust prior to the time that the modification becomes effective. The proportion of delinquent loans purchased from MBS trusts for the purpose of modification varies from period to period, driven primarily by factors such as changes in our loss mitigation efforts, as well as changes in interest rates and other market factors. See Part I Item 1 Business Business Segments Single-Family Credit Guaranty Business MBS Trusts of our 2008 10-K for additional information on the provisions in our MBS trusts agreements that govern the purchase of loans from our MBS trusts and the factors that we consider in determining whether to purchase delinquent loans from our MBS trusts.

SOP 03-3 refers to the accounting guidance issued by the American Institute of Certified Public Accountants Statement of Position No. 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer.* This guidance is generally applicable to delinquent loans purchased from our MBS trusts and delinquent loans held in any MBS trust that we are required to consolidate, which we collectively refer to as Acquired Loans from MBS Trusts Subject to SOP 03-3. We record our net investment in these loans at the lower of the acquisition cost of the loan or the estimated fair value at the date of purchase or consolidation. To the extent the acquisition cost exceeds the estimated fair value, we record a SOP 03-3 fair value loss charge-off against the Reserve for guaranty losses at the time we acquire the loan.

We introduced HomeSaver Advance in the first quarter of 2008. HomeSaver Advance serves as a foreclosure prevention tool early in the delinquency cycle and does not conflict with our MBS trust requirements because it allows borrowers to cure their payment defaults without modifying their mortgage loan. HomeSaver Advance allows servicers to provide qualified borrowers with a 15-year unsecured personal loan in an amount equal to all past due payments relating to their mortgage loan, generally up to the lesser of $15,000 or 15% of the unpaid principal balance of the delinquent first lien loan. We record HomeSaver Advance loans at their estimated fair value at the date we purchase these loans from servicers, and, to the extent the acquisition cost exceeds the estimated fair value, we record a HomeSaver fair value loss charge-off against the Reserve for guaranty losses at the time we acquire the loan.

As indicated in Table 11 above, SOP 03-3 and HomeSaver Advance fair value losses increased to $1.5 billion in the first quarter of 2009, from $733 million in the first quarter of 2008, reflecting both an increase in the number of acquired delinquent loans and a decrease in the fair value of these loans.

Table 13 provides a quarterly comparison of the number of delinquent loans acquired from MBS trusts subject to SOP 03-3, the unpaid principal balance and accrued interest of these loans, and the average fair value based on indicative market prices. The decline in home prices and significant reduction in liquidity in the mortgage markets, along with the increase in mortgage credit risk, have resulted in continued downward pressure on the fair value of these loans.

Table 13: Statistics on Acquired Loans from MBS Trusts Subject to SOP 03-3

	2009	2008			
	Q1	Q4	Q3	Q2	Q1
		(Dollars in millions)			
Number of acquired loans from MBS trusts subject to SOP 03-3	12,223	6,124	3,678	4,618	10,586
Average indicative market price[(1)]	45%	50%	53%	53%	60%
Unpaid principal balance and accrued interest of loans acquired	$ 2,561	$ 1,286	$ 744	$ 807	$ 1,704

(1) Calculated based on the estimated fair value at the date of acquisition of delinquent loans subject to SOP 03-3 divided by the unpaid principal balance and accrued interest of these loans at the date of acquisition. The value of primary mortgage insurance is included as a component of the average market price. In the first quarter of 2009, we incorporated the average fair value of acquired multifamily loans subject to SOP 03-3 into the calculation of our average indicative market price. We have revised the previously reported prior period amounts to reflect this change.

During the fourth quarter of 2008, we began increasing the number of delinquent loans we purchased from MBS trusts in response to our efforts to take a more proactive approach to prevent foreclosures by addressing potential problem loans earlier and offering additional, more flexible workout alternatives. As a result of the increase in our loan modification volume that we are experiencing and expect to continue to experience during

2009, particularly as more servicers participate in the Home Affordable Modification Program, we expect our acquisition of delinquent loans from MBS trusts to continue to increase during 2009. We also expect to continue to incur significant losses in 2009 in connection with the acquisition of delinquent loans and the modification of loans. We provide additional information on our loan workout activities in Risk Management Credit Risk Management Mortgage Credit Risk Management Problem Loan Management and Foreclosure Prevention.

Credit Loss Performance Metrics

Management views our credit loss performance metrics, which include our historical credit losses and our credit loss ratio, as significant indicators of the effectiveness of our credit risk management strategies. Management uses these metrics together with other credit risk measures to assess the credit quality of our existing guaranty book of business, make determinations about our loss mitigation strategies, evaluate our historical credit loss performance and determine the level of our loss reserves. These 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 exclude SOP 03-3 and HomeSaver Advance fair value losses from our credit loss performance metrics. However, we include in our credit loss performance metrics the impact of any credit losses we experience on loans subject to SOP 03-3 or first lien loans associated with HomeSaver Advance loans that ultimately result in foreclosure.

We believe that our credit loss performance metrics are useful to investors because they reflect how management evaluates our credit performance and the effectiveness of our credit risk management strategies and loss mitigation efforts. They also provide a consistent treatment of credit losses for on- and off-balance sheet loans. Moreover, by presenting credit losses with and without the effect of SOP 03-3 and HomeSaver Advance fair value losses, investors are able to evaluate our credit performance on a more consistent basis among periods.

Table 14 below details the components of our credit loss performance metrics, which exclude the effect of SOP 03-3 and HomeSaver Advance fair value losses, for the first quarters of 2009 and 2008.

Table 14: Credit Loss Performance Metrics

	For the Three Months Ended March 31,			
	2009		2008	
	Amount	Ratio[1]	Amount	Ratio[1]
	(Dollars in millions)			
Charge-offs, net of recoveries	$ 3,381	45.2 bp	$ 1,269	18.2 bp
Foreclosed property expense	538	7.2	170	2.5
Less: SOP 03-3 and HomeSaver Advance fair value losses[2]	(1,525)	(20.4)	(733)	(10.5)
Plus: Impact of SOP 03-3 on charge-offs and foreclosed property expense[3]	89	1.2	169	2.4
Credit losses[4]	$ 2,483	33.2 bp	$ 875	12.6 bp

(1) Based on the annualized amount for each line item presented divided by the average guaranty book of business during the period.

(2) Represents the amount recorded as a loss when the acquisition cost of a delinquent loan purchased from an MBS trust that is subject to SOP 03-3 exceeds the fair value of the loan at acquisition. Also includes the difference between the unpaid principal balance of unsecured HomeSaver Advance loans at origination and the estimated fair value of these loans that we record in our consolidated balance sheets.

(3) For seriously delinquent loans purchased from MBS trusts that are recorded at a fair value amount at acquisition that is lower than the acquisition cost, any loss recorded at foreclosure is less than it would have been if we had recorded the loan at its acquisition cost instead of at fair value. Accordingly, we have added back to our credit losses the amount of charge-offs and foreclosed property expense that we would have recorded if we had calculated these amounts based on the purchase price.

(4) Interest forgone on nonperforming loans in our mortgage portfolio, which is presented in Table 45, reduces our net interest income but is not reflected in our credit losses total. In addition, other-than-temporary impairment losses resulting from deterioration in the credit quality of our mortgage-related securities and accretion of interest income on loans subject to SOP 03-3 are excluded from credit losses.

Our credit loss ratio increased to 33.2 basis points in the first quarter of 2009, from 12.6 basis points in the first quarter of 2008. Our credit loss ratio including the effect of SOP 03-3 and HomeSaver Advance fair value losses would have been 52.4 basis points and 20.7 basis points for the first quarter of 2009 and 2008, respectively. The substantial increase in our credit losses in the first quarter of 2009 from the first quarter of 2008 reflected the adverse impact of the continued and dramatic national decline in home prices, as well as the severe economic downturn. These conditions have resulted in an increase in delinquencies across our entire guaranty book of business and higher default rates and loss severities, particularly for certain higher risk loan categories, loan vintages and loans within certain states that have had the greatest home price depreciation from their recent peaks.

Specific credit loss statistics related to loans within certain states that have had the greatest home price declines; loans within states in the Midwest; and certain higher risk loan categories and loan vintages include the following:

California, Florida, Arizona and Nevada, which represented approximately 28% and 27% of our single-family conventional mortgage credit book of business as of March 31, 2009 and 2008, respectively, accounted for approximately 58% and 32% of our single-family credit losses for the first quarter of 2009 and 2008, respectively.

Michigan and Ohio, two key states driving credit losses in the Midwest, represented approximately 6% of our single-family conventional mortgage credit book of business as of both March 31, 2009 and 2008, but accounted for approximately 9% and 29% of our single-family credit losses for the first quarter of 2009 and 2008, respectively.

Certain higher risk loan categories, including Alt-A loans, interest-only loans, loans to borrowers with low credit scores and loans with high loan-to-value ratios, represented approximately 27% and 29% of our single-family conventional mortgage credit book of business as of March 31, 2009 and 2008, respectively, but accounted for approximately 65% and 66% of our single-family credit losses for the first quarter of 2009 and 2008, respectively. A significant portion of these higher risk loan categories were originated in 2006 and 2007 in states that have experienced the steepest declines in home prices, such as California, Florida, Arizona and Nevada.

The suspension of foreclosure sales on occupied single-family properties between the periods November 26, 2008 through January 31, 2009 and February 17, 2009 through March 6, 2009 reduced our foreclosure activity in the first quarter of 2009, which resulted in a reduction in our charge-offs and credit losses below what we believe we would have otherwise recorded in the first quarter of 2009 had the moratorium not been in place. We will record a charge-off upon foreclosure for loans subject to the foreclosure moratorium that we are not able to modify and that ultimately result in foreclosure. While the foreclosure moratorium affects the timing of when we incur a credit loss, it does not necessarily affect the credit-related expenses recognized in our consolidated statements of operations because we estimate probable losses inherent in our guaranty book of business as of each balance date in determining our loss reserves. See Critical Accounting Policies and Estimates Allowance for Loan Losses and Reserve for Guaranty Losses for a discussion of changes we made in our loss reserve estimation process to address the impact of the foreclosure moratorium.

We provide more detailed credit performance information, including serious delinquency rates by geographic region, statistics on nonperforming loans and foreclosure activity, in Risk Management Credit Risk Management Mortgage

Credit Risk Management.

Regulatory Hypothetical Stress Test Scenario

Under a September 2005 agreement with the Office of Federal Housing Enterprise Oversight (OFHEO), the predecessor to FHFA, we are required to disclose on a quarterly basis the present value of the change in future expected credit losses from our existing single-family guaranty book of business from an immediate 5%

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decline in single-family home prices for the entire United States. Although this agreement was suspended on March 18, 2009 by FHFA until further notice, we are continuing to provide this disclosure. For purposes of this calculation, we assume that, after the initial 5% shock, home price growth rates return to the average of the possible growth rate paths used in our internal credit pricing models. The sensitivity results represent the difference between future expected credit losses under our base case scenario, which is derived from our internal home price path forecast, and a scenario that assumes an instantaneous nationwide 5% decline in home prices.

Table 15 compares the credit loss sensitivities as of March 31, 2009 and December 31, 2008 for first lien single-family whole loans we own or that back Fannie Mae MBS, before and after consideration of projected credit risk sharing proceeds, such as private mortgage insurance claims and other credit enhancement.

Table 15: Single-Family Credit Loss Sensitivity[(1)]

	As of	
	March 31, 2009	December 31, 2008
	(Dollars in millions)	
Gross single-family credit loss sensitivity	$ 19,631	$ 13,232
Less: Projected credit risk sharing proceeds	(4,458)	(3,478)
Net single-family credit loss sensitivity	$ 15,173	$ 9,754
Outstanding single-family whole loans and Fannie Mae MBS	$ 2,755,078	$ 2,724,253
Single-family net credit loss sensitivity as a percentage of outstanding single-family whole loans and Fannie Mae MBS	0.55%	0.36%

(1) Represents total economic credit losses, which consist of credit losses and forgone interest. Calculations are based on approximately 97% of our total single-family guaranty book of business as of both March 31, 2009 and December 31, 2008. The mortgage loans and mortgage-related securities that are included in these estimates consist of: (i) single-family Fannie Mae MBS (whether held in our mortgage portfolio or held by third parties), excluding certain whole loan Real Estate Mortgage Investment Conduits (REMICs) and private-label wraps; (ii) single-family mortgage loans, excluding mortgages secured only by second liens, subprime mortgages, manufactured housing chattel loans and reverse mortgages; and (iii) long-term standby commitments. We expect the inclusion in our estimates of the excluded products may impact the estimated sensitivities set forth in this table.

The increase in the projected credit loss sensitivities during the first quarter of 2009 reflected the continued decline in home prices and the current negative outlook for the housing and credit markets. Because these sensitivities represent hypothetical scenarios, they should be used with caution. Our regulatory stress test scenario is limited in that it assumes an instantaneous uniform 5% nationwide decline in home prices, which is not representative of the historical pattern of changes in home prices. Changes in home prices generally vary on a regional, as well as a local, basis. In addition, these stress test scenarios are calculated independently without considering changes in other interrelated assumptions, such as unemployment rates or other economic factors, which are likely to have a significant impact on our future expected credit losses.

Other Non-Interest Expenses

Other non-interest expenses consists of credit enhancement expenses, which reflect the amortization of the credit enhancement asset we record at the inception of guaranty contracts, costs associated with the purchase of additional mortgage insurance to protect against credit losses, net gains and losses on the extinguishment of debt, and other miscellaneous expenses. Other non-interest expenses decreased to $358 million for the first quarter of 2009, from $505 million for the first quarter of 2008. This decrease was largely due to a reduction in net losses recorded on the extinguishment of debt and a reduction in interest expense associated with unrecognized tax benefits related to certain unresolved tax positions.

Federal Income Taxes

We recorded a tax benefit for federal income taxes of $623 million for the first quarter of 2009, which represents the benefit of carrying back a portion of our expected current year tax loss, net of the reversal of

the use of certain tax credits, to prior years. We were not able to recognize a net tax benefit associated with the majority of our pre-tax loss of $23.8 billion in the first quarter 2009, as there has been no change in the conclusion we reached in 2008 that it was more likely than not that we would not generate sufficient taxable income in the foreseeable future to realize our net deferred tax assets. As a result, we recorded an increase in our valuation allowance of $8.8 billion in our condensed consolidated statements of operations in the first quarter of 2009, which represented the tax effect associated with the majority of the pre-tax losses we recorded in the quarter. The valuation allowance recorded against our deferred tax assets totaled $39.6 billion as of March 31, 2009, resulting in a net deferred tax asset of $1.7 billion as of March 31, 2009, compared with a net deferred tax asset of $3.9 billion as of December 31, 2008. We discuss the factors that led us to record a partial valuation allowance against our net deferred tax assets in Part II Item 7 MD&A Critical Accounting Policies and Estimates Deferred Tax Assets and Notes to Consolidated Financial Statements Note 12, Income Taxes of our 2008 Form 10-K.

In comparison, we recorded a net tax benefit of $2.9 billion for the first quarter of 2008, due in part to the pre-tax loss for the period as well as the tax credits generated from our LIHTC partnership investments. Our effective income tax rate, excluding the provision or benefit for taxes related to extraordinary amounts, was 57% for the first quarter of 2008.

BUSINESS SEGMENT RESULTS

Results of our three business segments are intended to reflect each segment as if it were a stand-alone business. We describe the management reporting and allocation process used to generate our segment results in our 2008 Form 10-K in Notes to Consolidated Financial Statements Note 16, Segment Reporting. We summarize our segment results for the first quarters of 2009 and 2008 in the tables below and provide a comparative discussion of these results. See Notes to Condensed Consolidated Financial Statements Note 15, Segment Reporting of this report for additional information on our segment results.

Single-Family Business

Our Single-Family business recorded a net loss of $18.1 billion for the first quarter of 2009, compared with a net loss of $1.0 billion for the first quarter of 2008. Table 16 summarizes the financial results for our Single-Family business for the periods indicated. The primary source of revenue for our Single-Family business is guaranty fee income. Other sources of revenue include trust management income and other fee income, primarily related to technology fees. Expenses primarily include credit-related expenses and administrative expenses.

Table 16: Single-Family Business Results

	For the Three Months Ended March 31,		Variance	
	2009	2008	$	%
	(Dollars in millions)			
Statement of operations data:				
Guaranty fee income	$ 1,966	$ 1,942	$ 24	1%
Trust management income	11	105	(94)	(90)
Other income[1]	173	188	(15)	(8)
Credit-related expenses[2]	(20,330)	(3,254)	(17,076)	(525)
Other expenses[3]	(523)	(533)	10	2

Loss before federal income taxes		(18,703)		(1,552)		(17,151)	(1,105)
Benefit for federal income taxes		645		544		101	19
Net loss attributable to Fannie Mae	$	(18,058)	$	(1,008)	$	(17,050)	(1,691)%
Other key performance data:							
Average single-family guaranty book of business[4]	$	2,819,459	$	2,634,526	$	184,933	7%

(1) Consists of net interest income, investment gains and losses, and fee and other income.

(2) Consists of the provision for credit losses and foreclosed property expense.

(3) Consists of administrative expenses and other expenses.

(4) The single-family guaranty book of business consists of single-family mortgage loans held in our mortgage portfolio, single-family Fannie Mae MBS held in our mortgage portfolio, single-family Fannie Mae MBS held by third parties, and other credit enhancements that we provide on single-family mortgage assets. Excludes non-Fannie Mae mortgage-related securities held in our investment portfolio for which we do not provide a guarantee.

Key factors affecting the results of our Single-Family business for the first quarter of 2009 compared with the first quarter of 2008 included the following.

A modest increase in guaranty fee income, primarily attributable to growth in the average single-family guaranty book of business, which was substantially offset by a decrease in the average effective single-family guaranty fee rate.

Our average single-family guaranty book of business increased by 7%, as our MBS issuances exceeded our liquidations throughout 2008 and in early 2009. Our market share of MBS issuances remained strong during 2008 and into 2009, reflecting the continuing shift in the composition of originations in the primary mortgage market to agency-conforming loans. Our estimated market share of new single-family mortgage-related securities issuances, which is based on publicly available data and excludes previously securitized mortgages, remained high at approximately 44.2% for the first quarter of 2009, compared with 50.1% for the first quarter of 2008.

The average effective single-family guaranty fee rate decreased by 5% to 27.9 basis points for the first quarter of 2009, from 29.5 basis points for the first quarter of 2008. This decrease was attributable to the guaranty fee pricing changes we implemented during 2008 to address the current risks in the housing market and a shift in the composition of our new business to a greater proportion of higher-quality, lower risk and lower guaranty fee mortgages. As a result of these changes, the average charged guaranty fee on new single-family business decreased to 21.0 basis points for the first quarter of 2009, from 25.7 basis points for the first quarter of 2008. The average charged fee represents the average contractual fee rate for our single-family guaranty arrangements plus the recognition of any upfront cash payments ratably over an estimated average life. Beginning in 2009, we extended the estimated average life used in calculating the recognition of upfront cash payments for the purpose of determining our single-family new business average charged guaranty fee to reflect a longer expected duration because of the record low interest rate environment. This change did not have a material impact on the average charged guaranty fee on our new single-family business in the first quarter of 2009.

A substantial increase in credit-related expenses, reflecting a significantly higher incremental provision for credit losses as well as higher charge-offs due to worsening credit performance trends, including significant increases in delinquencies, defaults and loss severities, particularly in certain loan categories, states and vintages. We also experienced a significant increase in SOP 03-3 fair value losses during the first quarter of 2009, reflecting the increase in the number of delinquent loans we purchased from MBS trusts for loan modification as part of our increased efforts in preventing foreclosures and the decreases in the estimated fair value of these loans.

A significant reduction in the relative tax benefits associated with our pre-tax losses. We recorded a tax benefit of $645 million on pre-tax losses of $18.7 billion for the first quarter of 2009, compared with a tax benefit of

$544 million on pre-tax losses of $1.6 billion for the first quarter of 2008. We recorded a valuation allowance for the majority of the tax benefits associated with the pre-tax losses recognized in the first quarter of 2009 as there has been no change in the conclusion we reached in 2008 that it was more likely than not that we would not generate sufficient taxable income in the foreseeable future to realize all of the tax benefits generated from these losses.

HCD Business

Our HCD business recorded a net loss attributable to Fannie Mae of $1.0 billion for the first quarter of 2009, compared with net income of $150 million for the first quarter of 2008. Table 17 summarizes the financial results for our HCD business for the periods indicated. The primary sources of revenue for our HCD business are guaranty fee income and other income, consisting of transaction fees associated with our multifamily

business and bond credit enhancement fees. Expenses primarily include administrative expenses, credit-related expenses and net operating losses associated with our partnership investments, the majority of which generate tax benefits that may reduce our federal income tax liability. However, we recorded a valuation allowance against a portion of the tax benefits generated by these investments in the first quarter of 2009 as there has been no change in the conclusion we reached in 2008 that it was more likely than not that we would not generate sufficient taxable income in the foreseeable future to realize our net deferred tax assets.

Table 17: HCD Business Results

	For the Three Months Ended March 31, 2009	For the Three Months Ended March 31, 2008	Variance $	Variance %
	(Dollars in millions)			
Statement of operations data:[1]				
Guaranty fee income	$ 158	$ 148	$ 10	7%
Other income[2]	27	64	(37)	(58)
Losses on partnership investments	(357)	(141)	(216)	(153)
Credit-related income (expenses)[3]	(542)	11	(553)	(5,027)
Other expenses[4]	(169)	(254)	85	33
Loss before federal income taxes	(883)	(172)	(711)	(413)
Benefit (provision) for federal income taxes	(168)	322	(490)	(152)
Net loss	(1,051)	150	(1,201)	(801)%
Less: Net loss attributable to the noncontrolling interest	17		17	
Net income (loss) attributable to Fannie Mae	$ (1,034)	$ 150	$ (1,184)	(789)%
Other key performance data:				
Average multifamily guaranty book of business[5]	$ 174,329	$ 151,278	$ 23,051	15%

(1) Certain prior period amounts have been reclassified to conform to the current period presentation.

(2) Consists of trust management income and fee and other income.

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

(4) Consists of net interest expense, administrative expenses and other expenses.

(5) The multifamily guaranty book of business consists of multifamily mortgage loans held in our mortgage portfolio, multifamily Fannie Mae MBS held in our mortgage portfolio, multifamily Fannie Mae MBS held by third parties and other credit enhancements that we provide on multifamily mortgage assets. Excludes non-Fannie Mae mortgage-related securities held in our investment portfolio for which we do not provide a guarantee.

Key factors affecting the results of our HCD business for the first quarter of 2009 compared with the first quarter of 2008 included the following.

A $553 million increase in credit-related expenses, as we increased our multifamily combined loss reserves by $520 million during the first quarter of 2009 to $624 million as of March 31, 2009. This increase reflects the stress on our multifamily guaranty book of business due to the severe economic downturn and lack of liquidity in the market, which has adversely affected multifamily property values, vacancy rates and rent levels, the cash flows generated from these investments and refinancing options.

A $216 million increase in losses on partnership investments, largely due to the recognition of additional other-than-temporary impairment of $147 million on a portion of our LIHTC partnership investments and other affordable housing investments. In addition, our partnership losses for the first quarter of 2008 were partially reduced by a gain on the sale of some of our LIHTC investments.

A provision for federal income taxes of $168 million for the first quarter of 2009, compared with a tax benefit of $322 million for the first quarter of 2008. The tax provision recognized in the first quarter of 2009 was attributable to the reversal of previously utilized tax credits because of our ability to carry back, for tax purposes, to prior years net operating losses expected to be generated in the current year. In addition, we recorded a valuation allowance for the majority of the tax benefits associated with the pre-tax losses and tax credits generated by our partnership investments in the first quarter of 2009 as there has

been no change in the conclusion we reached in 2008 that it was more likely than not that we would not generate sufficient taxable income in the foreseeable future to realize our net deferred tax assets.

Capital Markets Group

Our Capital Markets group recorded a net loss of $4.1 billion for the first quarter of 2009, compared with a net loss of $1.3 billion for the first quarter of 2008. Table 18 summarizes the financial results for our Capital Markets group for the periods indicated. The primary source of revenue for our Capital Markets group is net interest income. Expenses primarily consist of administrative expenses. Fair value gains and losses, investment gains and losses, and debt extinguishment gains and losses also have a significant impact on the financial performance of our Capital Markets group.

Table 18: Capital Markets Group Results

	For the Three Months Ended March 31,		Variance	
	2009	2008	$	%
	(Dollars in millions)			
Statement of operations data:				
Net interest income	$ 3,295	$ 1,659	$ 1,636	99%
Investment losses, net	(5,503)	(63)	(5,440)	(8,635)
Fair value losses, net	(1,460)	(4,377)	2,917	67
Fee and other income, net	69	63	6	10
Other expenses[1]	(623)	(671)	48	7
Loss before federal income taxes	(4,222)	(3,389)	(833)	(25)
Benefit for federal income taxes	146	2,062	(1,916)	(93)
Extraordinary losses, net of tax effect		(1)	1	100
Net loss attributable to Fannie Mae	$ (4,076)	$ (1,328)	$ (2,748)	(207)%

[1] Consists of debt extinguishment losses, allocated guaranty fee expense, administrative expenses and other expenses.

Key factors affecting the results of our Capital Markets group for the first quarter of 2009 compared with the first quarter of 2008 included the following.

An increase in net interest income, primarily attributable to an expansion of our net interest yield driven by a reduction in the average cost of our debt that more than offset a decline in the average yield on our interest-earning assets.

The decrease in the average cost of our debt was due to the decline in short-term interest rates and the shift in our funding mix during the second half of 2008 to more short-term debt in response to reduced market demand for our longer-term and callable debt securities. Since November 2008, however, the demand for these securities has increased significantly, which has allowed us to issue more longer-term and callable debt securities and reduce the proportion of our short-term debt as a percentage of our total outstanding debt.

Our net interest income does not include the effect of the periodic net contractual interest accruals on our interest rate swaps, which increased to an expense of $940 million in the first quarter of 2009, from an expense of $26 million in the first quarter of 2008. These amounts are included in derivatives gains (losses) and reflected in our consolidated statements of operations as a component of Fair value losses, net.

A decrease in fair value losses, primarily attributable to a reduction in fair value losses on our derivatives and net gains on our trading securities.

We recorded derivatives fair value losses of $1.7 billion in the first quarter of 2009, compared with losses of $3.0 billion in the first quarter of 2008. The derivatives fair value losses of $1.7 billion in the first quarter of 2009 were primarily attributable to fair value losses on our option-based derivatives due to the combined effect of a decrease in implied volatility and the time decay of these options. The derivatives fair value losses of $3.0 billion in the first quarter of 2008 were attributable to net fair value losses on our interest rate swaps due to a considerable decline in the 5-year swap interest rate during the quarter.

The gains on our trading securities during the first quarter of 2009 were attributable to the significant decrease in mortgage interest rates and the narrowing of spreads on agency MBS during the quarter. These gains were partially offset by a continued decrease in the fair value of our private-label mortgage-related securities backed by Alt-A and subprime loans.

A significant increase in investment losses, attributable to other-than-temporary impairment on available-for-sale securities totaling $5.7 billion in the first quarter of 2009, compared with $55 million in the first quarter of 2008. The other-than-temporary impairment losses of $5.7 billion that we recognized in the first quarter of 2009 included additional impairment losses on some of our Alt-A and subprime private-label securities that we had previously impaired, as well as impairment losses on other Alt-A and subprime securities, attributable to continued deterioration in the credit quality of the loans underlying these securities and further declines in the expected cash flows.

A significant reduction in the relative tax benefits associated with our pre-tax losses. We recorded a tax benefit of $146 million on pre-tax losses of $4.2 billion for the first quarter of 2009, compared with a tax benefit of $2.1 billion on pre-tax losses of $3.4 billion for the first quarter of 2008. We recorded a valuation allowance for the majority of the tax benefits associated with the pre-tax losses recognized in the first quarter of 2009 as there has been no change in the conclusion we reached in 2008 that it was more likely than not that we would not generate sufficient taxable income in the foreseeable future to realize all of the tax benefits generated from these losses.

CONSOLIDATED BALANCE SHEET ANALYSIS

Total assets of $919.6 billion as of March 31, 2009 increased by $7.2 billion, or 0.8%, from December 31, 2008. Total liabilities of $938.6 billion increased by $11.0 billion, or 1.2%, from December 31, 2008. Fannie Mae s total deficit increased by $3.8 billion during the first quarter of 2009, to a deficit of $18.9 billion as of March 31, 2009. The increase in Fannie Mae s total deficit was attributable to our net loss of $23.2 billion for the first quarter of 2009, which was partially offset by the $15.2 billion in funds received from Treasury under the senior preferred stock purchase agreement and a decrease in unrealized losses on available-for-sale securities. Following is a discussion of material changes in the major components of our assets and liabilities since December 31, 2008. See Liquidity and Capital Management Capital Management Capital Activity, for additional discussion of changes in Fannie Mae s total deficit.

Mortgage Investments

Our mortgage investment activities may be constrained by our regulatory requirements, operational limitations, tax classifications and our intent to hold certain temporarily impaired securities until recovery in value, as well as risk parameters applied to the mortgage portfolio. In addition, the senior preferred stock purchase agreement with Treasury permits us to increase our mortgage portfolio temporarily up to a cap of $900 billion through December 31, 2009. Beginning in 2010, we are required to reduce the size of our mortgage portfolio by 10% per year, until the amount of our mortgage assets reaches $250 billion. We also are required to limit the amount of indebtedness that we can incur

to 120% of the amount of mortgage assets we are allowed to own. Through December 30, 2010, our debt cap equals $1,080 billion. Beginning December 31, 2010, and on December 31 of each year thereafter, our debt cap that will apply through December 31 of the following year will equal 120% of the amount of mortgage assets we are allowed to own on December 31 of the immediately preceding calendar year.

FHFA has encouraged us to acquire and hold increased amounts of mortgage loans and mortgage-related securities in our mortgage portfolio to provide additional liquidity to the mortgage market.

Table 19 summarizes our mortgage portfolio activity for the three months ended March 31, 2009 and 2008.

Table 19: Mortgage Portfolio Activity[1]

	For the Three Months Ended March 31,		Variance	
	2009	2008	$	%
	(Dollars in millions)			
Purchases[2]	$ 49,587	$ 35,500	$ 14,087	40%
Sales	24,092	13,529	10,563	78
Liquidations[3]	29,385	23,571	5,814	25

(1) Excludes unamortized premiums, discounts and other cost basis adjustments.

(2) Excludes advances to lenders and mortgage-related securities acquired through the extinguishment of debt.

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

Portfolio purchases and sales were greater in the first quarter of 2009, relative to the first quarter of 2008, due to increased mortgage originations, increased volume of loan deliveries to us, and increased securitizations from our portfolio. The increase in mortgage liquidations during the first quarter of 2009 reflected the surge in the volume of refinancings in March 2009, as mortgage interest rates fell to record lows.

As a result of the Federal Reserve s agency MBS purchase program, which was announced in November 2008 and expanded in March 2009 to include the purchase of up to $1.25 trillion of agency MBS by the end of 2009, the Federal Reserve currently is the primary purchaser of our MBS. The Federal Reserve s agency MBS purchase program has caused spreads on agency MBS to narrow. As a result, we significantly reduced our purchases of agency MBS during the first quarter of 2009.

Table 20 shows the composition of our mortgage portfolio by product type and the carrying value, which reflects the net impact of our purchases, sales and liquidations, as of March 31, 2009 and December 31, 2008. Our net mortgage portfolio totaled $760.4 billion as of March 31, 2009, reflecting a decrease of 1% from December 31, 2008.

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Table 20: Mortgage Portfolio Composition[1]

	As of	
	March 31, 2009	December 31, 2008
	(Dollars in millions)	
Mortgage loans:[2]		
Single-family:		
Government insured or guaranteed[3][9]	$ 48,167	$ 43,799
Conventional:		
Long-term, fixed-rate	188,098	186,550
Intermediate-term, fixed-rate[4]	38,763	37,546
Adjustable-rate	42,167	44,157
Total conventional single-family	269,028	268,253
Total single-family	317,195	312,052
Multifamily:		
Government insured or guaranteed[3]	673	699
Conventional:		
Long-term, fixed-rate	5,679	5,636
Intermediate-term, fixed-rate[4]	91,606	90,837
Adjustable-rate	21,216	20,269
Total conventional multifamily	118,501	116,742
Total multifamily	119,174	117,441
Total mortgage loans	436,369	429,493
Unamortized premiums and other cost basis adjustments, net	(2,015)	(894)
Lower of cost or market adjustments on loans held for sale	(461)	(264)
Allowance for loan losses for loans held for investment	(4,830)	(2,923)
Total mortgage loans, net	429,063	425,412
Mortgage-related securities:		
Fannie Mae single-class MBS	156,106	159,712
Fannie Mae structured MBS	66,918	69,238
Non-Fannie Mae single-class mortgage securities	25,783	26,976
Non-Fannie Mae structured mortgage securities[5]	86,311	88,467
Mortgage revenue bonds	15,285	15,447
Other mortgage-related securities	2,769	2,863

Total mortgage-related securities	353,172	362,703
Market value adjustments[6]	(9,638)	(15,996)
Other-than-temporary impairments, net of accretion	(12,458)	(7,349)
Unamortized discounts and other cost basis adjustments, net[7]	245	296
Total mortgage-related securities, net	331,321	339,654
Mortgage portfolio, net[8]	$ 760,384	$ 765,066

(1) Mortgage loans and mortgage-related securities are reported at unpaid principal balance.

(2) Mortgage loans include unpaid principal balances totaling $65.5 billion and $65.8 billion as of March 31, 2009 and December 31, 2008, respectively, related to mortgage-related securities that were consolidated under FASB Interpretation (FIN) No. 46R (revised December 2003), *Consolidation of Variable Interest Entities (an interpretation of ARB No. 51)* (FIN 46R), and mortgage-related securities created from securitization transactions that did not meet the sales criteria under SFAS No. 140, *Accounting for Transfer and Servicing of Financial Assets and Extinguishments*

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of Liabilities (a replacement of FASB Statement No. 125) (SFAS 140), which effectively resulted in mortgage-related securities being accounted for as loans.

(3) Refers to mortgage loans that are guaranteed or insured by the U.S. government or its agencies, such as the Department of Veterans Affairs, Federal Housing Administration or the Rural Development Housing and Community Facilities Program of the Department of Agriculture.

(4) Intermediate-term, fixed-rate consists of mortgage loans with contractual maturities at purchase equal to or less than 15 years.

(5) Includes private-label mortgage-related securities backed by subprime or Alt-A mortgage loans totaling $50.6 billion and $52.4 billion as of March 31, 2009 and December 31, 2008, respectively. Refer to Trading and Available-for-Sale Investment Securities Investments in Private-Label Mortgage-Related Securities Investments in Alt-A and Subprime Private-Label Mortgage-Related Securities for a description of our investments in subprime and Alt-A securities.

(6) Includes unrealized gains and losses on mortgage-related securities and securities commitments classified as trading and available for sale.

(7) Includes the impact of other-than-temporary impairments of cost basis adjustments.

(8) Includes consolidated mortgage-related assets acquired through the assumption of debt. Also includes $1.4 billion and $720 million as of March 31, 2009 and December 31, 2008, respectively, of mortgage loans and mortgage-related securities that we have pledged as collateral and that counterparties have the right to sell or repledge.

(9) Includes reverse mortgages with an outstanding unpaid principal balance of approximately $45.6 billion and $41.2 billion as of March 31, 2009 and December 31, 2008, respectively.

Cash and Other Investments Portfolio

Our cash and other investments portfolio consists of cash and cash equivalents, federal funds sold and securities purchased under agreements to resell and non-mortgage investment securities. Our cash and other investments portfolio totaled $92.4 billion as of March 31, 2009, compared with $93.0 billion as of December 31, 2008. See Liquidity and Capital Management Liquidity Management Liquidity Contingency Plan Cash and Other Investments Portfolio for additional information on our cash and other investments portfolio.

Trading and Available-for-Sale Investment Securities

Our mortgage investment securities are classified in our condensed consolidated balance sheets as either trading or available for sale and reported at fair value. Table 21 shows the composition of our trading and available-for-sale securities at amortized cost and fair value as of March 31, 2009, which totaled $358.4 billion and $347.3 billion, respectively. We also disclose the gross unrealized gains and gross unrealized losses related to our available-for-sale securities as of March 31, 2009, and a stratification of the gross unrealized losses based on securities that have been in a continuous unrealized loss position for less than 12 months and for 12 months or longer.

Table 21: Trading and Available-for-Sale Investment Securities

	As of March 31, 2009							
					Less Than 12 Consecutive Months[2]		12 Consecutive Months or Longer[2]	
	Amortized Cost[1]	Gross Unrealized Gains	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses	Total Fair Value	Gross Unrealized Losses	Total Fair Value
	(Dollars in millions)							
Trading:								
Fannie Mae single-class MBS	$ 44,408	$	$	$ 46,747	$	$	$	$
Fannie Mae structured MBS	9,451			9,507				
Non-Fannie Mae single-class mortgage-related securities	978			1,022				
Non-Fannie Mae structured mortgage-related securities	19,547			12,351				
Mortgage revenue bonds	795			653				
Asset-backed securities	11,291			10,270				
Corporate debt securities	4,166			3,725				
Other non-mortgage-related securities[3]	2,003			2,003				
Total trading	$ 92,639	$	$	$ 86,278	$	$	$	$
Available for sale:								
Fannie Mae single-class MBS	$ 111,348	$ 4,403	$ (11)	$ 115,740	$ (10)	$ 1,566	$ (1)	$ 135
Fannie Mae structured MBS	57,211	2,331	(60)	59,482	(17)	2,059	(43)	555
Non-Fannie Mae single-class mortgage-related securities	24,660	949	(8)	25,601	(7)	365	(1)	90
Non-Fannie Mae structured	55,906	350	(11,125)	45,131	(2,509)	6,174	(8,616)	20,100

mortgage-related securities								
Mortgage revenue bonds	14,468	41	(1,291)	13,218	(175)	3,406	(1,116)	7,380
Other mortgage-related securities	2,186	50	(367)	1,869	(278)	1,048	(89)	287
Total available for sale	$ 265,779	$ 8,124	$ (12,862)	$ 261,041	$ (2,996)	$ 14,618	$ (9,866)	$ 28,547
Total investments in securities	$ 358,418	$ 8,124	$ (12,862)	$ 347,319	$ (2,996)	$ 14,618	$ (9,866)	$ 28,547

(1) Amortized cost includes unamortized premiums, discounts and other cost basis adjustments, as well as other-than-temporary impairment write downs.

(2) Reflects the gross unrealized losses and the related fair value of securities that are in a loss position as of March 31, 2009.

(3) Includes one certificate of deposit issued by BNP Paribas with a fair value of $2.0 billion, which exceeded 10% of our stockholders deficit as of March 31, 2009.

Gross unrealized losses on our available-for-sale securities decreased to $12.9 billion as of March 31, 2009, from $16.7 billion as of December 31, 2008. The decrease in gross unrealized losses was primarily attributable to the recognition of other-than-temporary impairment of $5.5 billion in the first quarter of 2009 on our Alt-A and subprime private-label securities. We had previously recognized other-than-temporary impairment on some of these securities. We discuss our process for assessing our available-for-sale investment securities for other-than-temporary impairment below.

Investments in Private-Label Mortgage-Related Securities

The non-Fannie Mae mortgage-related security categories presented in Table 21 above include agency mortgage-related securities issued or guaranteed by Freddie Mac or Ginnie Mae and private-label mortgage-related securities backed by Alt-A, subprime, multifamily, manufactured housing or other mortgage loans. We have no exposure to collateralized debt obligations, or CDOs. We classify private-label securities as Alt-A, subprime, multifamily or manufactured housing if the securities were labeled as such when issued. We also have invested in private-label Alt-A and subprime mortgage-related securities that we have resecuritized to include our guaranty (wraps). We report these wraps in Table 21 above as a component of Fannie Mae

structured MBS. We generally focused our purchases of these securities on the highest-rated tranches available at the time of acquisition. Higher-rated tranches typically are supported by credit enhancements to reduce the exposure to losses. The credit enhancements on our private-label security investments generally are in the form of initial subordination provided by lower level tranches of these securities and prepayment proceeds within the trust. In addition, monoline financial guarantors have provided secondary guarantees on some of our holdings that are based on specific performance triggers. See Risk Management Credit Risk Management Institutional Counterparty Credit Risk Management Financial Guarantors for information on our financial guarantor exposure and the counterparty risk associated with our financial guarantors.

The unpaid principal balance of private-label mortgage-related securities backed by Alt-A, subprime, multifamily, manufactured housing and other mortgage loans and mortgage revenue bonds held in our mortgage portfolio was $96.7 billion as of March 31, 2009, down from $98.9 billion as of December 31, 2008, primarily due to principal payments. Table 22 summarizes, by the underlying loan type, the composition of our investments in private-label securities and mortgage revenue bonds as of March 31, 2009 and the average credit enhancement. The average credit enhancement generally reflects the level of cumulative losses that must be incurred before we experience a loss of principal on the tranche of securities that we own. Table 22 also provides information on the credit ratings of our private-label securities as of April 28, 2009. The credit rating reflects the lowest rating reported by Standard & Poor s (Standard & Poor s), Moody s Investors Service (Moody s), Fitch Ratings (Fitch) or DBRS Limited, each of which nationally recognized statistical rating organization.

Table 22: Investments in Private-Label Mortgage-Related Securities and Mortgage Revenue Bonds

	As of March 31, 2009		As of April 28, 2009			
	Unpaid Principal Balance	Average Credit Enhancement[1]	% AAA[2]	% AA to BBB-[2]	% Below Investment Grade[2]	Current % Watchlist[3]
	(Dollars in millions)					
Private-label mortgage-related securities backed by:						
Alt-A mortgage loans:						
Option ARM Alt-A mortgage loans	$ 6,584	53%	3%	20%	77%	%
Other Alt-A mortgage loans	20,488	14	32	21	47	5
Total Alt-A mortgage loans	27,072	23	25	21	54	4
Subprime mortgage loans[4]	23,538	36	13	13	74	
Total Alt-A and subprime loans	50,610					
Multifamily mortgage loans (CMBS)	25,792	30	100			1
Manufactured housing loans	2,745	36	3	23	74	
Other mortgage loans	2,275	6	93	3	4	4
Total private-label mortgage-related securities	81,422					

Mortgage revenue bonds[5]	15,284	35	38	59	3	17
Total	$ 96,706					

(1) Average credit enhancement percentage reflects both subordination and financial guarantees. Reflects the ratio of the current amount of the securities that will incur losses in a securitization structure before any losses are allocated to securities that we own. Percentage calculated based on the quotient of the total unpaid principal balance of all credit enhancement in the form of subordination or financial guarantee of the security divided by the total unpaid principal balance of all of the tranches of collateral pools from which credit support is drawn for the security that we own.

(2) Reflects credit ratings as of April 28, 2009, calculated based on unpaid principal balance as of March 31, 2009. Investment securities that have a credit rating below BBB- or its equivalent or that have not been rated are classified as below investment grade.

(3) Reflects percentage of investment securities, calculated based on unpaid principal balance as of March 31, 2009, that have been placed under review by either Standard & Poor s, Moody s, Fitch or DBRS, Limited.

(4) Excludes resecuritizations, or wraps, of private-label securities backed by subprime loans that we have guaranteed and hold in our mortgage portfolio. These wraps, which totaled $6.9 billion as of March 31, 2009, are presented in Table 28: Hypothetical Performance Scenarios Alt-A and Subprime Private-Label Wraps.

(5) Reflects that 35% of the outstanding unpaid principal balance of our mortgage revenue bonds are guaranteed by third parties.

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Investments in Alt-A and Subprime Private-Label Mortgage-Related Securities

Table 23 presents the unpaid principal balance and estimated fair value of our investments in Alt-A and subprime private-label securities as of March 31, 2009 and December 31, 2008, and the gross unrealized losses on those securities classified as available for sale.

Table 23: Investments in Alt-A and Subprime Private-Label Mortgage-Related Securities, Excluding Wraps

	As of					
	March 31, 2009			December 31, 2008		
	Unpaid Principal Balance	Fair Value	Gross Unrealized Losses	Unpaid Principal Balance	Fair Value	Gross Unrealized Losses
	(Dollars in millions)					
Alt-A private-label securities:						
Trading	$ 3,567	$ 1,232	$	$ 3,640	$ 1,476	$
Available for sale	23,505	13,742	(2,477)	24,218	15,276	(4,307)
Total Alt-A private-label securities	27,072	14,974	(2,477)	27,858	16,752	(4,307)
Subprime private-label securities:[1]						
Trading	3,782	2,116		3,887	2,317	
Available for sale	19,756	12,511	(2,863)	20,664	14,318	(4,433)
Total subprime private-label securities	23,538	14,627	(2,863)	24,551	16,635	(4,433)
Total Alt-A and subprime private-label securities, excluding wraps	$ 50,610	$ 29,601	$ (5,340)	$ 52,409	$ 33,387	$ (8,740)

(1) Excludes resecuritizations, or wraps, of private-label securities backed by subprime loans that we have guaranteed and hold in our mortgage portfolio. These wraps, which totaled $6.9 billion and $7.3 billion as of March 31, 2009 and December 31, 2008, respectively, are presented in Table 28: Hypothetical Performance Scenarios Alt-A and Subprime Private-Label Wraps.

The decrease in gross unrealized losses on our available-for-sale Alt-A and subprime private-label securities to $5.3 billion as of March 31, 2009, from $8.7 billion as of December 31, 2008 was primarily attributable to the recognition of other-than-temporary impairment of $5.5 billion in the first quarter of 2009. We recognized net fair value losses of $271 million and $1.0 billion for the first quarter of 2009 and 2008, respectively, on our investments in Alt-A and subprime private-label securities classified as trading during the respective quarters.

The substantial portion of our Alt-A and subprime private-label mortgage-related securities were rated AAA when we purchased these securities; however, many of these securities have suffered significant downgrades since we acquired them. As indicated in Table 22 above, approximately 54% and 74% of our Alt-A and subprime private-label mortgage-related securities, respectively, were rated below investment grade as of April 28, 2009. Approximately 25% and 13% of our Alt-A and subprime private-label mortgage-related securities, respectively, were rated AAA as of April 28, 2009. Although our portfolio of Alt-A and subprime private-label mortgage-related securities primarily consists of senior level tranches, we believe we are likely to incur losses on some securities that are currently rated AAA as a result of the significant and continued deterioration in home prices and the increasing delinquency, foreclosure and REO levels, particularly with regard to 2006 to 2007 loan vintages, which were originated in an environment of significant increases in home prices and relaxed underwriting criteria and eligibility standards. These conditions, which have had an adverse effect on the performance of the loans underlying our Alt-A and subprime private-label securities, have contributed to a sharp rise in expected defaults and loss severities and slower voluntary prepayment rates, particularly for the 2006 and 2007 loan vintages.

Table 24 presents a comparison, based on data provided by Intex Solutions, Inc. (Intex) and First American CoreLogic, LoanPerformance, where available, of the 60 days or more delinquency rates and average loss severities as of March 31, 2009, December 31, 2008, September 30, 2008 and June 30, 2008 of the Alt-A and subprime loans backing private-label securities that we own or guarantee.

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Table 24: Delinquency Status and Loss Severity Rates of Loans Underlying Alt-A and Subprime Private-Label Mortgage-Related Securities

	As of							
	March 31, 2009		December 31, 2008		September 30, 2008		June 30, 2008	
Loan Categories	^{3} 60 Days Delinquent[1]	Average Loss Severity[2]	^{3} 60 Days Delinquent[1]	Average Loss Severity[2]	^{3} 60 Days Delinquent[1]	Average Loss Severity[2]	^{3} 60 Days Delinquent[1]	Average Loss Severity[2]
Option ARM Alt-A loans:								
2004 and prior	26.05%	41.93%	22.97%	37.67%	18.88%	38.52%	15.95%	32.37%
2005	32.18	55.14	26.48	50.34	21.65	46.84	17.35	42.77
2006	39.33	57.69	32.84	55.22	27.97	48.84	21.44	42.84
2007	31.77	53.24	24.16	51.00	17.17	44.60	10.79	32.99
Other Alt-A loans:								
2004 and prior	5.97	47.27	4.75	41.80	3.87	36.89	3.36	38.15
2005	15.18	53.90	12.18	49.59	10.27	45.30	8.78	41.12
2006	23.57	57.08	19.70	52.49	16.99	46.54	15.40	42.38
2007	31.34	63.33	26.05	54.96	21.55	47.71	17.55	39.21
Subprime loans:								
2004 and prior	22.09	71.47	21.09	65.56	20.71	63.27	21.51	61.00
2005	42.82	66.76	39.86	60.22	38.58	55.11	36.51	50.33
2006	47.82	68.18	44.60	62.30	40.19	55.97	36.13	50.36
2007	41.81	64.93	35.37	57.90	29.62	50.52	23.87	44.76

(1) Delinquency data provided by Intex for Alt-A and subprime loans backing private-label securities that we own or guarantee. The Intex delinquency data reflects information from remittances for the last month each quarter. However, we have adjusted the Intex delinquency data for consistency purposes, where appropriate, to include in the delinquency rates all bankruptcies, foreclosures and real estate owned.

(2) Data obtained from First American CoreLogic, LoanPerformance and is based on most current data available as of each date. The average loss severities reported for March 31, 2009 include performance data for January 2009 and February 2009. We expect that the average loss severities as of March 31, 2009 will be higher than the amounts presented in Table 24 when the performance data for March 2009 is incorporated.

Other-Than-Temporary Impairment on Available-for-Sale Alt-A and Subprime Private-Label Securities

We recognized other-than-temporary impairment on our Alt-A and subprime private-label securities classified as available for sale totaling $5.5 billion in the first quarter of 2009, of which $2.9 billion related to Alt-A securities with an unpaid principal balance of $13.6 billion as of March 31, 2009, and $2.6 billion related to subprime securities with an unpaid principal balance of $9.7 billion as of March 31, 2009. Table 25 presents the cumulative other-than-temporary impairment losses recognized as of March 31, 2009 on our available-for-sale investments in Alt-A and subprime private-label securities.

Table 25: Other-than-temporary Impairment Losses on Available-for-Sale Alt-A and Subprime Private-Label Mortgage-Related Securities

	Q1 2009	For the Year Ended December 31, 2008	For the Year Ended December 31, 2007	As of March 31, 2009 Cumulative
	(Dollars in millions)			
Other-than-temporary impairment on available-for-sale private-label mortgage-related securities backed by:				
Alt-A mortgage loans	$ 2,928	$ 4,820	$	$ 7,748
Subprime mortgage loans	2,606	1,932	160	4,698
Total	$ 5,534	$ 6,752	$ 160	$ 12,446

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The current market pricing of Alt-A and subprime securities has been adversely affected by the increasing level of defaults on the mortgages underlying these securities and the uncertainty as to the extent of further deterioration in the housing market. In addition, market participants are requiring a significant risk premium, which can be measured as a significant increase in the required yield on the investment, for taking on the increased uncertainty related to cash flows. Further, there continues to be less liquidity for these securities than was available prior to the onset of the housing and credit liquidity crises, which has also contributed to lower prices. For those securities that we have not impaired, we believe that the performance of the underlying collateral will still allow us to recover our initial investment, although at significantly lower yields than what is being required currently by new investors. We will accrete into interest income the portion of the amounts we expect to recover that exceeds the current carrying value of these securities over the remaining life of the securities. The amount accreted into earnings on our Alt-A and subprime securities for which we have recognized other-than-temporary impairment totaled $371 million and $24 million for the three months ended March 31, 2009 and 2008, respectively.

Hypothetical Performance Scenarios

Tables 26, 27 and 28 present additional information as of March 31, 2009 for our investments in Alt-A and subprime private-label mortgage-related securities, reported based on half-year vintages for securities we hold that were issued during the years 2005 to 2008. The securities within each reported half-year vintage are stratified by credit enhancement quartile. The 2006 and 2007 vintages of loans underlying these securities have experienced significantly higher delinquency rates than other vintages. Accordingly, the year of issuance or origination of the collateral underlying these securities is a significant factor in projecting expected cash flow performance and evaluating the ongoing credit performance. The credit enhancement quartiles presented range from the lowest level of credit enhancement to the highest. A higher level of credit enhancement generally reduces the exposure to loss.

We have disclosed for information purposes the net present value of projected losses (NPV) of our securities under four hypothetical scenarios, which assume specific cumulative constant default and loss severity rates against the loans underlying our Alt-A and subprime private-label securities. The projected loss results under these scenarios are calculated based on the projected cash flows from each security and include the following additional key assumptions: (i) discount rate, (ii) expected constant prepayment rates (CPR) and (iii) average life of the securities. These scenarios assume a discount rate based on the London Interbank Offered Rate (LIBOR) and constant default and loss severity rates experienced over a six-year period. We assume CPRs of 15% for our Alt-A securities and 10% to 15% for our subprime securities, which vary in each scenario based on the loan age. A CPR of 15% indicates that for each period, 15% of the remaining unpaid principal balance of the loans underlying the security will be paid off each year.

We also disclose the difference between the unpaid principal balance and the fair value for those securities that would be in a loss position under each hypothetical stress scenario. Assuming the actual default and loss severities associated with our Alt-A and subprime securities classified as available-for-sale approximate the default and severities presented in the hypothetical scenarios, we would expect that the other-than-temporary impairment that we may recognize on these securities would approximate the difference between the NPV of projected losses and the fair value.

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Table 26: Hypothetical Performance Scenarios Investments in Alt-A Private-Label Mortgage-Related Securities, Excluding Wraps*

	As of March 31, 2009										
	Unpaid Principal Balance				Credit Enhancement Statistics				Hypothetical NPV Loss Scenar		
d le[1]	Trading Securities	Available-for-Sale Securities	Average Price	Fair Value	Average Current[2]	Original[2]	Minimum Current[2]	Monoline Financial Guaranteed Amount[3]	40d/60s NPV	50d/50s NPV	70d/60s NPV
						(Dollars in millions)					
s in ities:[5]											
M ities:											
rior	$	$ 636	$ 38.02	$ 242	23%	11%	14%	$	$ 21	$ 28	$ 147
		98	39.41	39	20	7	20		2	3	22
		153	27.68	42	23	12	23		3	5	32
		129	33.40	43	27	16	24		3	4	27
		148	33.93	50	42	33	34				21
otal		528	33.01	174	29	18	20		8	12	102
		228	35.60	81	33	28	31		2	5	45
		228	42.46	97	35	32	35		6	8	47
		344	39.78	137	48	42	44		1	1	44
		316	37.79	119	100	100	100	316			
otal		1,116	38.91	434	57	54	31	316	9	14	136
		128	22.26	29	20	19	9		27	32	71
		394	37.42	147	39	38	39		1	5	66
		350	36.37	127	43	43	42				47
		401	26.19	105	88	88	47	308			13
otal		1,273	32.07	408	53	53	9	308	28	37	197
		203	35.18	72	37	35	37				32
		92	38.37	35	40	40	40				13
		217	36.99	80	68	68	46	87			17
otal		512	36.52	187	51	50	37	87			62
	198		34.67	69	25	24	25		2	7	50

	356		37.02	132	46	45	45				44
	254		36.64	93	48	47	48				37
	507		23.63	120	100	100	100	507			
total	1,315		31.43	414	64	64	25	507	2	7	131
	286		31.21	89	33	32	25		3	8	62
	210		42.00	88	47	47	47				32
	300		38.72	116	48	47	48				44
	408		20.31	83	100	100	100	408			
total	1,204		31.27	376	62	62	25	408	3	8	138
n ARM ities	$ 2,519	$ 4,065	$ 33.95	$ 2,235	53%	50%	9%	$ 1,626	$ 71	$ 106	$ 913
urities hetical :[7]											
									$ 247	$ 247	$ 587
									731	731	1,604
									$ (484)	$ (484)	$ (1,017)
or-sale vith l NPV											
									$ 664	$ 728	$ 1,232
									1,879	2,023	3,354
									$ (1,215)	$ (1,295)	$ (2,122)

As of March 31, 2009

(Dollars in millions)

	Unpaid Principal Balance				Credit Enhancement Statistics				Hypothetical NPV Loss Scenar		
(1)	Trading Securities	Available-for-Sale Securities	Average Price	Fair Value	Average Current(2)	Original(2)	Minimum Current(2)	Monoline Financial Guaranteed Amount(3)	30d/60s NPV	30d/70s NPV	40d/60s NPV
in ties:(5)											
or	$	$ 8,352	$ 76.21	$ 6,365	12%	6%	5%	$ 24	$ 633	$ 865	$ 1,115
		352	65.84	232	9	5	6		30	41	52
		354	65.58	232	13	7	12		19	31	44
		423	64.42	273	14	10	13		22	34	48
		414	62.50	259	17	12	15		15	26	39
tal		1,543	64.49	996	14	9	6		86	132	183
		933	62.61	584	6	5	5		114	142	170
		973	58.97	573	9	8	7		92	122	152
		948	51.11	485	16	15	14		50	73	103
		1,007	52.82	532	20	16	17		17	30	54
tal		3,861	56.31	2,174	13	11	5		273	367	479
	32	1,039	56.37	604	5	4	5		135	166	199
		1,032	47.51	490	9	8	8		73	103	141
		1,145	58.21	666	13	12	11		86	133	185
	47	1,259	43.62	570	18	17	16		19	32	59
tal	79	4,475	51.17	2,330	12	11	5		313	434	584
		470	37.81	178	9	10	7		14	27	45
		313	35.18	110	15	16	15			2	10
		265	32.42	86	16	16	16		2	6	15
tal		1,048	35.66	374	12	13	7		16	35	70
	53		45.57	24	5	7	5			2	4
	175		37.85	66	6	6	5		4	10	18
	73		45.10	33	7	7	7		8	10	12
	265		40.71	108	15	16	14			1	10

otal	566		40.84	231	10	11	5		12	23	44
	403		43.00	173	100	100	100	402			
otal	403		43.00	173	100	100	100	402			
		161	59.73	96	21	20	21				
otal(7)		161	59.73	96	21	20	21				
lt-A	$ 1,048	$ 19,440	$ 62.18	$ 12,739	14%	10%	5%	$ 426	$ 1,333	$ 1,856	$ 2,475
rities etical 8)											
									$ 208	$ 229	$ 270
									514	560	646
									$ (306)	$ (331)	$ (376)
r-sale th NPV											
									$ 10,691	$ 11,295	$ 11,813
									16,220	17,474	18,575
									$ (5,529)	$ (6,179)	$ (6,762)

* The footnotes to this table are presented following Table 27.

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Table 27: Hypothetical Performance Scenarios Investments in Subprime Private-Label Mortgage-Related Securities, Excluding Wraps

	As of March 31, 2009										
	Unpaid Principal Balance				Credit Enhancement Statistics				Hypothetical NPV Loss Scenari		
d e[1]	Trading Securities	Available-for-sale Securities	Average Price	Fair Value	Average Current[2]	Original[2]	Minimum Current[2]	Monoline Financial Guaranteed Amount[3]	60d/70s NPV	70d/60s NPV	70d/70s NPV
	(Dollars in millions)										
s in											
)											
ior	$	$ 2,855	$ 75.34	$ 2,151	72%	53%	13%	$ 1,250	$ 50	$ 61	$ 116
		20	85.94	17	74	36	74				
		25	86.45	22	86	29	86				
otal		45	86.22	39	80	32	74				
		70	76.40	53	41	23	38				
		31	85.47	26	56	38	56				
		88	84.09	74	63	30	63				
		111	79.44	89	89	77	72	69			
otal		300	80.72	242	67	47	38	69			
		1,256	51.88	652	21	19	16		128	169	277
		1,470	57.87	850	27	23	25		52	92	225
		1,394	67.32	939	34	22	32		2	7	66
		1,383	70.37	973	48	31	40	52			11
otal		5,503	62.04	3,414	33	24	16	52	182	268	579
		2,447	52.77	1,291	19	19	12		258	353	593
		2,437	59.33	1,446	24	21	22		133	217	455
		2,680	63.34	1,697	28	21	26		76	140	386
		2,679	62.86	1,684	36	28	31		4	28	203
otal		10,243	59.73	6,118	27	22	12		471	738	1,637
	549		28.72	158	13	16	7		313	323	347
	488		56.96	278	25	24	24		54	75	120

	636		62.18	395	28	24	27		30	52	114
	795		65.05	518	50	46	29	211	6	20	91
otal	2,468		54.64	1,349	31	29	7	211	403	470	672
	512		43.45	222	27	24	14		173	199	239
	290	179	67.67	317	33	29	31		10	23	81
		520	68.36	356	36	33	36				20
	512	111	67.24	419	43	38	38				8
otal	1,314	810	61.87	1,314	35	31	14		183	222	348
ime	$ 3,782	$ 19,756	$ 62.14	$ 14,627	36%	28%	7%	$ 1,582	$ 1,289	$ 1,759	$ 3,352
urities etical :[8]											
									$ 1,405	$ 1,480	$ 1,615
									2,738	2,849	3,043
									$ (1,333)	$ (1,369)	$ (1,428)
or-sale ith l NPV											
									$ 5,870	$ 7,244	$ 9,616
									10,252	12,288	15,901
									$ (4,382)	$ (5,044)	$ (6,285)

(1) Reported based on half-year vintages for 2005, 2006, 2007 and 2008, with securities that we hold within each half-year vintage stratified based on credit enhancement quartiles. We did not have any exposure to investments in Alt-A or subprime private-label securities issued in the second half of 2008 or in 2009.

(2) Reflects the ratio of the current amount of the securities that will incur losses in the securitization structure before any losses are allocated to securities that we own, taking into consideration subordination and financial guarantees. Percentage calculated based on the quotient of the total unpaid principal balance of all credit enhancement in the form

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of subordination or financial guaranty of the security divided by the total unpaid principal balance of all of the tranches of collateral pools from which credit support is drawn for the security that we own.

(3) Reflects amount of unpaid principal balance supported by financial guarantees from monoline financial guarantors.

(4) Reflects the present value of projected losses based on the disclosed hypothetical cumulative default and loss severity rates against the outstanding collateral balance.

(5) Consists of private-label securities backed by Alt-A mortgage loans that are reported in our mortgage portfolio as a component of non-Fannie Mae structured securities.

(6) Consists of private-label securities backed by subprime loans that are reported in our mortgage portfolio as a component of non-Fannie Mae structured securities. Excludes resecuritizations, or wraps, of private-label securities backed by subprime loans that we have guaranteed and hold in our mortgage portfolio. These wraps, which totaled $6.9 billion as of March 31, 2009, are presented in Table 28: Hypothetical Performance Scenarios Alt-A and Subprime Private-Label Wraps.

(7) The 2008-1 vintage for other Alt-A securities consists entirely of a security from a resecuritized REMIC transaction whose underlying bonds represent senior bonds from 2007 residential mortgage-backed securities transactions backed by Alt-A loans. These bonds have a weighted average credit enhancement of 5.03% as of March 31, 2009 and an original weighted average credit enhancement of 4.67%.

(8) Reflects the unpaid principal balance and fair value amounts of all securities for which the expected cash flows of the security under the specified hypothetical scenario were less than the unpaid principal balance of the security as of March 31, 2009.

The projected loss results for the scenarios presented above are for indicative purposes only and should not be construed as a prediction of our future results, market conditions or actual performance of these securities. These scenarios, which are based on numerous assumptions, including specific constant default and loss severity rates, are not the only way to analyze the performance of these securities. For example, as discussed above, we consider various factors in our assessment of other-than-temporary impairment, the most critical of which is whether it is probable that we will not collect all of the contractual amounts due. This assessment is not based on specific constant default and loss severity rates, but instead involves assumptions including, but not limited to the following: actual default, prepayment or loss severity rates; the effectiveness of subordination and credit enhancement; the level of interest rates; changes in loan characteristics; the level of losses covered by monoline financial guarantors; the financial condition of other transaction participants; and changes in applicable legislation and regulation that may impact performance.

Alt-A and Subprime Private-Label Wraps

In addition to Alt-A and subprime private-label mortgage-related securities included in our mortgage portfolio, we also have exposure to private-label Alt-A and subprime mortgage-related securities that have been resecuritized (or wrapped) to include our guarantee. The unpaid principal balance of Alt-A and subprime private-label label wraps was $10.6 billion as of March 31, 2009, compared with $11.2 billion as of December 31, 2008. The unpaid principal balance of these Fannie Mae guaranteed securities held by third parties is included in outstanding and unconsolidated Fannie Mae MBS held by third parties, which we discuss in Off-Balance Sheet Arrangements and Variable Interest Entities. We include incurred credit losses related to these wraps in our reserve for guaranty losses.

Table 28 presents the unpaid principal balance of our on- and off-balance sheet Alt-A and subprime private-label wraps as of March 31, 2009, reported based on half-year vintages for securities we hold that were issued during the years 2005 to 2008. The securities within each reported half-year vintage are stratified by credit enhancement quartile. We also have disclosed for information purposes the net present value of projected losses of our securities under four hypothetical scenarios.

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Table 28: Hypothetical Performance Scenarios Alt-A and Subprime Private-Label Wraps

	As of March 31, 2009								
		Credit Enhancement Statistics				Hypothetical NPV Loss Scenarios[5]			
Vintage and CE Quartile[1]	**Unpaid Principal Balance[2]**	**Average Current[3]**	**Original[3]**	**Minimum Current[3]**	**Monoline Financial Guaranteed Amount[4]**	**30d/60s NPV**	**40d/60s NPV**	**30d/70s NPV**	**40d/70s NPV**
	(Dollars in millions)								
Alt-A wraps:									
2005-1(1)	$	%	%	%	$	$	$	$	$
2005-1(2)									
2005-1(3)									
2005-1(4)	207	6	4	6		16	27	22	35
2005-1 subtotal	207	6	4	6		16	27	22	35
2007-1(1)									
2007-1(2)									
2007-1(3)									
2007-1(4)	276	6	8	6			15	4	27
2007-1 subtotal	276	6	8	6			15	4	27
2008-1(1)									
2008-1(2)									
2008-1(3)									
2008-1(4)									
2008-1 subtotal									
Total Alt-A wraps	$ 483	6%	7%	6%	$	$ 16	$ 42	$ 26	$ 62

	As of March 31, 2009								
		Credit Enhancement Statistics				Hypothetical NPV Loss Scenarios[5]			
Vintage and CE Quartile[1]	**Unpaid Principal Balance[2]**	**Average Current[3]**	**Original[3]**	**Minimum Current[3]**	**Monoline Financial Guaranteed Amount[4]**	**60d/70s NPV**	**70d/60s NPV**	**70d/70s NPV**	**80d/70s NPV**
	(Dollars in millions)								

Subprime wraps:									
2004 and prior	$ 729	35%	14%	18%	$	$ 42	$ 42	$ 65	$ 102
2005-1(1)	79	12	3						
2005-1(2)									
2005-1(3)	220	63	20	62					
2005-1(4)	105	74	20	71					
2005-1 subtotal	404	56	17						
2005-2(1)	94	23	20	23		14	17	25	36
2005-2(2)	819	45	31	44					71
2005-2(3)	459	54	26	49					6
2005-2(4)	460	83	60	59	179	1	6	19	22
2005-2 subtotal	1,832	56	36	23	179	15	23	44	135
2007-1(1)	1,282	16	17	16		213	257	368	531
2007-1(2)	1,729	22	21	20		178	247	406	642
2007-1(3)	1,499	26	21	24		95	159	304	514
2007-1(4)	1,580	34	29	28		78	118	246	442
2007-1 subtotal	6,090	25	22	16		564	781	1,324	2,129
2007-2(1)	260	29	24	26		13	21	49	88
2007-2(2)									
2007-2(3)	395	33	30	33		24	37	70	120
2007-2(4)	428	35	30	35				32	104
2007-2 subtotal	1,083	33	29	26		37	58	151	312
2008-1(1)									
2008-1(2)									
2008-1(3)									
2008-1(4)									
2008-1 subtotal									
Total subprime wraps	$ 10,138	33%	25%	%	$ 179	$ 658	$ 904	$ 1,584	$ 2,678
Total Alt-A and subprime wraps	$ 10,621	32%	24%	%	$ 179	$ 674	$ 946	$ 1,610	$ 2,740

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(1) Reported based on half-year vintages for 2005, 2007 and 2008, with each half-year vintage stratified based on credit enhancement quartiles. We did not have any exposure as of March 31, 2009 to Alt-A private-label wraps issued in the second half of 2005, in 2006, in the second half of 2008 or in 2009. We did not have any exposure as of March 31, 2009 to subprime private-label wraps issued in 2006, in the second half of 2008 or in 2009.

(2) We recognized net fair value gains of $154 million and net fair value losses of $51 million in the first quarter of 2009 and 2008, respectively, on our investments in subprime private-label wraps that were classified as trading and held in our portfolio as of the end of each quarter. We recognized net fair value gains of $154 million and net fair value losses of $30 million in the first quarter of 2009 and 2008, respectively, on our investments in subprime private-label wraps that were classified as trading during the respective quarters. Gross unrealized losses related to our investments in subprime private-label wraps classified as available for sale totaled $13 million and $18 million as of March 31, 2009 and December 31, 2008, respectively.

(3) Reflects the percentage of the current amount of the securities that will incur losses in the securitization structure before any losses are allocated to securities that we own, taking into consideration subordination and financial guarantees. Percentage calculated based on the quotient of the total unpaid principal balance of all credit enhancement in the form of subordination or financial guaranty of the security divided by the total unpaid principal balance of all of the tranches of collateral pools from which credit support is drawn for the security that we own.

(4) Reflects amount of unpaid principal balance supported by financial guarantees from monoline financial guarantors.

(5) Reflects the present value of projected losses based on the disclosed hypothetical cumulative default and loss severity rates against the outstanding collateral balance.

Debt Instruments

We issue debt instruments as the primary means to fund our mortgage investments and manage our interest rate risk exposure. Our total outstanding debt, which consists of federal funds purchased and securities sold under agreements to repurchase, short-term debt and long-term debt decreased to $854.0 billion as of March 31, 2009, from $870.5 billion as of December 31, 2008. We provide a summary of our debt activity for the first quarters of 2009 and 2008 and a comparison of the mix between our outstanding short-term and long-term debt as of March 31, 2009 and December 31, 2008 in Liquidity and Capital Management Liquidity Management Debt Funding Debt Funding Activity. Also see Notes to Condensed Consolidated Financial Statements Note 10, Short-term Borrowings and Long-term Debt for additional detail on our outstanding debt.

Derivative Instruments

We supplement our issuance of debt with interest rate-related derivatives to manage the prepayment and duration risk inherent in our mortgage investments. We aggregate, by derivative counterparty, the net fair value gain or loss, less any cash collateral paid or received, and report these amounts in our consolidated balance sheets as either assets or liabilities. We present, by derivative instrument type, the estimated fair value of derivatives recorded in our consolidated balance sheets and the related outstanding notional amount as of March 31, 2009 and December 31, 2008 in Notes to Condensed Consolidated Financial Statements Note 11, Derivative Instruments.

We refer to the difference between the derivative assets and derivative liabilities recorded on our consolidated balance sheets as our net derivative asset or liability. Table 29 provides an analysis of the change in the estimated fair value of

our net derivative liability, excluding mortgage commitments, recorded in our consolidated balance sheets between December 31, 2008 and March 31, 2009. As shown in Table 29, the net fair value of our risk management derivatives, excluding mortgage commitments, resulted in a net derivative liability of $1.6 billion as of March 31, 2009, compared with a net derivative liability of $1.8 billion as of December 31, 2008.

Table 29: Changes in Risk Management Derivative Assets (Liabilities) at Fair Value, Net[(1)]

	For the Three Months Ended March 31, 2009 (Dollars in millions)
Net derivative liability as of December 31, 2008[(2)]	$ (1,761)
Effect of cash payments:	
Fair value at inception of contracts entered into during the period[(3)]	221
Fair value at date of termination of contracts settled during the period[(4)]	19
Net collateral posted	1,704
Periodic net cash contractual interest payments (receipts)[(5)]	(371)
Total cash payments (receipts)	1,573
Statement of operations impact of recognized amounts:	
Periodic net contractual interest income (expense) accruals on interest rate swaps	(940)
Net change in fair value of terminated derivative contracts from end of prior year to date of termination	2
Net change in fair value of outstanding derivative contracts, including derivative contracts entered into during the period	(430)
Derivatives fair value losses, net[(6)]	(1,368)
Net derivative liability as of March 31, 2009[(2)]	$ (1,556)

(1) Excludes mortgage commitments.

(2) Reflects the net amount of Derivative liabilities at fair value recorded in our condensed consolidated balance sheets, excluding mortgage commitments.

(3) Cash payments made to purchase derivative option contracts (purchased options premiums) increase the derivative asset recorded in the condensed consolidated balance sheets. Primarily includes upfront premiums paid or received on option contracts. Also includes upfront cash paid or received on other derivative contracts.

(4) Cash payments to terminate and/or sell derivative contracts reduce the derivative liability recorded in the condensed consolidated balance sheets. Primarily represents cash paid (received) upon termination of derivative contracts.

(5)

We accrue interest on our interest rate swap contracts based on the contractual terms and recognize the accrual as an increase to the net derivative liability recorded in the condensed consolidated balance sheets. The corresponding offsetting amount is recorded as an expense and included as a component of derivatives fair value losses in the condensed consolidated statements of operations. Periodic interest payments on our interest rate swap contracts reduce the derivative liability.

(6) Reflects net derivatives fair value losses, excluding mortgage commitments, recognized in the condensed consolidated statements of operations.

For additional information on our derivative instruments, see Consolidated Results of Operations Fair Value Gains (Losses), Net, Risk Management Interest Rate Risk Management and Other Market Risks and Notes to Condensed Consolidated Financial Statements Note 11, Derivative Instruments.

SUPPLEMENTAL NON-GAAP INFORMATION FAIR VALUE BALANCE SHEETS

As part of our disclosure requirements with FHFA, we disclose on a quarterly basis a supplemental non-GAAP fair value balance sheet, which reflects our assets and liabilities at estimated fair value. Table 31, which we provide at the end of this section, presents our non-GAAP fair value balance sheets as of March 31, 2009 and December 31, 2008, and the non-GAAP estimated fair value of our net assets. The estimated fair value of our net assets, which is derived from our non-GAAP fair value balance sheets, is calculated based on the difference between the fair value of our assets and the fair value of our liabilities. We present a summary of the changes in the fair value of our net assets for the first quarter of 2009 in Table 32 at the end of this section. The fair value of our net assets is not a measure defined within GAAP and may not be comparable to similarly titled measures reported by other companies. It is not intended as a substitute for stockholders equity (deficit) reported in our GAAP condensed consolidated financial statements.

Our net worth, which is based on our GAAP condensed consolidated financial statements, is the measure that is used to determine whether it is necessary to request additional funds from Treasury under the senior preferred stock purchase agreement. We provide the estimated fair value of our net assets as a supplemental measure. Our fair value net asset deficit of $110.3 billion as of March 31, 2009 reflects a point in time estimate of the fair value of our existing assets and liabilities. The ultimate amount of realized credit losses and realized values we receive from holding our assets and liabilities, however, may differ materially from the current estimated fair values, which reflect significant liquidity and risk premiums.

Table 30 below compares selected measures from our GAAP consolidated balance sheets and our non-GAAP fair value balance sheets as of March 31, 2009.

Table 30: Comparative Measures GAAP Consolidated Balance Sheets and Non-GAAP Fair Value Balance Sheets

	2009 (Dollars in millions)
GAAP consolidated balance sheets:	
Fannie Mae stockholders deficit as of January 1[1]	$ (15,314)
Change in Fannie Mae stockholders deficit	(3,752)
Fannie Mae stockholders deficit as of March 31[1]	$ (19,066)
Non-GAAP fair value balance sheets:	
Estimated fair value of net assets as of January 1	$ (105,150)
Change in estimated fair value of net assets	(5,164)
Estimated fair value of net assets as of March 31	$ (110,314)

(1) Our net worth, as defined under the Treasury senior preferred stock purchase agreement, is equivalent to the Total deficit amount reported in our condensed consolidated balance sheets. Our net worth, or total deficit, is comprised

of Fannie Mae s stockholders equity (deficit) and Noncontrolling interests reported in our condensed consolidated balance sheets.

We experienced a decrease of $5.2 billion in the fair value of our net assets during the first quarter of 2009, which resulted in a fair value net asset deficit of $110.3 billion as of March 31, 2009. The decline in the fair value of our net assets during the first quarter of 2009 was attributable to the adverse impact on our net guaranty assets from the ongoing deterioration in the housing and credit markets, which was partially offset by the $15.2 billion received from Treasury under the senior preferred stock purchase agreement and an increase in the fair value of our net portfolio resulting from the tightening of spreads on agency MBS and the widening of spreads on agency debt during the quarter.

Below we provide additional information that we believe may be useful in understanding our fair value balance sheets, including: (1) an explanation of how fair value is defined and measured; (2) the primary

factors driving the decline in the fair value of net assets during the first quarter of 2009; and (3) the limitations of our non-GAAP fair value balance sheet and related measures.

Fair Value Measurement

As discussed more fully in Critical Accounting Policies and Estimates Fair Value of Financial Instruments, we use various valuation techniques to estimate fair value, some of which incorporate internal assumptions that are subjective and involve a high degree of management judgment. We describe the specific valuation techniques used to determine the fair value of our financial instruments and disclose the carrying value and fair value of our financial assets and liabilities in Notes to Condensed Consolidated Financial Statements Note 18, Fair Value of Financial Instruments.

Fair value as defined under SFAS 157 represents the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (also referred to as an exit price). Fair value is intended to convey the current value of an asset or liability as of the measurement date, not the potential value of the asset or liability that may be realized from future cash flows associated with the asset or liability. Fair value generally incorporates the market s current view of the future, which is reflected in the current price of the asset or liability. Future market conditions, however, may be more adverse than what the market has currently estimated and priced into these fair value measures. Moreover, the fair value balance sheet reflects only the value of the assets and liabilities of the enterprise as of a point in time (the balance sheet date) and does not reflect the value of new assets or liabilities the company may generate in the future. Because our intent generally has been to hold our mortgage investments until maturity, the amounts we ultimately realize from the maturity, settlement or disposition of these assets may vary significantly from the estimated fair value of these assets as of March 31, 2009.

Our GAAP consolidated balance sheets include a combination of amortized historical cost, fair value and the lower of cost or fair value as the basis for accounting and for reporting our assets and liabilities. The principal items that we carry at fair value in our GAAP consolidated balance sheets include our trading and available-for-sale securities and derivative instruments. The substantial majority of our mortgage loans and liabilities, however, are carried at historical cost. Another significant difference between our GAAP consolidated balance sheets and our non-GAAP fair value balance sheets is the manner in which credit losses are reflected. A summary of the key measurement differences follows:

Credit Losses under GAAP: In our GAAP condensed consolidated financial statements, we may only recognize those credit losses that we believe have been actually incurred as of each balance sheet date. A loss is considered to have been incurred when the event triggering the loss, such as a borrower s loss of employment or a decline in home prices, actually happens. Expected credit losses that may arise as a result of future anticipated changes in market conditions, such as further declines in home prices or increases in unemployment, can only be recognized in our condensed consolidated financial statements if and when the anticipated loss triggering event occurs. For additional information, see Part II Item 7 MD&A Critical Accounting Policies and Estimates Allowance for Loan Losses and Reserve for Guaranty Losses and Notes to Consolidated Financial Statements Note 2, Summary of Significant Accounting Policies of our 2008 Form 10-K and Consolidated Results of Operations Credit-Related Expenses in this report.

Credit Losses in Fair Value Balance Sheet: The credit losses incorporated into the estimated fair values in our fair value balance sheet reflect future expected credit losses plus a current market-based risk premium, or profit amount. The fair value of our guaranty obligations as of each balance sheet date is greater than our estimate of future expected credit losses in our existing guaranty book of business as of that date because the fair value of our guaranty obligations includes an estimated market risk premium. We provide additional information on the components of our guaranty obligations and how we estimate the fair value of these obligations in Part II Item 7 MD&A Critical Accounting Policies and Estimates Fair Value of Financial Instruments Fair Value of

Guaranty Obligations of our 2008 Form 10-K.

These differences in measurement methods result in significant differences between our GAAP balance sheets and our non-GAAP fair value balance sheets.

Primary Factors Driving Changes in Non-GAAP Fair Value of Net Assets

We expect periodic fluctuations in the fair value of our net assets due to our business activities, as well as changes in market conditions, such as home prices, unemployment rates, interest rates, spreads, and implied volatility. The housing and credit markets continued to deteriorate during the first quarter of 2009. In addition, the severe economic downturn resulted in a sharp rise in unemployment rates. These conditions had an adverse impact on the fair value of our net assets. Below we identify the key factors driving the $5.2 billion decline in the fair value of net assets and quantify the estimated impact of each.

A decrease of approximately $28.5 billion in the fair value of our net guaranty assets, driven by a substantial increase in the estimated fair value of our guaranty obligations, largely attributable to an increase in expected credit losses as a result of the significant worsening of housing, credit and economic conditions. In addition, but to a smaller degree, the fair value of our net guaranty assets was affected by a change to how we estimate the fair value of certain of our guaranty obligations, which is more fully described in Critical Accounting Policies and Estimates.

An increase in the fair value of the net portfolio for our Capital Markets group, driven by a pre-tax increase of approximately $9.9 billion, attributable to the combined impact of net fair value gains on our mortgage assets and a decrease in the fair value of our debt. The increase in the net fair value of our mortgage assets resulted from the narrowing of spreads on agency MBS, attributable to the Federal Reserve s purchases of agency MBS. The decrease in the fair value of our debt resulted from the widening of spreads on agency debt, largely due to competition by government-guaranteed debt issuers, despite the Federal Reserve s purchases of agency debt during the quarter. We provide additional information on the composition and estimated fair value of our mortgage investments in Consolidated Balance Sheet Analysis Mortgage Investments.

An increase of $15.2 billion attributable to the funds received during the first quarter of 2009 from Treasury under the senior preferred stock purchase agreement.

Cautionary Language Relating to Supplemental Non-GAAP Financial Measures

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

Supplemental Non-GAAP Fair Value Balance Sheet Report

We present our non-GAAP fair value balance sheet report in Table 31 below.

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

	As of March 31, 2009			As of December 31, 2008		
	GAAP Carrying Value	Fair Value Adjustment(1)	Estimated Fair Value	GAAP Carrying Value	Fair Value Adjustment(1)	Estimated Fair Value
	(Dollars in millions)					
Assets:						
Cash and cash equivalents	$ 25,153	$	$ 25,153(2)	$ 18,462	$	$ 18,462(2)
Federal funds sold and securities purchased under agreements to resell	53,195	45	53,240(2)	57,418	2	57,420(2)
Trading securities	86,278		86,278(2)	90,806		90,806(2)
Available-for-sale securities	261,041		261,041(2)	266,488		266,488(2)
Mortgage loans:						
Mortgage loans held for sale	22,915	581	23,496(3)	13,270	351	13,621(3)
Mortgage loans held for investment, net of allowance for loan losses	406,148	8,835	414,983(3)	412,142	3,069	415,211(3)
Guaranty assets of mortgage loans held in portfolio		2,381	2,381(3)(4)		2,255	2,255(3)(4)
Guaranty obligations of mortgage loans held in portfolio		(14,701)	(14,701)(3)(4)		(11,396)	(11,396)(3)(4)
Total mortgage loans	429,063	(2,904)	426,159(2)(3)	425,412	(5,721)	419,691(2)(3)
Advances to lenders	14,721	(336)	14,385(2)	5,766	(354)	5,412(2)
Derivative assets at fair value	1,369		1,369(2)	869		869(2)
Guaranty assets and buy-ups, net	7,419	1,682	9,101(2)(4)	7,688	1,336	9,024(2)(4)
Total financial assets	878,239	(1,513)	876,726(2)	872,909	(4,737)	868,172(2)
Master servicing assets and credit enhancements	1,060	6,656	7,716(4)(5)	1,232	7,035	8,267(4)(5)
Other assets	40,339	70	40,409(5)(6)	38,263	(2)	38,261(5)(6)
Total assets	$ 919,638	$ 5,213	$ 924,851	$ 912,404	$ 2,296	$ 914,700
Liabilities:						
Federal funds purchased and securities sold under agreements to repurchase	$ 12	$	$ 12(2)	$ 77	$	$ 77(2)
Short-term debt	274,682(7)	581	275,263(2)	330,991(7)	1,299	332,290(2)

Long-term debt	579,319[7]	29,463	608,782[2]	539,402[7]	34,879	574,281[2]
Derivative liabilities at fair value	3,169		3,169[2]	2,715		2,715[2]
Guaranty obligations	11,673	104,093	115,766[2]	12,147	78,728	90,875[2]
Total financial liabilities	868,855	134,137	1,002,992[2]	885,332	114,906	1,000,238[2]
Other liabilities	69,712	(37,676)	32,036[8]	42,229	(22,774)	19,455[8]
Total liabilities	938,567	96,461	1,035,028	927,561	92,132	1,019,693
Equity (deficit):						
Fannie Mae stockholders equity (deficit):						
Senior preferred	16,200		16,200	1,000		1,000
Preferred	20,629	(20,160)	469	21,222	(20,674)	548
Common	(55,895)	(71,088)	(126,983)	(37,536)	(69,162)	(106,698)
Total Fannie Mae stockholders deficit/non-GAAP fair value of net assets	**$ (19,066)**	**$ (91,248)**	**$ (110,314)**	**$ (15,314)**	**$ (89,836)**	**$ (105,150)**
Noncontrolling interests	137		137	157		157
Total deficit	(18,929)	(91,248)	(110,177)	(15,157)	(89,836)	(104,993)
Total liabilities and stockholders equity	$ 919,638	$ 5,213	$ 924,851	$ 912,404	$ 2,296	$ 914,700

Explanation and Reconciliation of Non-GAAP Measures to GAAP Measures

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

[2] We determined the estimated fair value of these financial instruments in accordance with the fair value guidelines outlined in SFAS 157, as described in Notes to Condensed Consolidated Financial Statements Note 18, Fair Value of Financial Instruments.

[3] For business segment reporting purposes, we allocate intra-company guaranty fee income to our Single-Family and HCD businesses for managing the credit risk on mortgage loans held in portfolio by our Capital Markets group and

charge a corresponding fee to our Capital Markets group. In computing this intra-company allocation, we disaggregate the total mortgage loans reported in our GAAP condensed consolidated balance sheets, which consists of Mortgage loans held for sale and Mortgage loans held for investment, net of allowance for loan losses into components that separately reflect the value associated with credit risk, which is managed by our guaranty businesses, and the interest rate risk, which is managed by our Capital Markets group. We report the estimated fair value of the credit risk components separately in our supplemental non-GAAP consolidated fair value balance sheets as Guaranty assets of mortgage loans held in portfolio and Guaranty obligations of mortgage loans held in portfolio. We report the estimated fair value of the interest rate risk components in our supplemental non-GAAP consolidated fair value balance sheets as Mortgage loans held for sale and Mortgage loans held for investment, net of allowance for loan losses. Taken together, these four components represent the estimated fair value of the total mortgage loans reported in our GAAP condensed consolidated balance sheets. We believe this presentation provides transparency into the components of the fair value of the mortgage loans associated with the activities of our guaranty businesses and the components of the activities of our Capital Markets group, which is consistent with the way we manage risks and allocate revenues and expenses for segment reporting purposes. While the carrying values and estimated fair values of the individual line items may differ from the amounts presented in Notes to Condensed Consolidated Financial Statements Note 18, Fair Value of Financial Instruments of the condensed consolidated financial statements in this report, the combined amounts together equal the carrying value and estimated fair value amounts of total mortgage loans in Note 18.

(4) In our GAAP condensed consolidated balance sheets, we report the guaranty assets associated with our outstanding Fannie Mae MBS and other guarantees as a separate line item and include buy-ups, master servicing assets and credit enhancements associated with our guaranty assets in Other assets. On a GAAP basis, our guaranty assets totaled $6.8 billion and $7.0 billion as of March 31, 2009 and December 31, 2008, respectively. The associated buy-ups totaled $637 million and $645 million as of March 31, 2009 and December 31, 2008, respectively. In our non-GAAP fair value balance sheets, we also disclose the estimated guaranty assets and obligations related to mortgage loans held in our portfolio. The aggregate estimated fair value of the guaranty asset-related components totaled $4.5 billion and $8.2 billion as of March 31, 2009 and December 31, 2008, respectively. These components represent the sum of the following line items in this table: (i) Guaranty assets of mortgage loans held in portfolio; (ii) Guaranty obligations of mortgage loans held in portfolio, (iii) Guaranty assets and buy-ups; and (iv) Master servicing assets and credit enhancements. See Part II Item 7 MD&A Critical Accounting Policies and Estimates Fair Value of Financial Instruments Fair Value of Guaranty Obligations of our 2008 Form 10-K.

(5) The line items Master servicing assets and credit enhancements and Other assets together consist of the assets presented on the following six line items in our GAAP condensed consolidated balance sheets: (i) Accrued interest receivable; (ii) Acquired property, net; (iii) Deferred tax assets, net; (iv) Partnership investments; (v) Servicer and MBS trust receivable and (vi) Other assets. The carrying value of these items in our GAAP condensed consolidated balance sheets together totaled $42.0 billion and $40.1 billion as of March 31, 2009 and December 31, 2008, respectively. We deduct the carrying value of the buy-ups associated with our guaranty obligation, which totaled $637 million and $645 million as of March 31, 2009 and December 31, 2008, respectively, from Other assets reported in our GAAP condensed consolidated balance sheets because buy-ups are a financial instrument that we combine with guaranty assets in our disclosure in Note 18. We have estimated the fair value of master servicing assets and credit enhancements based on our fair value methodologies described in Notes to Consolidated Financial Statements Note 20, Fair Value of Financial Instruments of our 2008 Form 10-K.

(6) With the exception of LIHTC partnership investments, the GAAP carrying values of other assets generally approximate fair value. Our LIHTC partnership investments had a carrying value of $6.1 billion and $6.3 billion and an estimated fair value of $6.3 billion and $6.5 billion as of March 31, 2009 and December 31, 2008, respectively. We assume that certain other assets, consisting primarily of prepaid expenses, have no fair value.

(7) Includes certain short-term debt and long-term debt instruments that we elected to report at fair value under SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115*, in our GAAP condensed consolidated balance sheets. The fair value of the long-term debt instruments was $20.3 billion, as of March 31, 2009. The fair value of these short-term and long-term debt instruments were $4.5 billion and $21.6 billion, respectively, as of December 31, 2008.

(8) The line item Other liabilities consists of the liabilities presented on the following five line items in our GAAP condensed consolidated balance sheets: (i) Accrued interest payable; (ii) Reserve for guaranty losses; (iii) Partnership liabilities; (iv) Servicer and MBS trust payable; and (v) Other liabilities. The carrying value of these items in our GAAP condensed consolidated balance sheets together totaled $69.7 billion and $42.2 billion as of March 31, 2009 and December 31, 2008, respectively. The GAAP carrying values of these other liabilities generally approximate fair value. We assume that certain other liabilities, such as deferred revenues, have no fair value. Although we report the Reserve for guaranty losses as a separate line item on our condensed consolidated balance sheets, it is incorporated into and reported as part of the fair value of our guaranty obligations in our non-GAAP supplemental consolidated fair value balance sheets.

Table 32: Change in Fair Value of Net Assets (Net of Tax Effect)

	2009 (Dollars in millions)
Estimated fair value of net assets as of January 1[1]	$ (105,150)
Capital transactions:[2]	
Common stock issuances and repurchases, net	579
Senior preferred dividends	(593)
Investments by Treasury under senior preferred stock purchase agreement	15,175
Capital transactions, net	15,161
Change in estimated fair value of net assets, excluding effect of capital transactions	(20,325)
Decrease in estimated fair value of net assets, net	(5,164)
Estimated fair value of net assets as of March 31[1]	$ (110,314)

[1] Represents estimated fair value of net assets (net of tax effect) presented in Table 31: Supplemental Non-GAAP Consolidated Fair Value Balance Sheets.

[2] Represents net capital transactions, which are reflected in the condensed consolidated statements of changes in equity.

LIQUIDITY AND CAPITAL MANAGEMENT

Our business activities require that we maintain adequate liquidity to fund our operations. We have a liquidity and capital risk management framework and policies that are intended to ensure appropriate liquidity during normal and stress periods. Our senior management establishes our overall liquidity and capital policies through various risk and control committees.

Liquidity Management

Liquidity risk is the risk that we will not be able to meet our funding obligations in a timely manner. Liquidity management involves forecasting funding requirements and maintaining sufficient capacity to meet these needs while accommodating fluctuations in asset and liability levels due to changes in our business operations or unanticipated events. Our Capital Markets group is responsible for formulating our liquidity and contingency planning strategies and for measuring, monitoring and reporting our liquidity risk profile.

Our primary source of funds is proceeds from the issuance of short-term and long-term debt securities. Because our liquidity depends largely on our ability to issue unsecured debt in the capital markets, our status as a GSE continues to be critical to maintaining our access to the unsecured debt market. Our senior unsecured debt obligations are rated AAA by the major rating agencies. As discussed below under Debt Funding, during the second half of 2008, we began

to experience significant limitations on our ability to access the debt capital markets. Although we have experienced significant improvement in our access to the debt markets since late November 2008, there can be no assurance that the improvement will continue.

We also may request loans from Treasury pursuant to the Treasury credit facility described below under Liquidity Contingency Plan Treasury Credit Facility. In addition, under limited specified circumstances, FHFA may request funds on our behalf from Treasury under the senior preferred stock purchase agreement described in Executive Summary Amendment to Senior Preferred Stock Purchase Agreement and Part I Item 1 Business Conservatorship, Treasury Agreements, Our Charter and Regulation of Our Activities in our 2008 Form 10-K.

See Part II Item 7 MD&A Liquidity and Capital Management Primary Sources and Uses of Funds in our 2008 Form 10-K for more information on our sources of funds and principal funding needs.

Debt Funding

We fund our business primarily through the issuance of short-term and long-term debt securities in the domestic and international capital markets. We have traditionally had a diversified funding base of domestic

and international investors. Purchasers of our debt securities include fund managers, commercial banks, pension funds, insurance companies, foreign central banks, state and local governments and retail investors. In recent months, the Federal Reserve has been supporting the liquidity of our debt as an active and significant purchaser of our long-term debt in the secondary market. Purchasers of our debt securities are also geographically diversified, with a significant portion of our investors historically located in the United States, Europe and Asia. In order to meet our large and ongoing funding needs, we historically have regularly issued a variety of non-callable and callable debt security instruments in a wide range of maturities to achieve cost efficient funding and an appropriate debt maturity profile.

Debt Funding Activity

Table 33 below summarizes of our debt activity for the three months ended March 31, 2009 and 2008.

Table 33: Debt Activity

	For the Three Months Ended March 31,	
	2009	**2008**
	(Dollars in millions)	
Issued during the period:[1]		
Short-term:[2]		
Amount:[3]	$ 301,820	$ 436,453
Weighted average interest rate:	0.28%	2.90%
Long-term:[4]		
Amount:[3]	$ 108,501	$ 88,278
Weighted average interest rate:	2.30%	4.03%
Total issued:		
Amount:[3]	$ 410,321	$ 524,731
Weighted average interest rate:	0.80%	3.09%
Paid off during the period:[1][5]		
Short-term: [2]		
Amount:[3]	$ 358,890	$ 455,630
Weighted average interest rate:	0.99%	3.47%
Long-term:[4]		
Amount:[3]	$ 65,238	$ 106,139
Weighted average interest rate:	4.23%	5.06%
Total paid off:		
Amount:[3]	$ 424,128	$ 561,769
Weighted average interest rate:	1.49%	3.77%

(1) Excludes debt activity resulting from consolidations and intraday loans.

(2) Short-term debt consists of borrowings with an original contractual maturity of one year or less. Includes Federal funds purchased and securities sold under agreements to repurchase.

(3) Represents the face amount at issuance or redemption.

(4) Long-term debt consists of borrowings with an original contractual maturity of greater than one year.

(5) Represents all payments on debt, including regularly scheduled principal payments, payments at maturity, payments as the result of a call and payments for any other repurchases.

As previously reported, we experienced significant deterioration in our access to the unsecured debt markets in July through November 2008, particularly for long-term and callable debt, and in the yields on our debt as compared with relevant market benchmarks. Due to the limitations on our ability to issue long-term and callable debt during this time, we relied increasingly on the issuance of short-term debt to pay off our maturing debt and to fund our ongoing business activities. As a result, our outstanding short-term debt

increased as a percentage of our total outstanding debt and the aggregate weighted-average maturity of our debt decreased to 42 months as of December 31, 2008, from 48 months as of December 31, 2007. As we relied more heavily on short-term financing to meet our funding needs, our debt roll-over, or refinancing, risk increased, exposing us to a greater risk that the demand for our debt securities will be insufficient to permit us to refinance our debt as often as necessary, particularly when market conditions are volatile or adverse.

The dynamics of our funding program have improved significantly since late November 2008 and issuances of debt securities thus far in 2009 have seen renewed favorable demand across a wide range of domestic and international investors. In particular, demand for our long-term debt and callable structures has increased significantly since November 2008. Weekly callable issuance volume averaged $4.2 billion during the first quarter of 2009, compared with $1.6 billion during the fourth quarter of 2008. We also have issued large-sized Benchmark Notes in each month during 2009 with terms ranging from two years to five years. As a result of our improved access to the long-term debt markets, our outstanding short-term debt has decreased as a percentage of our total outstanding debt to 32% as of March 31, 2009 from 38% as of December 31, 2008, and the aggregate weighted-average maturity of our debt increased to 45 months as of March 31, 2009 from 42 months as of December 31, 2008.

We believe the improvement in our debt funding is due to actions taken by the federal government to support us and our debt securities, including the senior preferred stock purchase agreement entered into in September 2008 and most recently amended in May 2009, Treasury s program announced in September 2008 to purchase MBS of the GSEs, the Treasury credit facility made available to us in September 2008, and the Federal Reserve s program announced in November 2008 to purchase up to $100 billion in debt securities of Fannie Mae, Freddie Mac and the FHLBs and up to $500 billion in mortgage-backed securities of Fannie Mae, Freddie Mac and Ginnie Mae. On February 18, 2009, Treasury announced that it will continue to purchase Fannie Mae and Freddie Mac mortgage-backed securities to promote stability and liquidity in the marketplace. On March 18, 2009, the Federal Reserve announced that it intended to increase purchases of federal agency debt securities and Fannie Mae, Freddie Mac and Ginnie Mae mortgage-backed securities under the program to a total of up to $200 billion and $1.25 trillion, respectively. As of April 29, 2009, the Federal Reserve held $68.2 billion in federal agency debt securities and $366.2 billion in Fannie Mae, Freddie Mac and Ginnie Mae mortgage-backed securities.

There can be no assurance that the improvements in our debt funding will continue. We believe the improvements stem from federal government support, such as the support described above, and, as such, changes or perceived changes in the government s support of us may have a material adverse affect on our ability to fund our operations. In particular, to the extent the market for our debt securities has improved due to the Treasury credit facility being made available to us, we believe that the actual and perceived risk that we will be unable to refinance our debt as it becomes due remains and is likely to increase substantially as we progress toward December 31, 2009, which is the date on which the Treasury credit facility terminates. Accordingly, we continue to have significant roll-over risk notwithstanding improved access to long-term funding, and the risk is likely to increase as we approach expiration of the Treasury credit facility. In addition, the senior preferred stock purchase agreement continues to limit the amount of debt we may incur as described under Outstanding Debt below.

We continue to pay our obligations as they become due, and we maintain sufficient access to the unsecured debt markets to avoid triggering our liquidity contingency plan. We continue to monitor market conditions to determine the impact of these conditions on our funding and liquidity. Future disruptions in the financial markets could result in adverse changes in the amount, mix and cost of funds we obtain and could have a material adverse impact on our liquidity, financial condition and results of operations. See Part II Item 1A Risk Factors in this report and Part I Item 1A Risk Factors of our 2008 Form 10-K for a discussion of the risks to our business related to our ability to obtain funds for our operations through the issuance of debt securities, the relative cost at which we are able to obtain these funds and our liquidity contingency plans.

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Outstanding Debt

Table 34 provides information on our outstanding short-term and long-term debt as of March 31, 2009 and December 31, 2008. Our total outstanding debt, which consists of federal funds purchased and securities sold under agreements to repurchase, short-term debt and long-term debt decreased to $854.0 billion as of March 31, 2009, from $870.5 billion as of December 31, 2008. Short-term debt represented 32% of our total outstanding debt as of March 31, 2009, compared with 38% of our total outstanding debt as of December 31, 2008, reflecting our improved access to long-term funding during the first quarter. Pursuant to the terms of the senior preferred stock purchase agreement, we are prohibited from issuing debt in an amount greater than 120% of the amount of mortgage assets we are allowed to own. Through December 30, 2010, our debt cap equals $1,080 billion. Beginning December 31, 2010, and on December 31 of each year thereafter, our debt cap that will apply through December 31 of the following year will equal 120% of the amount of mortgage assets we are allowed to own on December 31 of the immediately preceding calendar year. As of March 31, 2009, we estimate that our aggregate indebtedness totaled $869.3 billion, which was approximately $22.7 billion below our estimated debt limit of $892.0 billion in effect at that time and approximately $210.7 billion below our revised debt limit. Our calculation of our indebtedness for purposes of complying with our debt cap, which has not been confirmed by Treasury, reflects the unpaid principal balance of our debt outstanding or, in the case of long-term zero coupon bonds, the unpaid principal balance at maturity. Our calculation excludes debt basis adjustments and debt recorded from consolidations. Because of our debt limit, we may be restricted in the amount of debt we issue to fund our operations.

Table 34: Outstanding Short-Term Borrowings and Long-Term Debt[(1)]

	March 31, 2009			December 31, 2008		
	Maturities	Outstanding	Weighted Average Interest Rate	Maturities	Outstanding	Weighted Average Interest Rate
	(Dollars in millions)					
Federal funds purchased and securities sold under agreements to repurchase		$ 12	4.33%		$ 77	0.01%
Short-term debt:[(2)]						
Fixed rate short-term debt:						
Discount notes		$ 271,082	1.11%		$ 322,932	1.75%
Foreign exchange discount notes		169	1.19		141	2.50
Other short-term debt		299	2.20		333	2.80
Total fixed rate short-term debt		271,550	1.11		323,406	1.75
Floating-rate short-term debt[(4)]		3,132	1.25		7,585	1.66
Total short-term debt		$ 274,682	1.11%		$ 330,991	1.75%
Long-term debt:[(3)]						
Senior fixed rate long-term debt:						

Benchmark notes and bonds	2009-2030	$ 276,080	4.58%	2009-2030	$ 251,063	4.92%
Medium-term notes	2009-2019	156,749	3.72	2009-2018	151,277	4.20
Foreign exchange notes and bonds	2010-2028	1,055	5.63	2009-2028	1,513	4.70
Other long-term debt[4]	2009-2039	70,910	5.96	2009-2038	73,061	5.95
Total senior fixed rate debt		504,794	4.51		476,914	4.85
Senior floating rate long-term debt:						
Medium-term notes	2009-2013	57,987	0.92	2009-2017	45,737	2.21
Other long-term debt[4]	2020-2037	783	7.69	2020-2037	874	7.22
Total senior floating rate debt		58,770	1.02		46,611	2.30

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	March 31, 2009			December 31, 2008		
	Maturities	Outstanding	Weighted Average Interest Rate	Maturities	Outstanding	Weighted Average Interest Rate
	(Dollars in millions)					
Subordinated fixed rate long-term debt:						
Medium-term notes	2011-2011	2,500	6.24	2011-2011	2,500	6.24
Other subordinated debt	2012-2019	7,166	6.61	2012-2019	7,116	6.58
Total subordinated fixed rate long-term debt		9,666	6.51		9,616	6.50
Debt from consolidations	2009-2039	6,089	5.90	2009-2039	6,261	5.87
Total long-term debt		$ 579,319	4.21%		$ 539,402	4.67%
Outstanding callable debt[5]		$ 202,338	4.29%		$ 192,480	4.71%

(1) Outstanding debt amounts and weighted average interest rates reported in this table include the effect of unamortized discounts, premiums and other cost basis adjustments. Reported amounts as of March 31, 2009 and December 31, 2008 include fair value gains and losses associated with debt that we elected to carry at fair value.

(2) Short-term debt consists of borrowings with an original contractual maturity of one year or less and, therefore, does not include the current portion of long-term debt.

(3) Long-term debt consists of borrowings with an original contractual maturity of greater than one year. Included is the current portion of long-term debt that is due within one year, which totaled $104.8 billion and $86.5 billion as of March 31, 2009 and December 31, 2008, respectively. Reported amounts include net discount and other cost basis adjustments of $18.7 billion and $15.5 billion as of March 31, 2009 and December 31, 2008, respectively. The unpaid principal balance of long-term debt, which excludes unamortized discounts, premiums and other cost basis adjustments and amounts related to debt from consolidation, totaled $591.9 billion and $548.6 billion as March 31, 2009 and December 31, 2008, respectively.

(4) Includes a portion of structured debt instruments that are reported at fair value.

(5) Consists of both short-term and long-term callable debt that can be paid off in whole or in part at our option at any time on or after a specified date. Includes the unpaid principal balance, and excludes unamortized discounts, premiums and other cost basis adjustments.

Maturity Profile of Outstanding Debt

Table 35 presents the maturity profile, on a monthly basis, of our outstanding short-term debt as of March 31, 2009 based on the contractual maturity dates of our short-term debt securities. The current portion of our long-term debt (that is, the total amount of our long-term debt that must be paid within the next year) is not included in Table 35, but it is included in Table 36 below. The weighted average maturity of our outstanding short-term debt, based on the

remaining contractual term, was 99 days as of March 31, 2009, compared with 102 days as of December 31, 2008.

Table 35: Maturity Profile of Outstanding Short-Term Debt[1]

[1] Includes unamortized discounts, premiums and other cost basis adjustments of $846 million as of March 31, 2009. Excludes Federal funds purchased and securities sold under agreements to repurchase.

Table 36 presents the maturity profile, on a quarterly basis for two years and on an annual basis thereafter, of our long-term debt as of March 31, 2009 based on the contractual maturity dates of our long-term debt securities. The weighted average maturity of our outstanding long-term debt, based on the remaining contractual term, was approximately 64 months as of March 31, 2009, compared with approximately 66 months as of December 31, 2008.

Table 36: Maturity Profile of Outstanding Long-Term Debt[1]

[1] Includes unamortized discounts, premiums and other cost basis adjustments of $18.7 billion as of March 31, 2009. Excludes debt from consolidations of $6.1 billion as of March 31, 2009.

We intend to repay our short-term and long-term debt obligations as they become due primarily through proceeds from the issuance of additional debt securities. We also intend to use funds we receive from Treasury under the senior preferred stock purchase agreement to repay our debt obligations.

Equity Funding

As a result of the covenants under the senior preferred stock purchase agreement, which generally prohibit us from issuing equity securities or paying dividends on our common or preferred stock (other than the senior preferred stock) without Treasury s consent, and Treasury s ownership of the 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, we no longer have access to equity funding except through draws under the senior preferred stock purchase agreement. On February 25, 2009, FHFA requested that Treasury provide us with $15.2 billion on or prior to March 31, 2009, under the terms of the senior preferred stock purchase agreement to eliminate our net worth deficit as of December 31, 2008, and we received those funds on March 31, 2009.

As a result of our $23.2 billion net loss for the quarter ended March 31, 2009, we had a net worth deficit of $18.9 billion as of that date. The Director of FHFA submitted a request on May 6, 2009 for $19.0 billion from Treasury under the senior preferred stock purchase agreement to eliminate our net worth deficit as of March 31, 2009 and avoid mandatory receivership, and requested receipt of those funds on or prior to June 30, 2009. Upon receipt of the requested funds, the aggregate liquidation preference of the senior preferred stock, including the initial aggregate liquidation preference of $1.0 billion, will equal $35.2 billion. For a description of the covenants under the senior preferred stock purchase agreement, see Executive Summary Amendment to Senior Preferred Stock Purchase Agreement and Part I Item 1 Business Conservatorship, Treasury Agreements, Our Charter and Regulation of our Activities Treasury Agreements Covenants Under Treasury Agreements in our 2008 Form 10-K.

Liquidity Management Policies

Our liquidity position could be adversely affected by many causes, both internal and external to our business, including: actions taken by the conservator, Treasury or other government agencies; an unexpected systemic event leading to the withdrawal of liquidity from the market; an extreme market-wide widening of credit spreads; a downgrade of our credit ratings from the major ratings organizations; a significant decline in our net worth; loss of demand for our debt, or certain types of our debt, from a major group of investors; a significant credit event involving one of our major institutional counterparties; a sudden catastrophic operational failure in the financial sector due to a terrorist attack or other event; or elimination of our GSE status. See Part II Item 1A Risk Factors for a description of factors that could adversely affect our liquidity.

We have adopted a liquidity risk policy that governs our management of liquidity risk and outlines our methods for measuring and monitoring liquidity risk. In addition, under this policy we maintain a liquidity contingency plan in the event our access to the unsecured debt markets becomes limited temporarily. As discussed in greater detail below, we believe that current market conditions have had an adverse impact on our

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current liquidity contingency plan, and we are currently modifying our liquidity risk policy in an attempt to address current market conditions, the conservatorship and Treasury arrangements and the more fundamental changes in the longer-term credit market environment. We believe, however, that effective liquidity contingency plans may be difficult or impossible to develop under current market conditions for a company of our size. As a result, we expect our modified liquidity contingency plan to provide for significant reliance on the Treasury credit facility for so long as it is available.

Our current liquidity risk policy requires us to conduct daily liquidity governance and monitoring activities to achieve the goals of our liquidity risk policy, including:

- daily monitoring and reporting of our liquidity position;
- daily monitoring of market and economic factors that may impact our liquidity;
- daily forecasting of our ability to meet our liquidity needs over a 90-day period without relying upon the issuance of long-term or short-term unsecured debt securities;
- daily forecasting and statistical analysis of our daily cash needs over a 21-business-day period;
- routine operational testing of our ability to rely upon identified sources of liquidity, such as mortgage repurchase agreements;
- periodic reporting to management and the conservator regarding our liquidity position; and
- periodic review and testing of our liquidity management controls by our Internal Audit department.

Throughout the first quarter of 2009, we continued to comply with the required monitoring and testing activities under our liquidity risk policy. We periodically conduct operational tests of our ability to enter into mortgage repurchase arrangements with counterparties. One method we use to conduct these tests involves entering into a small mortgage repurchase agreement (approximately $100 million) with a counterparty in order to confirm that we have the operational and systems capability to enter into repurchase arrangements. We do not, however, have committed repurchase arrangements with specific counterparties, as historically we have not relied on this form of funding. As a result, our infrequent use of such facilities may impair our ability to enter into them in significant dollar amounts, particularly in the currently challenged credit market environment.

In addition, we run daily 90-day liquidity simulations in which we consider all sources of cash inflows (including debt sold but not settled, mortgage loan principal and interest, MBS principal and interest, net derivatives receipts, sale or maturity of assets, and repurchase arrangements), and all sources of cash outflows (including maturing debt, principal and interest due on debt, principal and interest due on MBS, net derivative payments, dividends, mortgage commitments, administrative costs and taxes) during the following 90 days to determine whether there are sufficient inflows to cover the outflows. As discussed in greater detail below, our ability to execute on the daily 90-day liquidity simulations we run may be significantly challenged in the current market environment. FHFA regularly reviews our monitoring and testing requirements under our liquidity policy.

Liquidity Contingency Plan

Pursuant to our current liquidity policy, our contingency plan is designed to provide alternative sources of liquidity to allow us to meet our cash obligations for 90 days without relying upon the issuance of unsecured debt; however, as a result of current financial market conditions, we believe our contingency plan is unlikely to be sufficient to provide us

with alternative sources of liquidity for a 90-day period. In addition, we believe that, to the extent we were able to execute on our liquidity contingency plan, it likely would require us to pledge or sell assets at uneconomic prices, resulting in a material adverse impact on our financial results.

In the event of a liquidity crisis in which our access to the unsecured debt market becomes impaired, our liquidity contingency plan provides for the following alternative sources of liquidity:

- our cash and other investments portfolio; and
- our unencumbered mortgage portfolio.

Since September 2008, in the event of a liquidity crisis we could also seek funding from Treasury pursuant to the Treasury credit facility or the senior preferred stock purchase agreement, provided we were able to satisfy the terms and conditions of those agreements, as described in Part I Item 1 Business Conservatorship, Treasury Agreements, Our Charter and Regulation of Our Activities Treasury Agreements in our 2008 Form 10-K and Executive Summary Amendment to Senior Preferred Stock Purchase Agreement.

Cash and Other Investments Portfolio

Under our current liquidity policy, our initial source of liquidity in the event of a liquidity crisis that restricts our access to the unsecured debt market is the sale or maturation of assets in our cash and other investments portfolio. Table 37 below provides information on the composition of our cash and other investments portfolio as of March 31, 2009 and December 31, 2008.

During the first quarter of 2009, we maintained a significant amount of liquidity in light of current market conditions, concentrating our investments on federal funds, repurchase agreements and short-term bank deposits. These investments have low yields that are currently below our cost of funds.

Table 37: Cash and Other Investments Portfolio

	As of	
	March 31, 2009	December 31, 2008
	(Dollars in millions)	
Cash and cash equivalents	$ 23,246	$ 17,933
Federal funds sold and securities purchased under agreements to resell	53,195	57,418
Non-mortgage-related securities:		
Asset-backed securities	10,270	10,598
Corporate debt securities	3,725	6,037
Other	2,003	1,005
Total	$ 92,439	$ 92,991

We incurred net trading gains of $288 million in the first quarter of 2009 on the non-mortgage-related securities in our cash and other investments portfolio due to the lower prevailing interest rates during the quarter, which increased the value of our non-mortgage-related securities. We intend to continue to sell these non-mortgage-related securities from time to time as market conditions permit. During the first quarter, we sold $884 million in unpaid principal balance of these securities. See Risk Management Credit Risk Management Institutional Counterparty Credit Risk Management Issuers of Securities Held in our Cash and Other Investments Portfolio for additional information on the risks associated with the assets in our cash and other investments portfolio.

The current financial market crisis has had a significant adverse effect on the market value and the liquidity of the assets (other than cash and cash equivalents) in the portfolio, and our ability to sell certain assets from our cash and other investments portfolio could be limited or impossible. In the current environment and particularly in the event of further market deterioration, there can be no assurance that we could liquidate these assets if and when we need access to liquidity.

Unencumbered Mortgage Portfolio

Our current liquidity contingency plan provides that our largest source of potential liquidity is the unencumbered mortgage assets in our mortgage portfolio, both through the sale of our mortgage assets or by using these assets as collateral for secured borrowing.

We believe that the amount of mortgage-related securities that we could successfully sell or borrow against in the event of a liquidity crisis or significant market disruption, such as the one we are currently experiencing, is substantially lower than the amount of mortgage-related securities we hold. Due to the large size of our portfolio of mortgage-related securities and current market conditions, it is unlikely that there would be

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sufficient market demand for large amounts of these securities over a prolonged period of time. In addition, the price at which we would be able to sell these mortgage-related securities may be significantly lower than the current market value of these securities. To the extent that we obtain funding by pledging mortgage-related securities as collateral, we anticipate that a haircut would be applied that would reduce the value assigned to those securities. Depending on market conditions at the time, this haircut would result in proceeds significantly lower than the current market value of these assets and would thereby reduce the amount of financing we can obtain. Our unencumbered mortgage portfolio also includes whole loans that we could potentially securitize to create Fannie Mae MBS, which could then be sold, used as collateral in repurchase or other lending arrangements, or, as described below, potentially used as collateral for loans under our Treasury credit facility. Currently, however, we face technological and operational limitations on our ability to securitize these whole loans, particularly in significant amounts, as our systems were not designed to support the securitization of whole loans in our portfolio into Fannie Mae MBS. We expect that the necessary technology and operational capabilities to support the securitization of a significant portion of our single-family whole loans will be in place during the second quarter of 2009. Because of these limitations, the current testing of our 90-day liquidity contingency plan assumes that we are unable to rely on these whole loans to meet our funding needs. We also hold other mortgage investments, such as multifamily whole loans and reverse mortgage loans, that are generally illiquid and therefore currently cannot be relied upon to raise proceeds from their sale or as collateral for lending arrangements.

Treasury Credit Facility

On September 19, 2008, we entered into a lending agreement with Treasury under which we may request loans until December 31, 2009. The Treasury credit facility provides another source of liquidity in the event we experience a liquidity crisis in which we cannot adequately access the unsecured debt markets. As of March 31, 2009, we had approximately $203.1 billion in unpaid principal balance of Fannie Mae MBS and Freddie Mac mortgage-backed securities available as collateral to secure loans under the Treasury credit facility, a decrease of $5.5 billion from $208.6 billion as of December 31, 2008. Treasury has discretion to determine the securities that constitute acceptable collateral. In addition, the Federal Reserve Bank of New York, as collateral valuation agent for Treasury, has discretion to value these securities as it considers appropriate, and they could apply a haircut reducing the value it assigns to these securities from their unpaid principal balance. Accordingly, the amount that we could borrow under the Treasury credit facility using those securities as collateral could be less than their unpaid principal balance. We also hold whole loans in our mortgage portfolio, and a portion of these whole loans could potentially be securitized into Fannie Mae MBS and then pledged as collateral under the Treasury credit facility. As noted above, we expect to have the capability of securitizing a significant portion of our single-family whole loans held in portfolio during the second quarter of 2009. Further, unless amended or waived by Treasury, the amount we may borrow under the Treasury credit facility is subject to the restriction under the senior preferred stock purchase agreement on incurring debt in excess of 120% of the amount of mortgage assets we are allowed to own, as described in Executive Summary Amendment to Senior Preferred Stock Purchase Agreement. The terms of the Treasury credit facility are described in our 2008 Form 10-K in Part I Item 1 Business Conservatorship, Treasury Agreements, Our Charter and Regulation of Our Activities Treasury Agreements. As of May 7, 2009, we have not requested any loans or borrowed any amounts under the Treasury credit facility.

It would require action from Congress to extend the term of this credit facility beyond December 31, 2009, the date on which Treasury s temporary authority to purchase our obligations and other securities, granted by the Regulatory Reform Act, expires. After December 31, 2009, Treasury may purchase up to $2.25 billion of our obligations under its permanent authority, as originally set forth in the Charter Act.

Senior Preferred Stock Purchase Agreement

In specified limited circumstances, FHFA may request funds on our behalf from Treasury under the senior preferred stock purchase agreement. See Equity Funding above for a discussion of the amounts requested and received under the senior preferred stock purchase agreement and Executive Summary Amendment to Senior Preferred Stock Purchase Agreement and Part I Item 1 Business Conservatorship, Treasury

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Agreements, Our Charter and Regulation of Our Activities Treasury Agreements in our 2008 Form 10-K for a description of the terms of the senior preferred stock purchase agreement.

Credit Ratings

Our ability to access the capital markets and other sources of funding, as well as our cost of funds, is highly dependent on our credit ratings from the major ratings organizations. In addition, our credit ratings are important when we seek to engage in certain long-term transactions, such as derivative transactions. Factors that influence our credit ratings include our status as a GSE, Treasury s funding commitment under the senior preferred stock purchase agreement, the rating agencies assessment of the general operating and regulatory environment, our relative position in the market, our financial condition, our reputation, our liquidity position, the level and volatility of our earnings, our corporate governance and risk management policies, and our capital management practices. Management maintains an active dialogue with the major ratings organizations.

Our senior unsecured debt (both long-term and short-term), benchmark subordinated debt and preferred stock are rated and continuously monitored by Standard & Poor s, Moody s and Fitch. During 2008, the rating of our senior unsecured debt remained constant, but the ratings of our subordinated debt and preferred stock, as well as our bank financial strength rating, deteriorated significantly. There have been no changes in our credit ratings from December 31, 2008 to May 1, 2009. Table 38 below presents the credit ratings issued by each of these rating agencies as of May 1, 2009.

Table 38: Fannie Mae Credit Ratings

	As of May 1, 2009		
	Standard & Poor s	**Moody s**	**Fitch**
Long-term senior debt	AAA	Aaa	AAA
Short-term senior debt	A-1+	P-1	F1+
Subordinated debt	A	Aa2	AA-
Preferred stock	C	Ca	C/RR6
Bank financial strength rating[1]		E+	
Outlook	Stable (for Long Term Senior Debt and Subordinated Debt)	Stable (for all ratings)	Stable (for AAA rated Long Term Issuer Default Rating)

(1) On March 18, 2009, FHFA suspended the requirement of the September 2005 agreement with OFHEO that we seek to obtain a rating that assesses the independent financial strength or risk to the government of Fannie Mae.

We have no covenants in our existing debt agreements that would be violated by a downgrade in our credit ratings. However, in connection with certain derivatives counterparties, we could be required to provide additional collateral to or terminate transactions with certain counterparties in the event that our senior unsecured debt ratings are downgraded. The amount of additional collateral required depends on the contract and is usually a fixed incremental amount, the market value of the exposure, or both. See Notes to Condensed Consolidated Financial Statements Note 11, Derivative Instruments for additional information on collateral we are required to provide to our derivatives counterparties in the event of downgrades in our credit ratings.

Cash Flows

Three Months Ended March 31, 2009. Cash and cash equivalents of $23.2 billion as of March 31, 2009 increased by $5.3 billion from December 31, 2008. Net cash generated from investing activities totaled $38.3 billion, which was primarily attributable to proceeds received from the sale of available-for-sale securities and from repayments of loans held for investment. These net cash inflows were partially offset by net cash outflows used in operating activities of $30.3 billion, largely attributable to the net loss we incurred during the period and the purchase of held-for-sale loans, and net cash outflows used in financing activities of $2.6 billion. The net cash used in financing activities was attributable to the redemption of a significant

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amount of short-term debt, which was partially offset by proceeds received from Treasury under the senior preferred stock purchase agreement.

Three Months Ended March 31, 2008. Cash and cash equivalents of $2.0 billion as of March 31, 2008 decreased by $1.9 billion from December 31, 2007. Net cash used in financing activities totaled $39.8 billion, primarily attributable to the redemption of a significant amount of long-term debt as interest rates fell during the quarter. These net cash outflows were partially offset by net cash inflows generated from operating activities of $30.1 billion, primarily resulting from the significant increase in trading securities during the quarter, and cash flows generated from investing activities of $7.7 billion, reflecting the significant reduction in our investment in federal funds sold and securities purchased under agreements to resell and the excess of the proceeds from the sale and liquidation of mortgage assets over the amount of our mortgage asset purchases.

Capital Management

Regulatory Capital

On October 9, 2008, FHFA announced that our existing statutory and FHFA-directed regulatory capital requirements will not be binding during the conservatorship, and that FHFA will not issue quarterly capital classifications during the conservatorship. FHFA has directed us, during the time we are under conservatorship, to focus on managing to a positive net worth (which is represented as the total deficit line item on our consolidated balance sheet). See Capital Activity below for more information on our net worth position.

We will continue to submit capital reports to FHFA during the conservatorship and FHFA will continue to closely monitor our capital levels. We will report our minimum capital requirement, core capital and GAAP net worth in our periodic reports on Form 10-Q and Form 10-K, and FHFA has indicated it will report them on its website. FHFA has stated that it does not intend to report our critical capital, risk-based capital or subordinated debt levels during the conservatorship.

Pursuant to its new authority under the Regulatory Reform Act, FHFA has announced that it will be revising our minimum capital and risk-based capital requirements.

Table 39 displays our core capital and our statutory minimum capital requirement as of March 31, 2009 and December 31, 2008. The amounts for March 31, 2009 are our estimates as submitted to FHFA.

Table 39: Regulatory Capital Measures

	As of	
	March 31, 2009[1]	**December 31, 2008**[1]
	(Dollars in millions)	
Core capital[2]	$ (31,848)	$ (8,641)
Statutory minimum capital requirement[3]	33,912	33,552
Deficit of core capital over statutory minimum capital requirement	$ (65,760)	$ (42,193)
Deficit of core capital percentage over statutory minimum capital requirement	(193.9)%	(125.8)%

(1) Amounts as of March 31, 2009 represent estimates that have been submitted to FHFA. Amounts as of December 31, 2008 are as published by FHFA on its website. As noted above, FHFA is not issuing capital classifications during conservatorship.

(2) The sum of (a) the stated value of our outstanding common stock (common stock less treasury stock); (b) the stated value of our outstanding non-cumulative perpetual preferred stock; (c) our paid-in capital; and (d) our retained earnings (accumulated deficit). Core capital excludes accumulated other comprehensive income (loss).

(3) Generally, the sum of (a) 2.50% of on-balance sheet assets; (b) 0.45% of the unpaid principal balance of outstanding Fannie Mae MBS held by third parties; and (c) up to 0.45% of other off-balance sheet obligations, which may be adjusted by the Director of FHFA under certain circumstances (See 12 CFR 1750.4 for existing adjustments made by the Director).

The reduction in our core capital during the first quarter of 2009 was attributable to the net loss we incurred during the period. See Consolidated Results of Operations for factors that affected our results of operations for the quarter ended March 31, 2009. The senior preferred stock is not included in core capital due to its cumulative dividend provision.

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Capital Activity

Following our entry into conservatorship, FHFA advised us to focus our capital management efforts on maintaining a positive net worth, which is represented as the total deficit line item on our consolidated balance sheet. See Executive Summary Our Business Objectives and Strategy for a discussion of other objectives that may conflict with our goal of maintaining a positive net worth. Our total deficit increased by $3.8 billion during the quarter ended March 31, 2009, to a total deficit of $18.9 billion as of March 31, 2009. The increase in our total deficit was primarily attributable to the net loss we incurred during the quarter partially offset by the receipt of funds under the senior preferred stock purchase agreement as described in Equity Funding above and lower unrealized losses on available-for-sale securities. See Consolidated Results of Operations for a discussion of the factors that affected our results of operations for the quarter ended March 31, 2009.

Our ability to manage our net worth continues to be very limited. We are effectively unable to raise equity capital from private sources at this time and, therefore, are reliant on the senior preferred stock purchase agreement to address any net worth deficit.

Senior Preferred Stock and Common Stock Warrant

On September 7, 2008, we, through FHFA, in its capacity as conservator, and Treasury entered into the senior preferred stock purchase agreement. Pursuant to the agreement, we issued to Treasury: (1) on September 8, 2008, one million shares of senior preferred stock with an initial liquidation preference equal to $1,000 per share (for an initial aggregate liquidation preference of $1 billion); and (2) on September 7, 2008, a warrant for the purchase of up to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise, which is exercisable until September 7, 2028. We did not receive any cash proceeds when we issued the senior preferred stock or the warrant but have subsequently received funds as described above in Equity Funding. Drawing on Treasury s funding commitment under the senior preferred stock purchase agreement allows us to eliminate our net worth deficit and thereby avoid triggering mandatory receivership under the Regulatory Reform Act.

The senior preferred stock purchase agreement contains covenants that significantly restrict our business activities. These covenants include a prohibition on our issuance of additional equity securities (except in limited instances), a prohibition on the payment of dividends or other distributions on our equity securities (other than the senior preferred stock or the warrant), a prohibition on our issuance of subordinated debt and a limitation on the total amount of debt securities we may issue. As a result, we can no longer obtain additional equity financing (other than pursuant to the senior preferred stock purchase agreement) unless we obtain Treasury s approval and we are limited in the amount and type of debt financing we may obtain. For a more detailed description of these covenants, please see Executive Summary Amendment to Senior Preferred Stock Purchase Agreement and Part I Item 1 Business Conservatorship, Treasury Agreements, Our Charter and Regulation of Our Activities Treasury Agreements Covenants Under Treasury Agreements of our 2008 Form 10 K.

See Equity Funding above for a discussion of the amounts requested and received under the senior preferred stock purchase agreement.

Dividends

The conservator announced on September 7, 2008 that we would not pay any dividends on the common stock or on any series of outstanding preferred stock. In addition, the senior preferred stock purchase agreement prohibits us from declaring or paying any dividends on Fannie Mae equity securities (other than the senior preferred stock) without the prior written consent of Treasury. Dividends on our outstanding preferred stock (other than the senior preferred stock) are non-cumulative; therefore, holders of this preferred stock are not entitled to receive any forgone dividends in the

future.

Holders of the senior preferred stock are entitled to receive, when, as and if declared by our Board of Directors, out of legally available funds, cumulative quarterly cash dividends at the annual rate of 10% per

year on the then-current liquidation preference of the senior preferred stock. As conservator and under our charter, FHFA also has authority to declare and approve dividends on the senior preferred stock. If at any time we fail to pay cash dividends in a timely manner, then immediately following such failure and for all dividend periods thereafter until the dividend period following the date on which we have paid in cash full cumulative dividends (including any unpaid dividends added to the liquidation preference), the dividend rate will be 12% per year. Dividends on the senior preferred stock that are not paid in cash for any dividend period will accrue and be added to the liquidation preference of the senior preferred stock. A dividend of $25 million was declared by the conservator and paid by us on March 31, 2009, for the period from but not including January 1, 2009 through and including March 31, 2009.

When Treasury provides the additional funds that FHFA requested on our behalf, the aggregate liquidation preference of our senior preferred stock will total $35.2 billion. The annualized dividend on the $35.2 billion aggregate liquidation preference will be $3.5 billion based on the 10% dividend rate, and the level of dividends on the senior preferred stock will increase if, as we expect, we request additional funds from Treasury under the senior preferred stock purchase agreement.

Subordinated Debt

We had $7.4 billion in outstanding qualifying subordinated debt as of March 31, 2009. As of March 31, 2009, our core capital was below 125% of our critical capital requirement enabling us to defer interest payments under the terms of the securities. FHFA has directed us, however, to continue paying principal and interest on our outstanding subordinated debt during the conservatorship and thereafter until directed otherwise, regardless of our existing capital levels.

We entered into an agreement with OFHEO in September 2005, under which we agreed to issue and maintain qualifying subordinated debt in a quantity such that the sum of our total capital plus the outstanding balance of our qualifying subordinated debt equals or exceeds the sum of (1) outstanding Fannie Mae MBS held by third parties times 0.45% and (2) total on-balance sheet assets times 4%, which we refer to as our subordinated debt requirement. We also agreed to certain maintenance, reporting and disclosure requirements relating to our qualifying subordinated debt. On October 9, 2008, FHFA announced that it will no longer report on our subordinated debt levels. On November 8, 2008, FHFA advised us that, during the conservatorship and thereafter until we are directed otherwise, it was suspending the requirements of the September 2005 agreement with respect to the issuance, maintenance, and reporting and disclosure of our qualifying subordinated debt. FHFA further advised us that, during conservatorship, we must continue to submit to FHFA quarterly calculations of our subordinated debt and total capital.

Under the senior preferred stock purchase agreement, we are prohibited from issuing additional subordinated debt without the written consent of Treasury.

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

We enter into certain business arrangements to facilitate our statutory purpose of providing liquidity to the secondary mortgage market and to reduce our exposure to interest rate fluctuations. Some of these arrangements are not recorded in the consolidated balance sheets or may be recorded in amounts different from the full contract or notional amount of the transaction, depending on the nature or structure of, and accounting required to be applied to, the arrangement. These arrangements are commonly referred to as off-balance sheet arrangements and expose us to potential losses in excess of the amounts recorded in the consolidated balance sheets.

Our most significant off-balance sheet arrangements result from the mortgage loan securitization and resecuritization transactions that we routinely enter into as part of the normal course of our guaranty business operations. We also enter into other guaranty transactions, liquidity support transactions and hold LIHTC and other partnership interests

that may involve off-balance sheet arrangements. Currently, most trusts created as part of our guaranteed securitizations are not consolidated by the company for financial reporting purposes because the trusts are considered qualified special purpose entities (QSPEs) under SFAS No. 140,

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Accounting for Transfer and Servicing of Financial Assets and Extinguishments of Liabilities (a replacement of FASB Statement No. 125) (SFAS 140).

Fannie Mae MBS Transactions and Other Financial Guarantees

Although we hold some Fannie Mae MBS in our mortgage portfolio, most outstanding Fannie Mae MBS are held by third parties and therefore not reflected in our consolidated balance sheets. Table 40 summarizes the amounts of both our on- and off-balance sheet Fannie Mae MBS and other guaranty obligations as of March 31, 2009 and December 31, 2008.

Table 40: On- and Off-Balance Sheet MBS and Other Guaranty Arrangements

	As of	
	March 31, 2009	December 31, 2008
	(Dollars in millions)	
Fannie Mae MBS and other guarantees outstanding[1]	$ 2,575,496	$ 2,546,217
Less: Fannie Mae MBS held in portfolio[2]	(223,024)	(228,949)
Fannie Mae MBS held by third parties and other guarantees	$ 2,352,472	$ 2,317,268

(1) Includes $26.5 billion and $27.8 billion in unpaid principal balance of other guarantees as of March 31, 2009 and December 31, 2008, respectively. Excludes $65.0 billion and $65.3 billion in unpaid principal balance of consolidated Fannie Mae MBS as of March 31, 2009 and December 31, 2008, respectively.

(2) Amounts represent unpaid principal balance and are recorded in Investments in Securities in the condensed consolidated balance sheets.

Our maximum potential exposure to credit losses relating to our outstanding and unconsolidated Fannie Mae MBS held by third parties and our other financial guarantees is significantly higher than the carrying amount of the guaranty obligations and reserve for guaranty losses that are reflected in the consolidated balance sheets. In the case of outstanding and unconsolidated Fannie Mae MBS held by third parties, our maximum potential exposure arising from these guarantees is primarily represented by the unpaid principal balance of the mortgage loans underlying these Fannie Mae MBS, which totaled $2.4 trillion and $2.3 trillion as of March 31, 2009 and December 31, 2008, respectively. In the case of the other financial guarantees that we provide, our maximum potential exposure arising from these guarantees is primarily represented by the unpaid principal balance of the underlying bonds and loans, which totaled $26.5 billion and $27.8 billion as of March 31, 2009 and December 31, 2008, respectively.

For additional information on our securitization transactions, see Notes to Condensed Consolidated Financial Statements Note 7, Portfolio Securitizations and Notes to Condensed Consolidated Financial Statements Note 8, Financial Guarantees and Master Servicing. For information on the mortgage loans underlying both our on- and off-balance sheet Fannie Mae MBS, as well as whole mortgage loans that we own, see Risk Management Credit Risk Management Mortgage Credit Risk Management.

Potential Elimination of QSPEs and Changes in the FIN 46R Consolidation Model

On September 15, 2008, the FASB issued an exposure draft of a proposed statement of financial accounting standards, *Amendments to FASB Interpretation No. 46(R),* and an exposure draft of a proposed statement of financial accounting standards, *Accounting for Transfer of Financial Assets-an amendment of FASB Statement No. 140*. The proposed amendments to SFAS 140 would eliminate the concept of QSPEs. Additionally, the amendments to FIN 46R would replace the current consolidation model with a qualitative evaluation that requires consolidation of an entity when the reporting enterprise both (a) has the power to direct matters which significantly impact the activities and success of the entity, and (b) has exposure to benefits and/or losses that could potentially be significant to the entity. If an enterprise is not able to reach a conclusion through the qualitative analysis, it would then proceed to a quantitative evaluation. The proposed statements would be effective for new transfers of financial assets and to all variable interest entities on or after January 1, 2010.

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Under the FASB s currently proposed rules, if we were required to consolidate the incremental assets and liabilities, we would initially record these assets and liabilities at fair value. If the fair value of the consolidated assets were substantially less than the fair value of the consolidated liabilities (which would be the case under current market conditions), the amount of our stockholders deficit could increase significantly. In January 2009, however, the FASB reached a tentative decision that the incremental assets and liabilities to be consolidated upon adoption of the proposed statements should be recognized at their carrying values, as if they had been consolidated at the inception of the entity or a subsequent reconsideration date. The FASB also indicated that fair value would only be permitted if determining the carrying value is not practicable. This tentative decision also could result in an increase in our stockholders deficit. In addition, the amount of capital we are required to maintain could increase if we are required to consolidate incremental assets and liabilities. Under certain circumstances, these changes could have a material adverse impact on our earnings, financial condition and net worth, as we had over $2.4 trillion of assets held in QSPEs as of March 31, 2009. Since the proposed amendments to SFAS 140 and FIN 46R are not final, we are unable to predict the specific impact that the amendments will have on our consolidated financial statements. See Part I Item 1A Risk Factors of our 2008 Form 10-K for a discussion of risks relating to changes in accounting pronouncements.

Partnership Investment Interests

The carrying value of our partnership investments, which primarily include investments in LIHTC investments as well as investments in other affordable rental and for-sale housing partnerships, totaled $8.9 billion as of March 31, 2009, compared with $9.3 billion as of December 31, 2008. For additional information regarding our holdings in off-balance sheet limited partnerships, see Notes to Condensed Consolidated Financial Statements Note 3, Consolidations.

RISK MANAGEMENT

Our businesses expose us to the following four major categories of risks: credit risk, market risk, operational risk and liquidity risk. Effective management of risks is an integral part of our business and critical to our safety and soundness. Our risk governance framework and risk management processes are intended to identify, measure, monitor and control the principal risks we assume in conducting our business activities in accordance with defined policies and procedures. We provide a more detailed discussion of our risk governance framework and how we manage each of our four major categories of risk in Part II Item 7 MD&A Risk Management of our 2008 Form 10-K. This section updates the information in our 2008 Form 10-K relating to our management of risk.

Credit Risk Management

We are generally subject to two types of credit risk: mortgage credit risk and institutional counterparty credit risk. The deterioration in the mortgage and credit markets and severe economic downturn have resulted in a significant increase in our exposure to mortgage and institutional counterparty credit risk.

Mortgage Credit Risk Management

Mortgage credit risk is the risk that a borrower will fail to make required mortgage payments. We are exposed to credit risk on our mortgage credit book of business because we either hold the mortgage assets or have issued a guaranty in connection with the creation of Fannie Mae MBS backed by mortgage assets.

Recent Developments

We closely monitor housing and economic market conditions and loan performance to manage and evaluate our credit risks. As part of our mission, we have been implementing several recently announced strategies to help in the housing recovery. These strategies involve efforts to promote liquidity and housing affordability, to expand our foreclosure

prevention efforts and to set market standards.

In March 2009, we announced two new programs Home Affordable Refinance and Home Affordable Modification as part of our efforts under HASP. These programs are designed to significantly expand the number of borrowers who can refinance or modify their mortgages to a payment that is affordable now and into the future. Our Home Affordable Refinance Program provides opportunities for borrowers who were previously unable to refinance due to either declines in home prices or the unavailability of mortgage insurance, to refinance their mortgage loans with LTV ratios up to 105% without obtaining new mortgage insurance in excess of what was already in place. The Home Affordable Modification Program provides uniform loan modification guidelines to help borrowers whose loan either is currently delinquent or is at imminent risk of default by reducing their loan payments to sustainable levels through various workout solutions, including term extensions, interest rate reductions, and principal forbearance. As we worked to implement these programs, we extended the suspension of all tenant eviction proceedings to March 31, 2009 from the previously scheduled expiration date of March 6, 2009. We also issued special foreclosure sale requirements in response to HASP. These requirements prohibit a foreclosure sale from occurring on any Fannie Mae loan until the loan servicer verifies that the borrower is ineligible for a Home Affordable Modification and all other foreclosure prevention alternatives have been exhausted.

Mortgage Credit Book of Business

Table 41 displays the composition of our entire mortgage credit book of business as of March 31, 2009 and December 31, 2008. Our single-family mortgage credit book of business accounted for approximately 93% of our entire mortgage credit book of business as of both March 31, 2009 and December 31, 2008.

Table 41: Composition of Mortgage Credit Book of Business

	As of March 31, 2009 (Dollars in millions)					
	Single-Family[1]		Multifamily[2]		Total	
	Conventional[3]	Government[4]	Conventional[3]	Government[4]	Conventional[3]	Government[4]
Mortgage portfolio:[5]						
Mortgage loans[6]	$ 269,028	$ 48,167	$ 118,501	$ 673	$ 387,529	$ 48,840
Fannie Mae MBS[7]	220,646	1,969	380	29	221,026	1,998
Agency mortgage-related securities[7][8]	31,904	1,516		21	31,904	1,537
Mortgage revenue bonds[7]	2,922	2,405	7,905	2,053	10,827	4,458
Other mortgage-related securities[7][9]	53,693	1,913	25,792	24	79,485	1,937
Total mortgage portfolio	578,193	55,970	152,578	2,800	730,771	58,770
Fannie Mae MBS held by third parties[10]	2,274,775	12,653	37,855	736	2,312,630	13,389
Other credit guarantees[11]	9,286		17,138	29	26,424	29
Mortgage credit book of business	$ 2,862,254	$ 68,623	$ 207,571	$ 3,565	$ 3,069,825	$ 72,188
Guaranty book of business	$ 2,773,735	$ 62,789	$ 173,874	$ 1,467	$ 2,947,609	$ 64,256

	As of December 31, 2008					
	Single-Family[1]		Multifamily[2]		Total	
	Conventional[3]	Government[4]	Conventional[3]	Government[4]	Conventional[3]	Government[4]
	(Dollars in millions)					
Mortgage portfolio:[5]						
Mortgage loans[6]	$ 268,253	$ 43,799	$ 116,742	$ 699	$ 384,995	$ 44,498
Fannie Mae MBS[7]	226,654	1,850	376	69	227,030	1,919
Agency mortgage-related securities[7][8]	33,320	1,559		22	33,320	1,581
Mortgage revenue bonds[7]	2,951	2,480	7,938	2,078	10,889	4,558
Other mortgage-related securities[7][9]	55,597	1,960	25,825	24	81,422	1,984
Total mortgage portfolio	586,775	51,648	150,881	2,892	737,656	54,540
Fannie Mae MBS held by third parties[10]	2,238,257	13,117	37,298	787	2,275,555	13,904
Other credit guarantees[11]	10,464		17,311	34	27,775	34
Mortgage credit book of business	$ 2,835,496	$ 64,765	$ 205,490	$ 3,713	$ 3,040,986	$ 68,478
Guaranty book of business	$ 2,743,628	$ 58,766	$ 171,727	$ 1,589	$ 2,915,355	$ 60,355

(1) The amounts reported above reflect our total single-family mortgage credit book of business. Of these amounts, the portion of our single-family mortgage credit book of business for which we have access to detailed loan-level information represented approximately 96% of our total conventional single-family mortgage credit book of business as of both March 31, 2009 and December 31, 2008. Unless otherwise noted, the credit statistics we provide in the discussion that follows relate only to this specific portion of our conventional single-family mortgage credit book of business. The remaining portion of our conventional single-family mortgage credit book of business consists of Freddie Mac securities, Ginnie Mae securities, private-label mortgage-related securities, Fannie Mae MBS backed by private-label mortgage-related securities, housing-related municipal revenue bonds, other single-family government related loans and securities, and credit enhancements that we provide on single-family mortgage assets. See Consolidated Balance Sheet Analysis Trading and Available-For-Sale Investment Securities Investments in Private-Label Mortgage-Related Securities for additional information on our private-label mortgage securities.

(2) The amounts reported above reflect our total multifamily mortgage credit book of business. Of these amounts, the portion of our multifamily mortgage credit book of business for which we have access to detailed loan-level information represented approximately 83% and 82% of our total multifamily mortgage credit book of business as of March 31, 2009 and December 31, 2008, respectively. Unless otherwise noted, the credit statistics we provide in the discussion that follows relate only to this specific portion of our multifamily mortgage credit book of business.

(3) Refers to mortgage loans and mortgage-related securities that are not guaranteed or insured by the U.S. government or any of its agencies.

(4) Refers to mortgage loans and mortgage-related securities guaranteed or insured by the U.S. government or one of its agencies.

(5) Mortgage portfolio data is reported based on unpaid principal balance.

(6) Includes unpaid principal balance totaling $65.5 billion and $65.8 billion as of March 31, 2009 and December 31, 2008, respectively, related to mortgage-related securities that were consolidated under FIN 46 and mortgage-related securities created from securitization transactions that did not meet the sales criteria under SFAS 140, which effectively resulted in these mortgage-related securities being accounted for as loans.

(7) Includes unpaid principal balance totaling $12.8 billion and $13.3 billion as of March 31, 2009 and December 31, 2008, respectively, related to mortgage-related securities that were consolidated under FIN 46 and mortgage-related securities created from securitization transactions that did not meet the sales criteria under SFAS 140, which effectively resulted in these mortgage-related securities being accounted for as securities.

(8) Consists of mortgage-related securities issued by Freddie Mac and Ginnie Mae. As of March 31, 2009, we held mortgage-related securities issued by Freddie Mac with both a carrying value and a fair value of $32.9 billion, which exceeded 10% of our stockholders equity as of March 31, 2009.

(9) Includes mortgage-related securities issued by entities other than Fannie Mae, Freddie Mac or Ginnie Mae.

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

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Single-Family

Table 42 presents our conventional single-family business volumes for the three months ended March 31, 2009 and 2008, and our conventional single-family mortgage credit book of business as of March 31, 2009 and December 31, 2008, based on certain key risk characteristics that we use to evaluate the risk profile and credit quality of our loans.

Table 42: Risk Characteristics of Conventional Single-Family Business Volume and Mortgage Credit Book of Business[1]

	Percent of Conventional Single-Family Business Volume[2] For the Three Months Ended March 31,		Percent of Conventional Single-Family Book of Business[3] As of	
	2009	2008	March 31, 2009	December 31, 2008
Original LTV ratio:[4]				
<= 60%	30%	21%	23%	22%
60.01% to 70%	18	16	16	16
70.01% to 80%	42	37	42	43
80.01% to 90%[5]	7	12	9	9
90.01% to 100%[5]	3	14	10	10
Greater than 100%[5]				
Total	100%	100%	100%	100%
Weighted average	67%	73%	72%	72%
Average loan amount	$ 218,185	$ 209,086	$ 149,888	$ 148,824
Estimated mark-to-market LTV ratio:[6]				
<= 60%			31%	36%
60.01% to 70%			13	13
70.01% to 80%			17	17
80.01% to 90%			15	14
90.01% to 100%			10	8
Greater than 100%			14	12
Total			100%	100%
Weighted average			73%	70%
Product type:				
Fixed-rate:[7]				
Long-term	86%	79%	74%	74%
Intermediate-term	13	11	13	13
Interest-only		3	3	3

Total fixed-rate	99	93	90	90
Adjustable-rate:				
Interest-only		5	5	5
Negative-amortizing			1	1
Other ARMs	1	2	4	4
Total adjustable-rate	1	7	10	10
Total	100%	100%	100%	100%
Number of property units:				
1 unit	99%	97%	96%	96%
2-4 units	1	3	4	4
Total	100%	100%	100%	100%
Property type:				
Single-family homes	93%	90%	91%	91%
Condo/Co-op	7	10	9	9
Total	100%	100%	100%	100%

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	Percent of Conventional Single-Family Business Volume[2] For the Three Months Ended March 31,		Percent of Conventional Single-Family Book of Business[3] As of	
	2009	2008	March 31, 2009	December 31, 2008
Occupancy type:				
Primary residence	94%	90%	90%	90%
Second/vacation home	4	4	4	4
Investor	2	6	6	6
Total	100%	100%	100%	100%
FICO credit score:				
< 620	*%	5%	4%	5%
620 to < 660	2	8	9	9
660 to < 700	7	17	17	17
700 to < 740	17	22	23	23
>= 740	74	48	46	45
Not available			1	1
Total	100%	100%	100%	100%
Weighted average	761	728	725	724
Loan purpose:				
Purchase	16%	34%	40%	41%
Cash-out refinance	31	33	31	32
Other refinance	53	33	29	27
Total	100%	100%	100%	100%
Geographic concentration:[8]				
Midwest	19%	16%	16%	16%
Northeast	17	17	18	19
Southeast	21	25	25	25
Southwest	16	16	16	16
West	27	26	25	24
Total	100%	100%	100%	100%
Origination year:				
<=1999			2%	2%
2000				

2001	1	2
2002	5	5
2003	17	18
2004	10	10
2005	12	13
2006	13	14
2007	19	20
2008	16	16
2009	5	
Total	100%	100%

* Less than 1%.

(1) As noted in Table 41 above, we generally have access to detailed loan-level statistics only on conventional single-family mortgage loans held in our portfolio and backing Fannie Mae MBS. We typically obtain the data for the statistics presented in this table from the sellers or servicers of the mortgage loans and receive representations and warranties from them as to the accuracy of the information. While we perform various quality assurance checks by sampling loans to assess compliance with our underwriting and eligibility criteria, we do not independently verify all reported information. We reflect second lien loans in the original LTV ratio calculation only when we own both the first and second mortgage liens or we only own the second mortgage lien. Second lien mortgage loans represented less than 0.5% of our conventional single-family business volume for each of the three months ended March 31, 2009 and 2008, and less than 0.5% of our single-family mortgage credit book of business as of March 31, 2009 and

December 31, 2008. Second lien loans held by third parties are not reflected in the original LTV or mark-to-market LTV ratios in Table 42.

(2) Percentages calculated based on unpaid principal balance of loans at time of acquisition. Single-family business volume refers to both single-family mortgage loans we purchase for our mortgage portfolio and single-family mortgage loans we securitize into Fannie Mae MBS.

(3) Percentages calculated based on unpaid principal balance of loans as of the end of each period.

(4) The original loan-to-value ratio generally is based on the appraised property value reported to us at the time of acquisition of the loan and the original unpaid principal balance of the loan. Excludes loans for which this information is not readily available.

(5) We purchase loans with original loan-to-value ratios above 80% to fulfill our mission to serve the primary mortgage market and provide liquidity to the housing system. Except as permitted under our Home Affordable Refinance Program, our charter generally requires primary mortgage insurance or other credit enhancement for any loan that we acquire that has a LTV ratio over 80%.

(6) The aggregate estimated mark-to-market loan-to-value ratio is based on the estimated current value of the property, calculated using an internal valuation model that estimates periodic changes in home value, and the unpaid principal balance of the loan as of the date of each reported period. Excludes loans for which this information is not readily available.

(7) Long-term fixed-rate consists of mortgage loans with maturities greater than 15 years, while intermediate-term fixed-rate have maturities equal to or less than 15 years. Loans with interest-only terms are included in the interest-only category regardless of their maturities.

(8) Midwest consists of IL, IN, IA, MI, MN, NE, ND, OH, SD and WI. Northeast includes CT, DE, ME, MA, NH, NJ, NY, PA, PR, RI, VT and VI. Southeast consists of AL, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA and WV. Southwest consists of AZ, AR, CO, KS, LA, MO, NM, OK, TX and UT. West consists of AK, CA, GU, HI, ID, MT, NV, OR, WA and WY.

Credit risk profile summary. We experienced a significant increase in refinancing volume in the first quarter of 2009 relative to the first quarter of 2008, largely due to the decline in mortgage interest rates to record lows. The composition of our new business continues to reflect an overall improvement in credit quality due in large part to changes made in our underwriting and eligibility criteria that became effective during 2008 and early 2009. These changes have resulted in a significant decline in Alt-A loan volumes, an increase in the percentage of loans with higher FICO credit scores, a decrease in the percentage of loans with higher original LTV ratios, and a shift in product type to more traditional, fully amortizing fixed-rate mortgage loans. Despite improvements in the credit risk profile of our new business, we expect that we will continue to experience significant credit losses due to the extreme pressures on the housing market and the severe economic downturn. In addition, we expect our refinancing activity will remain high in 2009 in response to the current record low mortgage interest rates, as well as our Home Affordable Refinance Program.

In evaluating and managing our credit risk, we closely monitor the performance of loans that we believe pose a higher risk of default, such as loans with high mark-to-market LTV ratios, loans to borrowers with lower FICO credit scores and certain higher risk loan product categories, including Alt-A and subprime loans. As a result of the continued national decline in home prices, we experienced an increase in the overall estimated weighted average mark-to-market LTV ratio of our conventional single-family mortgage credit book of business to 73% as of March 31, 2009, from

70% as of December 31, 2008. The portion of our conventional single-family mortgage credit book of business with an estimated mark-to-market LTV ratio greater than 100% increased to 14% as of March 31, 2009, from 12% as of the end of 2008. We provide additional information on the delinquency status of some of these loans with these higher credit risk attributes below in Problem Loan Management and Foreclosure Prevention Problem Loan Statistics and in Notes to Condensed Consolidated Financial Statements Note 8, Financial Guarantees and Master Servicing.

We provide information below on our exposure to Alt-A and subprime loans. We have classified mortgage loans as Alt-A if the lender that delivers the mortgage loan to us has classified the loan as Alt-A based on documentation or other features. We have classified mortgage loans as subprime if the mortgage loan is originated by a lender specializing in subprime business or by subprime divisions of large lenders. We apply these classification criteria in order to determine our Alt-A and subprime loan exposures; however, we have other loans with some features that are similar to Alt-A and subprime loans that we have not classified as Alt-A or subprime because they do not meet our classification criteria. We also provide information on our jumbo-conforming mortgage product, high-balance loans and reverse mortgages.

Alt-A Loans: The outstanding unpaid principal balance of Alt-A mortgage loans held in our portfolio or backing Fannie Mae MBS, excluding resecuritized private-label mortgage-related securities backed by Alt-A mortgage loans, totaled $283.5 billion and $292.4 billion as of March 31, 2009 and December 31, 2008, respectively. These loans represented approximately 10% of our total single-family mortgage credit book of business as of each of these dates. As a result of our decision to discontinue the purchase of newly originated Alt-A loans effective January 1, 2009, we expect our acquisitions of Alt-A mortgage loans to be minimal in future periods.

Subprime Loans: The outstanding unpaid principal balance of subprime mortgage loans held in our portfolio or backing Fannie Mae MBS, excluding resecuritized private-label mortgage-related securities backed by subprime mortgage loans, totaled $8.2 billion and $8.4 billion as of March 31, 2009 and December 31, 2008, respectively. Subprime mortgage loans held in our portfolio or backing Fannie Mae MBS represented less than 1% of our single-family business volume in 2008 and in 2007. We estimate that these loans represented approximately 0.3% of our total single-family mortgage credit book of business as of each of these dates. We currently are not purchasing mortgages that are classified as subprime.

Jumbo-conforming and High-balance Loans: Pursuant to the 2009 Stimulus Act, the maximum conforming loan limits per geographic location for loans originated in high cost areas in 2009 will be the higher of: (1) the limits established under the Economic Stimulus Act of 2008 for loans originated between July 1, 2007 through December 31, 2008 (and previously associated with our jumbo-conforming mortgage product) or (2) the limit established under the Housing and Economic Recovery Act of 2008 (HERA) and associated with our high-balance mortgage loan option. These revised limits under the 2009 Stimulus Act will apply only to high-balance loans originated in 2009. All loans with original loan amounts in excess of our general conforming loan limits are required to meet certain additional eligibility requirements specific to LTV ratio, loan purpose, occupancy, property type and credit score. The outstanding unpaid principal balance of these loans totaled $26.0 billion as of March 31, 2009, or approximately 0.9% of our total single-family mortgage credit book of business, compared with $19.9 billion as of December 31, 2008, or approximately 0.7% of our total single-family mortgage credit book of business.

Reverse Mortgages: The majority of reverse mortgages that we hold are Home Equity Conversion Mortgages (HECM), which is a reverse mortgage product that has been in existence since 1989 and accounts for approximately 90% of the total market share of reverse mortgages. Our market share was approximately 90% of the total market of reverse mortgages as of December 31, 2008. Because HECMs are insured by the federal government through the Federal Housing Administration, we have limited exposure to losses on these loans. The outstanding unpaid principal balance of reverse mortgages included in our mortgage portfolio was $45.9 billion and $41.6 billion as of March 31, 2009 and December 31, 2008, respectively.

Our Alt-A loans have recently accounted for a disproportionate share of our credit losses relative to the share of these loans as a percentage of our single-family guaranty book of business. See Consolidated Results of Operations Credit-Related Expenses Credit Loss Performance Metrics for information on the portion of our credit losses attributable to Alt-A loans and certain other higher risk loan categories. See Consolidated Balance Sheet Analysis Trading and Available-for-Sale Investment Securities Investments in Private-Label Mortgage-Related Securities for information on our investments in Alt-A and subprime private-label mortgage-related securities, including other-than-temporary impairment losses recognized on these investments.

Problem Loan Management and Foreclosure Prevention

We generally define single-family problem loans as loans that are at imminent risk of payment default; early stage delinquent loans that are either 30 days or 60 days past due; and seriously delinquent loans, which generally are loans that are three or more consecutive monthly payments past due or in the foreclosure process.

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Our problem loan management strategies are intended to minimize foreclosures and keep borrowers in their homes, which may also help in reducing our long-term credit losses. With the introduction of our Home Affordable Modification Program, which applies to loans originated before 2009, we will be working with servicers to ensure the guidelines of the program are properly implemented. For loans that do not qualify for the Home Affordable Modification Program, borrowers may be considered under other initiatives that we provide, such as HomeSaver Advance or HomeSaver Forbearance.

In the following section, we present statistics on our problem loans, describe specific efforts undertaken to manage these loans and prevent foreclosures and provide metrics that are useful in evaluating the performance of our loan workout activities.

Problem Loan Statistics

Early Stage Delinquency

The prolonged downturn in the housing market and the severe economic downturn, marked by a sharp rise in unemployment rates, has caused an increase from March 2008 in the number of delinquencies that are less than three consecutive monthly payments past due and a potential increase in the number of loans at imminent risk of payment default. The following table displays the delinquency status of conventional single-family loans in our single-family guaranty book of business as of March 31, 2009, December 31, 2008 and March 31, 2008.

Table 43: Delinquency Status of Conventional Single-Family Loans

		As of	
	March 31, 2009	**December 31, 2008**	**March 31, 2008**
Delinquency status:[1]			
30-days delinquent	2.19%	2.52%	1.82%
60-days delinquent	0.94	1.00	0.55
Seriously delinquent[2]	3.15	2.42	1.15

(1) Calculated based on the number of conventional single-family loans that are delinquent divided by the number of loans in our conventional single-family guaranty book of business. We include all of the conventional single-family loans that we own and that back Fannie Mae MBS in the calculation of the single-family delinquency rate.

(2) Includes conventional single-family loans that are three or more consecutive monthly payments past due and loans that have been referred to foreclosure but not yet foreclosed upon.

Serious Delinquency

Table 44 below compares serious delinquency rates, by geographic region, for all conventional single-family loans and multifamily loans with credit enhancement and without credit enhancement as of March 31, 2009, December 31, 2008 and March 31, 2008. We classify single family loans as seriously delinquent when a borrower is three or more consecutive monthly payments past due. We classify multifamily loans as seriously delinquent when payment is 60 days or more past due.

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Table 44: Serious Delinquency Rates

	March 31, 2009		December 31, 2008		March 31, 2008	
	Percentage of Book Outstanding[1]	Serious Delinquency Rate[2]	Percentage of Book Outstanding[1]	Serious Delinquency Rate[2]	Percentage of Book Outstanding[1]	Serious Delinquency Rate[2]
Conventional single-family delinquency rates by geographic region:[3]						
Midwest	16%	3.02%	16%	2.44%	17%	1.44%
Northeast	18	2.53	19	1.97	18	1.05
Southeast	25	4.24	25	3.27	25	1.44
Southwest	16	2.45	16	1.98	16	0.94
West	25	3.06	24	2.10	24	0.72
Total conventional single-family loans	100%	3.15%	100%	2.42%	100%	1.15%
Conventional single-family loans:						
Credit enhanced	20%	8.17%	21%	6.42%	21%	3.15%
Non-credit enhanced	80	1.91	79	1.40	79	0.62
Total conventional single-family loans	100%	3.15%	100%	2.42%	100%	1.15%
Multifamily loans:						
Credit enhanced	87%	0.31%	86%	0.26%	88%	0.07%
Non-credit enhanced	13	0.56	14	0.54	12	0.23
Total multifamily loans	100%	0.34%	100%	0.30%	100%	0.09%

(1) Reported based on unpaid principal balance of loans, where we have detailed loan-level information.

(2) Calculated based on number of loans for single-family and unpaid principal balance for multifamily. We include all of the conventional single-family loans that we own and that back Fannie Mae MBS in the calculation of the single-family delinquency rate. We include the unpaid principal balance of all multifamily loans that we own or that back Fannie Mae MBS and any housing bonds for which we provide credit enhancement in the calculation of the multifamily serious delinquency rate.

(3) See footnote 8 to Table 42 for states included in each geographic region.

The serious delinquency rate for our conventional single-family guaranty book of business rose to 3.15% as of March 31, 2009, from 2.42% as of December 31, 2008, and 1.15% as of March 31, 2008. Although the foreclosure moratorium that we initiated for the periods November 26, 2008 through January 31, 2009 and February 17, 2009 through March 6, 2009 reduced our foreclosures and credit losses during the fourth quarter of 2008 and first quarter of 2009 below what they otherwise would have been, the moratorium was one of the factors that contributed to the increase in our serious delinquency rates during the period.

We continue to experience notable increases in the serious delinquency rates for certain states, loan categories and loan vintages. States exhibiting significantly higher serious delinquency rates include California, Florida, Arizona and Nevada, which previously experienced rapid increases in home prices and are now experiencing sharp declines in home prices, coupled with rising unemployment rates that are near or above the national average. Loan categories that have exhibited the most significant increases in serious delinquency rates as of March 31, 2009 relative to March 31, 2008 include Alt-A loans; adjustable-rate loans; interest-only loans; negative-amortizing loans; and loans made for the purchase of condominiums. Many of the loans in these categories were originated in 2006 and 2007.

The conventional single-family serious delinquency rates for California and Florida, which represent the two largest states in our conventional single-family mortgage credit book of business in terms of unpaid principal balance, climbed to 3.33% and 8.07%, respectively, as of March 31, 2009, from 2.30% and 6.14%, respectively, as of December 31, 2008 and 0.76% and 2.32%, respectively, as of March 31, 2008. There has been a lengthening of the foreclosure process in many states over the past year; however,

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Florida s foreclosure process has lengthened considerably more than any of the other states noted above, which has contributed to its much higher serious delinquency rate.

The serious delinquency rates for Alt-A and subprime loans increased to 9.54% and 17.95%, respectively, as of March 31, 2009, from 7.03% and 14.29%, respectively, as of December 31, 2008, and 2.96% and 7.42%, respectively, as of March 31, 2008.

The serious delinquency rates for conventional single-family loans originated in 2006 and in 2007 were 6.97% and 6.77%, respectively, as of March 31, 2009, compared with 5.11% and 4.70%, respectively, as of December 31, 2008, and 2.21% and 1.19%, respectively, as of March 31, 2008.

The serious delinquency rate for conventional single-family loans with an estimated mark-to-market LTV ratio greater than 100% was 13.46% as of March 31, 2009, compared with 10.98% as of December 31, 2008 and 6.32% as of March 31, 2008.

As discussed earlier, the foreclosure moratorium was a key contributor to the increase in the serious delinquency rates during the first quarter of 2009. We expect our serious delinquency rates to continue to increase in 2009 due to the prolonged downturn in the housing markets, which has resulted in higher mark-to-market LTV ratios, and the severe economic downturn, which has resulted in a sharp increase in unemployment rates. In addition, we expect our serious delinquency rates to be adversely affected by our requirement that servicers must pursue modification options before proceeding to foreclosure. See Notes to Condensed Consolidated Financial Statements Note 8, Financial Guarantees and Master Servicing for additional information on our serious delinquency rates by additional risk characteristics, such as FICO credit score and origination loan amount.

The multifamily serious delinquency rate rose to 0.34% as of March 31, 2009, from 0.30% as of December 31, 2008, and 0.09% as of March 31, 2008, reflecting the impact of the severe economic downturn. The primary states contributing to the increase in our multifamily serious delinquency rate include Florida, Arizona, Georgia, Texas and New York. These states have experienced higher rental vacancy rates and rent pressure due to increased unemployment rates and a large supply of conversions of condominiums to rental properties.

Nonperforming Loans

Table 45 presents the amount of nonperforming single-family and multifamily loans as of March 31, 2009 and December 31, 2008 and other information related to our nonperforming loans. We classify loans as nonperforming and place them on nonaccrual status when we believe collectability of interest or principal on the loan is not reasonably assured. We generally consider a loan to be nonperforming if it is two payments or more past due. We classify troubled debt restructurings and HomeSaver Advance first-lien loans as nonperforming loans throughout the life of the loan regardless of whether the restructured or first-lien loan returns to a performing status after the workout intervention. The increase in the amount of nonperforming loans during the first quarter of 2009 reflected the significant increase in our single-family serious delinquency rates during the quarter due to the prolonged downturn in the housing and credit markets, as well as the economic downturn.

Table 45: Nonperforming Single-Family and Multifamily Loans[1]

	As of	
	March 31, 2009	December 31, 2008
	(Dollars in millions)	
On-balance sheet nonperforming loans:		
Nonaccrual loans[2]	$ 19,714	$ 17,634
Troubled debt restructurings[3]	2,625	1,931
HomeSaver Advance first-lien loans[4]	1,121	1,121
Total on-balance sheet nonperforming loans	23,460	20,686
Off-balance sheet nonperforming loans:[5]		
Off-balance sheet nonperforming loans, excluding HomeSaver Advance first-lien loans[6]	110,140	89,617
HomeSaver Advance first-lien loans[7]	11,330	8,929
Total off-balance sheet nonperforming loans	121,470	98,546
Total nonperforming loans	$ 144,930	$ 119,232
Accruing on-balance sheet loans past due 90 days or more[8]	$ 392	$ 317

	Q1 2009	Full Year 2008
Interest related to on-balance sheet nonperforming loans:		
Interest income forgone[9]	$ 237	$ 401
Interest income recognized for the period[10]	207	771

(1) We classify conventional single-family and multifamily loans held in our mortgage portfolio, including delinquent single-family loans purchased from MBS trusts, as nonperforming and place them on nonaccrual status when we believe collectability of principal or interest on the loan is not reasonably assured. We generally conclude that collectability is not reasonably assured when a loan is two payments or more past due. We continue to accrue interest on nonperforming loans that are federally insured or guaranteed by the U.S. government.

(2) Includes all nonaccrual loans inclusive of troubled debt restructurings and on-balance sheet first-lien loans on nonaccrual status associated with unsecured HomeSaver Advance loans.

(3)

A troubled debt restructuring is a modification to the contractual terms of a loan that results in a concession to a borrower experiencing financing difficulty. The reported amounts represent troubled debt restructurings that are on accrual status.

(4) Represents the amount of on-balance sheet first-lien loans on accrual status associated with unsecured HomeSaver Advance loans.

(5) Represents unpaid principal balance of nonperforming loans in our outstanding and unconsolidated Fannie Mae MBS trusts held by third parties.

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

(7) Represents all off-balance sheet first-lien loans associated with unsecured HomeSaver Advance loans, including first-lien loans that are not seriously delinquent.

(8) Recorded investment of loans as of the end of each period that are 90 days or more past due and continuing to accrue interest, including loans insured or guaranteed by the U.S. government and loans where we have recourse against the seller of the loan in the event of a default.

(9) Forgone interest income represents the amount of interest income that would have been recorded during the period for on-balance sheet nonperforming loans as of the end of each period had the loans performed according to their contractual terms.

(10) Represents interest income recognized during the period for on-balance sheet loans classified as nonperforming as of the end of each period.

Management of Problem Loans

In our experience, early intervention for a potential or existing problem is critical to helping borrowers avoid foreclosure and stay in their homes. If a borrower does not make the required payments, we work in partnership with the servicers of our loans to offer workout solutions to minimize the likelihood of foreclosure as well as the severity of loss. Our loan management strategy includes payment collection and workout guidelines designed to minimize the number of borrowers who fall behind on their obligations and to help borrowers who are delinquent from falling further behind on their payments.

We refer to actions taken by servicers with a borrower to resolve the problem of delinquent loan payments as workouts. Our problem loan workouts reflect our various types of home retention strategies, including our Home Affordable Modification Program. These strategies encompass loan modifications, repayment plans, forbearance, and HomeSaver Advance loans, all of which are intended to help borrowers stay in their homes. If we are unable to provide a viable home retention option, we provide foreclosure avoidance alternatives that include preforeclosure sales or acceptance of deeds-in-lieu of foreclosure. These foreclosure alternatives may be more appropriate if the borrower has experienced a significant adverse change in financial condition due to events such as unemployment, divorce, job change, or medical issues and is therefore no longer able to make the required mortgage payments. We have increasingly relied on these foreclosure alternatives as a growing number of borrowers have been adversely affected by severe economic downturn.

Our HCD business has further tightened its underwriting standards and implemented more proactive asset management and portfolio monitoring as part of our early intervention efforts to address problem multifamily loans. These efforts are intended to reduce the refinance risk concentrated in multifamily loans maturing between 2012 and 2013.

Problem Loan Workout Metrics

Table 46 provides statistics on conventional single-family problem loan workouts, by type, for the three months ended March 31, 2009 and for the year ended December 31, 2008.

Table 46: Statistics on Conventional Single-Family Problem Loan Workouts

	For the Three Months Ended March 31, 2009		For the Year Ended December 31, 2008	
	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans
	(Dollars in millions)			
Home retention strategies:				
Modifications[1]	$ 2,309	12,418	$ 5,108	33,249
Repayment plans and forbearances completed[2]	932	7,445	947	7,875
HomeSaver Advance first-lien loans[3]	3,255	20,424	11,194	70,943
	$ 6,496	40,287	$ 17,249	112,067
Foreclosure alternatives:				
Preforeclosure sales	1,243	5,457	2,210	10,349
Deeds in lieu of foreclosure	100	514	251	1,333
	$ 1,343	5,971	$ 2,461	11,682
Total problem loan workouts	$ 7,839	46,258	$ 19,710	123,749
Problem loan workouts as a percent of single-family guaranty book of business[4]	1.13%	1.00%	0.72%	0.67%

(1) Modifications include troubled debt restructurings and other modifications to the contractual terms of the loan that do not result in concessions to the borrower. A troubled debt restructuring involves some economic concession to the borrower, and is the only form of modification in which we do not expect to collect the full original contractual principal and interest due under the loan. Other resolutions and modifications may result in our receiving the full amount due, or certain installments due, under the loan over a period of time that is longer than the period of time originally provided for under the loan.

(2) For the three months ended March 31, 2009, repayment plans reflected only those plans associated with loans that were 60 days or more delinquent. For the year ended December 31, 2008, repayment plans reflected only those plans associated with loans that were 90 days or more delinquent. Had we included repayment plans associated with loans that were 60 days or more delinquent for the year ended December 31, 2008, the unpaid principal balance and number of loans that had repayment plans and forbearances completed would have been $2.7 billion and 21,893 loans, respectively.

(3) Reflects unpaid principal balance and the number of first-lien loans associated with unsecured HomeSaver Advance loans.

(4) Calculated based on annualized problem loan workouts during the period as a percent of our conventional single-family guaranty book of business as of the end of the period.

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We significantly increased the number of problem loan workouts during the first quarter of 2009. In addition, we initiated a significant number of repayment plans during the first quarter of 2009 that are scheduled to be completed subsequent to March 31, 2009. These repayment plans are not reflected in Table 46 above. It is difficult to predict how many initiated repayment plans will be completed.

The majority of our recent loan modifications are designed to make home mortgages more affordable and help distressed borrowers by reducing the monthly mortgage payment, either by term extensions or interest rate reductions. Because we did not announce our Home Affordable Modification Program until March 2009, there was limited activity under this program during the first quarter of 2009. Accordingly, our modification statistics pertain to modifications that were not made under our Home Affordable Modification Program. The proportion of these modifications that provided term extensions or rate reductions increased to 94% in the first quarter of 2009, compared with 64% for full year 2008. As a result of the substantial decline in home prices, approximately 44% of the modifications that we made in the first quarter of 2009 related to loans that had a mark-to-market LTV ratio greater than 100%, compared with 22% for the full year of 2008 and 15% in the first quarter of 2008. Because these modifications generally resulted in economic concessions to the borrower, we expect to collect less than the contractual principal and interest specified in the original loan. We refer to modifications where we provide an economic concession to a borrower experiencing financial difficulty as a troubled debt restructuring. Troubled debt restructurings represented approximately 88% of our modifications during the first quarter of 2009, compared with 82% of our modifications during the fourth quarter of 2008 and 59% of our modifications during the first quarter of 2008.

We purchased approximately 20,400 unsecured HomeSaver Advance loans during the first quarter of 2009, compared with approximately 25,800 during the fourth quarter of 2008 and approximately 71,000 during full year 2008 . The average advance during the first quarter of 2009 was $7,100, compared with an average advance of approximately $6,500 for loans purchased during 2008. The aggregate unpaid principal balance and carrying value of our HomeSaver Advances were $516 million and $5 million, respectively, as of March 31, 2009, compared with $461 million and $8 million, respectively, as of December 31, 2008. Approximately 40% of the first lien mortgage loans associated with HomeSaver Advances made during the first nine months of 2008 were less than 60 days past due or had paid off as of six months following the funding date of the unsecured HomeSaver Advance loan. Although HomeSaver Advance loans continue to be a viable foreclosure prevention solution, other home retention strategies, particularly modifications, are becoming more prevalent based on assessments of the needs and condition of borrowers.

Table 47 below shows the re-performance rates and delinquency status as of March 31, 2009 of loan modifications made during the period 2005 through 2008.

Table 47: Re-performance Rates of Modified Conventional Single-Family Loans

	Status as of March 31, 2009			
	2008	**2007**	**2006**	**2005**
Current to < 60 days delinquent	50%	40%	45%	32%
61 to < 90 days delinquent	9	7	4	3
90 days or more delinquent	36	37	17	12
Foreclosure	2	10	12	18
Paid off	3	6	22	35
Total	100%	100%	100%	100%

Our experience indicates that it generally takes at least 18 to 24 months to assess the re-performance of a problem loan that has been resolved through workout alternatives. For example, modifications that result in a reduced monthly payment generally are more sustainable and result in fewer re-defaults. There is significant uncertainty, however, regarding the ultimate long-term success of our current modification efforts because of the pressures on borrowers and household wealth caused by declines in home values, declines in the stock market and rising unemployment due to the prolonged downturn in the housing market and severe economic downturn. We believe that the performance of workouts in 2009 will be highly dependent on economic

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factors, such as unemployment rates and home prices. Accordingly, the past longer-term re-performance rates for modified loans may not be indicative of the ultimate re-performance rates of recently modified loans.

There currently are a significant number of uncertainties associated with our Home Affordable Refinance and Home Affordable Modification Programs, including borrower response rates. Therefore, it is difficult to predict the full extent of our activities under these programs. However, because of the continued increase in the number of loans at risk of foreclosure, we expect to substantially increase our loan workout activity in 2009 relative to 2008 as part of our goal of preventing foreclosures and helping borrowers stay in their homes.

REO Management

Foreclosure and REO activity affects the level of credit losses. Table 48 compares our foreclosure activity, by region, for the three months ended March 31, 2009 and 2008. Regional REO acquisition and charge-off trends generally follow a pattern that is similar to, but lags, that of regional delinquency trends.

Table 48: Single-Family and Multifamily Foreclosed Properties

	For the Three Months Ended March 31,	
	2009	**2008**
Single-family foreclosed properties (number of properties):		
Beginning of period inventory of single-family foreclosed properties (REO)[1]	63,538	33,729
Acquisitions by geographic area:[2]		
Midwest	5,974	7,310
Northeast	1,393	1,361
Southeast	6,436	5,377
Southwest	5,764	3,879
West	5,807	2,181
Total properties acquired through foreclosure	25,374	20,108
Dispositions of REO	(26,541)	(10,670)
End of period inventory of single-family foreclosed properties (REO)[1]	62,371	43,167
Carrying value of single-family foreclosed properties (dollars in millions)[3]	$ 6,215	$ 4,530
Single-family foreclosure rate[4]	0.14%	0.11%
Multifamily foreclosed properties (number of properties):		
Ending inventory of multifamily foreclosed properties (REO)	38	15
Carrying value of multifamily foreclosed properties (dollars in millions)[3]	$ 176	$ 60

(1) Includes deeds in lieu of foreclosure.

(2) See footnote 8 to Table 42 for states included in each geographic region.

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

(4) Estimated based on the total number of properties acquired through foreclosure as a percentage of the total number of loans in our conventional single-family mortgage credit book of business as of the end of each respective period.

Our single-family foreclosure rate increased to 0.14% for the first quarter of 2009, from 0.11% for the first quarter of 2008. Our single-family foreclosure rate was 0.52% for full year 2008. Despite the increase in our foreclosure rate in the first quarter of 2009, foreclosure levels during this period were less than what they otherwise would have been because of the suspension of foreclosure acquisitions that were scheduled to occur on occupied single-family properties between the periods of November 26, 2008 through January 31, 2009 and February 17, 2009 through March 6, 2009. The prolonged housing market downturn and decline in home prices on a national basis, however, have resulted in an increase in the percentage of our mortgage loans that

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transition from delinquent to foreclosure status and a significant reduction in the values of our foreclosed single-family properties. Although we have expanded our loan workout initiatives to keep borrowers in their homes, we expect our foreclosures to increase in 2009 as result of the adverse impact that the severe economic downturn and sharp rise in unemployment has had and is expected to have on the financial condition of borrowers.

Our multifamily foreclosed property inventory increased by nine properties during the first quarter of 2009, to 38 properties as of March 31, 2009 from 29 properties as of December 31, 2008. This increase reflects the stress on our multifamily guaranty book of business due to the severe economic downturn and lack of liquidity in the market, which has adversely affected multifamily property values, vacancy rates and rent levels, the cash flows generated from these investments and refinancing options.

Institutional Counterparty Credit Risk Management

We rely on our institutional counterparties to provide services and credit enhancements that are critical to our business. Institutional counterparty risk is the risk that these institutional counterparties may fail to fulfill their contractual obligations to us. Defaults by a counterparty with significant obligations to us could result in significant financial losses to us.

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

- mortgage servicers that service the loans we hold in our investment portfolio or that back our Fannie Mae MBS;
- third-party providers of credit enhancement on the mortgage assets that we hold in our investment portfolio or that back our Fannie Mae MBS, including mortgage insurers, lenders with risk sharing arrangements, and financial guarantors;
- custodial depository institutions that hold principal and interest payments for Fannie Mae portfolio loans and MBS certificateholders;
- issuers of securities held in our cash and other investments portfolio;
- derivatives counterparties;
- mortgage originators and investors;
- debt security and mortgage dealers; and
- document custodians.

We routinely enter into a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, mortgage lenders and commercial banks, resulting in a significant credit concentration with respect to this industry. We also have significant concentrations of credit risk with particular counterparties. Many of our institutional counterparties provide several types of services for us. For example, many of our lender customers or their affiliates act as mortgage servicers, derivatives counterparties, custodial depository institutions and document custodians on our behalf.

The current financial market crisis has adversely affected, and is expected to continue to adversely affect, the liquidity and financial condition of many of our institutional counterparties, which has significantly increased the risk to our business of defaults by these counterparties due to bankruptcy or receivership, lack of liquidity, operational failure or

other reasons. Although we believe that recent government actions to provide liquidity and other support to specified financial market participants has initially helped and may continue to help improve the financial condition and liquidity position of a number of our institutional counterparties, there can be no assurance that these actions will continue to be effective or will be sufficient. As described in Part II Item 1A Risk Factors, the financial difficulties that our institutional counterparties are experiencing may negatively affect their ability to meet their obligations to us and the amount or quality of the products or services they provide to us.

In the event of a bankruptcy or receivership of one of our mortgage servicers, custodial depository institutions or document custodians, we may be required to establish our ownership rights to the assets these counterparties hold on our behalf to the satisfaction of the bankruptcy court or receiver, which could result in a delay in accessing these assets or a decline in value of these assets. Due to the current environment, we may be unable to recover on outstanding loan repurchase and reimbursement obligations resulting from breaches of seller representations and warranties. We could experience further losses relating to the securities in our cash and other investments portfolio. In addition, if we are unable to replace a defaulting counterparty that performs services that are critical to our business with another counterparty, it could materially adversely affect our ability to conduct our operations.

We took a number of steps in 2008 to mitigate our potential loss exposure to our institutional counterparties. Our 2008 Form 10-K provides additional information on the risk mitigation steps we have taken in Part II Item 7 MD&A Risk Management Credit Risk Management Institutional Counterparty Credit Risk Management. We are continually evaluating the effectiveness of these actions and additional steps we might take to mitigate our potential loss exposure further.

Mortgage Servicers

Our business with our mortgage servicers is concentrated. Our ten largest single-family mortgage servicers, including their affiliates, serviced 82% and 81% of our single-family mortgage credit book of business as of March 31, 2009 and December 31, 2008, respectively. Our largest mortgage servicer is Bank of America Corporation, which, together with its affiliates, serviced approximately 27% of our single-family mortgage credit book of business as of March 31, 2009. In addition, we had three other mortgage servicers, Wells Fargo Bank, CitiMortgage and JP Morgan, that, with their affiliates, each serviced over 10% of our single-family mortgage credit book of business as of March 31, 2009.

Due to the current challenging market conditions, the financial condition and performance of many of our mortgage servicers has deteriorated, with several experiencing ratings downgrades and liquidity constraints. To date, our primary mortgage servicer counterparties generally have continued to meet their obligations to us; however, the financial difficulties that several of our mortgage servicers are experiencing, coupled with growth in the number of delinquent loans on their books of business, may negatively affect the ability of these counterparties to continue to meet their obligations to us. We are also relying on our mortgage servicers to play a significant role in the implementation of our homeownership assistance programs, and the broad scope of some of these programs, as well as current challenging market conditions, may limit their capacity to support these programs.

If a significant mortgage servicer counterparty is placed into conservatorship or taken over by the FDIC, and its mortgage servicing obligations are not transferred to a company with the ability and intent to fulfill all of these obligations, we could incur credit losses associated with loan delinquencies, as well as penalties for late payment of taxes and insurance on the properties that secure the mortgage loans serviced by that mortgage servicer. We could also be required to absorb losses on defaulted loans that the failed servicer is obligated to repurchase from us if we determine there was an underwriting or eligibility breach. For example, in 2008, IndyMac Bank, F.S.B., one of our single-family mortgage servicers, was closed by the Office of Thrift Supervision, and the FDIC became its conservator. In March 2009, in connection with the FDIC s sale of the IndyMac servicing rights related to our servicing portfolio to another mortgage servicer, we reached a settlement with the FDIC. In exchange for a payment, we agreed to waive enforcement against the FDIC and the buyer of certain of our repurchase and indemnity rights. The payment we received in the settlement with the FDIC was significantly less than the amount for which we filed a claim in the IndyMac Bank receivership for existing and projected future losses related to repurchases.

We also are exposed to the risk that a mortgage servicer or another party involved in a mortgage loan transaction will engage in mortgage fraud by misrepresenting the facts about the loan. We have experienced financial losses in the past and may experience significant financial losses and reputational damage in the future as a result of mortgage fraud.

Mortgage Insurers

As discussed above in Mortgage Credit Risk Management, we use several types of credit enhancement to manage our mortgage credit risk, including primary and pool mortgage insurance coverage, risk sharing agreements with lenders and financial guaranty contracts. Mortgage insurance risk in force represents our maximum potential loss recovery under the applicable mortgage insurance policies. We had total mortgage insurance coverage risk in force of $116.9 billion on the single-family mortgage loans in our guaranty book of business as of March 31, 2009, which represented approximately 4% of our single-family guaranty book of business as of March 31, 2009. Primary mortgage insurance represented $108.2 billion of this total, and pool mortgage insurance was $8.7 billion. We had total mortgage insurance coverage risk in force of $118.7 billion on the single-family mortgage loans in our guaranty book of business as of December 31, 2008, which represented approximately 4% of our single-family guaranty book of business as of December 31, 2008. Primary mortgage insurance represented $109.0 billion of this total, and pool mortgage insurance was $9.7 billion.

We received proceeds under our primary and pool mortgage insurance policies for single-family loans of $656 million for the quarter ended March 31, 2009 and $1.8 billion for the year ended December 31, 2008. We had outstanding receivables from mortgage insurers of $1.2 billion as of March 31, 2009 and $1.1 billion as of December 31, 2008, related to amounts claimed on insured, defaulted loans that we have not yet received.

Increases in mortgage insurance claims due to higher defaults and credit losses in recent periods have adversely affected the financial results and condition of many mortgage insurers. Since January 1, 2009, Standard & Poor s, Fitch and Moody s have downgraded the insurer financial strength ratings of each of our top eight mortgage insurer counterparties that continues to be rated. As a result of the downgrades, our mortgage insurer counterparties current insurer financial strength ratings are below the AA- level that we require under our qualified mortgage insurer approval requirements to be considered qualified as a Type 1 mortgage insurer. As of March 31, 2009, our top eight mortgage insurers provided 99% of our total mortgage insurance coverage on single-family loans in our guaranty book of business. Table 49 presents our maximum potential loss recovery for the primary and pool mortgage insurance coverage on single-family loans in our guaranty book of business by mortgage insurer for our top eight mortgage insurer counterparties as of March 31, 2009, as well as the insurer financial strength ratings of each of these counterparties as of April 30, 2009.

Table 49: Mortgage Insurance Coverage

	As of March 31, 2009			As of April 30, 2009 Insurer Financial Strength Ratings		
	Maximum Coverage[2]					
Counterparty:[1]	**Primary**	**Pool**	**Total**	**Moody s**	**S&P**	**Fitch**
	(Dollars in millions)					
Mortgage Guaranty Insurance Corporation	$ 25,593	$ 2,464	$ 28,057	Ba2	BB	BBB
Genworth Mortgage Insurance Corporation	17,436	427	17,863	Baa2	BBB+	NR
Radian Guaranty, Inc.	16,349	889	17,238	Ba3	BB-	NR
PMI Mortgage Insurance Co.	15,219	1,696	16,915	Ba3	BB-	BB
United Guaranty Residential Insurance Company	15,510	278	15,788	A3	BBB+	AA-
Republic Mortgage Insurance Company	11,802	1,632	13,434	Baa2	A-	BBB
Triad Guaranty Insurance Corporation[3]	4,046	1,346	5,392	NR	NR	NR
CMG Mortgage Insurance Company[4]	2,075		2,075	NR	AA-	A+

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

(2) Maximum coverage refers to the aggregate dollar amount of insurance coverage (i.e., risk in force) on single-family loans in our guaranty book of business and represents our maximum potential loss recovery under the applicable mortgage insurance policies.

(3) In June 2008, we suspended Triad Guaranty Insurance Corporation as a qualified Fannie Mae mortgage insurer for loans not closed prior to July 15, 2008. In April 2009, Triad s regulator issued an order under which claims will be paid 60% in cash and 40% by the creation of a deferred payment obligation, as discussed below.

(4) CMG Mortgage Insurance Company is a joint venture owned by PMI Mortgage Insurance Co. and CUNA Mutual Investment Corporation.

The current weakened financial condition of our mortgage insurer counterparties creates an increased risk that these counterparties will fail to fulfill their obligations to reimburse us for claims under insurance policies. In June 2008, Triad Guaranty Insurance Corporation announced it would cease issuing commitments in July 2008 for new mortgage insurance and would run-off its existing business. Certain mortgage insurers other than Triad have publicly disclosed that they may exceed the state-imposed risk-to-capital limits under which they operate some time during 2009. In addition, many mortgage insurers have been exploring and continue to explore capital raising opportunities with little success. If mortgage insurers are not able to raise capital and exceed their risk-to-capital limits, they will likely be forced into run-off or receivership. This would increase the risk that they will fail to reimburse us for claims under insurance policies, and could also cause the quality and speed of their claims processing to deteriorate. In addition, if we are no longer willing or able to conduct business with one or more of our mortgage insurer counterparties, it is likely we would further increase our concentration risk with the remaining mortgage insurers in the industry.

Triad received an order on April 1, 2009, from its regulator that changes the way it will pay all policyholder claims. Under the order, unless the order is subsequently rescinded or modified by the regulator, all valid claims under Triad s mortgage guaranty insurance policies will be paid 60% in cash and 40% by the creation of a deferred payment obligation. The deferred payment obligation will be represented by a separate entry in Triad s financial statements and will accrue a carrying charge based on the investment yield earned by Triad s investment portfolio. When, and if, Triad s financial position permits, its regulator will allow Triad to begin paying its deferred payment obligation, the carrying charge and/or increase the amount of cash Triad pays on claims. Triad has stated that it continues to believe that it has sufficient resources to pay all current and future valid claims. Because it is uncertain that these claims will be paid in full and based on our assessment that we have incurred probable losses as a result of Triad s claims deferral program, we have established a loss reserve of $217 million associated with Triad s proposed claims deferral program. As shown in Table 49, as of March 31, 2009, mortgage insurers other than Triad individually accounted for significantly larger portions of our total mortgage insurance coverage.

Effect on Loss Reserves and Guaranty Obligation. If our assessment of one or more of our mortgage insurer counterparty s ability to fulfill its obligations to us worsens or its credit rating is significantly downgraded, it could result in a significant increase in our loss reserves and a substantial increase in the fair value of our guaranty obligations. To date, our mortgage insurer counterparties have continued to pay claims owed to us. Based on our analysis of their financial condition and our assessment of whether we have incurred probable losses in connection with our coverage, we have not included a reserve for potential losses from any of our mortgage insurer counterparties other than $217 million for Triad in our loss reserves. Our analysis of the financial condition of our mortgage insurer counterparties also affects our guaranty obligation. As our internal credit ratings of our mortgage insurer counterparties decreases, we reduce the amount of benefits we expect to receive from the insurance they provide, which in turn increases the amount of our guaranty obligation.

We monitor our risk exposure to mortgage insurers through frequent discussions with the insurers management, the rating agencies and insurance regulators, and in-depth financial reviews and stress analyses of the insurers portfolios, cash flow solvency and capital adequacy. Besides evaluating their condition to assess whether we have incurred probable losses in connection with our coverage, we also evaluate these counterparties individually to determine whether or under what conditions they will remain eligible to insure new mortgages sold to us. Factors we consider in

our evaluations include the risk profile of the insurers existing portfolios, the insurers liquidity and capital adequacy to pay expected claims, the insurers plans to maintain capital within the insuring entity, the insurers success in controlling capital outflows to their holding companies and affiliates, as well as the current market environment and our alternative sources of credit enhancement.

Except for Triad, which ceased issuing commitments for mortgage insurance in July 2008, as of May 7, 2009, our mortgage insurance counterparties remain qualified to conduct business with us. However, based on our evaluation of them, we may impose a number of additional terms and conditions of approval, including limiting the volume and types of loans they may insure for us; requiring them to obtain our consent prior to providing risk sharing arrangements with mortgage lenders; and requiring them to meet certain financial conditions such as maintaining a minimum level of policyholder s surplus, a maximum risk-to-capital ratio, a maximum combined ratio, parental or other capital support agreements and limitations on the types and volumes of certain assets that may be considered as liquid assets.

We generally are required pursuant to our charter to obtain credit enhancement on conventional single-family mortgage loans that we purchase or securitize with loan-to-value ratios over 80% at the time of purchase. If we are no longer willing or able to obtain mortgage insurance from our mortgage insurer counterparties, or these counterparties restrict their eligibility requirements for high loan-to-value ratio loans, and we are not able to find suitable alternative methods of obtaining credit enhancement for these loans, we may be restricted in our ability to purchase or securitize loans with loan-to-value ratios over 80% at the time of purchase. In the current environment, many mortgage insurers have stopped insuring new mortgages with higher loan-to-value ratios or based on borrower FICO credit scores or property types. Approximately 22% of our conventional single-family business volume for 2008 consisted of loans with a loan-to-value ratio higher than 80% at the time of purchase. For the first quarter of 2009, these loans accounted for 10% our single-family business volume. In connection with the Home Affordable Refinance Program, we are able to purchase an eligible loan if the loan has mortgage insurance in an amount at least equal to the amount of mortgage insurance that existed on the loan that was refinanced. As a result, these loans with a loan-to-value ratio of up to 105% may have no mortgage insurance or less insurance than we would otherwise require.

Lenders with Risk Sharing

We enter into risk sharing agreements with lenders pursuant to which the lenders agree to bear all or some portion of the credit losses on the covered loans. Our maximum potential loss recovery from lenders under these risk sharing agreements on single-family loans was $22.1 billion as of March 31, 2009 and $24.2 billion as of December 31, 2008. Our maximum potential loss recovery from lenders under these risk sharing agreements on multifamily loans was $27.4 billion and $27.2 billion as of March 31, 2009 and December 31, 2008, respectively.

The current financial market crisis has adversely affected, and is expected to continue to adversely affect, the liquidity and financial condition of our lender counterparties. The percentage of single-family recourse obligations to lenders with investment grade credit ratings (based on the lower of Standard & Poor s, Moody s and Fitch ratings) increased to 62% as of March 31, 2009 from 50% as of December 31, 2008. The percentage of these recourse obligations to lender counterparties rated below investment grade decreased to 4% as of March 31, 2009, from 13% as of December 31, 2008. The remaining 34% and 36% of these recourse obligations were to lender counterparties that were not rated by rating agencies as of March 31, 2009 and December 31, 2008, respectively. Given the stressed financial condition of many of our lenders with risk sharing, we expect in some cases we will recover less, perhaps significantly less, than the amount the lender is obligated to provide us under our arrangement with them.

Depending on the financial strength of the counterparty, we may require a lender to pledge collateral to secure its recourse obligations. In addition, in September 2008 we began requiring that single-family lenders taking on recourse obligations to us have a minimum credit rating of AA- or provide us with equivalent credit enhancement.

Financial Guarantors

We were the beneficiary of financial guarantees totaling approximately $10.0 billion and $10.2 billion as of March 31, 2009 and December 31, 2008, respectively, on securities held in our investment portfolio or on securities that have been resecuritized to include a Fannie Mae guaranty and sold to third parties. The securities covered by these guarantees consist primarily of private-label mortgage-related securities and mortgage revenue bonds.

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Five of our nine financial guarantors had their financial strength ratings downgraded in the first quarter of 2009. These ratings downgrades have resulted in reduced liquidity and prices for our securities for which we have obtained financial guarantees. These ratings downgrades also imply an increased risk that these financial guarantors will fail to fulfill their obligations to reimburse us for claims under their guaranty contracts. During the first quarter of 2009, one of our counterparties which may be unable to meet its guaranty obligations offered to cancel its guarantees in exchange for a payment representing a small fraction of the guaranteed amount. Although none of our other financial guarantor counterparties has failed to repay us for claims under guaranty contracts or cancelled the guarantees, based on the stressed financial condition of our financial guarantor counterparties, we do not believe that our financial guarantor counterparties will fully meet their obligations to us in the future. As described in Critical Accounting Policies and Estimates Other-than-temporary Impairment of Investment Securities in Part II Item 7 MD&A of our 2008 Form 10-K, we consider the financial strength of our financial guarantors in assessing our securities for other-than-temporary impairment. For the quarter ended March 31, 2009, we recognized other-than-temporary impairments of $33 million related to securities for which we had obtained financial guarantees. We continue to monitor the effects that our financial guarantor counterparties financial condition and downgrades in their insurer financial strength ratings may have on the value of the securities in our investment portfolio. Further downgrades in the ratings of our financial guarantor counterparties could result in a reduction in the fair value of the securities they guarantee.

We are also the beneficiary of financial guarantees obtained from Freddie Mac, the federal government and its agencies that totaled approximately $41.9 billion and $43.5 billion as of March 31, 2009 and December 31, 2008, respectively.

See Consolidated Balance Sheet Analysis Trading and Available-for-Sale Investment Securities Investments in Private-Label Mortgage-Related Securities for more information on our investments in private-label mortgage-related securities and municipal bonds.

Custodial Depository Institutions

A total of $65.6 billion and $28.8 billion in deposits for scheduled single-family payments were received and held by 290 and 298 institutions in the months of March 2009 and December 2008, respectively. Of these total deposits, 96% were held by institutions rated as investment grade by Standard & Poor s, Moody s and Fitch as of both March 31, 2009 and December 31, 2008. Our ten largest custodial depository institutions held 93% of these deposits as of both March 31, 2009 and December 31, 2008.

If a custodial depository institution were to fail while holding remittances of borrower payments of principal and interest due to us in our custodial account, we would be an unsecured creditor of the depository for balances in excess of the deposit insurance protection and might not be able to recover all of the principal and interest payments being held by the depository on our behalf, or there might be a substantial delay in receiving these amounts. If this were to occur, we would be required to replace these amounts with our own funds to make payments that are due to Fannie Mae MBS certificateholders. Accordingly, the insolvency of one of our principal custodial depository counterparties could result in significant financial losses to us.

Issuers of Securities Held in our Cash and Other Investments Portfolio

Our cash and other investments portfolio consists of cash and cash equivalents, federal funds sold and securities purchased under agreements to resell, asset-backed securities, corporate debt securities, and other non-mortgage related securities. See Liquidity and Capital Management Liquidity Management Liquidity Contingency Plan for more detailed information on our cash and other investments portfolio. Our counterparty risk is primarily with the issuers of unsecured corporate debt and financial institutions with short-term deposits.

Our cash and other investments portfolio, which totaled $92.4 billion and $93.0 billion as of March 31, 2009 and December 31, 2008, respectively, included $55.7 billion and $56.7 billion, respectively, of unsecured positions with issuers of corporate debt securities or short-term deposits with financial institutions. Of these unsecured amounts, approximately 95% and 93% as of March 31, 2009 and December 31, 2008, respectively,

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were with issuers who had a credit rating of AA (or its equivalent) or higher, based on the lowest of Standard & Poor s, Moody s and Fitch ratings.

Due to the current financial market crisis, substantially all of the issuers of non-mortgage related securities in our cash and other investments portfolio have experienced financial difficulties, ratings downgrades and/or liquidity constraints, which have significantly reduced, and may cause further reduction in, the market value and liquidity of these investments. We intend to continue to sell these non-mortgage-related securities from time to time as market conditions permit.

We monitor the credit risk position of our cash and other investments portfolio by duration and rating level. In addition, we monitor the financial position and any downgrades of these counterparties. The outcome of our monitoring could result in a range of events, including selling some of these investments. In recent months we have reduced the number of counterparties in our cash and other investments portfolio. If one of our primary cash and other investments portfolio counterparties fails to meet its obligations to us under the terms of the securities, it could result in financial losses to us and have a material adverse effect on our earnings, liquidity, financial condition and net worth.

Derivatives Counterparties

Our derivative credit exposure relates principally to interest rate and foreign currency derivatives contracts. We estimate our exposure to credit loss on derivative instruments by calculating the replacement cost, on a present value basis, to settle at current market prices all outstanding derivative contracts in a net gain position by counterparty where the right of legal offset exists, such as master netting agreements, and by transaction where the right of legal offset does not exist. Derivatives in a gain position are reported in our condensed consolidated balance sheets as Derivative assets at fair value.

We present our credit loss exposure for our outstanding risk management derivative contracts, by counterparty credit rating, as of March 31, 2009 and December 31, 2008 in Notes to Condensed Consolidated Financial Statements Note 11, Derivative Instruments. We expect our credit exposure on derivative contracts to fluctuate with changes in interest rates, implied volatility and the collateral thresholds of the counterparties. Typically, we seek to manage this exposure by contracting with experienced counterparties that are rated A- (or its equivalent) or better. These counterparties consist of large banks, broker-dealers and other financial institutions that have a significant presence in the derivatives market, most of which are based in the United States.

We also manage our exposure to derivatives counterparties by requiring collateral in specified instances. We have a collateral management policy with provisions for requiring collateral on interest rate and foreign currency derivative contracts in net gain positions based upon the counterparty s credit rating. The collateral includes cash, U.S. Treasury securities, agency debt and agency mortgage-related securities. Collateral posted to us is held and monitored daily by a third-party custodian. We analyze credit exposure on our derivative instruments daily and make collateral calls as appropriate based on the results of internal pricing models and dealer quotes.

Our net credit exposure on derivatives contracts increased to $570 million as of March 31, 2009, from $207 million as of December 31, 2008. To reduce our credit risk concentration, we seek to diversify our derivative contracts among different counterparties. Since the majority of our derivative transactions netted by counterparty are in a net loss position, our risk exposure is smaller and more concentrated than in recent years. For the first quarter of 2009, we had exposure to only three interest-rate and foreign currency derivatives counterparties in a net gain position. Approximately $273 million, or 48%, of our net derivatives exposure as of March 31, 2009 was with two interest-rate and foreign currency derivative counterparties rated AA- or better by Standard & Poor s and Aa3 or better by Moody s. The remaining interest-rate and foreign currency derivative counterparty, which was rated A by Standard & Poor s and

A1 by Moody s, accounted for $172 million, or 30%, of our net derivatives exposure as of March 31, 2009. Of the $124 million of net exposure in other derivatives as of March 31, 2009, approximately 97% consisted of mortgage insurance contracts.

The concentration of our derivatives exposure among our primary derivatives counterparties has increased since 2008, and may increase with further industry consolidation. The current financial market crisis also may result in further ratings downgrades of our derivatives counterparties that may cause us to cease entering into new arrangements with those counterparties or that may result in more limited interest from derivatives counterparties in entering into new transactions with us, either of which would further increase the concentration of our business with our remaining derivatives counterparties and could adversely affect our ability to manage our interest rate risk. The increasing concentration of our derivatives counterparties may require us to rebalance our derivatives contracts among different counterparties. We had outstanding interest rate and foreign currency derivative transactions with 18 counterparties as of March 31, 2009 and 19 counterparties as of December 31, 2008. Derivatives transactions with nine of our counterparties accounted for approximately 94% of our total outstanding notional amount as of March 31, 2009, with each of these counterparties accounting for between approximately 5% and 22% of the total outstanding notional amount. In addition to the 18 counterparties with whom we had outstanding notional amounts as of March 31, 2009, an additional two counterparties as of that date have entered into master netting agreements with us and may enter into interest rate derivative or foreign currency derivative transactions with us. See Part II Item 1A Risk Factors for a discussion of the risks to our business as a result of the increasing concentration of our derivatives counterparties.

As a result of the current financial market crisis, we may experience further losses relating to our derivative contracts. In addition, if a derivative counterparty were to default on payments due under a derivative contract, we could be required to acquire a replacement derivative from a different counterparty at a higher cost. Alternatively, we could be unable to find a suitable replacement, which could adversely affect our ability to manage our interest rate risk. See Interest Rate Risk Management and Other Market Risks for information on the outstanding notional amount of our risk management derivative contracts as of March 31, 2009 and December 31, 2008 and for a discussion of how we use derivatives to manage our interest rate risk. See Part I Item 1A Risk Factors of our 2008 Form 10-K for a discussion of the risks to our business posed by interest rate risk.

Other Counterparty Risks

For a more detailed discussion of our counterparty risks, including counterparty risk we face from mortgage originators and investors, from debt security and mortgage dealers, and from document custodians, please see Part II Item 7 MD&A Risk Management Credit Risk Management Institutional Counterparty Credit Risk Management and Part I Item 1A Risk Factors in our 2008 Form 10-K.

Interest Rate Risk Management and Other Market Risks

Our most significant market risks are interest rate risk and spread risk, which primarily arise from our mortgage asset investments. Our exposure to interest rate risk relates to the cash flow and/or market price variability of our assets and liabilities attributable to movements in market interest rates. Our exposure to spread risk relates to the possibility that interest rates in different market sectors, such as the mortgage and debt markets, will not move in tandem.

Our overall goal is to manage interest rate risk by maintaining a close match between the duration of our assets and liabilities. We employ an integrated interest rate risk management strategy that allows for informed risk taking within pre-defined corporate risk limits. We historically have actively managed the interest rate risk of our net portfolio, which is defined below, through the following techniques: (i) through asset selection and structuring (that is, by identifying or structuring mortgage assets with attractive prepayment and other risk characteristics), (ii) by issuing a broad range of both callable and non-callable debt instruments and (iii) by using LIBOR-based interest-rate derivatives. We historically, however, have not actively managed or hedged our spread risk, or the impact of changes in the spread between our mortgage assets and debt (referred to as mortgage-to-debt spreads) after we purchase mortgage assets, other than through asset monitoring and disposition. Because we intend to hold the majority of our mortgage assets to maturity to realize the contractual cash flows, we accept period-to-period volatility in our financial

performance attributable to changes in mortgage-to-debt spreads that occur after our purchase of mortgage assets.

We regularly disclose two interest rate risk metrics that estimate our overall interest rate exposure: (i) fair value sensitivity to changes in interest rate levels and the slope of the yield curve and (ii) duration gap. The metrics used to measure our interest rate exposure are generated using internal models that require numerous assumptions. There are inherent limitations in any methodology used to estimate the exposure to changes in market interest rates. When market conditions change rapidly and dramatically, as they have during the current financial market crisis, the assumptions that we use in our models to measure our interest rate exposure may not keep pace with changing conditions. For example, the tightening of credit and underwriting standards and decline in home prices have reduced refinancing options and have generally caused mortgage prepayment models based on historical data to overestimate the responsiveness, or rate, of mortgage refinancings, particularly for Alt-A and subprime mortgage loans, to changes in interest rates. Accordingly, we believe that the existing prepayment models used to generate our interest rate risk disclosures reflect a higher level of responsiveness to changes in mortgage rates for our Alt-A and subprime private-label mortgage-related securities than we believe is reasonable given current market conditions. As a result, beginning in December 2008, we have relied on adjusted interest rate risk metrics that exclude the sensitivity associated with our Alt-A and subprime private-label mortgage-related securities to manage our interest rate risk.

We provide additional detail on our interest rate risk and our strategies for managing this risk in this section, including: (1) the primary sources of our interest rate risk; (2) our current interest rate risk management strategies; and (3) our interest rate risk metrics.

Sources of Interest Rate Risk

The primary source of our interest rate risk is our net portfolio. Our net portfolio consists of our existing investments in mortgage assets, investments in non-mortgage securities, our outstanding debt used to fund those assets and the derivatives used to supplement our debt instruments and manage interest rate risk, and any fixed-price asset, liability or derivative commitments. It also includes our LIHTC partnership investment assets and preferred stock, but excludes our existing guaranty business.

Our mortgage assets consist mainly of single-family fixed-rate mortgage loans that give borrowers the option to prepay at any time before the scheduled maturity date or continue paying until the stated maturity. Given this prepayment option held by the borrower, we are exposed to uncertainty as to when or at what rate prepayments will occur, which affects the length of time our mortgage assets will remain outstanding and the timing of the cash flows related to these assets. This prepayment uncertainty results in a potential mismatch between the timing of receipt of cash flows related to our assets and the timing of payment of cash flows related to our liabilities.

Interest Rate Risk Management Strategies

Our strategy for managing the interest rate risk of our net portfolio involves asset selection and structuring of our liabilities to match and offset the interest rate characteristics of our balance sheet assets and liabilities as much as possible. Our strategy consists of the following principal elements:

Debt Instruments. We issue a broad range of both callable and non-callable debt instruments to manage the duration and prepayment risk of expected cash flows of the mortgage assets we own.

Derivative Instruments. We supplement our issuance of debt with derivative instruments to further reduce duration and prepayment risks.

Monitoring and Active Portfolio Rebalancing. We continually monitor our risk positions and actively rebalance our portfolio of interest rate-sensitive financial instruments to maintain a close match between the duration of our assets and liabilities.

We provide additional information on our interest rate risk management strategies in Part II Item 7 MD&A Risk Management Interest Rate Risk Management and Other Market Risks Interest Rate Risk Management Strategies of our 2008 Form 10-K.

Although the fair value of our guaranty assets and our guaranty obligations is highly sensitive to changes in interest rates and the market s perception of future credit performance, we do not actively manage the change in the fair value of our guaranty business that is attributable to changes in interest rates. We do not believe that periodic changes in fair value due to movements in interest rates are the best indication of the long-term value of our guaranty business because these changes do not take into account future guaranty business activity. To assess the value of our underlying guaranty business, we focus primarily on changes in the fair value of our net guaranty assets resulting from business growth, changes in the credit quality of existing guaranty arrangements and changes in anticipated future credit performance. Based on our historical experience, we expect that the guaranty fee income generated from future business activity would largely replace any guaranty fee income lost as a result of mortgage prepayments that result from changes in interest rates. We are in the process of re-evaluating whether this expectation is appropriate given the current mortgage market environment and the uncertainties related to recent government policy actions. See Part II Item 7 Critical Accounting Policies and Estimates Fair Value of Financial Instruments of our 2008 Form 10-K for information on how we determine the fair value of our guaranty assets and guaranty obligations. Also see Notes to Condensed Consolidated Financial Statements Note 18, Fair Value of Financial Instruments.

Derivatives Activity

Derivative instruments also are an integral part of our strategy in managing interest rate risk. Decisions regarding the repositioning of our derivatives portfolio are based upon current assessments of our interest rate risk profile and economic conditions, including the composition of our consolidated balance sheets and relative mix of our debt and derivative positions, the interest rate environment and expected trends.

Table 50 presents, by derivative instrument type, our risk management derivative activity for the three months ended March 31, 2009, along with the stated maturities of derivatives outstanding as of March 31, 2009.

Table 50: Activity and Maturity Data for Risk Management Derivatives[1]

	Interest Rate Swaps				Interest Rate Swaptions				
	Pay-Fixed[2]	Receive-Fixed[3]	Basis[4]	Foreign Currency	Pay-Fixed	Receive-Fixed	Interest Rate Caps	Other[5]	Total
	(Dollars in millions)								
tional balance of cember 31, 08	$ 546,916	$ 451,081	$ 24,560	$ 1,652	$ 79,500	$ 93,560	$ 500	$ 827	$ 1,198,59
ditions	98,935	127,958	180	198	5,650	2,200		13	235,13
minations[6]	(25,001)	(29,216)	(4,925)	(628)		(6,130)		(92)	(65,99
tional balance of March 31, 09	$ 620,850	$ 549,823	$ 19,815	$ 1,222	$ 85,150	$ 89,630	$ 500	$ 748	$ 1,367,73
ure maturities notional ounts:[7]									
s than 1 year	$ 92,226	$ 46,160	$ 18,700	$ 264	$ 19,650	$ 34,400	$	$	$ 211,40
ear to 5 years	265,303	293,025	265		41,800	31,435	500	467	632,79
ears to 10 years	219,313	192,064		348	20,200	13,045		281	445,25
er 10 years	44,008	18,574	850	610	3,500	10,750			78,29
al	$ 620,850	$ 549,823	$ 19,815	$ 1,222	$ 85,150	$ 89,630	$ 500	$ 748	$ 1,367,73
ighted-average erest rate as of rch 31, 2009:									
rate	4.30%	1.26%	1.06%		5.73%				
ceive rate	1.30%	3.88%	0.74%			4.36%			
er							5.84%		
ighted-average erest rate as of cember 31, 08:									
rate	4.66%	2.54%	2.68%		5.88%				
ceive rate	2.79%	4.24%	0.77%			4.38%			
er							5.84%		

(1) Excludes mortgage commitments accounted for as derivatives. Dollars represent notional amounts that indicate only the amount on which payments are being calculated and do not represent the amount at risk of loss.

(2) Notional amounts include swaps callable by Fannie Mae of $1.7 billion as of both March 31, 2009 and December 31, 2008.

(3) Notional amounts include swaps callable by derivatives counterparties of $1.0 billion and $10.4 billion as of March 31, 2009 and December 31, 2008, respectively.

(4) Notional amounts include swaps callable by derivatives counterparties of $500 million and $925 million as of March 31, 2009 and December 31, 2008, respectively.

(5) Includes MBS options, swap credit enhancements and mortgage insurance contracts.

(6) Includes matured, called, exercised, assigned and terminated amounts. Also includes changes due to foreign exchange rate movements.

(7) Based on contractual maturities.

The outstanding notional balance of our risk management derivatives increased by $169.1 billion during the first quarter of 2009, to $1.4 trillion as of March 31, 2009. This increase was attributable to the regular rebalancing activities that we engage in as part of our overall interest rate risk management strategy, as well as transactions we entered into to reduce our overall derivatives counterparty risk exposure.

Interest Rate Risk Metrics

Below we present two metrics that provide useful estimates of our interest rate exposure: (i) fair value sensitivity of net portfolio to changes in interest rate levels and slope of yield curve and (ii) duration gap. We also provide additional information that may be useful in evaluating our interest rate exposure. Our fair value sensitivity and duration gap metrics are based on our net portfolio defined above and are calculated using internal models that require numerous assumptions, such as interest rates and future prepayments of principal over the remaining life of our securities. These assumptions are derived based on the characteristics of the underlying structure of the securities and historical prepayment rates experienced at specified interest rate levels, taking into account current market conditions, the current mortgage rates of our existing outstanding loans, loan age and other factors.

Changes in interest rates typically have the most significant effect on the extent to which mortgage loans may prepay. The reliability of our prepayment estimates and interest rate risk metrics depends on the availability and quality of historical data for each of the types of securities in our net portfolio. The interest rate metrics generated from our existing models assume that the level of future expected prepayments and the values of our Alt-A and subprime securities are largely driven by, or sensitive to, changes in interest rates. As a result of the current disruption in the financial market, borrower prepayment behavior has also been significantly affected by other factors, such as a borrower s credit score and the value of the home in relation to the outstanding loan value. In December 2008, we concluded, based on these changing conditions, that the value and interest rate price sensitivities of our Alt-A and subprime private-label securities were not driven by the changes in interest rates assumed in our models, but instead were primarily a function of other factors, such as liquidity concerns and changes in the fundamental behavior of borrowers and investors. In light of the extreme impact of the market dislocation on the performance of Alt-A and subprime mortgage-related securities, we conducted a review of the assumptions and methodologies used in calculating our interest rate risk metrics. Based on this review, we determined that it was necessary to enhance our risk models to better capture borrower refinancing and prepayment constraints, such as declines in credit-worthiness or declining home prices, which have resulted from the stressed housing market. In the interim, we have been using the adjusted interest rate risk metrics that we disclose below under the without PLS column to manage our interest rate risk exposure. We also have disclosed for comparative purposes our unadjusted model-generated interest rate risk metrics, which include prepayment sensitivities for our Alt-A and subprime securities. We expect to discontinue reporting the unadjusted risk metrics once the enhancements to our risk metric systems have been completed, stress tests have been conducted to validate model results and our Enterprise Risk Office approves our revised risk metric system. See Part II Item 1A Risk Factors for a discussion of the risks associated with our use of models.

Fair Value Sensitivity of Net Portfolio to Changes in Level and Slope of Yield Curve

As part of our disclosure commitments with FHFA, we disclose on a monthly basis the estimated adverse impact on the fair value of our net portfolio that would result from a hypothetical 50 basis point shift in interest rates and from a hypothetical 25 basis point change in the slope of the yield curve. We calculate on a daily basis the estimated adverse impact on our net portfolio that would result from an instantaneous 50 basis point parallel shift in the level of interest rates and from an instantaneous 25 basis point change in the slope of the yield curve, calculated as described below. In measuring the estimated impact of changes in the level of interest rates, we assume a parallel shift in all maturities of the U.S. LIBOR interest rate swap curve. In measuring the estimated impact of changes in the slope of the yield curve, we assume a constant 7-year rate and a shift in the 1-year and 30-year rates of 16.7 basis points and 8.3 basis points, respectively. We believe the selected interest rate shocks for our monthly disclosures represent moderate movements in interest rates over a one-month period.

The daily average adverse impact from a 50 basis point change in interest rates and from a 25 basis point change in the slope of the yield curve, adjusted to exclude the interest rate sensitivities of our Alt-A and subprime private-label securities, was $(0.9) billion and $(0.1) billion, respectively, for the month of March 2009, compared with

$(1.1) billion for a 50 basis point change in interest rates and $(0.3) billion for a 25 basis point change in the slope of the yield curve for the month of December 2008. The unadjusted daily average adverse impact from a 50 basis point change in interest rates and from a 25 basis point change in the

slope of the yield curve was $(0.6) billion and $0.0 billion, respectively, for March 2009, compared with $(1.0) billion and $(0.2) billion, respectively, for December 2008.

The sensitivity measures presented in Table 51 below, which we disclose on a quarterly basis as part of our disclosure commitments with FHFA, are an extension of our monthly sensitivity measures. There are three primary differences between our monthly sensitivity disclosure and the quarterly sensitivity disclosure presented below: (1) the quarterly disclosure is expanded to include the sensitivity results for larger rate level shocks of plus or minus 100 basis points; (2) the monthly disclosure reflects the estimated pre-tax impact on the fair value of our net portfolio calculated based on a daily average, while the quarterly disclosure reflects the estimated pre-tax impact calculated based on the estimated financial position of our net portfolio and the market environment as of the last business day of the quarter based on values used for financial reporting; and (3) the monthly disclosure shows the most adverse pre-tax impact on the fair value of our net portfolio from the hypothetical interest rate shocks, while the quarterly disclosure includes the estimated pre-tax impact of both up and down interest rate shocks.

Table 51: Fair Value Sensitivity of Net Portfolio to Changes in Level and Slope of Yield Curve[1]

	As of March 31, 2009		As of December 31, 2008	
	Without PLS[2][4]	With PLS[3][4]	Without PLS[2][4][5]	With PLS[3][4][5]
	(Dollars in billions)			
Rate level shock:				
−100 basis points	$ (1.9)	$ 0.3	$ (2.8)	$ (0.4)
−50 basis points	(0.8)	0.3	(1.0)	0.1
+50 basis points	0.1	(0.8)	(0.7)	(1.6)
+100 basis points	(0.6)	(2.1)	(1.6)	(3.3)
Rate slope shock:				
−25 basis points	(0.1)	(0.1)	(0.5)	(0.4)
+25 basis points	0.1	0.1	0.4	0.3

(1) Computed based on changes in LIBOR swap rates.

(2) Calculated excluding the sensitivities of our Alt-A and subprime private-label mortgage-related investment securities to changes in interest rates.

(3) Calculated including the interest rate sensitivities for our Alt-A and subprime private-label mortgage-related investment securities generated by our existing internal models.

(4) Amounts include the sensitivities of our LIHTC partnership investments.

(5) Amounts include the sensitivities of our preferred stock.

Duration Gap

Duration measures the price sensitivity of our assets and liabilities to changes in interest rates by quantifying the difference between the estimated durations of our assets and liabilities. Our duration gap reflects the extent to which the estimated maturity and repricing cash flows for our assets are matched, on average, over time and across interest

rate scenarios, to the estimated cash flows of our liabilities. A positive duration indicates that the duration of our assets exceeds the duration of our liabilities. Table 52 below presents our monthly effective duration gap for December 2008 and for the first three months of 2009, adjusted to exclude the interest rate sensitivities of our Alt-A and subprime private-label securities and our unadjusted duration gap. For comparative purposes, we present the historical average daily duration for the 30-year Fannie Mae MBS component of the Barclays Capital U.S. Aggregate index, for the same months. As indicated in Table 52 below, the duration of the mortgage index as calculated by Barclays Capital is both higher and more volatile than our duration gap, which is attributable to several factors, including the following:

(1) We use duration hedges, including longer term debt and interest rate swaps, to reduce the duration of our net portfolio.

(2) We use option-based hedges, including callable debt and interest rate swaptions, to reduce the convexity or the duration changes of our net portfolio as interest rates move.

(3) We take rebalancing actions to adjust our net portfolio position in response to movements in interest rates.

(4) Our mortgage portfolio includes not only 30-year fixed rate mortgage assets, but also other mortgage assets that typically have a shorter duration, such as adjustable-rate mortgage loans, and mortgage assets that generally have a somewhat longer duration, such as multifamily loans and CMBS.

(5) The models used by Barclays Capital and Fannie Mae to estimate durations are different.

Table 52: Duration Gap

Month	Fannie Mae Effective Duration Gap without PLS[1]	Fannie Mae Effective Duration Gap with PLS	Barclays Capital 30-Year Fannie Mae Mortgage Index Option Adjusted Duration[2]
		(In months)	
December 2008	(1)	1	21
January 2009	0	2	13
February 2009	1	3	30
March 2009	(2)	1	26

(1) Calculated excluding the sensitivities of our Alt-A and subprime private-label mortgage-related investment securities to changes in interest rates.

(2) Reflects average daily option-adjusted duration based on the 30-year Fannie Mae MBS component of the Barclays Capital U.S. Aggregate index obtained from Barclays Capital Live.

As discussed in Executive Summary, the actions we are taking and the initiatives we have introduced to assist homeowners and limit foreclosures are significantly different from our historical approach to delinquencies, defaults and problem loans. As a result, it is difficult for us to predict the full extent of our activities under the initiatives and the impact of these activities on us, including borrower response rates, which increases the uncertainty of the timing of the cash flows from our mortgage assets.

Other Interest Rate Risk Information

The above interest rate risk measures exclude the impact of changes in the fair value of our net guaranty assets resulting from changes in interest rates. It is important to note that we exclude our guaranty business from these sensitivity measures based on our current assumption that the guaranty fee income generated from future business activity will largely replace guaranty fee income lost due to mortgage prepayments that result from changes in interest rates. We are in the process, however, of re-evaluating whether this expectation is appropriate given the mortgage market environment and the uncertainties related to recent government policy actions. We provide additional interest rate sensitivities below in Table 53, including separate disclosure of the potential impact on the fair value of our

trading assets, our net guaranty assets and obligations, and our other financial instruments as of March 31, 2009 and December 31, 2008, from the same hypothetical changes in the level of interest rates as presented above in Table 51. We also assume a parallel shift in all maturities along the interest rate swap curve in calculating these sensitivities. We believe these interest rate changes represent reasonably possible near-term changes in interest rates over the next twelve months.

Table 53: Interest Rate Sensitivity of Financial Instruments[1]

	As of March 31, 2009				
		Pre-tax Effect on Estimated Fair Value			
	Estimated	Change in Interest Rates (in basis points)			
	Fair Value	−100	−50	+50	+100
	(Dollars in millions)				
Trading financial instruments	$ 86,278	$ 1,193	$ 623	$ (726)	$ (1,582)
Guaranty assets and guaranty obligations, net[2]	(118,985)	17,052	6,625	(4,196)	(10,384)
Other financial instruments, net[3]	(93,559)	(710)	(278)	(98)	(584)

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	Estimated Fair Value	As of December 31, 2008 Pre-tax Effect on Estimated Fair Value Change in Interest Rates (in basis points)			
		–100	–50	+50	+100
	(Dollars in millions)				
Trading financial instruments	$ 90,806	$ 1,425	$ 758	$ (962)	$ (1,983)
Guaranty assets and guaranty obligations, net[2]	(90,992)	11,934	5,620	(6,739)	(7,603)
Other financial instruments, net[3]	(131,881)	(1,589)	(445)	(893)	(1,829)

(1) Excludes some instruments that we believe have interest rate risk exposure, such as LIHTC partnership assets and preferred stock. However, we include the interest rate sensitivities of LIHTC partnership assets in calculating the fair value sensitivities of our net portfolio to changes in the level and slope of the yield curve and in calculating our duration gap.

(2) Consists of the net of Guaranty assets and Guaranty obligations reported in our condensed consolidated balance sheets. In addition, includes certain amounts that have been reclassified from Mortgage loans reported in our condensed consolidated balance sheets to reflect how the risk of the interest rate and credit risk components of these loans is managed by our business segments.

(3) Consists of the net of all other financial instruments reported in Notes to Condensed Consolidated Financial Statements Note 18, Fair Value of Financial Instruments.

The interest rate sensitivity of our financial instruments generally decreased as of March 31, 2009 from December 31, 2008. Both our guaranty assets and our guaranty obligations generally increase in fair value when interest rates increase and decrease in fair value when interest rates decline. Changes in the combined sensitivity of the guaranty asset and obligation over this period were largely driven by the significant increase in the fair value of the guaranty obligation.

IMPACT OF FUTURE ADOPTION OF NEW ACCOUNTING PRONOUNCEMENTS

New accounting pronouncements or changes in existing accounting pronouncements may have a significant effect on our results of operations, our financial condition, our net worth or our business operations. We identify and discuss the expected impact on our consolidated financial statements of recently issued or proposed accounting pronouncements in Notes to Condensed Consolidated Financial Statements Note 2, Summary of Significant Accounting Policies.

FORWARD-LOOKING STATEMENTS

This report includes statements that constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (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, wo likely, may, or similar words.

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

Our expectation that borrowers at risk of foreclosure who are not eligible for a loan refinance under the Home Affordable Refinance Program will be evaluated for eligibility under the Home Affordable Modification Program before any other workout alternative is considered;

Our belief that the Making Home Affordable Program will likely have a material adverse effect, at least in the short term, on our business, results of operations, and financial condition, including our net worth;

Our expectation that, if interest rates remain near record lows, the Home Affordable Refinance Program will bolster refinance volumes over time as major lenders adopt necessary system changes and consumer awareness continues to build;

Our belief that, if the Making Home Affordable Program is successful in reducing foreclosures and keeping borrowers in their homes, it may benefit the overall housing market and help in reducing our long-term credit losses.

Our expectation that we will incur additional operational expenses associated with the Making Home Affordable Program;

Our expectation that adverse market dynamic and certain of our activities undertaken to stabilize and support the housing and mortgage markets will negatively affect our financial condition and performance through the remainder of 2009;

Our expectation that, for the foreseeable future, our earnings, if any, will not be sufficient to pay the dividends on the senior preferred stock;

Our expectation that our role as administrator for the modification program will be substantial, requiring significant levels of internal resources and management attention;

Our expectation that we will experience adverse financial effects because of our strategy of concentrating our efforts on keeping people in their homes and preventing foreclosures while remaining active in the secondary mortgage market;

Our belief that recently announced government policies and our initiatives under these policies have had an impact on delinquency patterns;

Our expectation that the adverse conditions in the housing market, will continue to adversely affect our credit results in 2009;

Our expectation that the current financial market crisis will continue through 2009;

Our expectation that we will have a net worth deficit in future periods, and will request additional funds from Treasury under the senior preferred stock purchase agreement;

Our expectation that default and severity rates will continue to rise;

Our expectation that the level of foreclosures, single-family delinquency rates, and the level of multifamily defaults and loss severities will increase further in 2009;

Our expectation that growth in residential mortgage debt outstanding will be flat in 2009;

Our expectation that home prices will decline another 7% to 12% on a national basis in 2009 (with significant regional variation in home price decline percentages), and that we will experience a peak-to-trough home price decline of 20% to 30%, based on our home price index, which is calculated differently from the S&P/Case-Schiller index;

Our expectation that we will not operate profitably in the foreseeable future, and our belief that there is significant uncertainty as to our long-term financial sustainability;

Our belief that future activities that our regulators, other U.S. government agencies or Congress may request or require us to take to support the mortgage market and help borrowers may contribute to further deterioration in our results of operations and financial condition;

Our expectation that loan modification volume and our acquisition of delinquent loans from MBS trusts will increase during 2009.

Our expectation that the necessary technology and operational capabilities to support the securitization of a significant portion of our single-family whole loans will be in place during the second quarter of 2009;

Our expectation that we will continue to experience significant credit losses;

Our expectation that our refinancing activity will remain high in 2009;

Our expectation that our acquisitions of Alt-A mortgage loans will be minimal in future periods;

Our expectation that our loan workout activity will substantially increase in 2009 relative to 2008;

Our expectation that the current financial market crisis will continue to adversely affect the liquidity and financial condition of many of our institutional counterparties;

Our expectation that the concentration of our derivatives exposure among our primary derivatives counterparties may increase with further industry consolidation;

Our expectation that the guaranty fee income generated from future business activity will largely replace any guaranty fee income lost as a result of mortgage prepayments that result from changes in interest rates;

Our belief that our liquidity contingency plan is unlikely to be sufficient to provide us with alternative sources of liquidity for a 90-day period;

Our belief that Treasury s commitment may not be sufficient to keep us in a solvent condition or prevent us from being placed into receivership;

Our belief that, for those Alt-A and subprime securities that we have not impaired, the performance of the underlying collateral will still allow us to recover our initial investment, although at significantly lower yields than what is being currently required by new investors;

Our belief that the improvement in our debt funding is due to actions taken by the federal government to support us and our debt securities, and our expectation that any changes or perceived changes in the government s support of us may have a material adverse affect on our ability to fund our operations;

Our belief that the actual and perceived risk that we will be unable to refinance our debt as it becomes due is likely to increase substantially as we progress toward December 31, 2009, which is the date on which the Treasury credit facility terminates;

Our belief that differing maintenance practices and the forced nature of foreclosure sales make foreclosed home sales less representative of market values;

Our belief that we are likely to incur further losses on some of our investments in Alt-A and subprime private-label mortgage-related securities, including those that continue to be AAA-rated.

Our belief that our different, and potentially conflicting, objectives could lead to less than optimal outcomes for some or all of our business objectives;

Our belief that, in the event of a liquidity crisis, we could seek funding from Treasury pursuant to the Treasury credit facility or the senior preferred stock purchase agreement;

Our belief that the FASB s proposed amendments to the consolidation accounting model could result in an increase in our stockholders deficit;

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 intention to use funds we receive from Treasury under the senior preferred stock purchase agreement to repay our debt obligations;

Our intention to continue to sell the non-mortgage-related securities in our cash and other investments portfolio from time to time as market conditions permit;

Our intention, through our problem loan management strategies, to minimize foreclosures and keep borrowers in their homes, which we believe may also help in reducing our long-term credit losses;

Our intention to hold the majority of our mortgage assets to maturity to realize the contractual cash flows;

Our intention to complete the implementation and remediation of the material weakness in our internal controls over financial reporting relating to our other-than-temporary-impairment assessment process for private-label mortgage-related securities by September 30, 2009; and

Our belief that it is likely we will not remediate the material weakness in our disclosure controls and procedures while we are under conservatorship.

Forward-looking statements reflect our management s expectations 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

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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:

- our ability to maintain a positive net worth;
- adverse effects from activities we undertake, such as the Making Home Affordable Program and other federal government initiatives, to support the mortgage market and help borrowers;
- the investment by Treasury and its effect on our business;
- future amendments and guidance by the FASB;
- changes in the structure and regulation of the financial services industry, including government efforts to bring about an economic recovery;
- our ability to access the debt capital markets;
- the conservatorship and its effect on our business (including our business strategies and practices);
- further disruptions in the housing, credit and stock markets;
- the depth and duration of the recession, including unemployment rates;
- the level and volatility of interest rates and credit spreads;
- the adequacy of our combined loss reserves;
- pending government investigations and litigation;
- changes in management;
- the accuracy of subjective estimates used in critical accounting policies; and
- other factors described in Part I Item 1A Risk Factors of our 2008 Form 10-K, as updated by Part II Item 1A Risk Factors of this report.

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 Part I Item 1A Risk Factors of our 2008 Form 10-K and in Part II Item 1A Risk Factors of 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.

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Item 1. Financial Statements

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