FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-Q
November 07, 2013

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

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

Federally chartered corporation (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 ¨

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

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

Large accelerated filer o	Accelerated filer þ
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 September 30, 2013, there were 1,158,080,657 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. Our directors do not have any fiduciary duties to any person or entity except to the conservator and, accordingly, are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator. We describe the rights and powers of the conservator, key provisions of our agreements with the U.S. Department of the Treasury ("Treasury"), and their impact on shareholders in our Annual Report on Form 10-K for the year ended December 31, 2012 ("2012 Form 10-K") in "Business—Conservatorship and Treasury Agreements."

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

This report contains forward-looking statements that are based on management's current expectations and are subject to significant uncertainties and changes in circumstances. Please review "Forward-Looking Statements" for more information on the forward-looking statements in this report. Our actual results may differ materially from those reflected in our forward-looking statements due to a variety of factors including, but not limited to, those discussed in "Risk Factors" and elsewhere in this report and in "Risk Factors" in our 2012 Form 10-K.

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

INTRODUCTION

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

Like the mortgage finance industry we serve, Fannie Mae is undergoing significant transformation. Since entering into conservatorship in September 2008, our senior management, constituencies and priorities have changed. More than 85% of our current senior management team, and every member of our management committee, has been hired or promoted into their current role since we entered into conservatorship. More than half of our employees were hired after conservatorship began. Moreover, instead of being run for the benefit of shareholders, our company is managed in the overall interest of taxpayers, which is consistent with the substantial public investment in us. Ultimately, we help fill the role of enabling families to buy, refinance or rent a home.

Our conservatorship has no specified termination date, and we do not know when or how the conservatorship will be terminated, whether we will continue to exist following conservatorship, or what changes to our business structure will be made during or following the conservatorship. Our agreements with Treasury that provide for financial support also include covenants that significantly restrict our business activities. We provide additional information on the conservatorship, the provisions of our agreements with Treasury, and their impact on our business in our 2012 Form 10-K in "Business—Conservatorship and Treasury Agreements" and "Risk Factors." We discuss the uncertainty of our future and its impact on us in "Executive Summary—Outlook" in this report and in "Risk Factors" in our 2012 Form 10-K. We describe recent proposals for GSE reform that could materially affect our business in "Legislative and Regulatory Developments—GSE Reform" in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2013 ("Second Quarter 2013 Form 10-Q") and in "Business—Legislative and Regulatory Developments" in our 2012 Form 10-K.

Although Treasury owns our senior preferred stock and a warrant to purchase 79.9% of our common stock and has made a commitment under a senior preferred stock purchase agreement to provide us with funds to maintain a positive net worth under specified conditions, the U.S. government does not guarantee our securities or other obligations.
Our common stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board under the symbol "FNMA." Our debt securities are actively traded in the over-the-counter market.

EXECUTIVE SUMMARY

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

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

- Financial Results and Treasury Dividend Payments. Our financial results for the third quarter of 2013 continued to be strong. With our net income of $8.7 billion for the third quarter of 2013, we ended the quarter with a positive net worth of $11.6 billion as of September 30, 2013. We will pay $8.6 billion of that net worth as a dividend on the senior preferred stock to Treasury in the fourth quarter of 2013. With this dividend payment, we will have paid a total of $113.9 billion in dividends to Treasury on the senior preferred stock. We expect to remain profitable for the foreseeable future. See "Summary of Our Financial Performance" below for an overview of our financial performance for the third quarter and first nine months of 2013, as compared with the third quarter and first nine months of 2012. For more information regarding our expectations for our future financial performance, see "Outlook" and "Strengthening Our Book of Business—Expectations Regarding Future Revenues" below.
- Providing Liquidity and Support to the Mortgage Market. We continued to be the leading provider of liquidity to the mortgage market in the third quarter of 2013. As described below under "Contributions to the Housing and Mortgage Markets Since Entering Conservatorship—2013 Acquisitions and Market Share," we remained the largest single issuer of mortgage-related securities in the secondary market during the quarter and remained a constant source of liquidity in the multifamily market.
- Strong New Book of Business. Single-family loans we have acquired since the beginning of 2009 constituted 75% of our single-family guaranty book of business as of September 30, 2013, while the single-family loans we acquired prior to 2009 constituted 25% of our single-family guaranty book of business. We refer to the single-family loans we have acquired since the beginning of 2009 as our "new single-family book of business" and the single-family loans we acquired prior to 2009 as our "legacy book of business." As described below in "Strengthening Our Book of Business—Credit Risk Profile," we expect that our new single-family book of business will be profitable over its lifetime.
- Credit Performance. Our single-family serious delinquency rate continued to decline from its peak of 5.59% as of February 28, 2010, and was 2.55% as of September 30, 2013, compared with 3.41% as of September 30, 2012. See "Credit Performance" below for additional information about the credit performance of the mortgage loans in our single-family guaranty book of business.
- Reducing Credit Losses and Helping Homeowners. We continued to execute on our strategies for reducing credit losses on our legacy book of business, which are addressed in "Business—Executive Summary—Reducing Credit Losses on Our Legacy Book of Business" in our 2012 Form 10-K. As part of our strategy to reduce defaults, we provided approximately 55,000 loan workouts in the third quarter of 2013 to help homeowners stay in their homes or otherwise avoid foreclosure.

We also continued our efforts to help build a new housing finance system, including pursuing the strategic goals identified by our conservator: build a new infrastructure for the secondary mortgage market; gradually contract our dominant presence in the marketplace while simplifying and shrinking our operations; and maintain foreclosure prevention activities and credit availability for new and refinanced mortgages. We discuss these goals in our 2012 Form 10-K in "Business—Executive Summary—Helping to Build a New Housing Finance System." In March 2013, the Acting Director of FHFA released 2013 corporate performance goals and related targets for Fannie Mae and Freddie Mac, referred to as the 2013 conservatorship scorecard, that build upon these strategic goals. See our current report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on March 8, 2013 for a description of the 2013 conservatorship scorecard.

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

For example, one of our priorities is to modernize our technological infrastructure to give us the flexibility that may be required as the housing system undergoes transition. These projects will likely take several years to implement. We are devoting significant resources to and incurring significant expenses in implementing FHFA's objectives and these additional related projects.

Summary of Our Financial Performance

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

We expect our revenues to continue to be stable; however, as we discuss more fully in "Strengthening Our Book of Business—Expectations Regarding Future Revenues," we expect the source of our revenue to shift in the future. Additionally, we expect volatility from period to period in our financial results due to changes in market conditions that result in periodic fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings. These instruments include trading securities and derivatives. The estimated fair value of our trading securities and derivatives may fluctuate substantially from period to period because of changes in interest rates, credit spreads and interest rate volatility, as well as activity related to these financial instruments. While the estimated fair value of our derivatives that serve to mitigate certain risk exposures may fluctuate, some of the financial instruments that generate these exposures are not recorded at fair value in our condensed consolidated financial statements. In addition, our credit-related income or expense can vary substantially from period to period primarily due to changes in home prices, borrower payment behavior and economic conditions.

Comprehensive Income

Quarterly Results

We recognized comprehensive income of $8.6 billion in the third quarter of 2013, consisting of net income of $8.7 billion and other comprehensive loss of $134 million. In comparison, we recognized comprehensive income of $2.6 billion in the third quarter of 2012, consisting of net income of $1.8 billion and other comprehensive income of $746 million. The increase in our net income in the third quarter of 2013 compared with the third quarter of 2012 was primarily due to credit-related income and fair value gains.

We recognized credit-related income of $3.8 billion in the third quarter of 2013 compared with credit-related expense of $2.0 billion in the third quarter of 2012. Our credit results for the third quarters of 2013 and 2012 were positively impacted by increases in home prices which resulted in reductions in our loss reserves. The improvement in our credit results was due to a decline in the number of delinquent loans in our single-family guaranty book of business. In addition, in the third quarter of 2013, we recognized foreclosed property income of $1.2 billion, primarily due to the recognition of compensatory fees received in connection with our compensatory fee agreement with Bank of America. We had previously deferred this income until we substantially completed the loan review process related to the agreement. See "Note 20, Subsequent Events" in our 2012 Form 10-K for additional information on the Bank of America compensatory fee agreement.

In the third quarter of 2012, our provision for credit losses was primarily driven by a change in the assumptions and data used in calculating our loss reserves and a change in our accounting for loans to certain borrowers who have received bankruptcy relief. See "Critical Accounting Policies and Estimates—Total Loss Reserves" and "Consolidated Results of Operations—Benefit (Provision) for Credit Losses" in our 2012 Form 10-K for additional information on these changes.

Fair value gains of $335 million in the third quarter of 2013 were primarily driven by derivatives fair value gains as longer-term swap rates increased in the third quarter of 2013. Fair value losses of $1.0 billion in the third quarter of 2012 were primarily driven by derivatives fair value losses as swap rates declined in the third quarter of 2012.

Investment gains of $648 million in the third quarter of 2013 compared with $134 million in the third quarter of 2012 were primarily due to sales of non-agency mortgage-related securities. See "Business Segment Results—Capital Markets Group Results—The Capital Markets Group's Mortgage Portfolio" and "Consolidated Balance Sheet Analysis—Investments

in Mortgage-Related Securities" for additional information on our mortgage-related securities portfolio and requirements that we reduce our retained mortgage portfolio. Our "retained mortgage portfolio" refers to the mortgage-related assets we own (which excludes the portion of assets held by consolidated MBS trusts that back mortgage-related securities owned by third parties).

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We recognized a provision for federal income taxes of $1.4 billion in the third quarter of 2013 as our current estimate of pre-tax income for 2013 was greater than our estimate as of March 31, 2013. We did not recognize a provision for federal income taxes in the third quarter of 2012. See “Note 10, Income Taxes” for additional information.

Our other comprehensive loss of $134 million in the third quarter of 2013 was driven by the reversal of previously unrealized gains reflected in accumulated other comprehensive income that were realized as investment gains as a result of sales of non-agency securities.

Year-to-Date Results

We recognized comprehensive income of $78.2 billion in the first nine months of 2013, consisting of net income of $77.5 billion and other comprehensive income of $686 million. In comparison, we recognized comprehensive income of $11.1 billion in the first nine months of 2012, consisting of net income of $9.7 billion and other comprehensive income of $1.4 billion.

Our comprehensive income in the first nine months of 2013 was primarily driven by the release of the substantial majority of our valuation allowance against our deferred tax assets in the first quarter of 2013, which resulted in a benefit for federal income taxes of $47.2 billion in our condensed consolidated statements of operations and comprehensive income for the first nine months of 2013. We discuss the factors that led to our conclusion to release the valuation allowance against our deferred tax assets in “Critical Accounting Policies and Estimates—Deferred Tax Assets” and “Note 10, Income Taxes.”

Our pre-tax income, which excludes the benefit for federal income taxes, was $30.3 billion in the first nine months of 2013 compared with $9.7 billion in the first nine months of 2012. The increase in our pre-tax income was primarily due to credit-related income of $10.7 billion in the first nine months of 2013 compared with credit-related expense of $1.3 billion in the first nine months of 2012. In addition to the factors that led to our increased credit-related income in the third quarter of 2013, in the second quarter of 2013 we updated the assumptions and data used to estimate our allowance for loan losses for individually impaired single-family loans to reflect faster prepayment and lower default expectations for these loans. These updates resulted in a decrease to our allowance for loan losses and an incremental benefit for credit losses of approximately $2.2 billion. See “Critical Accounting Policies and Estimates—Total Loss Reserves” for additional information. The positive impact of these factors on our credit-related income for the first nine months of 2013 was partially offset by lower cash flow projections on our individually impaired loans due to increasing mortgage interest rates in the first nine months of 2013. Higher mortgage interest rates lengthen the expected lives of modified loans, thus increasing the impairment related to concessions on these loans and resulting in an increase to the provision for credit losses. Conversely, in the first nine months of 2012, mortgage interest rates decreased, resulting in higher cash flow projections on our individually impaired loans, which resulted from shortened expected lives on modified loans and lower impairment related to concessions on these loans.

The factors that led to fair value gains of $2.0 billion in the first nine months of 2013 compared with fair value losses of $3.2 billion in the first nine months of 2012 are the same factors that led to fair value gains in the third quarter of 2013.

Our other comprehensive income of $686 million in the first nine months of 2013 compared with $1.4 billion in the first nine months of 2012. The other comprehensive income recognized in the first nine months of 2013 and 2012 was driven by increases in net unrealized gains on available-for-sale securities primarily due to the narrowing of credit spreads. Other comprehensive income in the first nine months of 2013 was partially offset by other comprehensive loss driven by the reversal of previously unrealized gains reflected in accumulated other comprehensive income that were realized as investment gains as a result of sales of non-agency securities.

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

Net Worth

Our net worth increased to $11.6 billion as of September 30, 2013 from $7.2 billion as of December 31, 2012, primarily due to our comprehensive income of $78.2 billion, partially offset by our payments to Treasury of $73.8 billion in senior preferred stock dividends during the first nine months of 2013.

As a result of our positive net worth as of September 30, 2013, we are not requesting a draw from Treasury under the senior preferred stock purchase agreement. Our dividend payment for the fourth quarter of 2013 will be $8.6 billion, which is calculated based on our net worth of $11.6 billion as of September 30, 2013 less the applicable capital

reserve amount of $3.0 billion. As of December 31, 2013, we will have paid a total of $113.9 billion in dividends to Treasury on the senior preferred stock.

Total Loss Reserves

Our total loss reserves consist of (1) our allowance for loan losses, (2) our allowance for accrued interest receivable, (3) our allowance for preforeclosure property taxes and insurance receivables, and (4) our reserve for guaranty losses. Our total loss reserves, which reflect our estimate of the probable losses we have incurred in our guaranty book of business, including concessions we granted borrowers upon modification of their loans, decreased to $48.4 billion as of September 30, 2013 from $62.6 billion as of December 31, 2012. Our total loss reserve coverage to total nonperforming loans was 21% as of September 30, 2013 compared with 25% as of December 31, 2012.

Strengthening Our Book of Business

Credit Risk Profile

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

Our expectations regarding the ultimate performance of our loans are based on numerous assumptions, including those relating to changes in home prices, borrower behavior, public policy and other macroeconomic factors. If future conditions are less favorable than our expectations, our new single-family book of business could become unprofitable. See “Outlook—Home Prices” for our current expectations regarding changes in home prices. Also see “Outlook—Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations” in this report and “Risk Factors” in both this report and our 2012 Form 10-K for a discussion of factors that could cause our expectations regarding the performance of the loans in our new single-family book of business to change.

Table 1 below displays information regarding the credit characteristics of the loans in our single-family conventional guaranty book of business as of September 30, 2013 by acquisition period, which illustrates the improvement in the credit risk profile of loans we acquired beginning in 2009 compared with loans we acquired in 2005 through 2008.

Table 1: Selected Credit Characteristics of Single-Family Conventional Loans Held, by Acquisition Period

	As of September 30, 2013			
	Percentage of Single-Family Conventional Guaranty Book of Business[(1)]	Current Estimated Mark-to-Market LTV Ratio	Current Mark-to-Market LTV Ratio >100%[(2)]	Serious Delinquency Rate[(3)]
New single-family book of business	75 %	65 %	4 %	0.32 %
Legacy single-family book of business:				
2005-2008	16	86	28	9.58
2004 and prior	9	51	3	3.55
Total single-family book of business	100 %	67 %	8 %	2.55 %

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

(2) The majority of loans in our new single-family book of business as of September 30, 2013 with mark-to-market loan-to-value (“LTV”) ratios over 100% were loans acquired under the Home Affordable Refinance Program. See “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring—HARP and Refi Plus Loans” for more information on our recent

acquisitions of loans with high LTV ratios.

(3) The serious delinquency rates for loans acquired in more recent years will be higher after the loans have aged, but we do not expect them to approach the levels of the September 30, 2013 serious delinquency rates of loans in our legacy book of business.

Whether the loans we acquire in the future will exhibit an overall credit profile and performance similar to our more recent acquisitions will depend on a number of factors, including our future pricing and eligibility standards and those of mortgage insurers and the Federal Housing Administration ("FHA"), the percentage of loan originations representing refinancings, our

future objectives, government policy, market and competitive conditions, and the volume and characteristics of loans we acquire under the Home Affordable Refinance Program ("HARP[SM]").

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

Guaranty Fees on Recently Acquired Single-Family Loans

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

Table 2: Single-Family Acquisitions Statistics

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Single-family average charged guaranty fee on new acquisitions (in basis points)[1][2]	58.7	41.8	56.6	37.1
Single-family Fannie Mae MBS issuances (in millions)[3]	$186,459	$229,671	$615,302	$601,469

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(1) Pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, effective April 1, 2012, we increased the guaranty fee on all single-family residential mortgages delivered to us on or after that date for securitization by 10 basis points, and the incremental revenue must be remitted to Treasury. The resulting revenue is included in guaranty fee income and the expense is included in other expenses. This increase in guaranty fee is also included in the single-family average charged guaranty fee.

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

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

The revenue we receive from guaranty fees depends on the volume of our single-family acquisitions, the charged guaranty fee at acquisition and the life of the loans. Because we increased our guaranty fees in 2012 on loans acquired after the increase, we expect to benefit from receiving significantly more revenue from guaranty fees in future periods than we have in prior periods, even after we remit some of this revenue to Treasury as we are required to do under the Temporary Payroll Tax Cut Continuation Act of 2011 (the "TCCA"). The increase in our average charged guaranty fee on newly acquired single-family loans from the first nine months of 2012 to the first nine months of 2013 was primarily attributable to an average increase of 10 basis points implemented during the fourth quarter of 2012. The increase was also partially the result of the 10 basis point increase on April 1, 2012 mandated by the TCCA, from which the incremental revenue is remitted to Treasury.

Although we do not know the specific timing, form or extent of future changes in our guaranty fee pricing, we believe that we will increase our guaranty fees in the future. These increases in guaranty fee pricing support FHFA's strategic plan to gradually contract our dominant presence in the marketplace and attract private capital. See "Business—Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue" in our 2012 Form 10-K for more information on changes to our guaranty fee pricing.

Expectations Regarding Future Revenues

We currently have two primary sources of revenues: (1) the difference between interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets; and (2) the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties. Historically, we have generated the majority of our revenues from the difference between the interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets. As we discuss in our 2012 Form 10-K in "Conservatorship and Treasury Agreements—Treasury Agreements—Covenants under Treasury Agreements," we are required to reduce the size of our retained mortgage portfolio each year until we hold no more than $250 billion in mortgage assets by the end of 2018. As we reduce the size of our retained mortgage portfolio, our revenues generated by our

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retained mortgage portfolio assets will also decrease. As a result of both the shrinking of our retained mortgage portfolio and the impact of guaranty fee increases, we expect that, in a number of years, guaranty fees will become the primary source of our revenues.

We recognize almost all of our guaranty fee revenue in net interest income in our condensed consolidated statements of operations and comprehensive income. The percentage of our net interest income derived from guaranty fees on loans underlying our Fannie Mae MBS has increased over the past year. We estimate that approximately 35% of our net interest income for the nine months ended September 30, 2013 was derived from guaranty fees on loans underlying our Fannie Mae MBS, compared with approximately 30% for the nine months ended September 30, 2012. We expect that, if current housing market conditions continue and if we are not required to sell more of our retained mortgage portfolio assets than we currently anticipate selling, increases in our revenues from guaranty fees will generally offset the expected declines in our revenues generated by our retained mortgage portfolio assets. Any future increases in guaranty fees will likely further increase our guaranty fee revenue. The amount of our guaranty fee revenue in future periods will be impacted by many factors, including adjustments to guaranty fee pricing we may make in the future, the life of the loans in our guaranty book of business and the size of our guaranty book of business. Because loans remain in our book of business for a number of years, the credit quality of and guaranty fees we charge on the loans we acquire in a particular year affects our results for a period of years after we acquire them. Accordingly, we expect the improvements in the credit quality of our loan acquisitions since 2009 and the increases in our charged guaranty fees on recently acquired loans to contribute significantly to our revenues for years to come, especially because these loans have relatively low interest rates, making them less likely to be refinanced than loans with higher interest rates.

Credit Performance

Table 3 presents information for each of the last seven quarters about the credit performance of mortgage loans in our single-family guaranty book of business and our workouts. The term “workouts” refers to home retention solutions and foreclosure alternatives. The workout information in Table 3 does not reflect repayment plans and forbearances that have been initiated but not completed, nor does it reflect trial modifications that have not become permanent.

Table 3: Credit Statistics, Single-Family Guaranty Book of Business[(1)]

	2013				2012			
	Q3 YTD	Q3	Q2	Q1	Full Year	Q4	Q3	Q2
	(Dollars in millions)							
As of the end of each period:								
Serious delinquency rate[(2)]	2.55 %	2.55 %	2.77 %	3.02 %	3.29 %	3.29 %	3.41 %	3.53 %
Seriously delinquent loan count	447,840	447,840	483,253	527,529	576,591	576,591	599,430	622,052
Nonperforming loans[(3)]	$225,059	$225,059	$230,494	$236,988	$247,823	$247,823	$250,678	$240,472
Foreclosed property inventory:								
Number of properties[(4)]	100,941	100,941	96,920	101,449	105,666	105,666	107,225	109,266
Carrying value	$10,036	$10,036	$9,075	$9,263	$9,505	$9,505	$9,302	$9,421
Combined loss reserves[(5)]	$45,608	$45,608	$49,930	$56,626	$58,809	$58,809	$63,100	$63,365
Total loss reserves[(6)]	$47,664	$47,664	$52,141	$59,114	$61,396	$61,396	$65,685	$66,694
During the period:								
Foreclosed property (number of properties):								
Acquisitions[(4)]	112,176	37,353	36,106	38,717	174,479	41,112	41,884	43,783
Dispositions	(116,901)	(33,332)	(40,635)	(42,934)	(187,341)	(42,671)	(43,925)	(48,674)
Credit-related income (expense)[(7)]	$10,357	$3,642	$5,681	$1,034	$919	$2,419	$(2,130)	$3,015
Credit losses[(8)]	$4,127	$1,083	$1,541	$1,503	$14,392	$2,174	$3,485	$3,778
REO net sales prices to unpaid principal balance[(9)]	67 %	68 %	68 %	65 %	59 %	62 %	61 %	59 %
Short sales net sales price to	66 %	68 %	67 %	64 %	61 %	63 %	61 %	60 %

unpaid principal balance[10]															
Loan workout activity (number of loans):															
Home retention loan workouts[11]	130,976		39,559		43,782		47,635		186,741		44,044		45,936		41,226
Short sales and deeds-in-lieu of foreclosure	48,928		15,092		17,710		16,126		88,732		19,184		23,322		24,013
Total loan workouts	179,904		54,651		61,492		63,761		275,473		63,228		69,258		65,239
Loan workouts as a percentage of delinquent loans in our guaranty book of business[12]	29.04	%	26.47	%	27.31	%	27.53	%	26.38	%	24.22	%	25.18	%	24.14	%

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

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

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

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

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

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

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

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

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

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

(11) Consists of (a) modifications, which do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as TDRs, or repayment and forbearance plans that have been initiated but not completed and (b) repayment plans and forbearances completed. See "Table 35: Statistics on Single-Family Loan Workouts" in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Problem Loan Management—Loan Workout Metrics" for additional information on our various types of loan workouts.

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

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

Contributions to the Housing and Mortgage Markets Since Entering Conservatorship

Liquidity and Support Activities

We have provided approximately $3.9 trillion in liquidity to the housing market since 2009, enabling families to buy, refinance or rent a home. Since we entered into conservatorship in September 2008, we have provided critical

liquidity and support to the U.S. mortgage market in a number of important ways:

- We serve as a stable source of liquidity for purchases of homes and financing of multifamily rental housing, as well as for refinancing existing mortgages. The approximately $3.9 trillion in liquidity we have provided to the mortgage market from 2009 through the third quarter of 2013 through our purchases and guarantees of loans enabled borrowers to complete 12.0 million mortgage refinancings and 3.4 million home purchases and provided financing for 2.0 million units of multifamily housing.
- We strengthened our underwriting and eligibility standards to support sustainable homeownership. As a result, our new single-family book of business has a strong credit risk profile. Our support enables borrowers to have access to

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a variety of mortgage products, including long-term, fixed-rate mortgages, such as the prepayable 30-year fixed-rate mortgage, which protects homeowners from interest rate swings.

- Through our loan workout efforts from 2009 through the third quarter of 2013, which included providing approximately 1.0 million loan modifications, we helped 1.3 million homeowners stay in their homes or otherwise avoid foreclosure. These efforts helped to support neighborhoods, home prices and the housing market.
- We helped borrowers refinance loans, including through our Refi Plus™ initiative, which offers refinancing flexibility to eligible Fannie Mae borrowers. From April 1, 2009, the date we began accepting delivery of Refi Plus loans, through September 30, 2013, we acquired approximately 3.7 million Refi Plus loans. Refinancings delivered to us through Refi Plus in the third quarter of 2013 reduced borrowers' monthly mortgage payments by an average of $210. Some borrowers' monthly payments increased as they took advantage of the ability to refinance through Refi Plus to reduce the term of their loan, to switch from an adjustable-rate mortgage to a fixed-rate mortgage or to switch from an interest-only mortgage to a fully amortizing mortgage.
- We support affordability in the multifamily rental market. Over 85% of the multifamily units we financed from 2009 through 2012 were affordable to families earning at or below the median income in their area.
- In addition to purchasing and guaranteeing loans, we provide funds to the mortgage market through short-term financing and other activities. These activities are described in more detail in our 2012 Form 10-K in "Business—Business Segments—Capital Markets."

2013 Acquisitions and Market Share

As the leading provider of residential mortgage credit, we enable families to buy, refinance or rent a home. In the first nine months of 2013, we purchased or guaranteed approximately $666 billion in single-family and multifamily loans, measured by unpaid principal balance, which includes $22.3 billion in delinquent loans we purchased from our single-family MBS trusts. Our activities enabled our lender customers to finance approximately 3.0 million single-family conventional loans and loans for approximately 386,000 units in multifamily properties during the first nine months of 2013.

One of FHFA's strategic goals for our conservatorship involves gradually contracting our dominant presence in the marketplace. Despite this goal, our market share remained large in the first nine months of 2013 as we have continued to meet the needs of the single-family mortgage market in the absence of substantial private capital. We remained the largest single issuer of mortgage-related securities in the secondary market during the third quarter of 2013, with an estimated market share of new single-family mortgage-related securities issuances of 48% in the third quarter of 2013, compared with 45% in the second quarter of 2013 and 52% in the third quarter of 2012.

We remain a constant source of liquidity in the multifamily market. We owned or guaranteed approximately 21% of the outstanding debt on multifamily properties as of June 30, 2013 (the latest date for which information is available), according to the Federal Reserve's June 2013 mortgage debt outstanding release.

Housing and Mortgage Market and Economic Conditions

According to the U.S. Bureau of Economic Analysis, in the second quarter of 2013 the inflation-adjusted U.S. gross domestic product, or GDP rose by 2.5% on an annualized basis. The Bureau of Economic Analysis advance estimate of GDP for the third quarter was not yet available at the time this report was prepared. In the third quarter of 2013, the overall economy gained an estimated 430,000 jobs. According to the U.S. Bureau of Labor Statistics, over the last 12 months ending in September 2013, the economy created 2.2 million non-farm jobs. The unemployment rate was 7.2% in September 2013, down from 7.6% in June 2013. We expect that the housing market will benefit if employment continues to improve.

Housing activity was mixed during the third quarter of 2013. Total existing home sales averaged 5.4 million units annualized in the third quarter of 2013, a 5.9% increase from the second quarter of 2013, according to data from the National Association of REALTORS®. Sales of foreclosed homes and preforeclosure, or "short," sales (together, "distressed sales") accounted for 14% of existing home sales in September 2013, compared with 15% in June 2013 and 24% in September 2012. New single-family home sales weakened during the first two months of the third quarter of 2013 (the latest period for which information is available), averaging an annualized rate of 405,500 units in July and August, an 8.5% decrease from the second quarter of 2013, according to the Bureau of the Census.

During the third quarter of 2013, the number of months' supply, or the inventory/sales ratio, of available existing homes fell to 5.0 months while the number of months' supply of new homes rose to an average of 5.1 months through the first two months of the third quarter of 2013 (the latest period for which information is available). The inventory/sales ratio for both existing and new homes remained below their historical average.

The overall mortgage market serious delinquency rate, which has trended down since peaking in the fourth quarter of 2009, remained historically high at 5.9% as of June 30, 2013 (the latest date for which information is available), according to the Mortgage Bankers Association National Delinquency Survey. We provide information about Fannie Mae's serious delinquency rate, which also decreased, in "Credit Performance."

Based on our home price index, we estimate that home prices on a national basis increased by 9.2% in the first nine months of 2013 and by 9.4% from the third quarter of 2012 to the third quarter of 2013. Despite the recent increases in home prices, we estimate that, through the third quarter of 2013, home prices on a national basis remained 13.2% below their peak in the third quarter of 2006. Our home price estimates are based on preliminary data and are subject to change as additional data become available. The decline in home prices that began in 2006 left many homeowners with "negative equity" in their homes, which means their principal mortgage balance exceeds the current market value of their home. This increases the likelihood that borrowers will abandon their mortgage obligations and that the loans will become delinquent and proceed to foreclosure. According to CoreLogic, Inc. the number of residential properties with mortgages in a negative equity position in the second quarter of 2013 was approximately 7.1 million, down from 9.6 million, in the first quarter of 2013. The percentage of properties with mortgages in a negative equity position in the second quarter of 2013 was 14.5%, down from 19.7% in the first quarter of 2013 and its peak of 25.7% reached in the fourth quarter of 2009.

Thirty-year mortgage rates, which were as low as 3.35% for the week of May 2nd, have increased substantially since early May and were 4.10% for the week of October 31st, according to Freddie Mac. See "Outlook—Overall Market Conditions" below for a description of our expectations regarding the impact of this increase in rates on mortgage originations.

During the third quarter of 2013, multifamily fundamentals remained stable, according to preliminary third-party data. Although the national multifamily vacancy rate for institutional investment-type apartment properties remained at an estimated 5.10% as of September 30, 2013, unchanged from June 30, 2013 and down from an estimated 5.50% as of December 31, 2012, there was an increase in both effective rents and net absorption.

National asking rents increased by an estimated 1.0% during the third quarter of 2013, compared with an increase of 0.5% during the second quarter of 2013. Continued demand for multifamily rental units is reflected in the estimated positive net absorption (that is, the net change in the number of occupied rental units during the time period) of more than 41,000 units during the third quarter of 2013, according to preliminary data from Reis, Inc., compared with 34,000 units during the second quarter of 2013.

As a result of the continued demand for multifamily rental units over the past few years, there has been an increase in the amount of new multifamily construction development nationally. It is expected that there will be nearly 200,000 new multifamily units completed this year, according to the most recent data from McGraw Hill Construction, with another 227,000 units expected in 2014. The bulk of this new supply is concentrated in about 10 metropolitan areas. As a result, multifamily fundamentals could be impacted in certain localized areas, producing a temporary slowdown in net absorption rates, occupancy levels, and effective rents starting in 2014.

Outlook

Financial Results and Dividend Payments to Treasury. Our pre-tax income was $10.1 billion for the third quarter of 2013 and $30.3 billion for the first nine months of 2013. We expect to remain profitable for the foreseeable future. While we expect our annual earnings to remain strong over the next few years, our earnings may vary significantly from quarter to quarter and year to year due to many different factors, such as changes in interest rates or home prices. The estimated 9.2% increase in home prices on a national basis in the first nine months of the year contributed significantly to the record pre-tax income we reported for the first nine months of 2013. As noted in "Home Prices" below, we expect minimal home price growth in the fourth quarter of the year. In addition to future changes in home prices and interest rates, our future earnings will be affected by a number of other factors, including the volume of single-family mortgage originations in the future and the size, composition and quality of our retained mortgage portfolio. For a discussion of our expectations regarding our future revenues, see "Strengthening Our Book of Business."

In compliance with our dividend obligation to Treasury, we will retain only a limited amount of any future earnings because we must pay Treasury each quarter the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. This capital reserve amount is $3.0

billion for each quarter of 2013 and then decreases annually until it reaches zero in 2018.
One of our objectives is to pay taxpayers for their investment in our company. Through September 30, 2013, we have received a total of $116.1 billion under the senior preferred stock purchase agreement. This funding has provided us with the capital and liquidity needed to fulfill our mission of providing liquidity and support to the nation's housing finance markets and to avoid a trigger of mandatory receivership under the Federal Housing Finance Regulatory Reform Act of 2008 (the

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"2008 Reform Act"). We have not received funds from Treasury under the agreement since the first quarter of 2012. Under the terms of the senior preferred stock purchase agreement, dividend payments cannot be used to offset prior Treasury draws, and we are not permitted to pay down draws we have made under the agreement except in limited circumstances. Accordingly, Treasury still maintains a liquidation preference of $117.1 billion on the senior preferred stock, even though we have paid $105.3 billion in dividends through September 30, 2013 and, with our dividend payment of $8.6 billion in the fourth quarter of 2013, we will have paid $113.9 billion in dividends. We expect that the amount of dividends we pay Treasury will exceed the amounts we have drawn.

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

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

We believe that the recent increase in mortgage rates will result in a decline in overall single-family mortgage originations in 2013 as compared with 2012, driven by a decline in refinancings. We currently forecast that total originations in the U.S. single-family mortgage market in 2013 will decrease from 2012 levels by approximately 15%, from an estimated $2.15 trillion in 2012 to $1.83 trillion in 2013, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will decrease from an estimated $1.54 trillion in 2012 to $1.13 trillion in 2013. In the third quarter of 2013, refinancings comprised approximately 62% of our single-family conventional business volume, compared with approximately 75% in the second quarter of 2013 and approximately 79% for all of 2012.

Home Prices. Based on our home price index, we estimate that home prices on a national basis increased by 9.2% in the first nine months of 2013. We expect home prices will increase only minimally on a national basis in the fourth quarter of 2013. Future home price changes may be very different from our expectations as a result of significant inherent uncertainty in the current market environment, including uncertainty about the effect of recent and future changes in mortgage rates; actions the federal government has taken and may take with respect to tax policies, spending cuts, mortgage finance programs and policies and housing finance reform; the management of the Federal Reserve's MBS holdings; the impact of those actions on and changes generally in unemployment and the general economic and interest rate environment; and the impact on the U.S. economy of global economic conditions. We also expect significant regional variation in the timing and rate of home price growth.

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

Loss Reserves. Our total loss reserves were $48.4 billion as of September 30, 2013, down from $62.6 billion as of December 31, 2012 and their peak of $76.9 billion as of December 31, 2011. If delinquencies continue to trend downward and home prices continue to increase, we expect our loss reserves will continue to decline, but at a slower pace than in recent quarters because the pace of home price growth has slowed. Although our loss reserves have declined substantially from their peak and are expected to decline further, we expect our loss reserves will remain significantly elevated relative to historical levels for an extended period because (1) we expect future defaults on loans that we acquired prior to 2009 and the resulting charge-offs will occur over a period of years and (2) a significant portion of our reserves represents concessions granted to borrowers upon modification of their loans and our reserves will continue to reflect these concessions until the loans are fully repaid or default.

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

We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding long-term reform of the GSEs. See “Business—Legislative and Regulatory Developments” in our 2012 Form 10-K and “Legislative and Regulatory Developments” in our Second Quarter 2013 Form 10-Q for discussions of proposals for GSE reform that could materially affect our business, including two bills introduced in Congress that, among other things, would require the wind down of Fannie Mae and Freddie Mac. See “Risk Factors” in our 2012 Form 10-K for a discussion of the risks to our business relating to the uncertain future of our company.

Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations. We present a number of estimates and expectations in this executive summary regarding our future performance, including estimates and expectations regarding our future financial results and profitability, our future dividend and income tax payments to Treasury, our future revenues, the profitability and performance of single-family loans we have acquired, our future acquisitions, our future delinquency, default and severity rates, our future credit losses and our future loss reserves. We also present a number of estimates and expectations in this executive summary regarding future housing market conditions, including expectations regarding future mortgage originations and future home prices. These estimates and expectations are forward-looking statements based on our current assumptions regarding numerous factors. Our future estimates of our performance and housing market conditions, as well as the actual results, may differ materially from our current estimates and expectations as a result of: the timing and level of, as well as regional variation in, home price changes; changes in interest rates, unemployment rates and other macroeconomic and housing market variables; our future guaranty fee pricing and the impact of that pricing on our competitive environment; our future serious delinquency rates; future legislative or regulatory requirements that have a significant impact on our business, such as a requirement that we implement a principal forgiveness program; future updates to our models relating to our loss reserves, including the assumptions used by these models; future changes to our accounting policies relating to our loss reserves; significant changes in modification and foreclosure activity; changes in borrower behavior, such as an increasing number of underwater borrowers who strategically default on their mortgage loan; the effectiveness of our loss mitigation strategies, management of our real estate owned (“REO”) inventory and pursuit of contractual remedies; whether our counterparties meet their obligations in full; resolution or settlement agreements we may enter into with our counterparties; changes in the fair value of our assets and liabilities; impairments of our assets; changes in generally accepted accounting principles (“GAAP”); credit availability; natural and other disasters; and other factors, including those discussed in “Forward-Looking Statements,” “Risk Factors” and elsewhere in this report and in our 2012 Form 10-K. Due to the large size of our guaranty book of business, even small changes in these factors could have a significant impact on our financial results for a particular period.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

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

GSE Reform

Policymakers and others have focused significant attention in recent years on how to reform the nation’s housing finance system, including what role, if any, the GSEs should play. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”), which was signed into law in July 2010, calls for enactment of meaningful structural reforms of Fannie Mae and Freddie Mac. See “Business—Legislative and Regulatory Developments” in our 2012 Form 10-K and “MD&A—Legislative and Regulatory Developments” in our First Quarter 2013 Form 10-Q and our Second Quarter 2013 Form 10-Q for a description of activities relating to GSE reform that occurred in 2011, 2012 and earlier in 2013, including a description of:

- the Administration’s housing policy priorities, which include winding down Fannie Mae and Freddie Mac through a responsible transition;
- the Administration’s February 2011 report on GSE reform, which discusses potential options for a new long-term structure for the housing finance system following the wind down of Fannie Mae and Freddie Mac;

- examples of legislation considered by members of Congress relating to housing finance system reform and the GSEs; and

- certain FHFA objectives for Fannie Mae and Freddie Mac included in its 2013 conservatorship scorecard that are designed to help build a new infrastructure for the secondary mortgage market and reduce the GSEs' dominant presence in the marketplace while simplifying and shrinking our operations.

In March 2013, FHFA announced that a new business entity would be established by Fannie Mae and Freddie Mac that would be separate from the two companies in order to further the goal of building a common securitization platform that would function like a market utility. The new business entity would be designed to operate as a replacement for some of Fannie Mae and Freddie Mac's securitization infrastructure. On October 7, 2013, FHFA announced that the new joint venture by Fannie Mae and Freddie Mac, Common Securitization Solutions, LLC, has been established and that office space for the new entity has been secured. In connection with the entity's establishment, we entered into a Limited Liability Company Agreement with Freddie Mac in October 2013 and anticipate entering into additional agreements relating to the new joint venture in the future.

The Chairman and Ranking Member of the Senate Committee on Banking, Housing, and Urban Affairs publicly stated in September 2013 that the Committee will begin drafting housing finance reform legislation this fall with the hope that the Committee will consider it prior to the end of the year. As a result, the Committee is holding hearings to review relevant issues related to reform of the housing finance market. We expect Congress to continue to consider housing finance system reform in the current congressional session, including conducting hearings on GSE reform and considering legislation that would alter the housing finance system or the activities or operations of the GSEs. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding the future status of the GSEs.

Dodd-Frank Act—Risk Retention

The Dodd-Frank Act requires financial regulators to jointly prescribe regulations requiring securitizers to retain a portion of the credit risk in assets transferred, sold or conveyed through the issuance of asset-backed securities, with certain exceptions. On August 28, 2013, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System (the "Federal Reserve System"), the Federal Deposit Insurance Corporation, the SEC, FHFA and the U.S. Department of Housing and Urban Development ("HUD") issued a joint proposed rule that would implement this risk retention requirement. This proposal replaced an earlier proposed rule that was published in 2011, but never approved. Under the new proposed rule, securitizers would be required to retain at least 5% of the credit risk with respect to the assets they securitize. The new proposed rule offers several options for compliance by parties with assets to securitize, one of which is to have either Fannie Mae or Freddie Mac (so long as they are in conservatorship or receivership) securitize the assets. As long as Fannie Mae or Freddie Mac fully guarantees the assets, no further retention of credit risk is required. Securities backed solely by mortgage loans meeting the definition of a "Qualified Residential Mortgage" would be exempt from the risk retention requirements of the rule. The new proposed rule made significant changes to the definition of a Qualified Residential Mortgage, defining the term to have the same meaning as the term "qualified mortgages" as defined by the Consumer Financial Protection Bureau in connection with its "ability to repay" rule. We discuss the ability-to-repay rule and the definition of qualified mortgages in "MD&A—Legislative and Regulatory Developments" in our First Quarter 2013 Form 10-Q.

Dodd-Frank Act—FHFA Rule Regarding Stress Testing

The Dodd-Frank Act requires certain financial companies to conduct annual stress tests to determine whether the companies have the capital necessary to absorb losses as a result of adverse economic conditions. On September 26, 2013, FHFA issued a final rule implementing the Dodd-Frank Act's stress test requirements for Fannie Mae, Freddie Mac and the Federal Home Loan Banks. Under the rule, each year we are required to conduct a stress test, based on our data as of September 30 of that year, using scenarios of financial conditions that will be provided by FHFA, including a severely adverse scenario. In conducting the stress test, we will be required to calculate the impact of the scenario conditions on our capital levels and other specified measures of financial condition and performance over a period of at least nine quarters. The rule requires us to report the results of our stress test to FHFA and to the Federal Reserve System and to disclose publicly, in April of each year, a summary of the stress test results for the severely adverse scenario.

FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans

In April 2012, FHFA issued Advisory Bulletin AB 2012-02, “Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention.” This Advisory Bulletin requires that we classify the portion of an outstanding single-family loan balance in excess of the fair value of the underlying property, less costs to sell and adjusted for any credit enhancements, as a “loss” no later than when the loan becomes 180 days delinquent, except in certain specified circumstances (such as those involving properly secured loans with an LTV ratio equal to or less than 60%). For multifamily loans, the Advisory Bulletin requires that any portion of a loan balance that exceeds the amount secured by the fair value of the collateral, less costs to sell, for which there is no available and reliable source of repayment other than

the sale of the underlying real estate collateral, to be classified as a "loss." The Advisory Bulletin also requires us to charge off the portion of the loan classified as a "loss." In May 2013, FHFA issued an additional Advisory Bulletin clarifying the implementation timeline for AB 2012-02, requiring that: (1) the asset classification provisions of AB 2012-02 should be implemented by January 1, 2014; and (2) the charge-off provisions of AB 2012-02 should be implemented no later than January 1, 2015.

The Advisory Bulletin requires us to change our practice for determining when a loan is deemed uncollectible to the date the loan is classified as a "loss" as described above. This is a change from our current practice for determining when a loan is deemed to be uncollectible, which is based on historical data and results in a loan being deemed to be uncollectible at the date of foreclosure or other liquidation event (such as a deed-in-lieu of foreclosure or a pre-foreclosure sale). We will work with FHFA to consider how the Advisory Bulletin may impact our credit risk management practices.

The Advisory Bulletin will not have an impact on the approach we use to estimate the allowance for loan losses for our single-family and multifamily loans that are not classified as a "loss." We establish an allowance for loan losses against these loans either through our collective loss reserve or through our loss reserve for individually impaired loans. Thus, at the time single-family loans become 180 days delinquent, we have already established an allowance for loan losses against them. However, upon adoption of the Advisory Bulletin, the amount of the charge-off for single-family loans classified as a "loss" is expected to exceed the amount of incurred losses we have recognized for those loans in our allowance for loan losses. The charge-off is expected to exceed the allowance for loan losses because the charge-off will not be reduced by the benefit we expect from borrower re-performance on these loans, which is considered in our current allowance for loan losses methodology. In the period in which we adopt the Advisory Bulletin, our provision for loan losses will be increased by the excess of the charge-off over the incurred losses previously recognized. Additionally, our allowance for loan losses on the impacted loans will be eliminated and the corresponding recorded investment will be reduced by the amounts that are charged off. Going forward, the amount of the charge-off at the time a loan is classified as a "loss" is expected to exceed our best estimate of incurred losses. Additionally, we expect to record larger loss recoveries for loans that become 180 days or more past due and subsequently re-perform.

Under our existing accounting practices and upon adoption of the Advisory Bulletin, the ultimate amount of losses we realize on our loan portfolio will be the same; however, the timing of when we recognize the losses will differ. If we had adopted this guidance on September 30, 2013, we estimate that our net income for the third quarter of 2013 would have been decreased by approximately $1.0 billion for the charge-off amount that would have exceeded the existing allowance on loans we estimate would have been classified as a "loss" pursuant to the Advisory Bulletin classification guidance, and our dividend obligation to Treasury would have been reduced by the same amount. If recent trends continue, we expect the population of loans that will be subject to accelerated charge-off will decline either through liquidation or re-performance. As a result, we believe the impact upon adoption of the guidance on January 1, 2015 will be less than $1.0 billion.

For information on the risks presented by our adoption of the Advisory Bulletin and the risks presented by the magnitude of the many new initiatives we are undertaking, see "Risk Factors" in our 2012 Form 10-K for our discussion of the risks we face from a potential failure in our operational systems or infrastructure.

Basel III and U.S. Capital and Liquidity Regimes for the Banking Industry

In addition to changes that directly result from the Dodd-Frank Act, the capital and liquidity regimes for the banking industry are also undergoing changes as a result of actions by international bank regulators. The Basel Committee on Banking Supervision issued a set of revisions (known as Basel III) to the international capital requirements in December 2010. Whereas the Basel II standards revised the risk-weighting process for assets, Basel III, which complements Basel II, generally narrowed the definition of capital that can be used to meet risk-based standards and raised the amount of capital that must be held. Basel III also introduced quantitative international liquidity requirements for the first time. The international Basel standards require adoption by the domestic bank regulatory authorities before they become operative in the United States. Typically U.S. bank regulatory authorities adopt Basel standards with adjustments that take into account U.S. banking law and other relevant considerations. On October 24, 2013, U.S. banking regulators issued a proposed regulation setting minimum liquidity standards generally in line with

Basel III's liquidity standards. See "Risk Factors" for a discussion of how capital and liquidity rules could materially and adversely affect demand by banks for our debt and MBS securities in the future and could otherwise affect the future business practices of our customers and counterparties.

Housing Goals

We are subject to meeting housing goals, which require that the mortgage loans we acquire must meet requirements established by FHFA relating to affordability or location. Our single-family performance is measured against the lower of benchmarks established by FHFA or goals-qualifying originations in the primary mortgage market. Multifamily goals are

established as a number of units to be financed. In our 2012 Form 10-K, we reported that we believed we met all of the FHFA-established single-family benchmarks for 2012, as well as our 2012 multifamily goals, but that FHFA would issue the final determination on our 2012 housing goals performance after the release of data reported under Home Mortgage Disclosure Act ("HMDA") later this year. In October 2013, FHFA determined that we met all of our single-family and multifamily housing goals for 2012. See "Business—Our Charter and Regulation of Our Activities—Regulation and Oversight of Our Activities—Housing Goals and Duty to Serve Underserved Markets" in our 2012 Form 10-K for more a more detailed discussion of our housing goals.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the condensed consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We describe our most significant accounting policies in "Note 1, Summary of Significant Accounting Policies" in this report and in our 2012 Form 10-K.

We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as necessary based on changing conditions. Management has discussed any significant changes in judgments and assumptions in applying our critical accounting policies with the Audit Committee of our Board of Directors. See "Risk Factors" in our 2012 Form 10-K for a discussion of the risks associated with the need for management to make judgments and estimates in applying our accounting policies and methods. We have identified four of our accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. These critical accounting policies and estimates are as follows:

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

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

Total Loss Reserves

Our total single-family and multifamily loss reserves consist of the following components:

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

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

Deferred Tax Assets

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

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

- the sustainability of recent profitability required to realize the deferred tax assets;
- whether or not there are cumulative net losses in our consolidated statements of operations in recent years;
- unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels on a continuing basis in future years; and
- the carryforward periods for net operating losses and tax credits.

After weighing all of the evidence, we determined that the positive evidence in favor of releasing the valuation allowance, particularly the evidence that was objectively verifiable, outweighed the negative evidence against releasing the allowance as of March 31, 2013. Therefore, we concluded that it is more likely than not that our deferred tax assets, except the deferred tax assets relating to capital loss carryforwards, will be realized. As a result, we released the valuation allowance on our deferred tax assets as of March 31, 2013, except for amounts that were expected to be released against income before federal income taxes for the remainder of the year. However, as of September 30, 2013, we retained $447 million of the valuation allowance that pertains to our capital loss carryforwards, which we believe will expire unused. We recognized a benefit for federal income taxes of $47.2 billion in our condensed consolidated statements of operations and comprehensive income in the first nine months of 2013 primarily due to the release of the valuation allowance. We expect that the remaining valuation allowance not related to capital loss carryforwards will be released against income before federal income taxes during the fourth quarter of 2013.

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

- our profitability in 2012 and the first quarter of 2013 and our expectations regarding the sustainability of these profits;
- our three-year cumulative income position as of March 31, 2013;
- the strong credit profile of the loans we have acquired since 2009;
- the significant size of our guaranty book of business and our contractual rights for future revenue from this book of business;
- our taxable income for 2012 and our expectations regarding the likelihood of future taxable income; and
- that our net operating loss carryforwards will not expire until 2030 through 2031. We anticipate that we will utilize all of these carryforwards by the end of 2013.

As discussed in our 2012 Form 10-K in "MD&A—Critical Accounting Policies and Estimates—Deferred Tax Assets," releasing all or a portion of the valuation allowance in any period after December 31, 2012 did not reduce the funding available to us under the senior preferred stock purchase agreement and therefore did not result in regulatory actions that would limit our business operations to ensure our safety and soundness. In addition, we transitioned from a three-year cumulative loss position over the three years ended December 31, 2012 to a three-year cumulative income position over the three years ended March 31, 2013. The change in these conditions during the first quarter of 2013 removed negative evidence that supported maintaining the valuation allowance against our net deferred tax assets as of December 31, 2012. The balance of our net deferred tax assets was $48.3 billion as of September 30, 2013 compared with net deferred tax liabilities of $509 million as of December 31, 2012.

In the second and third quarters of 2013, we updated our estimate of income before federal income taxes for 2013 and determined they were greater than our estimate used as of March 31, 2013. Therefore, we recognized a provision for federal income taxes in both the second and third quarters of 2013 based on our updated estimates. For the first nine

months of 2013, we recognized a benefit for federal income taxes of $47.2 billion. We did not recognize a provision or benefit for federal

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income taxes for the third quarter or first nine months of 2012. Starting in 2014, we expect that our effective tax rate will approach the statutory tax rate.

CONSOLIDATED RESULTS OF OPERATIONS

This section provides a discussion of our condensed consolidated results of operations for the periods indicated and should be read together with our condensed consolidated financial statements, including the accompanying notes. Table 4 displays a summary of our condensed consolidated results of operations for the periods indicated.

Table 4: Summary of Condensed Consolidated Results of Operations

	For the Three Months Ended			For the Nine Months Ended		
	September 30,			September 30,		
	2013	2012	Variance	2013	2012	Variance
	(Dollars in millions)					
Net interest income	$5,582	$5,317	$265	$17,553	$15,942	$1,611
Fee and other income	741	378	363	1,794	1,148	646
Net revenues	6,323	5,695	628	19,347	17,090	2,257
Investment gains, net	648	134	514	1,056	381	675
Net other-than-temporary impairments	(27)	(38)	11	(42)	(701)	659
Fair value gains (losses), net	335	(1,020)	1,355	1,998	(3,186)	5,184
Administrative expenses	(646)	(588)	(58)	(1,913)	(1,719)	(194)
Credit-related income (expense)						
Benefit (provision) for credit losses	2,609	(2,079)	4,688	8,949	(1,038)	9,987
Foreclosed property income (expense)	1,165	48	1,117	1,757	(221)	1,978
Total credit-related income (expense)	3,774	(2,031)	5,805	10,706	(1,259)	11,965
Other non-interest expenses[1]	(308)	(339)	31	(859)	(956)	97
Income before federal income taxes	10,099	1,813	8,286	30,293	9,650	20,643
(Provision) benefit for federal income taxes	(1,355)	—	(1,355)	47,231	—	47,231
Net income	8,744	1,813	6,931	77,524	9,650	67,874
Less: Net (income) loss attributable to noncontrolling interest	(7)	8	(15)	(18)	4	(22)
Net income attributable to Fannie Mae	$8,737	$1,821	$6,916	$77,506	$9,654	$67,852
Total comprehensive income attributable to Fannie Mae	$8,603	$2,567	$6,036	$78,192	$11,090	$67,102

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

Net Interest Income

Table 5 displays an analysis of our net interest income, average balances, and related yields earned on assets and incurred on liabilities for the periods indicated. For most components of the average balances, we use a daily weighted average of amortized cost. When daily average balance information is not available, such as for mortgage loans, we use monthly averages. Table 6 displays the change in our net interest income between periods and the extent to which that variance is attributable to: (1) changes in the volume of our interest-earning assets and interest-bearing liabilities or (2) changes in the interest rates of these assets and liabilities.

Table 5: Analysis of Net Interest Income and Yield

	For the Three Months Ended September 30,					
	2013			2012		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans of Fannie Mae	$320,651	$2,948	3.68 %	$366,836	$3,536	3.86 %
Mortgage loans of consolidated trusts	2,721,041	25,351	3.73	2,627,408	27,057	4.12
Total mortgage loans[1]	3,041,692	28,299	3.72	2,994,244	30,593	4.09
Mortgage-related securities	191,284	2,189	4.58	263,333	3,085	4.69
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(124,991)	(1,464)	4.69	(171,205)	(2,075)	4.85
Total mortgage-related securities, net	66,293	725	4.37	92,128	1,010	4.39
Non-mortgage securities[2]	35,959	6	0.07	42,922	13	0.12
Federal funds sold and securities purchased under agreements to resell or similar arrangements	54,623	9	0.06	40,565	19	0.18
Advances to lenders	5,250	28	2.09	7,178	34	1.85
Total interest-earning assets	$3,203,817	$29,067	3.63 %	$3,177,037	$31,669	3.99 %
Interest-bearing liabilities:						
Short-term debt[3]	$92,591	$28	0.12 %	$93,186	$37	0.16 %
Long-term debt	495,042	2,551	2.06	559,968	2,919	2.09
Total short-term and long-term funding debt	587,633	2,579	1.76	653,154	2,956	1.81
Debt securities of consolidated trusts	2,790,170	22,370	3.21	2,707,451	25,471	3.76
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(124,991)	(1,464)	4.69	(171,205)	(2,075)	4.85
Total debt securities of consolidated trusts held by third parties	2,665,179	20,906	3.14	2,536,246	23,396	3.69
Total interest-bearing liabilities	$3,252,812	$23,485	2.89 %	$3,189,400	$26,352	3.30 %
Net interest income/net interest yield		$5,582	0.70 %		$5,317	0.67 %

	For the Nine Months Ended September 30,					
	2013			2012		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in Millions)					
Interest-earning assets:						
Mortgage loans of Fannie Mae	$332,803	$9,987	4.00 %	$372,916	$10,704	3.83 %
Mortgage loans of consolidated trusts	2,694,339	75,592	3.74	2,613,196	84,482	4.31
Total mortgage loans[1]	3,027,142	85,579	3.77	2,986,112	95,186	4.25
Mortgage-related securities	215,302	7,361	4.56	275,456	9,809	4.75
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(139,372)	(4,890)	4.68	(178,218)	(6,558)	4.91
Total mortgage-related securities, net	75,930	2,471	4.34	97,238	3,251	4.46
Non-mortgage securities[2]	44,157	32	0.10	55,391	56	0.13
Federal funds sold and securities purchased under agreements to resell or similar arrangements	65,496	58	0.12	33,349	42	0.17
Advances to lenders	5,593	85	2.00	5,959	89	1.96
Total interest-earning assets	$3,218,318	$88,225	3.66 %	$3,178,049	$98,624	4.14 %
Interest-bearing liabilities:						
Short-term debt[3]	$103,419	$106	0.14 %	$105,393	$108	0.13 %
Long-term debt	505,903	7,778	2.05	569,112	9,101	2.13
Total short-term and long-term funding debt	609,322	7,884	1.73	674,505	9,209	1.82
Debt securities of consolidated trusts	2,772,826	67,678	3.25	2,685,408	80,031	3.97
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(139,372)	(4,890)	4.68	(178,218)	(6,558)	4.91
Total debt securities of consolidated trusts held by third parties	2,633,454	62,788	3.18	2,507,190	73,473	3.91
Total interest-bearing liabilities	$3,242,776	$70,672	2.91 %	$3,181,695	$82,682	3.46 %
Net interest income/net interest yield		$17,553	0.73 %		$15,942	0.67 %

	As of September 30,	
	2013	2012
Selected benchmark interest rates[4]		
3-month LIBOR	0.25 %	0.36 %
2-year swap rate	0.46	0.37
5-year swap rate	1.54	0.76
30-year Fannie Mae MBS par coupon rate	3.29	1.84

(1) Includes mortgage loans on nonaccrual status. Interest income on nonaccrual mortgage loans is recognized when cash is received.
(2) Includes cash equivalents.
(3) Includes federal funds purchased and securities sold under agreements to repurchase.
(4) Data from British Bankers' Association, Thomson Reuters Indices and Bloomberg L.P.

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

	For the Three Months Ended September 30, 2013 vs. 2012			For the Nine Months Ended September 30, 2013 vs. 2012		
	Total	Variance Due to:[1]		Total	Variance Due to:[1]	
	Variance	Volume	Rate	Variance	Volume	Rate
	(Dollars in millions)					
Interest income:						
Mortgage loans of Fannie Mae	$(588)	$(430)	$(158)	$(717)	$(1,188)	$471
Mortgage loans of consolidated trusts	(1,706)	939	(2,645)	(8,890)	2,557	(11,447)
Total mortgage loans	(2,294)	509	(2,803)	(9,607)	1,369	(10,976)
Total mortgage-related securities, net	(285)	(283)	(2)	(780)	(695)	(85)
Non-mortgage securities[2]	(7)	(2)	(5)	(24)	(10)	(14)
Federal funds sold and securities purchased under agreements to resell or similar arrangements	(10)	5	(15)	16	31	(15)
Advances to lenders	(6)	(10)	4	(4)	(6)	2
Total interest income	(2,602)	219	(2,821)	(10,399)	689	(11,088)
Interest expense:						
Short-term debt[3]	(9)	—	(9)	(2)	(2)	—
Long-term debt	(368)	(335)	(33)	(1,323)	(982)	(341)
Total short-term and long-term funding debt	(377)	(335)	(42)	(1,325)	(984)	(341)
Total debt securities of consolidated trusts held by third parties	(2,490)	1,301	(3,791)	(10,685)	3,908	(14,593)
Total interest expense	(2,867)	966	(3,833)	(12,010)	2,924	(14,934)
Net interest income	$265	$(747)	$1,012	$1,611	$(2,235)	$3,846

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

(2) Includes cash equivalents.

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

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

- accelerated net amortization income related to mortgage loans and debt of consolidated trusts driven by prepayments;
- higher guaranty fees, primarily due to an average increase of 10 basis points implemented during the fourth quarter of 2012 and the 10 basis point increase related to the TCCA, which increased guaranty fees on all single-family residential mortgages delivered to Fannie Mae starting on April 1, 2012. The incremental TCCA-related guaranty fees are remitted to Treasury and recorded in “Other expenses” in our condensed consolidated statements of operations and comprehensive income;
- higher interest income recognized on mortgage loans due to a reduction in the amount of interest income not recognized for nonaccrual mortgage loans. The balance of nonaccrual loans in our condensed consolidated balance sheet declined as we continued to complete a high number of loan workouts and foreclosures, and fewer loans became seriously delinquent; and
- lower interest income on mortgage loans and securities held in our retained mortgage portfolio due to lower mortgage rates and a decrease in their average balance, as we continued to reduce our retained mortgage portfolio pursuant to the requirements of the senior preferred stock purchase agreement. This decrease in interest income was partially

offset by lower interest expense on funding debt due to lower average borrowing rates and funding needs, which allowed us to continue to replace higher-cost debt with lower-cost debt. Our sales of non-agency mortgage-related securities will result in a decrease in future net interest income from our retained mortgage portfolio. See

"Business Segment Results—Capital Markets Group Results" for additional information on our mortgage-related securities.

We amortize cost basis adjustments, including premiums and discounts on mortgage loans and securities, as a yield adjustment over the contractual or estimated life of the loan or security as a component of net interest income. Net unamortized premiums on debt of consolidated trusts exceeded net unamortized premiums on the related mortgage loans by $24.0 billion as of September 30, 2013, compared with $16.8 billion as of December 31, 2012. This net premium position represents deferred revenue which is amortized within net interest income. This deferred revenue primarily relates to upfront fees we receive from lenders for loans with greater credit risk and upfront payments we receive from lenders to adjust the monthly contractual guaranty fee rate on Fannie Mae MBS so that the pass-through coupon rate on the MBS is in a more easily tradable increment of a whole or half percent. The increase in net unamortized premiums from December 31, 2012 to September 30, 2013 is primarily due to the upfront fees recorded on acquisitions year-to-date.

We had $14.3 billion in net unamortized discounts and other cost basis adjustments on mortgage loans of Fannie Mae included in our condensed consolidated balance sheets as of September 30, 2013 compared with $15.8 billion as of December 31, 2012. These discounts and other cost basis adjustments were primarily recorded upon the acquisition of credit-impaired loans and the extent to which we may record them as income in future periods will be based on the actual performance of the loans.

Table 7 displays the interest income not recognized for loans on nonaccrual status and the resulting reduction in our net interest yield on total interest earning assets for the periods indicated.

Table 7: Impact of Nonaccrual Loans on Net Interest Income

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2013		2012		2013		2012	
	Interest Income Not Recognized for Nonaccrual Loans	Reduction in Net Interest Yield[1]	Interest Income Not Recognized for Nonaccrual Loans	Reduction in Net Interest Yield[1]	Interest Income Not Recognized for Nonaccrual Loans	Reduction in Net Interest Yield[1]	Interest Income Not Recognized for Nonaccrual Loans	Reduction in Net Interest Yield[1]
	(Dollars in millions)							
Mortgage loans of Fannie Mae	$(612)		$(856)		$(1,896)		$(2,734)	
Mortgage loans of consolidated trusts	(76)		(137)		(273)		(464)	
Total mortgage loans	$(688)	(8) bps	$(993)	(12) bps	$(2,169)	(9) bps	$(3,198)	(13) bps

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

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

Fee and Other Income

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

Investment Gains, Net

Investment gains, net consist of gains and losses recognized from the sale of available-for-sale (“AFS”) securities, gains and losses recognized on the securitization of loans and securities from our portfolio, gains and losses on the consolidation and deconsolidation of securities, lower of cost or fair value adjustments on held-for-sale loans, and other investment gains and losses. Investment gains increased in the third quarter and first nine months of 2013 compared with the third quarter and first nine months of 2012 primarily due to sales of non-agency mortgage-related securities. See “Business Segment Results—Capital Markets Group Results—The Capital Markets Group’s Mortgage Portfolio” and “Consolidated Balance Sheet Analysis—Investments in Mortgage-Related Securities” for additional information on our mortgage-related securities portfolio and requirements that we reduce our retained mortgage portfolio.

Other-Than-Temporary Impairment of Investment Securities

Net other-than-temporary impairments for the third quarter and first nine months of 2013 decreased compared with the third quarter and first nine months of 2012. During the first nine months of 2012, there was an update to the assumptions used to project cash flow estimates on our Alt-A and subprime private-label securities which was the primary driver of net other-than-temporary impairments for the period. See "Critical Accounting Policies and Estimates—Other-Than-Temporary Impairment of Investment Securities" in our Third Quarter 2012 Form 10-Q for additional information on the update to these assumptions.

Fair Value Gains (Losses), Net

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

Table 8: Fair Value Gains (Losses), Net

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Risk management derivatives fair value gains (losses) attributable to:				
Net contractual interest expense accruals on interest rate swaps	$(229)	$(369)	$(610)	$(1,134)
Net change in fair value during the period	942	(139)	2,445	(1,016)
Total risk management derivatives fair value gains (losses), net	713	(508)	1,835	(2,150)
Mortgage commitment derivatives fair value (losses) gains, net	(169)	(816)	459	(1,583)
Total derivatives fair value gains (losses), net	544	(1,324)	2,294	(3,733)
Trading securities (losses) gains, net	(57)	406	111	676
Other, net[1]	(152)	(102)	(407)	(129)
Fair value gains (losses), net	$335	$(1,020)	$1,998	$(3,186)

	2013	2012
5-year swap rate:		
As of January 1	0.86 %	1.22 %
As of March 31	0.95 %	1.27 %
As of June 30	1.57 %	0.97 %
As of September 30	1.54 %	0.76 %

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

Risk Management Derivatives Fair Value Gains (Losses), Net

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

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

Mortgage Commitment Derivatives Fair Value (Losses) Gains, Net

We recognized fair value losses on our mortgage commitments in the third quarter primarily due to losses on commitments to sell mortgage-related securities driven by higher prices as interest rates decreased during the commitment period. We recognized fair value gains on our mortgage commitments in the first nine months of 2013 primarily due to gains on commitments to sell mortgage-related securities driven by lower prices as interest rates increased during the commitment period. We recognized fair value losses on our mortgage commitments in the third quarter and first nine months of 2012 primarily due to losses on commitments to sell mortgage-related securities driven by higher prices as interest rates decreased during the commitment period.

Trading Securities (Losses) Gains, Net

Losses from trading securities in the third quarter of 2013 were primarily driven by lower prices on commercial mortgage-backed securities (“CMBS”) and subprime private-label securities due to a widening of credit spreads. Gains from trading securities in the first nine months of 2013 were primarily driven by gains from higher prices on Alt-A and subprime private label securities, due to the narrowing of credit spreads on these securities as well as improvements in the credit outlook of certain financial guarantors of these securities in the first quarter of 2013. These gains were partially offset by losses on CMBS in the second and third quarters of 2013.

Gains from trading securities in the third quarter of 2012 and first nine months of 2012 were primarily driven by the narrowing of credit spreads on CMBS.

Credit-Related (Income) Expense

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

(Benefit) Provision for Credit Losses

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

Table 9 displays the components of our total loss reserves and our total fair value losses previously recognized on loans purchased out of unconsolidated MBS trusts reflected in our condensed consolidated balance sheets. Because these fair value losses lowered our recorded loan balances, we have fewer inherent losses in our guaranty book of business and consequently require lower total loss reserves. For these reasons, we consider these fair value losses as an “effective reserve,” apart from our total loss reserves, to the extent that we expect to realize these amounts as credit losses on the acquired loans in the future. The fair value losses shown in Table 9 represent credit losses we expect to realize in the future or amounts that will eventually be recovered, either through net interest income for loans that cure or through foreclosed property income for loans where the sale of the collateral exceeds our recorded investment in the loan. We exclude these fair value losses from our credit loss calculation as described in “Credit Loss Performance Metrics.”

Table 9: Total Loss Reserves

	As of September 30, 2013	December 31, 2012
	(Dollars in millions)	
Allowance for loan losses	$45,169	$58,795
Reserve for guaranty losses[1]	1,193	1,231
Combined loss reserves	46,362	60,026
Allowance for accrued interest receivable	1,243	1,737
Allowance for preforeclosure property taxes and insurance receivable[2]	828	866
Total loss reserves	48,433	62,629
Fair value losses previously recognized on acquired credit-impaired loans[3]	11,712	13,694
Total loss reserves and fair value losses previously recognized on acquired credit-impaired loans	$60,145	$76,323

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

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

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

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Changes in combined loss reserves:				
Allowance for loan losses:				
Beginning balance	$49,643	$63,375	$58,795	$72,156
(Benefit) provision for loan losses	(2,600)	2,083	(9,033)	676
Charge-offs[1]	(2,325)	(3,541)	(7,263)	(12,328)
Recoveries	294	350	2,138	1,321
Other[2]	157	745	532	1,187
Ending balance	$45,169	$63,012	$45,169	$63,012
Reserve for guaranty losses:				
Beginning balance	$1,230	$1,320	$1,231	$994
(Benefit) provision for guaranty losses	(9)	(4)	84	362
Charge-offs	(28)	(32)	(123)	(132)
Recoveries	—	11	1	71
Ending balance	$1,193	$1,295	$1,193	$1,295
Combined loss reserves:				
Beginning balance	$50,873	$64,695	$60,026	$73,150
Total (benefit) provision for credit losses	(2,609)	2,079	(8,949)	1,038
Charge-offs[1]	(2,353)	(3,573)	(7,386)	(12,460)
Recoveries	294	361	2,139	1,392
Other[2]	157	745	532	1,187
Ending balance	$46,362	$64,307	$46,362	$64,307

	As of	
	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Allocation of combined loss reserves:		
Balance at end of each period attributable to:		
Single-family	$45,608	$58,809
Multifamily	754	1,217
Total	$46,362	$60,026
Single-family and multifamily combined loss reserves as a percentage of applicable guaranty book of business:		
Single-family	1.58 %	2.08 %
Multifamily	0.37	0.59
Combined loss reserves as a percentage of:		
Total guaranty book of business	1.50 %	1.97 %
Recorded investment in nonperforming loans	20.33	23.92

(1) Includes accrued interest of $100 million and $198 million for the three months ended September 30, 2013 and 2012, respectively, and $337 million and $709 million for the nine months ended September 30, 2013 and 2012, respectively.

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

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

We recognized a benefit for credit losses in the third quarter of 2013 compared with a provision for credit losses in the third quarter of 2012. In the third quarter of 2012, our provision for credit losses was primarily driven by a change in the assumptions and data used in calculating our loss reserves and a change in our accounting for loans to certain borrowers who have received bankruptcy relief. See "Critical Accounting Policies and Estimates—Total Loss Reserves" and "Consolidated Results of Operations—Benefit (Provision) for Credit Losses" in our 2012 Form 10-K for additional information on these changes. Factors that impacted our benefit for credit losses in the third quarter of 2013 include:

- Home prices increased by 2.5% in the third quarter of 2013 compared with an increase of 1.5% in the third quarter of 2012 and increased by 9.2% in the first nine months of 2013 compared with an increase of 4.8% in the first nine months of 2012. The home price increases in the third quarter and first nine months of 2013 were greater than the increases in the third quarter and first nine months of 2012 due to improving market conditions. Higher home prices decrease the likelihood that loans will default and reduce the amount of credit loss on loans that default.
- The number of seriously delinquent loans declined 25% to approximately 448,000 as of September 30, 2013 from approximately 599,000 as of September 30, 2012 and the number of "early stage" delinquent loans (loans that are 30 to 89 days past due) declined 25% to approximately 371,000 as of September 30, 2013 from approximately 492,000 as of September 30, 2012. The reduction in the number of delinquent loans was due, in part, to our efforts since 2009 to improve our underwriting standards and the credit quality of our single-family guaranty book of business. A decline in the number of loans becoming delinquent or seriously delinquent reduces our total loss reserves and provision for credit losses.

We recognized a benefit for credit losses in the first nine months of 2013 compared with a provision for credit losses in the first nine months of 2012. In addition to the factors discussed above, the following impacted our benefit for credit losses:

- Sales prices on dispositions of our REO properties improved in the first nine months of 2013 compared with the prior year. We received net proceeds from our REO sales equal to 67% of the loans' unpaid principal balance in the first nine months of 2013 compared with 59% in the first nine months of 2012. The increase in sales prices contributed to a reduction in the single-family initial charge-off severity rate to 24.8% for the first nine months of 2013 from 31.4% for the first nine months of 2012. The decrease in our charge-off severity rate indicates a lower amount of credit loss at foreclosure and, accordingly, a lower provision for credit losses.
- In the second quarter of 2013, we updated the assumptions and data used to estimate our allowance for loan losses for individually impaired single-family loans, which resulted in a decrease to our allowance for loan losses. For additional information on this update, see "Critical Accounting Policies and Estimates—Total Loss Reserves."

The factors that contributed to our benefit for credit losses in the first nine months of 2013 were partially offset by lower cash flow projections on our individually impaired loans due to increasing mortgage interest rates in the first nine months of 2013. Higher mortgage interest rates lengthen the expected lives of modified loans, thus increasing the impairment related to concessions on these loans and resulting in an increase to the provision for credit losses. Conversely, in the first nine months of 2012, mortgage interest rates declined, causing higher cash flow projections on our individually impaired loans, which resulted from shortened expected lives on modified loans and lower impairment related to concessions on these loans.

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

Nonperforming Loans

Our balance of nonperforming single-family loans remained high as of September 30, 2013 due to high levels of loans modified as troubled debt restructurings (“TDRs”). When a TDR occurs, the loan may return to a current status, but it will continue to be classified as a nonperforming loan as the loan is not performing in accordance with its original terms. Table 11 displays the composition of our nonperforming loans, which includes our single-family and multifamily held-for-investment and held-for-sale mortgage loans. For information on the impact of TDRs and other individually impaired loans on our allowance for loan losses, see “Note 3, Mortgage Loans.”

Table 11: Nonperforming Single-Family and Multifamily Loans

	As of September 30, 2013	December 31, 2012
	(Dollars in millions)	
On-balance sheet nonperforming loans including loans in consolidated Fannie Mae MBS trusts:		
Nonaccrual loans	$ 89,096	$ 114,761
TDRs on accrual status	138,897	136,064
Total on-balance sheet nonperforming loans	227,993	250,825
Off-balance sheet nonperforming loans in unconsolidated Fannie Mae MBS trusts[1]	46	72
Total nonperforming loans	228,039	250,897
Allowance for loan losses and allowance for accrued interest receivable related to individually impaired on-balance sheet nonperforming loans	(38,501)	(45,776)
Total nonperforming loans, net of allowance	$ 189,538	$ 205,121
Accruing on-balance sheet loans past due 90 days or more[2]	$ 732	$ 3,580

	For the Nine Months Ended September 30, 2013	2012
	(Dollars in millions)	
Interest related to on-balance sheet nonperforming loans:		
Interest income forgone[3]	$ 5,291	$ 6,108
Interest income recognized for the period[4]	4,527	4,659

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

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

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

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

Foreclosed Property (Income) Expense

Foreclosed property income increased in the third quarter of 2013 compared with the third quarter of 2012, and we recognized foreclosed property income in the first nine months of 2013 compared with foreclosed property expense in the first nine months of 2012. This was primarily due to the recognition of compensatory fees received in connection

with our compensatory fee agreement with Bank of America. We had previously deferred this income until we substantially completed the loan review process related to the agreement. See "Note 20, Subsequent Events" in our 2012 Form 10-K for additional information on the Bank of America compensatory fee agreement. In addition, foreclosed property income in the third quarter and first nine months of 2013 was driven by improvement in sales prices on dispositions of our REO properties.

Credit Loss Performance Metrics

Our credit-related (income) expense should be considered in conjunction with our credit loss performance metrics. Our credit loss performance metrics, however, are not defined terms within GAAP and may not be calculated in the same manner as similarly titled measures reported by other companies. Because management does not view changes in the fair value of our mortgage loans as credit losses, we adjust our credit loss performance metrics for the impact associated with our acquisition of credit-impaired loans from unconsolidated MBS trusts. We also exclude interest forgone on nonperforming loans, other-than-temporary impairment losses resulting from deterioration in the credit quality of our mortgage-related securities and accretion of interest income on acquired credit-impaired loans from credit losses. We believe that credit loss performance metrics may be useful to investors as the losses are presented as a percentage of our book of business and have historically been used by analysts, investors and other companies within the financial services industry. Moreover, by presenting credit losses with and without the effect of fair value losses associated with the acquisition of credit-impaired loans, investors are able to evaluate our credit performance on a more consistent basis among periods. Table 12 displays the components of our credit loss performance metrics as well as our average single-family and multifamily default rates and initial charge-off severity rates.

Table 12: Credit Loss Performance Metrics

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2013		2012		2013		2012	
	Amount	Ratio[1]	Amount	Ratio[1]	Amount	Ratio[1]	Amount	Ratio[1]
	(Dollars in millions)							
Charge-offs, net of recoveries	$2,059	26.9 bps	$3,212	42.2 bps	$5,247	22.9 bps	$11,068	48.5 bps
Foreclosed property (income) expense	(1,165)	(15.2)	(48)	(0.6)	(1,757)	(7.7)	221	1.0
Credit losses including the effect of fair value losses on acquired credit-impaired loans	894	11.7	3,164	41.6	3,490	15.2	11,289	49.5
Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property (income) expense[2]	248	3.2	348	4.6	754	3.3	1,142	5.0
Credit losses and credit loss ratio	$1,142	14.9 bps	$3,512	46.2 bps	$4,244	18.5 bps	$12,431	54.5 bps
Credit losses attributable to:								
Single-family	$1,083		$3,485		$4,127		$12,218	
Multifamily	59		27		117		213	
Total	$1,142		$3,512		$4,244		$12,431	
Single-family default rate		0.30 %		0.38 %		0.93 %		1.20 %
Single-family initial charge-off severity rate[3]		22.16 %		29.83 %		24.78 %		31.36 %
Average multifamily default rate		0.12 %		0.05 %		0.25 %		0.30 %
Average multifamily initial charge-off severity rate[3]		21.00 %		28.31 %		24.49 %		37.03 %

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

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

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

Credit losses decreased in the third quarter and first nine months of 2013 compared with the third quarter and first nine months of 2012 primarily due to the recognition of compensatory fees received in connection with our compensatory fee agreement with Bank of America. See "Note 20, Subsequent Events" in our 2012 Form 10-K for additional information on the agreement. In addition, the decrease in credit losses in the third quarter and first nine months of 2013 was driven by improvement in sales prices on dispositions of our REO properties and by lower REO acquisitions primarily driven by lower delinquencies.

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

Regulatory Hypothetical Stress Test Scenario

Under a September 2005 agreement with FHFA's predecessor, the Office of Federal Housing Enterprise Oversight, we are required to disclose on a quarterly basis the present value of the change in future expected credit losses from our existing single-family guaranty book of business from an immediate 5% decline in single-family home prices for the entire United States followed by a return to the average of the possible growth rate paths used in our internal credit pricing models. The sensitivity results represent the difference between future expected credit losses under our base case scenario, which is derived from our internal home price path forecast, and a scenario that assumes an instantaneous nationwide 5% decline in home prices.

Table 13 displays the credit loss sensitivities as of the dates indicated for first-lien single-family loans that are in our retained mortgage portfolio or underlying Fannie Mae MBS, before and after consideration of projected credit risk sharing proceeds, such as private mortgage insurance claims and other credit enhancements.

Table 13: Single-Family Credit Loss Sensitivity[1]

	As of	
	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Gross single-family credit loss sensitivity	$9,618	$13,508
Less: Projected credit risk sharing proceeds	(1,084)	(2,206)
Net single-family credit loss sensitivity	$8,534	$11,302
Single-family loans in our retained mortgage portfolio and loans underlying Fannie Mae MBS	$2,814,690	$2,765,460
Single-family net credit loss sensitivity as a percentage of outstanding single-family loans in our retained mortgage portfolio and Fannie Mae MBS	0.30%	0.41%

(1) Represents total economic credit losses, which consist of credit losses and forgone interest. Calculations are based on 98% of our total single-family guaranty book of business as of September 30, 2013 and December 31, 2012. The mortgage loans and mortgage-related securities that are included in these estimates consist of: (a) single-family Fannie Mae MBS (whether held in our retained mortgage portfolio or held by third parties), excluding certain whole loan Real Estate Mortgage Investment Conduits ("REMICs") and private-label wraps; (b) single-family mortgage loans, excluding mortgages secured only by second liens, subprime mortgages, manufactured housing chattel loans and reverse mortgages; and (c) long-term standby commitments. We expect the inclusion in our estimates of the excluded products may impact the estimated sensitivities set forth in this table.

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

Federal Income Taxes

We recognized a provision for federal income taxes of $1.4 billion in the third quarter of 2013 and a benefit for federal income taxes of $47.2 billion for the first nine months of 2013. We did not recognize a provision or benefit for federal income taxes for the third quarter or first nine months of 2012. In the first quarter of 2013, we released the substantial majority of the valuation allowance against our deferred tax assets. We discuss the factors that led us to release our valuation allowance against our deferred tax assets in “Critical Accounting Policies and Estimates—Deferred Tax Assets” and “Note 10, Income Taxes.”

BUSINESS SEGMENT RESULTS

Results of our three business segments are intended to reflect each segment as if it were a stand-alone business. Under our segment reporting structure, the sum of the results for our three business segments does not equal our condensed consolidated results of operations as we separate the activity related to our consolidated trusts from the results generated by our three segments. In addition, because we apply accounting methods that differ from our condensed consolidated results for segment reporting purposes, we include an eliminations/adjustments category to reconcile our business segment results and the activity related to our consolidated trusts to our condensed consolidated results of operations. We describe the management reporting and allocation process used to generate our segment results in “Note 13, Segment Reporting” in our 2012 Form 10-K.

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

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

Single-Family Business Results

Table 14 displays the financial results of our Single-Family business for the periods indicated. For a discussion of Single-Family credit risk management, including information on serious delinquency rates and loan workouts, see “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management.” The primary source of revenue for our Single-Family business is guaranty fee income. Expenses and other items that impact income or loss primarily include credit-related income (expense), net interest (loss) income and administrative expenses.

Table 14: Single-Family Business Results

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2013	2012	Variance	2013	2012	Variance
	(Dollars in millions)					
Net interest (loss) income[1]	$(152)	$(192)	$40	$318	$(786)	$1,104
Guaranty fee income[2][3]	2,719	2,014	705	7,638	5,895	1,743
Credit-related income (expense)[4]	3,642	(2,130)	5,772	10,357	(1,500)	11,857
Other expenses[3][5]	(713)	(502)	(211)	(1,948)	(1,333)	(615)
Income (loss) before federal income taxes	5,496	(810)	6,306	16,365	2,276	14,089
(Provision) benefit for federal income taxes[6]	(751)	(12)	(739)	29,777	(12)	29,789
Net income (loss) attributable to Fannie Mae	$4,745	$(822)	$5,567	$46,142	$2,264	$43,878
Other key performance data:						
Single-family effective guaranty fee rate (in basis points)[3][7]	38.0	28.3		35.8	27.6	
Single-family average charged guaranty fee on new acquisitions (in basis points)[3][8]	58.7	41.8		56.6	37.1	
Average single-family guaranty book of business[9]	$2,860,103	$2,842,649		$2,847,297	$2,846,328	
Single-family Fannie Mae MBS issuances[10]	$186,459	$229,671		$615,302	$601,469	

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

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

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

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

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

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

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

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

(9) Consists of single-family mortgage loans held in our retained mortgage portfolio, single-family mortgage loans held by consolidated trusts, single-family Fannie Mae MBS issued from unconsolidated trusts held by either third

parties or within our retained mortgage portfolio and other credit enhancements that we provide on single-family mortgage assets. Excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

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

We recognized pre-tax income in the third quarter of 2013 compared with a pre-tax loss in the third quarter of 2012 primarily due to significant improvement in our credit results and increased guaranty fee income. Pre-tax income increased in the first nine months of 2013 compared with the first nine months of 2012 primarily due to significant improvement in our credit results, increased guaranty fee income and net interest income in the first nine months of 2013 compared with net interest loss in the first nine months of 2012.

The improvement to credit-related income in the third quarter of 2013 from credit-related expense in the third quarter of 2012 was primarily due to the recognition of compensatory fees received in connection with our compensatory fee agreement with Bank of America. We had previously deferred this income until we substantially completed the loan review process related to the agreement. In addition, in the third quarter of 2012 we made a change to assumptions and data used to calculate our loss

reserves and a change to our accounting for loans to certain borrowers who have received bankruptcy relief that negatively impacted our provision for credit losses during that period.

Also, the improvement to credit-related income in the first nine months of 2013 from credit-related expense in the first nine months of 2012 was due to an update in the second quarter of 2013 to the assumptions and data used to estimate our allowance for loan losses for individually impaired single-family loans to reflect faster prepayment and lower default expectations for these loans, which resulted in an increase in credit-related income in the first nine months of 2013.

Our single-family credit-related results for the 2012 and 2013 periods indicated above continue to be positively impacted by increases in home prices and declines in the number of delinquent loans, which have resulted in a reduction in our loss reserves. Our single-family credit-related income represents the substantial majority of our consolidated activity. We provide a discussion of our credit-related income and credit losses in "Consolidated Results of Operations—Credit-Related (Income) Expense."

Guaranty fee income increased in the third quarter and first nine months of 2013 compared with the third quarter and first nine months of 2012 due to the cumulative impact of price increases, including a 10 basis point increase on April 1, 2012 mandated by the TCCA and an additional average increase of 10 basis points implemented during the fourth quarter of 2012, and higher amortization income on risk-based fees. As described in "Business—Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue" in our 2012 Form 10-K, in December 2011, Congress enacted the TCCA which, among other provisions, required that we increase our single-family guaranty fees by at least 10 basis points and remit this increase to Treasury, rather than retaining the incremental revenue. Effective April 1, 2012, the guaranty fee on all single-family residential mortgages delivered to Fannie Mae and Freddie Mac on or after that date for securitization was increased by 10 basis points; accordingly, the single-family average charged guaranty fee increased. The resulting revenue is included in guaranty fee income, and the expense is included in other expenses. We recorded other expenses of $276 million for the third quarter of 2013 compared with $78 million for the third quarter of 2012 and $695 million for the first nine months of 2013 compared with $104 million for the first nine months of 2012 for this obligation due to Treasury. We expect the guaranty fees collected and expenses incurred to increase in the future.

We recognized net interest income in the first nine months of 2013 compared with a net interest loss in the first nine months of 2012, primarily due to the reduction in the amount of interest income not recognized for nonaccrual mortgage loans, as well as our resolution agreement with Bank of America, which resulted in the recognition of unamortized cost basis adjustments on the loans repurchased by Bank of America. See "Note 20, Subsequent Events" in our 2012 Form 10-K for additional information on this agreement.

Net income in the third quarter of 2013 included a provision for federal income taxes, as our current estimate of income before federal income taxes for 2013 was greater than our estimate as of March 31, 2013. Net income in the first nine months of 2013 included a benefit for federal income taxes that primarily represents the release in the first quarter of 2013 of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our single-family segment. Those assets primarily related to the allowance for loan losses and guaranty fee income. See "Note 10, Income Taxes" for additional information.

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

We remained the largest single issuer of mortgage related securities in the secondary market during the third quarter of 2013, with an estimated market share of new single-family mortgage-related securities issuances, which excludes previously securitized mortgages, of 48% in the third quarter of 2013 compared with 52% in the third quarter of 2012. Despite our continued high market share, our average single-family guaranty book of business remained flat in the third quarter and first nine months of 2013 compared with the third quarter and first nine months of 2012, primarily

due to the decline in U.S. residential mortgage debt outstanding.

Multifamily Business Results

Multifamily business results primarily reflect our multifamily guaranty business. Our multifamily business results also include activity relating to our low-income housing tax credit ("LIHTC") and equity investments. Although we are no longer making new LIHTC or equity investments, we continue to make contractually required contributions for our legacy investments. Activity from multifamily products is also reflected in the Capital Markets group results, which include net interest income related to multifamily loans and securities held in our retained mortgage portfolio, gains and losses from the sale of multifamily Fannie Mae MBS and re-securitizations and other miscellaneous income.

Table 15 displays the financial results of our Multifamily business for the periods indicated. The primary sources of revenue for our multifamily business are guaranty fee income and fee and other income. Expenses and other items that impact income or loss primarily include credit-related income and administrative expenses.

Table 15: Multifamily Business Results

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2013	2012	Variance	2013	2012	Variance
	(Dollars in millions)					
Guaranty fee income[1]	$311	$265	$46	$902	$760	$142
Fee and other income	26	55	(29)	115	151	(36)
Gains from partnership investments[2]	121	43	78	284	72	212
Credit-related income[3]	132	99	33	349	241	108
Other expenses[4]	(104)	(67)	(37)	(257)	(192)	(65)
Income before federal income taxes	486	395	91	1,393	1,032	361
(Provision) benefit for federal income taxes[5]	(8)	32	(40)	7,970	32	7,938
Net income attributable to Fannie Mae	$478	$427	$51	$9,363	$1,064	$8,299
Other key performance data:						
Multifamily effective guaranty fee rate (in basis points)[6]	60.8	52.9		58.6	51.1	
Multifamily credit loss performance ratio (in basis points)[7]	11.5	5.4		7.6	14.3	
Average multifamily guaranty book of business[8]	$204,601	$200,384		$205,200	$198,201	
Multifamily new business volumes[9]	$5,810	$8,965		$21,791	$22,862	
Multifamily units financed from new business volumes	103,000	135,000		386,000	371,000	
Multifamily Fannie Mae MBS issuances[10]	$6,373	$9,576		$23,648	$25,969	
Multifamily Fannie Mae structured securities issuances (issued by Capital Markets group)	$1,671	$4,038		$7,879	$7,462	
Additional net interest income earned on Fannie Mae multifamily mortgage loans and MBS (included in Capital Markets group's results)[11]	$167	$212		$543	$631	
Average Fannie Mae multifamily mortgage loans and MBS in Capital Markets group's mortgage portfolio[12]	$70,629	$97,186		$78,328	$100,636	

	As of September 30, 2013	December 31, 2012
	(Dollars in millions)	
Multifamily serious delinquency rate	0.18 %	0.24 %
Percentage of multifamily guaranty book of business with credit enhancement	91 %	90 %

Fannie Mae percentage of total multifamily mortgage debt outstanding[13]	21	%	22	%
Multifamily Fannie Mae MBS outstanding[14]	$143,224		$128,477	

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

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

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

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

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

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

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

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

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

(10) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued during the period. Includes (a) issuances of new MBS, (b) Fannie Mae portfolio securitization transactions of $632 million and $1.1 billion for the three months ended September 30, 2013 and 2012, respectively, and $2.1 billion and $3.4 billion for the nine months ended September 30, 2013 and 2012, respectively, and (c) conversions of adjustable-rate loans to fixed-rate loans and discount MBS ("DMBS") to MBS of $24 million and $18 million for the three months ended September 30, 2013 and 2012, respectively, and $68 million and $208 million for the nine months ended September 30, 2013 and 2012, respectively.

(11) Interest expense estimate is based on allocated duration-matched funding costs. Net interest income was reduced by guaranty fees allocated to Multifamily from the Capital Markets Group on multifamily loans in Fannie Mae's retained mortgage portfolio.

(12) Based on unpaid principal balance.

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

(14) Includes $23.5 billion and $28.1 billion of Fannie Mae multifamily MBS held in the retained mortgage portfolio, the vast majority of which have been consolidated to loans in our condensed consolidated balance sheets, as of September 30, 2013 and December 31, 2012, respectively, and $1.2 billion and $1.3 billion of Fannie Mae MBS collateralized by bonds issued by state and local housing finance agencies as of September 30, 2013 and December 31, 2012, respectively.

Pre-tax income increased in the third quarter and first nine months of 2013 compared with the third quarter and first nine months of 2012 primarily due to increased guaranty fee income, increased credit-related income and increased gains from partnership investments.

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

Credit-related income increased in the third quarter and first nine months of 2013 compared with the third quarter and first nine months of 2012, primarily due to improvements in default and loss severity trends and improvements in property valuations.

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

Net income in the third quarter of 2013 included a provision for federal income taxes, as our current estimate of income before federal income taxes for 2013 was greater than our estimate as of March 31, 2013. A benefit for federal income taxes in the third quarter and first nine months of 2012 was driven by the utilization of tax credits related to LIHTC investments to offset our alternative minimum tax liability resulting from our projected 2012 taxable income. Net income in the first nine

months of 2013 included a benefit for federal income taxes that primarily represents the release in the first quarter of 2013 of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our multifamily segment. Those assets primarily related to partnership and other equity investment losses and credits. See "Note 10, Income Taxes" for additional information.

Multifamily new business volumes decreased in the third quarter and first nine months of 2013 compared with the third quarter and first nine months of 2012. Our 2013 conservatorship scorecard includes a goal to reduce the unpaid principal balance of new multifamily business relative to 2012 by at least 10% by tightening underwriting, adjusting pricing and limiting product offerings, while not increasing the proportion of our retained risk.

Capital Markets Group Results

Table 16 displays the financial results of our Capital Markets group for the periods indicated. Following the table we discuss the Capital Markets group's financial results and describe the Capital Markets group's mortgage portfolio. For a discussion of the debt issued by the Capital Markets group to fund its investment activities, see "Liquidity and Capital Management." For a discussion of the derivative instruments that the Capital Markets group uses to manage interest rate risk, see "Risk Management—Market Risk Management, Including Interest Rate Risk Management—Derivative Instruments" in our 2012 Form 10-K and "Note 9, Derivative Instruments" in this report and our 2012 Form 10-K. The primary sources of revenue for our Capital Markets group are net interest income and fee and other income. Expenses and other items that impact income or loss primarily include fair value gains (losses), investment gains, allocated guaranty fee expense and administrative expenses.

Table 16: Capital Markets Group Results

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2013	2012	Variance	2013	2012	Variance
	(Dollars in millions)					
Net interest income[1]	$2,311	$3,247	$(936)	$7,733	$10,231	$(2,498)
Investment gains, net[2]	1,590	2,201	(611)	3,837	4,666	(829)
Net other-than-temporary impairments	(27)	(38)	11	(42)	(699)	657
Fair value gains (losses), net[3]	371	(961)	1,332	2,087	(3,252)	5,339
Fee and other income	525	185	340	1,129	551	578
Other expenses[4]	(375)	(492)	117	(1,229)	(1,578)	349
Income before federal income taxes	4,395	4,142	253	13,515	9,919	3,596
(Provision) benefit for federal income taxes[5]	(596)	(20)	(576)	9,484	(20)	9,504
Net income attributable to Fannie Mae	$3,799	$4,122	$(323)	$22,999	$9,899	$13,100

(1) Includes contractual interest income, excluding recoveries, on nonaccrual loans received from the Single-Family segment of $895 million and $1.3 billion for the three months ended September 30, 2013 and 2012, respectively, and $3.0 billion and $4.0 billion for the nine months ended September 30, 2013 and 2012, respectively. The Capital Markets group's net interest income is reported based on the mortgage-related assets held in the segment's retained mortgage portfolio and excludes interest income on mortgage-related assets held by consolidated MBS trusts that are owned by third parties and the interest expense on the corresponding debt of such trusts.

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

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

(4) Includes allocated guaranty fee expense, debt extinguishment gains (losses), net, administrative expenses and other (expenses) income. Gains or losses related to the extinguishment of debt issued by consolidated trusts are excluded

from the Capital Markets group's results because purchases of securities are recognized as such.

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

Pre-tax income increased in the third quarter and first nine months of 2013 compared with the third quarter and first nine months of 2012 primarily due to fair value gains in the third quarter and first nine months of 2013 compared with fair value losses in the third quarter and first nine months of 2012, an increase in fee and other income and a decrease in net other-than-

temporary impairments. These increases were partially offset by a decrease in net interest income and a decrease in investment gains.

Fair value gains in the third quarter and first nine months of 2013 were primarily due to derivatives fair value gains driven by an increase in longer-term swap rates during the periods. Fair value losses in the third quarter and first nine months of 2012 were primarily due to derivatives fair value losses driven by a decrease in swap rates during the periods.

Fee and other income increased in the third quarter and first nine months of 2013 compared with the third quarter and first nine months of 2012 primarily as a result of legal settlements related to certain private-label securities recognized in the third quarter and first nine months of 2013.

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

The decrease in net interest income in the third quarter and first nine months of 2013 compared with the third quarter and first nine months of 2012 was primarily due to a decrease in our mortgage-related assets and lower interest rates on mortgage assets in our Capital Market group's mortgage portfolio. This decrease in interest income on our interest-earning mortgage assets was partially offset by a decline in interest expense due to lower funding needs and lower borrowing rates, which allowed us to continue to replace higher-cost debt with lower-cost debt. Our sales of non-agency mortgage-related securities will result in a decrease in future net interest income from our retained mortgage portfolio. See "The Capital Markets Group's Mortgage Portfolio" for additional information on our mortgage-related securities.

We supplement our issuance of debt securities with derivative instruments to further reduce duration risk, which includes prepayment risk. The effect of these derivatives, in particular the periodic net interest expense accruals on interest rate swaps, is not reflected in the Capital Markets group's net interest income but is included in our results as a component of "Fair value gains (losses), net" and is displayed in "Table 8: Fair Value Gains (Losses), Net." If we had included the economic impact of adding the net contractual interest accruals on our interest rate swaps in our Capital Markets group's interest expense, the Capital Markets group's net interest income would have decreased by $229 million in the third quarter of 2013 compared with a decrease of $369 million in the third quarter of 2012 and would have decreased by $610 million in the first nine months of 2013 compared with a decrease of $1.1 billion in the first nine months of 2012.

Investment gains decreased in the third quarter and first nine months 2013 compared with the third quarter and first nine months of 2012 primarily due to decreased gains on the sale of Fannie Mae MBS AFS securities and decreased gains on portfolio securitizations due to an increase in mortgage interest rates in the third quarter and first nine months of 2013. The decrease in gains during the third quarter and first nine months of 2013 were partially offset by gains on sales of non-agency mortgage-related securities.

Net income in the third quarter of 2013 included a provision for federal income taxes, as our current estimate of income before federal income taxes for 2013 was greater than our estimate as of March 31, 2013. Net income in the first nine months of 2013 included a benefit for federal income taxes that primarily represents the release in the first quarter of 2013 of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our Capital Markets group. Those assets primarily related to debt and derivative instruments and mortgage and mortgage-related assets. See "Note 10, Income Taxes" for additional information.

The Capital Markets Group's Mortgage Portfolio

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

The amount of mortgage assets that we may own is restricted by our senior preferred stock purchase agreement with Treasury. By December 31 of each year, we are required to reduce our mortgage assets to 85% of the maximum allowable amount that we were permitted to own as of December 31 of the immediately preceding calendar year, until the amount of our mortgage assets reaches $250 billion. Under the agreement, the maximum allowable amount of mortgage assets we may own as of December 31, 2013 is $552.5 billion. As we reduce the size of our retained mortgage portfolio, our revenues generated by our retained mortgage portfolio will decrease. As of September 30, 2013, we owned $516.3 billion in mortgage

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assets, compared with $633.1 billion as of December 31, 2012. Additionally, our 2013 conservatorship scorecard includes a goal to sell 5%, or $21.1 billion, of the non-agency mortgage-related assets we held in our retained mortgage portfolio as of December 31, 2012. During the first nine months of 2013, we sold $18.9 billion of non-agency mortgage-related assets. For additional information regarding our 2013 conservatorship scorecard, see our current report on Form 8-K filed with the SEC on March 8, 2013.

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

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

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Mortgage loans:				
Beginning balance	$343,742	$386,804	$371,708	$398,271
Purchases	51,882	71,946	191,813	181,631
Securitizations[2]	(48,966)	(59,661)	(170,513)	(142,554)
Liquidations and sales[3]	(18,253)	(19,493)	(64,603)	(57,752)
Mortgage loans, ending balance	328,405	379,596	328,405	379,596
Mortgage securities:				
Beginning balance	221,456	285,982	261,346	310,143
Purchases[4]	8,259	6,959	27,443	17,450
Securitizations[2]	48,966	59,661	170,513	142,554
Sales	(78,299)	(61,836)	(229,359)	(148,331)
Liquidations[3]	(12,528)	(16,093)	(42,089)	(47,143)
Mortgage securities, ending balance	187,854	274,673	187,854	274,673
Total Capital Markets group's mortgage portfolio	$516,259	$654,269	$516,259	$654,269

(1) Based on unpaid principal balance.
(2) Includes portfolio securitization transactions that do not qualify for sale treatment under GAAP.
(3) Includes scheduled repayments, prepayments, foreclosures, lender repurchases and sales.
(4) Includes purchases of Fannie Mae MBS issued by consolidated trusts.

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Table 18 displays the composition of the Capital Markets group's mortgage portfolio as of September 30, 2013 and December 31, 2012.

Table 18: Capital Markets Group's Mortgage Portfolio Composition[1]

	As of September 30, 2013	December 31, 2012
	(Dollars in millions)	
Capital Markets group's mortgage loans:		
Single-family loans:		
Government insured or guaranteed	$39,941	$40,886
Conventional:		
Long-term, fixed-rate	220,717	240,791
Intermediate-term, fixed-rate	8,964	10,460
Adjustable-rate	14,043	18,008
Total single-family conventional	243,724	269,259
Total single-family loans	283,665	310,145
Multifamily loans:		
Government insured or guaranteed	289	312
Conventional:		
Long-term, fixed-rate	2,828	3,245
Intermediate-term, fixed-rate	33,299	45,662
Adjustable-rate	8,324	12,344
Total multifamily conventional	44,451	61,251
Total multifamily loans	44,740	61,563
Total Capital Markets group's mortgage loans	328,405	371,708
Capital Markets group's mortgage-related securities:		
Fannie Mae	137,240	183,964
Freddie Mac	8,828	11,274
Ginnie Mae	953	1,049
Alt-A private-label securities	11,494	17,079
Subprime private-label securities	12,595	15,093
CMBS	6,422	20,587
Mortgage revenue bonds	6,808	8,486
Other mortgage-related securities	3,514	3,814
Total Capital Markets group's mortgage-related securities[2]	187,854	261,346
Total Capital Markets group's mortgage portfolio	$516,259	$633,054

(1) Based on unpaid principal balance.

(2) The fair value of these mortgage-related securities was $191.6 billion and $269.9 billion as of September 30, 2013 and December 31, 2012, respectively.

The Capital Markets group's mortgage portfolio decreased as of September 30, 2013 compared with December 31, 2012, primarily due to sales and liquidations, partially offset by purchases of delinquent loans from MBS trusts, as discussed below. Securitizations and sales activities increased in the first nine months of 2013 compared with the first nine months of 2012, primarily due to low interest rates and the implementation of changes to HARP in 2012.

We expect to continue to purchase loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity, and other factors including the limit on the

mortgage assets that we may own pursuant to our senior preferred stock purchase agreement with Treasury. We purchased approximately 145,000 delinquent loans with an unpaid principal balance of $22.3 billion from our single-family MBS trusts in the first nine months of 2013. As of September 30, 2013, the total unpaid principal balance of all loans in single-family MBS trusts that were delinquent for four or more consecutive monthly payments was $2.4 billion.

As a result of purchasing these delinquent loans and our portfolio declining to meet the requirements of the senior preferred stock purchase agreement, an increasing portion of the Capital Markets group's mortgage portfolio is comprised of nonperforming loans. The total unpaid principal balance of nonperforming loans in the Capital Markets group's mortgage portfolio was $213.8 billion or 41% of the Capital Markets group's mortgage portfolio as of September 30, 2013, compared with $230.3 billion or 36% of the Capital Markets group's mortgage portfolio as of December 31, 2012. This population includes loans that have been modified and classified as TDRs, of which $133.7 billion as of September 30, 2013 and $130.2 billion as of December 31, 2012 were TDRs on accrual status, as well as unmodified delinquent loans that are on nonaccrual status in our condensed consolidated financial statements.

CONSOLIDATED BALANCE SHEET ANALYSIS

This section provides a discussion of our condensed consolidated balance sheets as of the dates indicated and should be read together with our condensed consolidated financial statements, including the accompanying notes.

Table 19 displays a summary of our condensed consolidated balance sheets as of the dates indicated.

Table 19: Summary of Condensed Consolidated Balance Sheets

	As of September 30, 2013	As of December 31, 2012	Variance
	(Dollars in millions)		
Assets			
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	$71,084	$53,617	$17,467
Restricted cash	31,525	67,919	(36,394)
Investments in securities[1]	73,860	103,876	(30,016)
Mortgage loans:			
Of Fannie Mae	314,224	355,936	(41,712)
Of consolidated trusts	2,744,125	2,652,265	91,860
Allowance for loan losses	(45,169)	(58,795)	13,626
Mortgage loans, net of allowance for loan losses	3,013,180	2,949,406	63,774
Deferred tax assets, net	48,256	—	48,256
Other assets[2]	43,317	47,604	(4,287)
Total assets	$3,281,222	$3,222,422	$58,800
Liabilities and equity			
Debt:			
Of Fannie Mae	$565,110	$615,864	$(50,754)
Of consolidated trusts	2,675,011	2,573,653	101,358
Other liabilities[3]	29,484	25,681	3,803
Total liabilities	3,269,605	3,215,198	54,407
Senior preferred stock	117,149	117,149	—
Other deficit[4]	(105,532)	(109,925)	4,393
Total equity	11,617	7,224	4,393
Total liabilities and equity	$3,281,222	$3,222,422	$58,800

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(1) Includes $16.4 billion as of September 30, 2013 and $18.0 billion as of December 31, 2012 of non-mortgage-related securities that are included in our other investments portfolio, which we present in "Table 27: Cash and Other Investments Portfolio."

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

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

Cash and Other Investments Portfolio

Our cash and other investments portfolio consists of cash and cash equivalents, federal funds sold and securities purchased under agreements to resell or similar arrangements, and investments in non-mortgage-related securities. See "Liquidity and Capital Management—Liquidity Management—Cash and Other Investments Portfolio" for additional information on our cash and other investments portfolio.

Restricted Cash

Restricted cash primarily includes unscheduled borrower payments received by the servicer or consolidated trusts due to be remitted to the MBS certificateholders in the subsequent month. Our restricted cash decreased as of September 30, 2013 compared with the balance as of December 31, 2012, resulting from a decrease in unscheduled payments received due to lower payoff volumes in September 2013 compared with December 2012.

Investments in Mortgage-Related Securities

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

Table 20 displays the fair value of our investments in mortgage-related securities, including trading and available-for-sale securities, as of the dates indicated. We classify private-label securities as Alt-A, subprime, CMBS or manufactured housing if the securities were labeled as such when issued. We have also invested in subprime private-label mortgage-related securities that we have resecuritized to include our guaranty ("wraps").

Table 20: Summary of Mortgage-Related Securities at Fair Value

	As of	
	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Mortgage-related securities:		
Fannie Mae	$13,280	$16,683
Freddie Mac	9,427	12,173
Ginnie Mae	1,057	1,188
Alt-A private-label securities	8,894	12,405
Subprime private-label securities	8,376	8,766
CMBS	6,960	22,923
Mortgage revenue bonds	6,397	8,517
Other mortgage-related securities	3,073	3,271
Total	$57,464	$85,926

During the first nine months of 2013, we sold $18.1 billion of non-agency mortgage-related securities. See "Business Segment Results—Capital Markets Group Results—The Capital Markets Group's Mortgage Portfolio" for additional information on the requirements that we reduce our retained mortgage portfolio.

See “Note 5, Investments in Securities” for additional information on our investments in mortgage-related securities, including the composition of our trading and available-for-sale securities at amortized cost and fair value and the gross unrealized gains and losses related to our available-for-sale securities as of September 30, 2013 and December 31, 2012.

Mortgage Loans

The increase in mortgage loans, net of the allowance for loan losses, as of September 30, 2013 compared with the balance as of December 31, 2012 was primarily driven by securitization activity from our lender swap and portfolio securitization programs. For additional information on our mortgage loans, see “Note 3, Mortgage Loans.” For additional information on the mortgage loan purchase and sale activities reported by our Capital Markets group, see “Business Segment Results—Capital Markets Group Results.”

Deferred Tax Assets, Net

We recognize deferred tax assets and liabilities for future tax consequences arising from differences between the carrying amounts of existing assets and liabilities under GAAP and their respective tax bases, and for net operating loss carryforwards and tax credit carryforwards. For additional information on our deferred tax assets and liabilities, see “Note 10, Income Taxes.”

Debt

Debt of Fannie Mae is the primary means of funding our mortgage investments. We provide a summary of the activity of the debt of Fannie Mae and a comparison of the mix between our outstanding short-term and long-term debt in “Liquidity and Capital Management—Liquidity Management—Debt Funding.” Also see “Note 8, Short-Term Borrowings and Long-Term Debt” for additional information on our outstanding debt.

Debt of consolidated trusts represents the amount of Fannie Mae MBS issued from consolidated trusts and held by third-party certificateholders. The increase in debt of consolidated trusts as of September 30, 2013 compared with the balance as of December 31, 2012 was primarily driven by securitization activity from our lender swap and portfolio securitization programs.

Stockholders’ Equity

Our net equity increased as of September 30, 2013 compared with December 31, 2012. See “Table 21: Comparative Measures—GAAP Change in Stockholders’ Equity and Non-GAAP Change in Fair Value of Net Assets (Net of Tax Effect)” for details of the change in our net equity.

SUPPLEMENTAL NON-GAAP INFORMATION—FAIR VALUE BALANCE SHEETS

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

Table 21 summarizes changes in our stockholders’ equity reported in our GAAP condensed consolidated balance sheets and in the estimated fair value of our net assets in our non-GAAP consolidated fair value balance sheets for the nine months ended September 30, 2013. The estimated fair value of our net assets is calculated based on the difference between the fair value of our assets and the fair value of our liabilities, adjusted for noncontrolling interests. We use various valuation techniques to estimate fair value, some of which incorporate internal assumptions that are subjective and involve a high degree of management judgment. We describe the specific valuation techniques used to determine fair value and disclose the carrying value and fair value of our financial assets and liabilities in “Note 16, Fair Value.”

Table 21: Comparative Measures—GAAP Change in Stockholders' Equity and Non-GAAP Change in Fair Value of Net Assets (Net of Tax Effect)

	For the Nine Months Ended September 30, 2013 (Dollars in millions)
GAAP consolidated balance sheets:	
Fannie Mae stockholders' equity as of December 31, 2012[1]	$7,183
Total comprehensive income	78,210
Senior preferred stock dividend paid	(73,835)
Other	10
Fannie Mae stockholders' equity as of September 30, 2013[1]	$11,568
Non-GAAP consolidated fair value balance sheets:	
Estimated fair value of net assets as of December 31, 2012	$(66,492)
Senior preferred stock dividend paid	(73,835)
Senior preferred stock dividend payable[2]	(8,617)
Increase in deferred tax assets, net[3]	48,256
Change in estimated fair value of net assets excluding the senior preferred stock dividend paid, the senior preferred stock dividend payable and the increase in deferred tax assets	60,781
Increase in estimated fair value of net assets, net	26,585
Estimated fair value of net assets as of September 30, 2013	$(39,907)

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

(2) Represents the dividend payment we will pay Treasury in the fourth quarter of 2013 under the senior preferred stock purchase agreement, which, for purposes of our non-GAAP fair value balance sheets, we present as a liability. Under the terms of the senior preferred stock purchase agreement, starting January 1, 2013, we are required to pay Treasury each quarter a dividend, when, as and if declared, equal to the excess of our net worth as of the end of the preceding quarter over an applicable capital reserve.

(3) Represents an increase in the carrying value of our deferred tax assets, net as of September 30, 2013 compared with December 31, 2012, as we released the substantial majority of our valuation allowance against our deferred tax assets in the first quarter of 2013.

During the first nine months of 2013, the estimated fair value of our net assets (excluding the senior preferred stock dividend paid, the senior preferred stock dividend payable and the increase in deferred tax assets) increased by approximately $61 billion. This increase was primarily driven by an improvement in credit-related items due to overall improved housing market and economic conditions, including higher actual and expected home prices experienced in the first nine months of 2013, which lowered the expected losses on our guaranty book of business. We estimate that home prices increased by 9.2% in the first nine months of 2013. Changes in single-family home prices, regardless of magnitude, may cause volatility in our fair value measurements due to our $2.9 trillion single-family guaranty book of business.

The income from the interest spread between our mortgage assets and associated debt and derivatives during the first nine months of 2013 contributed to the increase in the estimated fair value of our net assets. In addition, the tightening of option-adjusted spreads during the first nine months of 2013 increased the estimated fair value of our portfolio, resulting in an increase in our net assets.

The increase in the estimated fair value of our net assets was partially offset by a decrease in the estimated fair value of our mortgage loans. This reflects the change in the fair value of our loan portfolio that is associated with recent increases in the guaranty fees that we charge in the GSE securitization market. As the guaranty fees we charge in the

GSE securitization market increase, the fair value of our mortgage loans that are held in our portfolio will decrease because the current market rate of compensation for exposure to credit risk is now higher than the compensation that we are receiving for exposure to credit risk on the loans that are held in our mortgage portfolio.

Cautionary Language Relating to Supplemental Non-GAAP Financial Measures

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

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

- The estimated fair value of our credit exposures significantly exceeds the projected credit losses we would expect to incur if we were to retain the credit exposure, as fair value takes into account certain assumptions about liquidity and required rates of return that a market participant may demand in assuming a credit obligation, and
- The fair value of our net assets reflects a point in time estimate of the fair value of our existing assets and liabilities, and does not incorporate the value associated with new business that may be added in the future.

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

Supplemental Non-GAAP Consolidated Fair Value Balance Sheets

We display our non-GAAP fair value balance sheets as of the dates indicated in Table 22.

Table 22: Supplemental Non-GAAP Consolidated Fair Value Balance Sheets

	As of September 30, 2013				As of December 31, 2012			
	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	$62,309	$—	$62,309		$89,036	$—	$89,036	
Federal funds sold and securities purchased under agreements to resell or similar arrangements	40,300	—	40,300		32,500	—	32,500	
Trading securities	32,860	—	32,860		40,695	—	40,695	
Available-for-sale securities	41,000	—	41,000		63,181	—	63,181	
Mortgage loans:								
Mortgage loans held for sale	998	27	1,025		464	11	475	
Mortgage loans held for investment, net of allowance for loan losses:								
Of Fannie Mae	271,923	(14,560)	257,363		305,025	(33,837)	271,188	
Of consolidated trusts	2,740,259	14,186 (2)	2,754,445	(3)	2,643,917	118,511 (2)	2,762,428	(3)
Total mortgage loans	3,013,180	(347)	3,012,833	(4)	2,949,406	84,685	3,034,091	(4)
Advances to lenders	3,633	(35)	3,598	(5)(6)	7,592	(84)	7,508	(5)(6)
Derivative assets at fair value	2,019	—	2,019	(5)(6)	435	—	435	(5)(6)
Guaranty assets and buy-ups, net	271	413	684	(5)(6)	327	365	692	(5)(6)
Total financial assets	3,195,572	31	3,195,603	(7)	3,183,172	84,966	3,268,138	(7)
Credit enhancements	526	712	1,238	(5)(6)	488	997	1,485	(5)(6)
Deferred tax assets, net	48,256	—	48,256	(8)	—	—	—	
Other assets	36,868	(221)	36,647	(5)(6)	38,762	(244)	38,518	(5)(6)
Total assets	$3,281,222	$522	$3,281,744		$3,222,422	$85,719	$3,308,141	
Liabilities:								
Short-term debt:								
Of Fannie Mae	$77,813	$17	$77,830		$105,233	$20	$105,253	
Of consolidated trusts	2,297	—	2,297		3,483	—	3,483	

Long-term debt:								
Of Fannie Mae	487,297	(9) 11,711	499,008		510,631	(9) 24,941	535,572	
Of consolidated trusts	2,672,714	(9) 31,524	(2) 2,704,238		2,570,170	(9) 131,009	(2) 2,701,179	
Derivative liabilities at fair value	2,361	—	2,361	(10)(11)	705	—	705	(10)(11)
Guaranty obligations	502	1,970	2,472	(10)(11)	599	2,514	3,113	(10)(11)
Total financial liabilities	3,242,984	45,222	3,288,206	(7)	3,190,821	158,484	3,349,305	(7)
Senior preferred stock dividend payable	—	8,617	8,617	(12)	—	—	—	
Other liabilities	26,621	(1,842)	24,779	(10)(11)	24,377	910	25,287	(10)(11)(13)
Total liabilities	3,269,605	51,997	3,321,602		3,215,198	159,394	3,374,592	
Equity (deficit):								
Fannie Mae stockholders' equity (deficit):								
Senior preferred[14]	117,149	—	117,149		117,149	—	117,149	
Preferred	19,130	(14,925)	4,205		19,130	(17,938)	1,192	
Common	(124,711)	(36,550)	(161,261)	(15)	(129,096)	(55,737)	(184,833)	
Total Fannie Mae stockholders' equity (deficit)/non-GAAP fair value of net assets	$11,568	$(51,475)	$(39,907)		$7,183	$(73,675)	$(66,492)	
Noncontrolling interest	49	—	49		41	—	41	
Total equity (deficit)	11,617	(51,475)	(39,858)		7,224	(73,675)	(66,451)	
Total liabilities and equity (deficit)	$3,281,222	$522	$3,281,744		$3,222,422	$85,719	$3,308,141	

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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 condensed consolidated balance sheets and our best judgment of the estimated fair value of the listed item.

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

(3) Includes certain mortgage loans that we elected to report at fair value in our GAAP condensed consolidated balance sheets of $13.9 billion and $10.8 billion as of September 30, 2013 and December 31, 2012, respectively.

(4) Performing loans had a fair value and an unpaid principal balance of $2.9 trillion as of September 30, 2013, compared with a fair value of $2.9 trillion and an unpaid principal balance of $2.8 trillion as of December 31, 2012. Nonperforming loans, which for the purposes of our non-GAAP fair value balance sheets consists of loans that are delinquent by one or more payments, had a fair value of $103.1 billion and an unpaid principal balance of $152.7 billion as of September 30, 2013, compared with a fair value of $112.3 billion and an unpaid principal balance of $189.9 billion as of December 31, 2012. See "Note 16, Fair Value" for additional information on valuation techniques for performing and nonperforming loans.

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

(6) "Other assets" include the following GAAP condensed consolidated balance sheets line items: (a) Accrued interest receivable, net and (b) Acquired property, net. The carrying value of these items in our GAAP condensed consolidated balance sheets totaled $20.1 billion and $19.7 billion as of September 30, 2013 and December 31, 2012, respectively. "Other assets" in our GAAP condensed consolidated balance sheets include the following: (a) Advances to lenders; (b) Derivative assets at fair value; (c) Guaranty assets and buy-ups, net; and (d) Credit enhancements. The carrying value of these items totaled $6.4 billion and $8.8 billion as of September 30, 2013 and December 31, 2012, respectively.

(7) We estimated the fair value of these financial instruments in accordance with the fair value accounting guidance as described in "Note 16, Fair Value."

(8) The amount included in "estimated fair value" of deferred tax assets, net represents the GAAP carrying value and does not reflect fair value.

(9) Includes certain long-term debt instruments that we elected to report at fair value in our GAAP condensed consolidated balance sheets of $15.1 billion and $12.4 billion as of September 30, 2013 and December 31, 2012, respectively.

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

(11) "Other liabilities" include accrued interest payable in our GAAP condensed consolidated balance sheets. The carrying value of this item in our GAAP condensed consolidated balance sheets totaled $10.8 billion and $11.3 billion as of September 30, 2013 and December 31, 2012, respectively. We assume that certain other liabilities, such as deferred revenues, have no fair value. Although we report the "Reserve for guaranty losses" as part of "Other liabilities" in our GAAP 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. "Other liabilities" in our GAAP condensed consolidated balance sheets include the following: (a) Derivative liabilities at fair value and (b) Guaranty obligations. The carrying value of these items totaled $2.9 billion and $1.3 billion as of September 30, 2013 and December 31, 2012.

(12) Represents the dividend payment we will pay to Treasury under the senior preferred stock purchase agreement, which, for purposes of our non-GAAP fair balance sheets, we present as a liability.

(13)

Includes the estimated fair value of our liability to Treasury for TCCA-related guaranty fee payments over the expected life of the loans. As of September 30, 2013, the estimated fair value of TCCA-related guaranty fee payments is included in the line item "Mortgage loans held for investment—Of consolidated trusts."

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

(15) Includes the dividend payment we will pay to Treasury under the senior preferred stock purchase agreement, which, for purposes of our non-GAAP fair value balance sheets, we present as a liability.

LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity Management

Our business activities require that we maintain adequate liquidity to fund our operations. Our liquidity risk management policy is designed to address our liquidity risk. Liquidity risk is the risk that we will not be able to meet our funding obligations in a timely manner. Liquidity risk management involves forecasting funding requirements, maintaining sufficient

capacity to meet our needs based on our ongoing assessment of financial market liquidity and adhering to our regulatory requirements.

Our treasury function is responsible for implementing our liquidity and contingency planning strategies. We conduct liquidity contingency planning to prepare for an event in which our access to the unsecured debt markets becomes limited. We plan for alternative sources of liquidity that are designed to allow us to meet our cash obligations without relying upon the issuance of unsecured debt. While our liquidity contingency planning attempts to address stressed market conditions, we believe that our liquidity contingency plan may be difficult or impossible to execute for a company of our size and circumstances.

See “Liquidity and Capital Management—Liquidity Management—Liquidity Risk Management Practices and Contingency Planning” in our 2012 Form 10-K for a discussion of our liquidity contingency plans. Also see “Risk Factors” in our 2012 Form 10-K for a description of the risks associated with our liquidity risk and liquidity contingency planning.

Our liquidity position could be adversely affected by many factors, both internal and external to our business, including: actions taken by our conservator, the Federal Reserve, U.S. Treasury or other government agencies; legislation relating to us or our business; a U.S. government payment default on its debt obligations; a downgrade in the credit ratings of our senior unsecured debt or the U.S government’s debt from the major ratings organizations; a systemic event leading to the withdrawal of liquidity from the market; an extreme market-wide widening of credit spreads; public statements by key policy makers; a significant decline in our net worth; potential investor concerns about the adequacy of funding available to us under the senior preferred stock purchase agreement; loss of demand for our debt, or certain types of our debt, from a major group of investors; a significant credit event involving one of our major institutional counterparties; a sudden catastrophic operational failure in the financial sector; or elimination of our GSE status.

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. Because debt issuance is our primary funding source, we are subject to “roll-over,” or refinancing, risk on our outstanding debt.

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

Our debt funding needs may vary from quarter to quarter depending on market conditions and are influenced by anticipated liquidity needs, the size of our retained mortgage portfolio and our dividend payment obligations to Treasury. Under the senior preferred stock purchase agreement, we are required to reduce our retained mortgage portfolio to $552.5 billion by December 31, 2013 and, by December 31 of each year thereafter, to 85% of the maximum allowable amount that we were permitted to own as of December 31 of the immediately preceding calendar year, until the amount of our mortgage assets reaches $250 billion.

Fannie Mae Debt Funding Activity

Table 23 displays the activity in debt of Fannie Mae for the periods indicated. This activity excludes the debt of consolidated trusts and intraday loans. The reported amounts of debt issued and paid off during the period represent the face amount of the debt at issuance and redemption, respectively. Activity for short-term debt of Fannie Mae relates to borrowings with an original contractual maturity of one year or less while activity for long-term debt of Fannie Mae relates to borrowings with an original contractual maturity of greater than one year.

Table 23: Activity in Debt of Fannie Mae

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
	(Dollars in millions)			
Issued during the period:				
Short-term:				
Amount	$50,759	$81,621	$182,624	$181,226
Weighted-average interest rate	0.07 %	0.12 %	0.11 %	0.12 %
Long-term:				
Amount	$24,164	$66,205	$125,461	$191,150
Weighted-average interest rate	1.18 %	1.10 %	1.05 %	1.26 %
Total issued:				
Amount	$74,923	$147,826	$308,085	$372,376
Weighted-average interest rate	0.43 %	0.56 %	0.49 %	0.70 %
Paid off during the period:[1]				
Short-term:				
Amount	$75,755	$69,619	$210,015	$222,937
Weighted-average interest rate	0.11 %	0.10 %	0.13 %	0.11 %
Long-term:				
Amount	$37,551	$86,116	$149,511	$232,351
Weighted-average interest rate	1.52 %	1.57 %	1.82 %	2.19 %
Total paid off:				
Amount	$113,306	$155,735	$359,526	$455,288
Weighted-average interest rate	0.58 %	0.91 %	0.83 %	1.17 %

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(1) Consists of all payments on debt, including regularly scheduled principal payments, payments at maturity, payments resulting from calls and payments for any other repurchases. Repurchases of debt and early retirements of zero-coupon debt are reported at original face value, which does not equal the amount of actual cash payment.

Debt issuances decreased during the third quarter and first nine months of 2013 compared with the third quarter and first nine months of 2012 primarily due to lower funding needs as our retained mortgage portfolio decreased. Redemptions of callable debt decreased during the third quarter and first nine months of 2013 compared with the third quarter and first nine months of 2012 due to increased interest rates.

We believe that continued federal government support of our business and the financial markets, as well as our status as a GSE, are essential to maintaining our access to debt funding. Changes or perceived changes in federal government support of our business and the financial markets or our status as a GSE could materially and adversely affect our liquidity, financial condition and results of operations. For more information on GSE reform, see "Legislative and Regulatory Developments—GSE Reform" in this report, in our Second Quarter 2013 Form 10-Q and in our 2012 Form 10-K, and in "Risk Factors" in our 2012 Form 10-K.

In addition, due to our reliance on the U.S. government's support, our access to debt funding or the cost of our debt funding could be materially adversely affected by a change or perceived change in the creditworthiness of the U.S. government. A downgrade in our credit ratings could reduce demand for our debt securities and increase our borrowing costs. See our discussion of credit ratings in "Risk Factors" for information about factors that may lead to the U.S. government's long-term debt rating being lowered, and "Credit Ratings" for further discussion of our dependence on our credit ratings.

Future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, which also could increase our liquidity and roll-over risk and have a material adverse impact on our liquidity, financial condition and results of operations. See "Risk Factors" in our 2012 Form 10-K for a discussion of the risks we face relating to (1) the uncertain future of our company; (2) our reliance on the issuance of debt securities to

obtain funds for our operations and the relative cost to obtain these funds; and (3) our liquidity contingency plans.

Outstanding Debt

Total outstanding debt of Fannie Mae includes short-term and long-term debt, excluding debt of consolidated trusts. Our outstanding short-term debt, based on its original contractual maturity, as a percentage of our total outstanding debt was 14% as of September 30, 2013 and 17% as of December 31, 2012. For information on our outstanding debt maturing within one year, including the current portion of our long-term debt, as a percentage of our total debt, see "Maturity Profile of Outstanding Debt of Fannie Mae." In addition, the weighted-average interest rate on our long-term debt, based on its original contractual maturity, decreased to 2.09% as of September 30, 2013 from 2.25% as of December 31, 2012.

Pursuant to the terms of the senior preferred stock purchase agreement, we are prohibited from issuing debt without the prior consent of Treasury if it would result in our aggregate indebtedness exceeding our outstanding debt limit, which is 120% of the amount of mortgage assets we were allowed to own on December 31 of the immediately preceding calendar year. Our debt limit under the senior preferred stock purchase agreement was reduced to $780.0 billion in 2013. As of September 30, 2013, our aggregate indebtedness totaled $570.1 billion, which was $209.9 billion below our debt limit. The calculation of our indebtedness for purposes of complying with our debt limit reflects the unpaid principal balance and excludes debt basis adjustments and debt of consolidated trusts. Because of our debt limit, we may be restricted in the amount of debt we issue to fund our operations.

Table 24 displays information as of the dates indicated on our outstanding short-term and long-term debt based on its original contractual terms.

Table 24: Outstanding Short-Term Borrowings and Long-Term Debt[1]

	As of September 30, 2013				December 31, 2012			
	Maturities	Outstanding	Weighted-Average Interest Rate		Maturities	Outstanding	Weighted-Average Interest Rate	
	(Dollars in millions)							
Short-term debt:								
Fixed-rate:								
Discount notes	—	$77,470	0.11	%	—	$104,730	0.15	%
Foreign exchange discount notes	—	343	1.41		—	503	1.61	
Total short-term debt of Fannie Mae[2]		77,813	0.12			105,233	0.16	
Debt of consolidated trusts	—	2,297	0.10		—	3,483	0.15	
Total short-term debt		$80,110	0.11	%		$108,716	0.16	%
Long-term debt:								
Senior fixed:								
Benchmark notes and bonds	2013 - 2030	$223,724	2.46	%	2013 - 2030	$251,768	2.59	%
Medium-term notes[3]	2013 - 2023	174,741	1.24		2013 - 2022	172,288	1.35	
Foreign exchange notes and bonds	2021 - 2028	691	5.28		2021 - 2028	694	5.44	
Other[4][5]	2013 - 2038	39,082	4.95		2013 - 2038	40,819	4.99	
Total senior fixed		438,238	2.20			465,569	2.35	
Senior floating:								
Medium-term notes[3]	2013 - 2019	43,895	0.21		2013 - 2019	38,633	0.27	
Other[4][5]	2020 - 2037	289	7.83		2020 - 2037	365	8.22	
Total senior floating		44,184	0.26			38,998	0.33	
Subordinated fixed:								
Qualifying subordinated	2014	1,168	5.27		2013 - 2014	2,522	5.00	
Subordinated debentures[6]	2019	3,427	9.92		2019	3,197	9.92	
Total subordinated fixed		4,595	8.74			5,719	7.75	
Secured borrowings[7]	2021 - 2022	280	1.86		2021 - 2022	345	1.87	
Total long-term debt of Fannie Mae[8]		487,297	2.09			510,631	2.25	
Debt of consolidated trusts[5]	2013 - 2053	2,672,714	3.21		2013 - 2052	2,570,170	3.36	
Total long-term debt		$3,160,011	3.03	%		$3,080,801	3.18	%
Outstanding callable debt of Fannie Mae[9]		$180,510	1.53	%		$177,784	1.64	%

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(1) Outstanding debt amounts and weighted-average interest rates reported in this table include the effect of unamortized discounts, premiums and other cost basis adjustments. Reported amounts include fair value gains and losses associated with debt that we elected to carry at fair value. The unpaid principal balance of outstanding debt of Fannie Mae, which excludes unamortized discounts, premiums and other cost basis adjustments, and debt of consolidated trusts, totaled $570.2 billion and $621.8 billion as of September 30, 2013 and December 31, 2012, respectively.

(2) Short-term debt of Fannie Mae consists of borrowings with an original contractual maturity of one year or less and, therefore, does not include the current portion of long-term debt. Reported amounts include a net unamortized discount, fair value adjustments and other cost basis adjustments of $25 million and $33 million as of

September 30, 2013 and December 31, 2012, respectively.

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

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

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

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

(7) Represents remaining liability for transfer of financial assets from our condensed consolidated balance sheets that did not qualify as a sale.

(8) Long-term debt of Fannie Mae consists of borrowings with an original contractual maturity of greater than one year. Reported amounts include the current portion of long-term debt that is due within one year, which totaled $95.5 billion and $103.2 billion as of September 30, 2013 and December 31, 2012, respectively. Reported amounts also include a net unamortized discount, fair value adjustments and other cost basis adjustments of $5.1 billion and $6.0 billion as of September 30, 2013 and December 31, 2012, respectively. The unpaid principal balance of long-term debt of Fannie Mae, which excludes unamortized discounts, premiums, fair value adjustments and other cost basis adjustments and amounts related to debt of consolidated trusts, totaled $492.4 billion and $516.5 billion as of September 30, 2013 and December 31, 2012, respectively.

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

Maturity Profile of Outstanding Debt of Fannie Mae

Table 25 displays the maturity profile, as of September 30, 2013, of our outstanding debt maturing within one year, including the current portion of our long-term debt and amounts we have announced for early redemption. Our outstanding debt maturing within one year, as a percentage of our total outstanding debt, excluding debt of consolidated trusts, was 31% as of September 30, 2013 and 34% as of December 31, 2012. The weighted-average maturity of our outstanding debt that is maturing within one year was 143 days as of September 30, 2013, compared with 130 days as of December 31, 2012.

Table 25: Maturity Profile of Outstanding Debt of Fannie Mae Maturing Within One Year[1]

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(1) Includes unamortized discounts, premiums and other cost basis adjustments of $250 million as of September 30, 2013. Excludes debt of consolidated trusts maturing within one year of $3.8 billion as of September 30, 2013.

Table 26 displays the maturity profile, as of September 30, 2013, of the portion of our long-term debt that matures in more than one year, on a quarterly basis for one year and on an annual basis thereafter, excluding amounts we have announced for early redemption within one year. The weighted-average maturity of our outstanding debt maturing in more than one year was approximately 59 months as of September 30, 2013 and approximately 61 months as of December 31, 2012.

Table 26: Maturity Profile of Outstanding Debt of Fannie Mae Maturing in More Than One Year[(1)]

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(1) Includes unamortized discounts, premiums and other cost basis adjustments of $4.9 billion as of September 30, 2013. Excludes debt of consolidated trusts of $2.7 trillion as of September 30, 2013.

We intend to repay our short-term and long-term debt obligations as they become due primarily through proceeds from the issuance of additional debt securities. We also may use proceeds from our mortgage assets to pay our debt obligations.

Cash and Other Investments Portfolio

Our cash and other investments portfolio increased from December 31, 2012 to September 30, 2013. The balance of our cash and other investments portfolio fluctuates based on changes in our cash flows, overall liquidity in the fixed income markets and our liquidity risk management policies and practices. See "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Issuers of Investments Held in our Cash and Other Investments Portfolio" for additional information on the risks associated with the assets in our cash and other investments portfolio.

Table 27 displays information on the composition of our cash and other investments portfolio as of the dates indicated.

Table 27: Cash and Other Investments Portfolio

	As of	
	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Cash and cash equivalents	$30,784	$21,117
Federal funds sold and securities purchased under agreements to resell or similar arrangements	40,300	32,500
U.S. Treasury securities[(1)]	16,396	17,950
Total cash and other investments	$87,480	$71,567

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(1) As of September 30, 2013, we held no U.S. Treasury securities that had a maturity at the date of acquisition of three months or less and would therefore be recognized in cash and cash equivalents. As of December 31, 2012, this balance excludes $1.1 billion of U.S. Treasury securities, which are a component of cash equivalents.

Credit Ratings

Our credit ratings from the major credit ratings organizations, as well as the credit ratings of the U.S. government, are primary factors that could affect our ability to access the capital markets and our cost of funds. In addition, our credit ratings are important when we seek to engage in certain long-term transactions, such as derivative transactions.

Standard & Poor's Ratings Services ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings Limited ("Fitch") have all indicated that, if they were to lower the sovereign credit ratings on the U.S, they would likely lower their ratings on the debt of Fannie

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Mae and certain other government-related entities. We cannot predict whether one or more of these ratings agencies will lower our debt ratings in the future. See “Risk Factors” for a discussion of the possibility of further downgrades and the risks to our business relating to a decrease in our credit ratings, which could include an increase in our borrowing costs, limits on our ability to issue debt, and additional collateral requirements under our derivatives contracts.

While there have been no changes in our credit ratings from December 31, 2012 to October 31, 2013, on October 16, 2013, Fitch placed our long-term senior debt, short-term senior debt, and qualifying subordinated debt ratings on “Rating Watch Negative,” following a similar action on the debt ratings of the U.S. government. A rating being placed on Rating Watch is typically event-driven and indicates there is a heightened probability of a rating change. Fitch noted that it placed our long-term debt, short-term debt, and qualifying subordinated debt on “Rating Watch Negative” due to our direct financial support from the U.S. government.

Table 28 displays the credit ratings issued by the three major credit rating agencies as of October 30, 2013.

Table 28: Fannie Mae Credit Ratings

	As of October 30, 2013		
	S&P	Moody’s	Fitch
Long-term senior debt	AA+	Aaa	AAA
Short-term senior debt	A-1+	P-1	F1+
Qualifying subordinated debt	A	Aa2	AA-
Preferred stock	C	Ca	C/RR6
Bank financial strength rating	—	E+	—
Outlook	Stable (for Long Term Senior Debt)	Stable (for Long Term Senior Debt and Qualifying Subordinated Debt)	Rating Watch Negative (for Long Term Senior Debt, Short Term Senior Debt and Qualifying Subordinated Debt)

Cash Flows

Nine Months Ended September 30, 2013. Cash and cash equivalents increased from December 31, 2012 by $9.7 billion to $30.8 billion as of September 30, 2013. This increase in the balance reflected higher liquidity needs due to our expectation that we will make a significant dividend payment to Treasury as a result of our continued strong financial performance during 2013. For the first nine months of 2013, net cash from operating activities totaled $11.5 billion. Net cash generated from investing activities totaled $383.3 billion, resulting primarily from proceeds received from repayments of loans held for investment. These proceeds were partially offset by cash used in the purchase of loans held for investment and advances to lenders. The net cash inflows generated in our investing and operating activities were largely offset by net cash used in financing activities of $385.1 billion. Net cash used in financing activities was primarily driven by debt redemptions in excess of proceeds received from the issuance of debt and by our dividend payments made to Treasury under the senior preferred stock purchase agreement. For the dividend payments to Treasury in the first nine months of 2013, we primarily used funds received from loan repayments and the issuance of debt securities.

Nine Months Ended September 30, 2012. Cash and cash equivalents increased from December 31, 2011 by $3.1 billion to $20.7 billion as of September 30, 2012. Net cash generated from investing activities totaled $386.4 billion, resulting primarily from proceeds received from repayments of loans held for investment. Net cash from operating activities totaled $32.3 billion. These net cash inflows were partially offset by net cash used in financing activities of $415.5 billion primarily attributable to a significant amount of debt redemptions in excess of proceeds received from the issuances of debt.

Capital Management

Regulatory Capital

FHFA has announced that, during the conservatorship, our existing statutory and FHFA-directed regulatory capital requirements will not be binding and that FHFA will not issue quarterly capital classifications. We submit capital reports to FHFA and FHFA monitors our capital levels. The deficit of core capital over statutory minimum capital was $136.0 billion as of September 30, 2013 and $141.2 billion as of December 31, 2012.

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Under the terms of the senior preferred stock purchase agreement, starting January 1, 2013, we are required to pay Treasury each quarter a dividend, when, as and if declared, equal to the excess of our net worth as of the end of the preceding quarter over an applicable capital reserve. Therefore, we do not expect to eliminate our deficit of core capital over statutory minimum capital. We expect to pay Treasury a dividend of $8.6 billion by December 31, 2013.

Senior Preferred Stock Purchase Agreement

As a result of the covenants under the senior preferred stock purchase agreement, Treasury's ownership of the warrant to purchase up to 79.9% of the total shares of our common stock outstanding and the uncertainty regarding our future, we effectively no longer have access to equity funding except through draws under the senior preferred stock purchase agreement.

Under the senior preferred stock purchase agreement, Treasury made a commitment to provide funding, under certain conditions, to eliminate deficits in our net worth. We have received a total of $116.1 billion from Treasury pursuant to the senior preferred stock purchase agreement as of September 30, 2013. The aggregate liquidation preference of the senior preferred stock, including the initial aggregate liquidation preference of $1.0 billion, remains at $117.1 billion. While we had a positive net worth as of September 30, 2013, in some future periods we could have a net worth deficit and in such case would be required to obtain additional funding from Treasury pursuant to the senior preferred stock purchase agreement. The amount of remaining available funding under the senior preferred stock purchase agreement is $117.6 billion as of September 30, 2013.

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment under the senior preferred stock purchase agreement. Moreover, we are not permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock except in limited circumstances. The limited circumstances under which Treasury's funding commitment will terminate and under which we can pay down the liquidation preference of the senior preferred stock are described in "Business—Conservatorship and Treasury Agreements—Treasury Agreements" in our 2012 Form 10-K.

Dividends

Our third quarter 2013 dividend of $10.2 billion was declared by FHFA and subsequently paid by us on September 30, 2013. For each dividend period from January 1, 2013 through and including December 31, 2017, when, as and if declared, the dividend amount will be the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. The applicable capital reserve amount will be $3.0 billion for 2013 and will be reduced by $600 million each year until it reaches zero on January 1, 2018. For each dividend period beginning in 2018, the dividend amount will be the entire amount of our net worth, if any, as of the end of the immediately preceding fiscal quarter. Based on the terms of the senior preferred stock purchase agreement with Treasury, we expect to pay Treasury a dividend for the fourth quarter of 2013 of $8.6 billion by December 31, 2013. See "Risk Factors" in our 2012 Form 10-K for a discussion of the risks relating to our dividend obligations to Treasury on the senior preferred stock.

See "Business—Conservatorship and Treasury Agreements—Treasury Agreements" in our 2012 Form 10-K for more information on the terms of the senior preferred stock and our senior preferred stock purchase agreement with Treasury.

OFF-BALANCE SHEET ARRANGEMENTS

Our maximum potential exposure to credit losses relating to our outstanding and unconsolidated Fannie Mae MBS and other financial guarantees is primarily represented by the unpaid principal balance of the mortgage loans underlying outstanding and unconsolidated Fannie Mae MBS and other financial guarantees of $46.1 billion as of September 30, 2013 and $53.1 billion as of December 31, 2012.

We also provide assistance to housing finance agencies under the temporary credit and liquidity facilities programs in which Treasury has purchased participation interests. For a description of these programs, see "MD&A—Off-Balance Sheet Arrangements—Treasury Housing Finance Agency Initiative" in our 2012 Form 10-K.

RISK MANAGEMENT

Our business activities expose us to the following three major categories of financial risk: credit risk, market risk (including interest rate and liquidity risk) and operational risk. We seek to actively monitor and manage these risks by using an established risk management framework. Our risk management framework is intended to provide the basis for the principles that govern our risk management activities. In addition to these financial risks, there is significant uncertainty regarding the future of our company, including how long we will continue to be in existence, which we discuss in more detail in "Legislative and Regulatory Developments—GSE Reform" in this report, in our Second Quarter 2013 Form 10-Q and in our 2012 Form 10-K and in "Risk Factors" in our 2012 Form 10-K. This uncertainty, along with limitations on our employee compensation arising from our conservatorship, could affect our ability to retain and hire qualified employees. We are also subject to a number of other risks that could adversely impact our business, financial condition, earnings and cash flow, including model, legal, regulatory, compliance, reputational, strategic and execution risks. These risks may arise due to a failure to comply with laws, regulations or ethical standards and codes of conduct applicable to our business activities and functions.

In this section we provide an update on our management of our major risk categories. For a more complete discussion of the financial risks we face and how we manage credit risk, market risk and operational risk, see "MD&A—Risk Management" in our 2012 Form 10-K and "Risk Factors" in this report and our 2012 Form 10-K.

Credit Risk Management

We are generally subject to two types of credit risk: mortgage credit risk and institutional counterparty credit risk. Mortgage credit risk is the risk that a borrower will fail to make required mortgage payments. Institutional counterparty credit risk is the risk that our institutional counterparties may fail to fulfill their contractual obligations to us, including seller/servicers who are obligated to repurchase loans from us or reimburse us for losses in certain circumstances.

Mortgage Credit Risk Management

We are exposed to credit risk on our mortgage credit book of business because we either hold mortgage assets, have issued a guaranty in connection with the creation of Fannie Mae MBS backed by mortgage assets or provided other credit enhancements on mortgage assets. While our mortgage credit book of business includes all of our mortgage-related assets, both on- and off-balance sheet, our guaranty book of business excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty. We provide information on the performance of non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio, including the impairment that we have recognized on these securities, in "Note 5, Investments in Securities."

Mortgage Credit Book of Business

Table 29 displays the composition of our mortgage credit book of business as of the dates indicated. Our total single-family mortgage credit book of business accounted for 93% of our total mortgage credit book of business as of September 30, 2013 and December 31, 2012.

Table 29: Composition of Mortgage Credit Book of Business[1]

	As of September 30, 2013			As of December 31, 2012		
	Single-Family	Multifamily	Total	Single-Family	Multifamily	Total
	(Dollars in millions)					
Mortgage loans and Fannie Mae MBS[2]	$2,849,252	$186,535	$3,035,787	$2,797,909	$188,418	$2,986,327
Unconsolidated Fannie Mae MBS, held by third parties[3]	13,017	1,341	14,358	15,391	1,524	16,915
Other credit guarantees[4]	15,912	15,815	31,727	19,977	16,238	36,215
Guaranty book of business	$2,878,181	$203,691	$3,081,872	$2,833,277	$206,180	$3,039,457
Agency mortgage-related securities[5]	9,749	32	9,781	12,294	32	12,326
Other mortgage-related securities[6]	28,436	12,429	40,865	37,524	27,535	65,059
Mortgage credit book of business	$2,916,366	$216,152	$3,132,518	$2,883,095	$233,747	$3,116,842
Guaranty Book of Business Detail:						
Conventional Guaranty Book of Business[7]	$2,814,117	$201,906	$3,016,023	$2,764,903	$204,112	$2,969,015
Government Guaranty Book of Business[8]	$64,064	$1,785	$65,849	$68,374	$2,068	$70,442

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(1) Based on unpaid principal balance.

(2) Consists of mortgage loans and Fannie Mae MBS recognized in our condensed consolidated balance sheets. The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

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

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

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

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

(7) Refers to mortgage loans and mortgage-related securities that are not guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies.

(8) Refers to mortgage loans and mortgage-related securities guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies.

In the following sections, we discuss the mortgage credit risk of the single-family and multifamily loans in our guaranty book of business. The credit statistics reported below, unless otherwise noted, pertain generally to the portion of our guaranty book of business for which we have access to detailed loan-level information, which constituted approximately 99% of each of our single-family conventional guaranty book of business and our multifamily guaranty book of business, excluding defeased loans, as of September 30, 2013 and December 31, 2012. We typically obtain this data from the sellers or servicers of the mortgage loans in our guaranty book of business and receive representations and warranties from them as to the accuracy of the information. While we perform various quality assurance checks by sampling loans to assess compliance with our underwriting and eligibility criteria, we do not independently verify all reported information and we rely on lender representations regarding the accuracy of the characteristics of loans in our guaranty book of business. See "Risk Factors" in our 2012 Form 10-K for a discussion of the risk that we could experience mortgage fraud as a result of this reliance on lender representations.

Single-Family Mortgage Credit Risk Management

Our strategy in managing single-family mortgage credit risk consists of four primary components: (1) our acquisition and servicing policies along with our underwriting and servicing standards, including the use of credit enhancements; (2) portfolio diversification and monitoring; (3) management of problem loans; and (4) REO management. These approaches may increase our expenses and may not be effective in reducing our credit-related expenses or credit

losses. We provide information on our credit-related income (expense) and credit losses in "Consolidated Results of Operations—Credit-Related Income."
In evaluating our single-family mortgage credit risk, we closely monitor changes in housing and economic conditions and the impact of those changes on the credit risk profile and performance of our single-family mortgage credit book of business. We regularly review and provide updates to our underwriting standards and eligibility guidelines that take into consideration

changing market conditions. The credit risk profile of our single-family mortgage credit book of business is influenced by, among other things, the credit profile of the borrower, features of the loan such as loan product type and the type of property securing the loan, the housing market and the general economy. We focus more on those loans that we believe pose a higher risk of default, which typically have been loans associated with higher mark-to-market LTV ratios, loans to borrowers with lower FICO credit scores and certain higher risk loan product categories, such as Alt-A loans. These and other factors affect both the amount of expected credit loss on a given loan and the sensitivity of that loss to changes in the economic environment.

The single-family credit statistics we focus on and report in the sections below generally relate to our single-family conventional guaranty book of business, which represents the substantial majority of our total single-family guaranty book of business. We believe we have limited credit exposure on our government loans, the majority of which are reverse mortgage loans insured by the federal government through FHA. The outstanding unpaid principal balance of reverse mortgage loans and Fannie Mae MBS backed by reverse mortgage loans in our guaranty book of business was $48.6 billion as of September 30, 2013 and $50.2 billion as of December 31, 2012.

Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards

As part of our efforts to mitigate future credit losses, we review delinquent and defaulted loans for compliance with our requirements. We use the information obtained from these loan quality reviews to provide feedback to lenders on possible areas for correction in their origination practices. In addition, we conduct reviews on random samples of performing loans soon after acquisition, in order to identify loans that may not have met our underwriting or eligibility requirements. We refer to these loans as having “underwriting defects.” By identifying loans with underwriting defects earlier in their lifecycle, we can provide earlier feedback to lenders, which may lead to systemic improvements in the loan origination process.

Performance for the random sample is measured using a significant findings rate, which represents the proportion of loans in the sample population with underwriting defects. The significant findings rate does not necessarily indicate how well the loans will ultimately perform or the extent to which the loans will become subject to repurchase requests. Instead, we use it to estimate the percentage of loans we acquired that may have had a significant error in the underwriting process. Based on these reviews, we believe that over the last three years the percentage of loans we acquired that have underwriting defects has been significantly reduced.

Beginning with loans delivered in 2013, and in conjunction with our new representations and warranties framework, we have changed the way we review loan files in order to provide lenders with better and earlier feedback on underwriting defects. Our new framework, which is part of FHFA’s seller-servicer contract harmonization initiative, seeks to provide lenders a higher degree of certainty and clarity regarding their repurchase exposure and liability on future deliveries, as well as consistency around repurchase timelines and remedies. As a result of this new framework, we have made changes in our quality control process that move the primary focus of our quality control reviews from the time a loan defaults to shortly after the time the loan is delivered to us. We will also take advantage of recent advancements in tools and data-gathering. Because of these changes, the significant findings rate that we will begin to report in 2014, for 2013 deliveries, will not be comparable to prior period reporting. We expect to report our significant findings rate under the new representations and warranties framework beginning in 2014.

Single-Family Portfolio Diversification and Monitoring

Diversification within our single-family mortgage credit book of business by product type, loan characteristics and geography is an important factor that influences credit quality and performance and may reduce our credit risk. We monitor various loan attributes, in conjunction with housing market and economic conditions, to determine if our pricing and our eligibility and underwriting criteria accurately reflect the risk associated with loans we acquire or guarantee. For additional information on the key loan attributes, see “MD&A—Risk Management” in our 2012 Form 10-K.

Table 30 displays our single-family conventional business volumes and our single-family conventional guaranty book of business for the periods indicated, based on certain key risk characteristics that we use to evaluate the risk profile and credit quality of our single-family loans.

Table 30: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business[1]

	Percent of Single-Family Conventional Business Volume[2]				Percent of Single-Family Conventional Guaranty Book of Business[3][4]	
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		As of	
	2013	2012	2013	2012	September 30, 2013	December 31, 2012
Original LTV ratio:[5]						
<= 60%	20 %	24 %	23 %	26 %	23 %	23 %
60.01% to 70%	13	14	14	14	15	15
70.01% to 80%	36	34	34	35	37	39
80.01% to 90%[6]	11	9	10	9	10	10
90.01% to 100%[6]	14	8	11	8	10	10
100.01% to 125%[6]	4	6	5	5	3	2
Greater than 125%[6]	2	5	3	3	2	1
Total	100 %	100 %	100 %	100 %	100 %	100 %
Weighted-average	76 %	77 %	75 %	74 %	74 %	73 %
Average loan amount	$202,769	$216,658	$206,633	$214,047	$160,089	$157,512
Estimated mark-to-market LTV ratio:[7]						
<= 60%					37 %	28 %
60.01% to 70%					20	15
70.01% to 80%					19	22
80.01% to 90%					10	13
90.01% to 100%					6	9
100.01% to 125%					5	8
Greater than 125%					3	5
Total					100 %	100 %
Weighted-average					67 %	75 %
Product type:						
Fixed-rate:[8]						
Long-term	76 %	75 %	76 %	74 %	72 %	72 %
Intermediate-term	21	22	22	23	18	17
Interest-only	*	*	*	*	1	1
Total fixed-rate	97	97	98	97	91	90
Adjustable-rate:						
Interest-only	*	*	*	*	2	3
Other ARMs	3	3	2	3	7	7
Total adjustable-rate	3	3	2	3	9	10
Total	100 %	100 %	100 %	100 %	100 %	100 %
Number of property units:						
1 unit	97 %	98 %	97 %	98 %	97 %	97 %
2-4 units	3	2	3	2	3	3
Total	100 %	100 %	100 %	100 %	100 %	100 %
Property type:						
Single-family homes	90 %	91 %	90 %	91 %	91 %	91 %
Condo/Co-op	10	9	10	9	9	9

Total	100 %	100 %	100 %	100 %	100 %	100 %

	Percent of Single-Family Conventional Business Volume[2]				Percent of Single-Family Conventional Guaranty Book of Business[3][4]	
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		As of	
	2013	2012	2013	2012	September 30, 2013	December 31, 2012
Occupancy type:						
Primary residence	86 %	89 %	87 %	89 %	88 %	89 %
Second/vacation home	4	4	4	4	5	4
Investor	10	7	9	7	7	7
Total	100 %	100 %	100 %	100 %	100 %	100 %
FICO credit score at origination:						
< 620	1 %	1 %	1 %	1 %	3 %	3 %
620 to < 660	4	2	3	2	6	6
660 to < 700	11	7	9	7	12	12
700 to < 740	19	16	18	16	19	20
>= 740	65	74	69	74	60	59
Total	100 %	100 %	100 %	100 %	100 %	100 %
Weighted-average	750	761	754	761	744	742
Loan purpose:						
Purchase	38 %	24 %	26 %	21 %	27 %	28 %
Cash-out refinance	14	13	15	15	22	24
Other refinance	48	63	59	64	51	48
Total	100 %	100 %	100 %	100 %	100 %	100 %
Geographic concentration:[9]						
Midwest	14 %	15 %	14 %	15 %	15 %	15 %
Northeast	17	18	17	18	19	19
Southeast	21	19	20	19	22	23
Southwest	18	16	17	16	16	16
West	30	32	32	32	28	27
Total	100 %	100 %	100 %	100 %	100 %	100 %
Origination year:						
< = 2004					10 %	13 %
2005					4	5
2006					4	5
2007					5	7
2008					3	5
2009					8	11
2010					10	13
2011					12	15
2012					26	26
2013					18	—
Total					100 %	100 %

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

(1) We reflect second lien mortgage loans in the original LTV ratio calculation only when we own both the first and second lien mortgage loans or we own only the second lien mortgage loan. Second lien mortgage loans represented

less than 0.5% of our single-family conventional guaranty book of business as of September 30, 2013 and December 31, 2012. Second lien mortgage loans held by third parties are not reflected in the original LTV or mark-to-market LTV ratios in this table.

Calculated based on unpaid principal balance of single-family loans for each category at time of acquisition.

(2) Single-family business volume refers to both single-family mortgage loans we purchase for our retained mortgage portfolio and single-family mortgage loans we guarantee.

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

(4) Our single-family conventional guaranty book of business includes jumbo-conforming and high-balance loans that represented approximately 5% of our single-family conventional guaranty book of business as of September 30, 2013 and December 31, 2012. See "Business—Our Charter and Regulation of Our Activities—Charter Act—Loan Standards" and "Risk Management—Credit Risk Management—Single Family Mortgage Credit Risk Management—Credit Profile Summary" in our 2012 Form 10-K for additional information on loan limits.

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

(6) We purchase loans with original LTV ratios above 80% to fulfill our mission to serve the primary mortgage market and provide liquidity to the housing system. Except as permitted under HARP, our charter generally requires primary mortgage insurance or other credit enhancement for loans that we acquire that have an LTV ratio over 80%.

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

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

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

Credit Profile Summary

The single-family loans we purchased or guaranteed in the first nine months of 2013 have a strong credit profile with a weighted-average original LTV ratio of 75%, a weighted-average FICO credit score of 754, and a product mix with a significant percentage of fully amortizing fixed-rate mortgage loans. The average original LTV ratio of single-family loans we acquired in the first nine months of 2013, excluding HARP loans, was 70%, compared with 110% for HARP loans. The weighted-average FICO credit score of the single-family mortgage loans we acquired in the first nine months of 2013, excluding HARP loans, was 759, compared with 724 for HARP loans.

The credit profile of our future acquisitions will depend on many factors, including our future pricing and eligibility standards and those of mortgage insurers and FHA, the percentage of loan originations representing refinancings, our future objectives, government policy, market and competitive conditions, and the volume and characteristics of loans we acquire under HARP. We expect the ultimate performance of all our loans will be affected by borrower behavior, public policy and macroeconomic trends, including unemployment, the economy and home prices.

The increase in the weighted-average original LTV ratio of the single-family loans we acquired in the first nine months of 2013 compared with the first nine months of 2012 was due to acquisitions of home purchase mortgages with LTV ratios greater than 80% and acquisitions of refinancings of loans under HARP with LTV ratios greater than 80%. The home purchase mortgages with LTV ratios greater than 80% that we acquired in the first nine months of 2013 have otherwise strong credit profiles, with a weighted-average FICO score of 751.

The prolonged and severe decline in home prices from 2006 through the first quarter of 2012 resulted in an increase in the overall estimated weighted-average mark-to-market LTV ratio of our single-family conventional guaranty book of business. If home prices were to decline, more loans would have mark-to-market LTV ratios greater than 100%, which increases the risk of delinquency and default. However, in the first nine months of 2013, as home prices continued to increase, the estimated weighted-average mark-to-market LTV ratio of our single-family conventional guaranty book of business decreased. As of September 30, 2013, the estimated weighted-average mark-to market LTV ratio of our

single-family conventional guaranty book of business was 67% compared with 75% as of December 31, 2012 and 76% as of September 30, 2012. The portion of our single-family conventional guaranty book of business with an estimated mark-to-market LTV ratio greater than 100% was 8% as of September 30, 2013 compared with 13% as of December 31, 2012 and 14% as of September 30, 2012.

For additional information on selected credit characteristics of our single-family loans by acquisition period, refer to “Executive Summary—Strengthening Our Book of Business—Credit Risk Profile.”

HARP and Refi Plus Loans

Since 2009, our acquisitions have included a significant number of loans that are refinancings of existing Fannie Mae loans under HARP, which was designed to expand refinancing opportunities for borrowers who may otherwise be unable to

refinance their mortgage loans due to a decline in home values. The loans we acquire under HARP have higher LTV ratios than we would otherwise permit, greater than 100% in some cases. We offer HARP under our Refi Plus initiative, which offers additional refinancing flexibility to eligible borrowers who are current on their loans and whose loans are owned or guaranteed by us and meet certain additional criteria. Refi Plus includes but is not limited to HARP, under which we allow our borrowers who have mortgage loans with current LTV ratios greater than 80% to refinance their mortgages without obtaining new mortgage insurance in excess of what is already in place. Under HARP, we were previously authorized to acquire loans only if their current LTV ratios did not exceed 125% for fixed-rate loans or 105% for adjustable-rate mortgages. Changes to HARP implemented in the first half of 2012 extended refinancing flexibility to eligible borrowers with loans that have LTV ratios greater than 125% for fixed-rate loans, which made the benefits of HARP available to a greater number of borrowers. In addition to the high LTV ratios that characterize HARP loans, some borrowers for HARP and Refi Plus loans also have lower FICO credit scores and/or may provide less documentation than we would otherwise require. On April 11, 2013, FHFA announced the extension of the ending date for HARP to December 31, 2015.

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

Although mortgage rates remain low by historical standards, they have increased in recent months. As a result, the percentage of acquisitions that are refinanced loans, including loans acquired under our Refi Plus initiative, which includes HARP, has started to decline. HARP loans constituted approximately 14% of our total single-family acquisitions in the first nine months of 2013, compared with approximately 15% of our total single-family acquisitions in the first nine months of 2012.

We expect the volume of refinancings under HARP to decline, due to the increase in interest rates and a decrease in the population of borrowers with loans that have high LTV ratios who are willing to refinance and would benefit from refinancing. Approximately 3% of our total single-family conventional business volume consisted of HARP refinanced loans with LTV ratios greater than 125% at the time of acquisition for the first nine months of 2013 and 2012.

Table 31 displays the serious delinquency rates and current mark-to-market LTV ratios as of September 30, 2013 of single-family loans we acquired under HARP and Refi Plus, compared with the other single-family loans we acquired since the beginning of 2009.

Table 31: Selected Credit Characteristics of Single-Family Conventional Loans Acquired under HARP and Refi Plus

	As of September 30, 2013						
	Percentage of New Book		Current Mark-to-Market LTV Ratio > 100%		FICO Credit Score at Origination[1]	Serious Delinquency Rate	
HARP[2]	15	%	25	%	736	0.82	%
Other Refi Plus[3]	11		*		750	0.31	
Total Refi Plus	26		14		742	0.56	
Non-Refi Plus[4]	74		*		762	0.23	
Total new book of business[5]	100	%	4	%	757	0.32	%

* Represents less than 0.5%.

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

(2) HARP loans have LTV ratios at origination in excess of 80%. In the fourth quarter of 2012, we revised our presentation of the data to reflect all loans under our Refi Plus program with LTV ratios at origination in excess of

80% as HARP loans. Previously we did not reflect loans that were backed by second homes or investor properties as HARP loans.

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

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

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

Alt-A and Subprime Loans

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

We do not rely solely on our classifications of loans as Alt-A or subprime to evaluate the credit risk exposure relating to these loans in our single-family conventional guaranty book of business. For more information about the credit risk characteristics of loans in our single-family guaranty book of business, see "Note 3, Mortgage Loans," and "Note 6, Financial Guarantees."

Our exposure to Alt-A and subprime loans included in our single-family conventional guaranty book of business, based on the classification criteria described in this section, does not include (1) our investments in private-label mortgage-related securities backed by Alt-A and subprime loans or (2) resecuritizations, or wraps, of private-label mortgage-related securities backed by Alt-A mortgage loans that we have guaranteed. As a result of our decision to discontinue the purchase of newly originated Alt-A loans, except for those that represent the refinancing of a loan we acquired prior to 2009, we expect our acquisitions of Alt-A mortgage loans to continue to be minimal in future periods and the percentage of the book of business attributable to Alt-A to continue to decrease over time. We are also not currently acquiring newly originated subprime loans, although we are acquiring refinancings of existing Fannie Mae subprime loans in connection with our Refi Plus initiative. Unlike the loans they replace, these refinancings are not included in our reported subprime loans because they do not meet our classification criteria for subprime loans.

We have classified a mortgage loan as Alt-A if and only if the lender that delivered the loan to us classified the loan as Alt-A, based on documentation or other features. We have classified a mortgage loan as subprime if and only if the loan was originated by a lender specializing in subprime business or by a subprime division of a large lender; however, we exclude loans originated by these lenders from the subprime classification if we acquired the loans in accordance with our standard underwriting criteria, which typically require compliance by the seller with our Selling Guide (including standard representations and warranties) and/or evaluation of the loans through our Desktop Underwriter® system. The unpaid principal balance of Alt-A loans included in our single-family conventional guaranty book of business of $136.0 billion as of September 30, 2013, represented approximately 5.0% of our single-family conventional guaranty book of business. The unpaid principal balance of subprime loans included in our single-family conventional guaranty book of business of $4.3 billion as of September 30, 2013, represented approximately 0.2% of our single-family conventional guaranty book of business.

Problem Loan Management

Our problem loan management strategies are primarily focused on reducing defaults to avoid losses that would otherwise occur and pursuing foreclosure alternatives to attempt to minimize the severity of the losses we incur. If a borrower does not make required payments, or is in jeopardy of not making payments, we work with the servicers of our loans to offer workout solutions to minimize the likelihood of foreclosure as well as the severity of loss. Our loan workouts reflect our various types of home retention solutions, including loan modifications, repayment plans and forbearances, and foreclosure alternatives, including short sales and deeds-in-lieu of foreclosure. When appropriate, we seek to move to foreclosure expeditiously.

Loan modifications involve changes to the original mortgage terms such as product type, interest rate, amortization term, maturity date and/or unpaid principal balance. Additionally, we currently offer up to twelve months of forbearance for those homeowners who are unemployed as an additional tool to help homeowners avoid foreclosure. Foreclosure alternatives may be more appropriate if the borrower has experienced a significant adverse change in financial condition due to events such as unemployment or reduced income, divorce, or unexpected issues like medical bills and is therefore no longer able to make the required mortgage payments. Since the cost of foreclosure can be significant to both the borrower and Fannie Mae, to avoid foreclosure and satisfy the first-lien mortgage obligation, our servicers work with a borrower to accept a deed-in-lieu of foreclosure whereby the borrower voluntarily signs over the title to their property to the servicer or sells the home prior to foreclosure in a short sale. These alternatives are designed to reduce our credit losses while helping borrowers avoid having to go through a

foreclosure. We work to obtain the highest price possible for the properties sold in short sales and, in the first nine months of 2013, we received net sales proceeds from our short sale transactions equal to 66% of the loans' unpaid principal balance, compared with 60% in the first nine months of 2012.

In the following section, we present statistics on our problem loans, describe specific efforts undertaken to manage these loans and prevent foreclosures, and provide metrics regarding the performance of our loan workout activities. Unless otherwise noted, single-family delinquency data is calculated based on number of loans. We include single-family conventional loans that we own and that back Fannie Mae MBS in the calculation of the single-family delinquency rate.

Seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. Percentage of book outstanding calculations are based on the unpaid principal balance of loans for each category divided by the unpaid principal balance of our total single-family guaranty book of business for which we have detailed loan-level information.

Problem Loan Statistics

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

Table 32: Delinquency Status of Single-Family Conventional Loans

	As of					
	September 30, 2013		December 31, 2012		September 30, 2012	
Delinquency status:						
30 to 59 days delinquent	1.62	%	1.96	%	2.12	%
60 to 89 days delinquent	0.49		0.66		0.68	
Seriously delinquent	2.55		3.29		3.41	
Percentage of seriously delinquent loans that have been delinquent for more than 180 days	74	%	72	%	73	%

Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010. The decrease in our serious delinquency rate is primarily the result of home retention solutions, foreclosure alternatives and completed foreclosures, as well as our acquisition of loans with stronger credit profiles since the beginning of 2009. Our new single-family book of business represented 75% of our single-family guaranty book of business and had a serious delinquency rate of 0.32% as of September 30, 2013.

Although our serious delinquency rate has decreased, this rate and the period of time that loans remain seriously delinquent continue to be negatively impacted by the length of time required to complete a foreclosure. High levels of foreclosures, changes in state foreclosure laws, new federal and state servicing requirements imposed by regulatory actions and legal settlements, and the need for servicers to adapt to these changes have lengthened the time it takes to foreclose on a mortgage loan in many states. Longer foreclosure timelines result in these loans remaining in our book of business for a longer time, which has caused our serious delinquency rate to decrease more slowly in the last few years than it would have if the pace of foreclosures had been faster. We believe the slow pace of foreclosures will continue to negatively affect our single-family serious delinquency rates, foreclosure timelines and credit-related income (expense). Other factors such as the pace of loan modifications, changes in home prices, unemployment levels and other macroeconomic conditions also influence serious delinquency rates. We expect the number of our single-family loans in our book of business that are seriously delinquent to remain above pre-2008 levels for years.

Table 33 displays a comparison, by geographic region and by loans with and without credit enhancement, of the serious delinquency rates as of the dates indicated for single-family conventional loans in our single-family guaranty book of business. Serious delinquency rates vary by geographic region due to many factors including regional home prices, unemployment, economic conditions and state foreclosure timelines.

Table 33: Single-Family Serious Delinquency Rates

	As of					
	September 30, 2013		December 31, 2012		September 30, 2012	
	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate
Single-family conventional delinquency rates by geographic region:[1]						
Midwest	15 %	2.17 %	15 %	2.92 %	15 %	3.05 %
Northeast	19	4.00	19	4.40	19	4.32
Southeast	22	3.61	23	4.78	23	4.96
Southwest	16	1.30	16	1.76	16	1.85
West	28	1.57	27	2.28	27	2.46
Total single-family conventional loans	100 %	2.55 %	100 %	3.29 %	100 %	3.41 %
Single-family conventional loans:						
Credit enhanced	15 %	5.15 %	14 %	7.09 %	14 %	7.47 %
Non-credit enhanced	85	2.14	86	2.70	86	2.77
Total single-family conventional loans	100 %	2.55 %	100 %	3.29 %	100 %	3.41 %

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(1) See footnote 9 to “Table 30: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business” for states included in each geographic region.

While loans across our single-family guaranty book of business have been affected by the weak market conditions experienced in previous years, certain higher-risk loan categories, such as Alt-A loans and loans with higher mark-to-market LTV ratios, and our 2005 through 2008 loan vintages continue to exhibit higher than average delinquency rates and/or account for a disproportionate share of our credit losses. Also, as a result of the housing crisis, California, Florida, Arizona, Nevada and some states in the Midwest experienced more significant declines in home prices coupled with high unemployment rates.

Table 34 displays the serious delinquency rates and other financial information for our single-family conventional loans with some of these higher-risk characteristics as of the dates indicated. The reported categories are not mutually exclusive.

Table 34: Single-Family Conventional Serious Delinquency Rate Concentration Analysis

	As of											
	September 30, 2013				December 31, 2012				September 30, 2012			
	Unpaid Principal Balance	Percentage of Book Outstanding	Serious Delinquency Rate	Estimated Mark-to-Market LTV Ratio[1]	Unpaid Principal Balance	Percentage of Book Outstanding	Serious Delinquency Rate	Estimated Mark-to-Market LTV Ratio[1]	Unpaid Principal Balance	Percentage of Book Outstanding	Serious Delinquency Rate	Estimated Mark-to-Market LTV Ratio[1]
	(Dollars in millions)											
States:												
Arizona	$67,372	2 %	1.26 %	74 %	$65,277	2 %	2.14 %	88 %	$65,400	2 %	2.35 %	92 %
California	546,362	19	1.13	59	523,602	19	1.69	73	525,469	19	1.89	75
Florida	161,078	6	7.60	82	165,377	6	10.06	96	167,884	6	10.49	98
Nevada	26,940	1	4.70	90	27,206	1	6.70	117	27,577	1	6.97	123
Select Midwest states[2]	277,049	10	2.64	74	278,455	10	3.51	81	280,138	10	3.66	81
All other states	1,728,363	62	2.34	67	1,697,209	62	2.85	71	1,700,785	62	2.89	71
Product type:												
Alt-A	136,012	5	9.70	84	155,469	6	11.36	96	162,157	6	11.61	97
Subprime	4,344	*	17.42	95	5,035	*	20.60	107	5,211	*	20.85	107
Vintages:												
2005	105,819	4	7.51	79	139,204	5	7.79	90	152,578	6	7.54	91
2006	105,056	4	11.60	93	138,040	5	12.15	105	150,684	5	11.87	106
2007	146,071	5	12.48	95	195,308	7	12.99	107	214,460	8	12.66	108
2008	86,419	3	6.78	78	124,747	5	6.63	88	140,982	5	6.26	89
All other vintages	2,363,799	84	1.07	63	2,159,827	78	1.36	69	2,108,549	76	1.40	68
Estimated mark-to-market LTV ratio:												
Greater than 100%[1]	214,101	8	12.84	123	374,010	13	13.42	128	393,101	14	13.53	129
Select combined risk characteristics:												
Original LTV ratio > 90% and FICO score < 620	20,982	1	11.37	104	19,416	1	14.76	113	18,993	1	15.33	112

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*Percentage is less than 0.5%.

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

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

Loan Workout Metrics

Table 35 displays statistics on our single-family loan workouts that were completed, by type, for the periods indicated. These statistics include loan modifications but do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as TDRs, or repayment or forbearance plans that have been initiated but not completed.

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Table 35: Statistics on Single-Family Loan Workouts

	For the Nine Months Ended September 30,			
	2013		2012	
	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans
	(Dollars in millions)			
Home retention strategies:				
Modifications	$21,822	120,848	$23,214	123,700
Repayment plans and forbearances completed[1]	1,331	10,128	2,708	18,997
Total home retention strategies	23,153	130,976	25,922	142,697
Foreclosure alternatives:				
Short sales	7,860	37,247	12,629	58,376
Deeds-in-lieu of foreclosure	1,917	11,681	1,904	11,172
Total foreclosure alternatives	9,777	48,928	14,533	69,548
Total loan workouts	$32,930	179,904	$40,455	212,245
Loan workouts as a percentage of single-family guaranty book of business[2]	1.53 %	1.36 %	1.90 %	1.60 %

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(1) Repayment plans reflect only those plans associated with loans that were 60 days or more delinquent. Forbearances reflect loans that were 90 days or more delinquent.

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

The volume of home retention solutions completed in the first nine months of 2013 decreased compared with the first nine months of 2012, primarily due to a decline in the number of delinquent loans in the first nine months of 2013, compared with the first nine months of 2012.

During the first nine months of 2013, we initiated approximately 127,000 trial modifications, including Home Affordable Modification Program ("HAMP") and non-HAMP modifications, compared with approximately 137,000 trial modifications during the first nine months of 2012. We also initiated other types of workouts, such as repayment plans and forbearances.

HAMP guidance directs servicers either to cancel or to convert trial modifications after three or four monthly payments, depending on the borrower's circumstances. As of September 30, 2013, 58% of our HAMP trial modifications had been converted to permanent HAMP modifications since the inception of the program. The conversion rate for HAMP modifications since June 1, 2010, when servicers became required to perform a full verification of a borrower's eligibility prior to offering a HAMP trial modification, was 88% as of September 30, 2013. The average length of a trial period for HAMP modifications initiated after June 1, 2010 was four months.

We continue to work with our servicers to implement our home retention and foreclosure prevention initiatives. Our approach to workouts continues to focus on the large number of borrowers facing financial hardships. Accordingly, the vast majority of loan modifications we have completed since 2009 have been concentrated on deferring or lowering the borrowers' monthly mortgage payments to allow borrowers to work through their hardships. On March 27, 2013, FHFA announced that we and Freddie Mac would offer a new simplified loan modification solution. Under this streamlined modification initiative, beginning July 1, 2013, our servicers are required to offer loan modifications to eligible borrowers who are at least 90 days delinquent on their mortgages without requiring financial or hardship documentation. Eligible borrowers must demonstrate a willingness and ability to pay by making three on-time trial payments, after which the mortgage will be permanently modified.

On May 30, 2013, FHFA announced the extension of HAMP and the streamlined modification initiative to December 31, 2015; our role as program administrator for HAMP will be extended accordingly. FHFA's announcement was aligned with the extension of the Making Home Affordable Program announced by Treasury and HUD. Previously, the deadline to apply for HAMP eligibility was scheduled for December 31, 2013, while the streamlined modification

initiative was scheduled to end on August 1, 2015.

Table 36 displays the percentage of our single-family loan modifications completed during the first nine months of 2012, all of 2011 and the second half of 2010 that were current or paid off one year after modification, as well as the percentage of our

loan modifications completed during the first nine months of 2011 and the second half of 2010 that were current or paid off two years after modification.

Table 36: Percentage of Single-Family Loan Modifications That Were Current or Paid Off at One and Two Years Post-Modification[1]

	2012			2011				2010	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
One Year Post-Modification									
HAMP Modifications	82 %	81 %	79 %	78 %	78 %	78 %	77 %	74 %	74 %
Non-HAMP Modifications	74	72	70	66	68	69	69	67	67
Total	76	75	73	71	72	75	74	69	70
Two Years Post-Modification									
HAMP Modifications					76 %	75 %	74 %	70 %	69 %
Non-HAMP Modifications					67	67	67	64	63
Total					71	73	71	65	65

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(1) Excludes loans that were classified as subprime ARMs that were modified into fixed-rate mortgages. Modifications do not reflect loans currently in trial modifications.

There is significant uncertainty regarding the ultimate long term success of our current modification efforts. We believe the performance of our workouts will be highly dependent on economic factors, such as unemployment rates, household wealth and income, and home prices. Modifications, even those with reduced monthly payments, may also not be sufficient to help borrowers with second liens and other significant non-mortgage debt obligations. FHFA, other agencies of the U.S. government or Congress may ask us to undertake new initiatives to support the housing and mortgage markets should our current modification efforts ultimately not perform in a manner that results in the stabilization of these markets. See "Risk Factors" in our 2012 Form 10-K for a discussion of efforts we may be required or asked to undertake and their potential effect on us.

REO Management

Foreclosure and REO activity affect the amount of credit losses we realize in a given period. Table 37 displays our foreclosure activity, by region, for the periods indicated. Regional REO acquisition and charge-off trends generally follow a pattern that is similar to, but lags, that of regional delinquency trends.

Table 37: Single-Family Foreclosed Properties

	For the Nine Months Ended September 30,	
	2013	2012
Single-family foreclosed properties (number of properties):		
Beginning of period inventory of single-family foreclosed properties (REO)[1]	105,666	118,528
Acquisitions by geographic area:[2]		
Midwest	30,996	39,058
Northeast	9,825	9,390
Southeast	44,011	44,087
Southwest	14,718	22,475
West	12,626	18,357
Total properties acquired through foreclosure[1]	112,176	133,367
Dispositions of REO	(116,901)	(144,670)
End of period inventory of single-family foreclosed properties (REO)[1]	100,941	107,225
Carrying value of single-family foreclosed properties (dollars in millions)[3]	$10,036	$9,302
Single-family foreclosure rate[4]	0.85 %	1.01 %

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(1) Includes acquisitions through deeds-in-lieu of foreclosure. Also includes held for use properties, which are reported in our condensed consolidated balance sheets as a component of "Other assets."
(2) See footnote 9 to "Table 30: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business" for states included in each geographic region.
(3) Excludes foreclosed property claims receivables, which are reported in our condensed consolidated balance sheets as a component of "Acquired property, net."
(4) Estimated based on the annualized total number of properties acquired through foreclosure or deeds-in-lieu of foreclosure as a percentage of the total number of loans in our single-family guaranty book of business as of the end of each respective period.

The number of properties acquired through foreclosure declined in the first nine months of 2013 compared with the first nine months of 2012 due to a decline in the number of seriously delinquent loans in our single-family book of business. The pace of foreclosures, which has been affected by foreclosure process issues encountered by our servicers and changing legislative, regulatory and judicial requirements, caused a decline in the number of foreclosure acquisitions for the periods presented. Dispositions of foreclosed properties declined in the first nine months of 2013 compared with the first nine months of 2012 and may continue to decline in the future due to increases in home prices and interest rates, which may lead to less attractive purchasing opportunities for investors and potential home owners. Furthermore, during the third quarter of 2013, REO dispositions slowed due to overall market conditions, resulting in an increase in inventory of single-family foreclosed properties as compared with the second quarter of 2013.

We continue to manage our REO inventory to minimize costs and maximize sales proceeds. However, we are unable to market and sell a large portion of our inventory primarily due to occupancy and state or local redemption or confirmation periods, extending the amount of time it takes to bring our properties to a marketable state and eventually dispose of them. This results in higher foreclosed property expenses, which include costs related to maintaining the property and ensuring that the property is vacant.

Table 38 displays the current status of our single-family foreclosed property inventory, including the percentage of our inventory that we are unable to market, as of the dates indicated.

Table 38: Single-Family Foreclosed Property Status

	Percent of Single-Family Foreclosed Properties As of	
	September 30, 2013	December 31, 2012
Available-for-sale	33 %	28 %
Offer accepted[1]	15	17
Appraisal stage[2]	16	10
Unable to market:		
Occupied status[3]	11	14
Redemption status[4]	10	11
Properties being repaired	7	7
Rental property[5]	3	5
Other	5	8
Total unable to market	36	45
Total	100 %	100 %

(1) Properties for which an offer has been accepted, but the property has not yet been sold.
(2) Properties that are pending appraisals and being prepared to be listed for sale.
(3) Properties that are still occupied, and for which the eviction process is not yet complete.
(4)

Properties that are within the period during which state laws allow the former mortgagor and second lien holders to redeem the property.

(5) Properties with a tenant living in the home under our tenant in place or deed for lease programs.

Multifamily Mortgage Credit Risk Management

The credit risk profile of our multifamily mortgage credit book of business is influenced by the structure of the financing, the type and location of the property, the condition and value of the property, the financial strength of the borrower, market and sub-market trends and growth, the current and anticipated cash flows from the property, as well as the financial strength of the lender. These and other factors affect both the amount of expected credit loss on a given loan and the sensitivity of that loss to changes in the economic environment. We provide information on our credit-related income (expense) and credit losses in "Business Segment Results—Multifamily Business Results."

Multifamily Acquisition Policy and Underwriting Standards

Our Multifamily business, together with our Enterprise Risk Management division, which provides independent risk oversight of the Multifamily business, is responsible for pricing and managing the credit risk on multifamily mortgage loans we purchase and on Fannie Mae MBS backed by multifamily loans (whether held in our retained mortgage portfolio or held by third parties). Our primary multifamily delivery channel is the Delegated Underwriting and Servicing, or DUS®, program, which is comprised of multiple lenders that span the spectrum from large financial institutions to smaller independent multifamily lenders. Multifamily loans that we purchase or that back Fannie Mae MBS are either underwritten by a Fannie Mae-approved lender or subject to our underwriting review prior to closing, depending on the product type and/or loan size. Loans delivered to us by DUS lenders and their affiliates represented 90% of our multifamily guaranty book of business as of September 30, 2013 and 88% as of December 31, 2012.

We use various types of credit enhancement arrangements for our multifamily loans including lender risk-sharing, lender repurchase agreements, pool insurance, subordinated participations in mortgage loans or structured pools, cash and letter of credit collateral agreements, and cross-collateralization/cross-default provisions. The most prevalent form of credit enhancement on multifamily loans is lender risk sharing. Lenders in the DUS program typically share in loan-level credit losses in one of two ways: (1) they bear losses up to the first 5% of the unpaid principal balance of the loan and share in remaining losses up to a prescribed limit; or (2) they share up to one-third of the credit losses on an equal basis with us. Non-DUS lenders typically share or absorb credit losses based on a negotiated percentage of the loan or the pool balance.

Table 39 displays the percentage of the unpaid principal balance of loans in our multifamily guaranty book of business with lender risk-sharing and with no recourse to the lender as of the dates indicated.

Table 39: Multifamily Lender Risk-Sharing

	As of	
	September 30, 2013	December 31, 2012
Lender risk-sharing		
DUS	78 %	73 %
Non-DUS negotiated	6	8
No recourse to the lender	16	19

At the time of our purchase or guarantee of multifamily mortgage loans, we and our lenders rely on sound underwriting standards, which often include third-party appraisals and cash flow analysis. Our standards for multifamily loans specify maximum original LTV and minimum original debt service coverage ratio ("DSCR") values that vary based on loan characteristics. Our experience has been that original LTV and DSCR values have been reliable indicators of future credit performance.

Table 40 displays original LTV and DSCR metrics for our multifamily guaranty book of business as of the dates indicated.

Table 40: Multifamily Guaranty Book of Business Key Risk Characteristics

	As of		
	September 30, 2013	December 31, 2012	September 30, 2012
Weighted-average original LTV	66 %	66 %	66 %
Original LTV greater than 80%	4	4	4
Original DSCR less than or equal to 1.10	7	8	8

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Multifamily Portfolio Diversification and Monitoring

Diversification within our multifamily mortgage credit book of business by geographic concentration, term to maturity, interest rate structure, borrower concentration and credit enhancement coverage are important factors that influence credit performance and help reduce our credit risk.

We and our lenders monitor the performance and risk concentrations of our multifamily loans and the underlying properties on an ongoing basis throughout the life of the loan: at the loan, property, and portfolio levels. We closely monitor loans with an estimated current DSCR below 1.0, as that is an indicator of heightened default risk. The percentage of loans in our multifamily guaranty book of business with a current DSCR less than 1.0 was approximately 3% as of September 30, 2013 and 5% as of December 31, 2012.

Multifamily Problem Loan Management and Foreclosure Prevention

In general the number of multifamily loans at risk of becoming seriously delinquent has continued to decrease as early-stage delinquencies have declined significantly since the housing crisis. Since delinquency rates are a lagging indicator, we expect to continue to incur additional credit losses. We periodically refine our underwriting standards in response to market conditions and implement proactive portfolio management and monitoring which are each designed to keep credit losses to a low level relative to our multifamily guaranty book of business.

Multifamily Problem Loan Statistics

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

Table 41 displays a comparison of our multifamily serious delinquency rates for loans acquired through our DUS program versus loans not acquired through our DUS program.

Table 41: Multifamily Concentration Analysis

	As of September 30, 2013		December 31, 2012		September 30, 2012		Percentage of Multifamily Credit Losses For the Nine Months Ended September 30,	
	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate	2013	2012[1]
DUS small balance loans[2]	8 %	0.29 %	8 %	0.32 %	8 %	0.43 %	3 %	9 %
DUS non small balance loans[3]	79	0.15	76	0.17	75	0.18	44	78
Non-DUS small balance loans[2]	6	0.63	7	1.02	7	0.93	15	15
Non-DUS non small balance loans[3]	7	0.13	9	0.21	10	0.42	38	(2)
Total multifamily loans	100 %	0.18 %	100 %	0.24 %	100 %	0.28 %	100 %	100 %

(1) The percentage of credit losses may be negative in circumstances where recoveries of previously charged-off amounts exceeded the amount that we charged off.

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

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

The DUS loans in our guaranty book of business have lower delinquency rates when compared with the non-DUS loans overall in our guaranty book primarily due to the DUS model, which has several features that more closely align

our interests with those of the lenders. Multifamily loans with an original balance of up to $3 million nationwide or $5 million in high cost markets, which we refer to as small balance loans, not acquired through our DUS program, continue to represent a

disproportionately large share of delinquencies, but they are generally covered by loss sharing arrangements that limit the credit losses we incur. These loans were mainly acquired in 2007 and 2008.

REO Management

Foreclosure and REO activity affect the level of our credit losses. Table 42 displays our held for sale multifamily REO activity for the periods indicated.

Table 42: Multifamily Foreclosed Properties

	For the Nine Months Ended September 30,	
	2013	2012
Multifamily foreclosed properties held for sale (number of properties):		
Beginning of period inventory of multifamily foreclosed properties (REO)	128	260
Total properties acquired through foreclosure	79	138
Transfers to (from) held for sale[1]	43	(66)
Dispositions of REO	(92)	(165)
End of period inventory of multifamily foreclosed properties (REO)	158	167
Carrying value of multifamily foreclosed properties (dollars in millions)	$707	$278

(1) Represents the transfer of properties between held for use and held for sale. Held-for-use properties are reported in our condensed consolidated balance sheets as a component of “Other assets.”

The decrease in our multifamily properties acquired through foreclosure reflects the stability of national multifamily market fundamentals in the first nine months of 2013. The increase in carrying value of multifamily foreclosed properties in the first nine months of 2013 is due to properties with higher values being reclassified from held for use to held for sale.

Institutional Counterparty Credit Risk Management

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

See “MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management” in our 2012 10-K and “Risk Factors” in this report and our 2012 Form 10-K for additional information about our institutional counterparties, including counterparty risk we face from mortgage originators and investors, from debt security and mortgage dealers, and from document custodians.

Mortgage Sellers/Servicers

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

Our business with our mortgage sellers/servicers remains concentrated. However, we continue to see a drop in our concentration with our top sellers/servicers. Our five largest single-family mortgage servicers, including their affiliates, serviced approximately 50% of our single-family guaranty book of business as of September 30, 2013, compared with approximately 57% as of December 31, 2012. Our largest mortgage servicer is Wells Fargo Bank, N.A., which, together with its affiliates, serviced approximately 19% of our single-family guaranty book of business as of September 30, 2013, compared with approximately 18% as of December 31, 2012. As of September 30, 2013, one additional mortgage servicer, JPMorgan Chase Bank, N.A., with its affiliates, serviced over 10% of our single-family guaranty book of business. As of December 31, 2012, two additional mortgage servicers, Bank of America, N.A., and JPMorgan Chase Bank, N.A., with their affiliates, each serviced over 10% of our single-family

guaranty book of business. In addition, Wells Fargo Bank, N.A. serviced over 10% of our multifamily guaranty book of business as of September 30, 2013 and December 31, 2012.

If we determine that a mortgage loan did not meet our underwriting or eligibility requirements, loan representations or warranties were violated, or a mortgage insurer rescinded coverage, then our mortgage sellers/servicers are obligated to either repurchase the loan or foreclosed property, or to reimburse us for our losses. If the collateral property relating to such a loan has been foreclosed upon and we have accepted an offer from a third party to purchase the property, or if a loan is in the process of being liquidated or has been liquidated, we require the mortgage seller/servicer to reimburse us for our losses. We may consider additional facts and circumstances when determining whether to require a mortgage seller/servicer to reimburse us for our losses instead of repurchasing the related loan or foreclosed property. On an economic basis, we are made whole for our losses regardless of whether the mortgage seller/servicer repurchases the loan or reimburses us for our losses. We consider the anticipated benefits from these types of recoveries when we establish our allowance for loan losses. We refer to our demands that mortgage sellers/servicers meet these obligations collectively as “repurchase requests.” In addition, we charge our primary mortgage servicers a compensatory fee for servicing delays within their control when they fail to comply with established loss mitigation and foreclosure timelines in our Servicing Guide. Compensatory fees are intended to compensate us for damages attributed to these servicing delays and to emphasize the importance of the mortgage servicer’s performance.

Mortgage sellers/servicers may not meet the terms of their repurchase obligations, and we may be unable to recover on all outstanding loan repurchase obligations resulting from their breaches of contractual obligations. Failure by a significant mortgage seller/servicer, or a number of mortgage sellers/servicers, to fulfill repurchase obligations to us could result in an increase in our credit losses and credit-related expenses, and have a material adverse effect on our results of operations and financial condition. In addition, actions we take to pursue our contractual remedies could increase our costs, reduce our revenues, or otherwise have a material adverse effect on our results of operations or financial condition. As of September 30, 2013, in estimating our allowance for loan losses, we assumed no benefit from repurchase demands due to us from mortgage sellers/servicers that, in our view, lacked the financial capacity to honor their contractual obligations.

On June 28, 2013, we entered into an agreement (the “resolution agreement”) with CitiMortgage, which resolved certain repurchase requests arising from breaches of selling representations and warranties on specified single-family loans delivered to us by CitiMortgage prior to February 28, 2013 that were originated between January 1, 2000 and December 31, 2012. Under the resolution agreement, CitiMortgage paid us $968 million, subject to adjustment and reconciliation. CitiMortgage continues to be responsible for certain payments and related obligations with respect to mortgage insurance rescissions, cancellations and denials on the loans covered by the resolution agreement. CitiMortgage will also continue to be responsible for its repurchase obligations arising out of specified excluded defects (for example, certain violations of our Charter Act) and its servicing, third-party indemnification and recourse obligations with respect to loans covered by the agreement. All of these obligations are in addition to the payment described above. The resolution agreement resolved substantially all of our outstanding repurchase requests with CitiMortgage.

On October 25, 2013, we entered into an agreement (the “resolution agreement”) with JPMorgan Chase Bank, N.A. (“JPMorgan Chase”) to resolve certain repurchase requests arising from breaches of selling representations and warranties. The resolution agreement primarily resolved our outstanding and expected future repurchase requests arising from breaches of selling representations and warranties on specified single-family loans delivered to us by JPMorgan Chase that were originated between January 1, 2000 and December 31, 2008 as well as representations and warranties relating to loans underlying a private-label security that we guaranteed. As a result, JPMorgan Chase will make a cash payment to us of $670 million in the fourth quarter of 2013, subject to adjustment and reconciliation in accordance with the resolution agreement, and be released from repurchase liability for these loans, with certain exceptions. It will remain obligated for certain other contractual responsibilities under the resolution agreement.

Table 43 displays repurchase request activity, measured by unpaid principal balance, during the first nine months of 2013 and 2012. The dollar amounts of our outstanding repurchase requests provided below are based on the unpaid principal balance of the loans underlying the repurchase request issued, not the actual amount we have requested from the lenders. In some cases, we allow lenders to remit payment equal to our loss, including imputed interest, on the loan after we have disposed of the REO, which is less than the unpaid principal balance of the loan. As a result, we expect our actual cash receipts relating to these outstanding repurchase requests to be significantly lower than the

unpaid principal balance of the loan. Amounts relating to repurchase requests originating from missing documentation or loan files are excluded from the total requests outstanding until we receive the missing documents and loan files and a full underwriting review is completed.

Table 43: Repurchase Request Activity

	For the Nine Months Ended September 30,			
	2013		2012	
	(Dollars in millions)			
Beginning outstanding repurchase requests	$16,013		$10,400	
Issuances	15,103		19,420	
Collections	(15,637	) (1)	(6,725	)
Other resolutions[(2)]	(11,973	) (1)	(6,086	)
Total successfully resolved	(27,610	)	(12,811	)
Cancellations	(548	)	(765	)
Ending outstanding repurchase requests	$2,958	(3)	$16,244	

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(1) Includes the impact of our January 6, 2013 resolution agreement with Bank of America, which addressed $11.3 billion of the total outstanding repurchase request balance as of December 31, 2012. See “MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management” in our 2012 Form 10-K for additional information. Also includes the impact of our June 28, 2013 resolution agreement with CitiMortgage, which addressed approximately $739 million of the total outstanding repurchase request balance that was outstanding before the resolution agreement.

(2) Primarily includes repurchase requests that were successfully resolved through negotiated settlements and the lender taking corrective action with or without a pricing adjustment. Also includes resolutions that were included in bulk indemnification and/or repurchase agreements with a mortgage seller/servicer.

(3) Excludes the impact of our resolution agreements that occurred subsequent to September 30, 2013.

The increase in “Total successfully resolved” activity during the first nine months of 2013 compared with the first nine months of 2012 was primarily due to the execution of repurchase resolution agreements with Bank of America and CitiMortgage. This reflects our continued effort in pursuing reimbursement for loss and other remedies on breaches of selling representations and warranties on delivered loans. See “MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management” in our First Quarter 2013 Form 10-Q and in our 2012 Form 10-K for additional information on our January 2013 resolution agreement with Bank of America.

As of September 30, 2013, less than 0.25% of the loans in our new single-family book of business, which were acquired between 2009 and 2012, have been subject to a repurchase request, compared with approximately 3.6% of the single-family loans acquired between 2005 and 2008. As part of the 2013 conservatorship scorecard, FHFA set a goal for us to complete our demands for remedies for breaches of representations and warranties related to pre-conservatorship loan activity. As of September 30, 2013, we have completed loan reviews for potential underwriting defects on approximately 94% of the loans we acquired between 2005 and 2008 through our standard whole loan and MBS acquisitions that we currently intend to review. We expect to complete our review of the remaining population by the end of 2013. We plan to issue repurchase requests as and when appropriate, and lenders will continue to be responsible for their contractual obligations related to these loans.

Table 44 displays our outstanding repurchase requests issued to our top five mortgage sellers/servicers based on the unpaid principal balance of the loans underlying repurchase requests as of December 31, 2012. Table 44 also displays these mortgage sellers/servicers' outstanding repurchase requests issued as of September 30, 2013. In addition, Table 44 displays the mortgage sellers'/servicers' balance and percentage of our repurchase requests to that mortgage seller/servicer that were over 120 days outstanding, and the mortgage sellers'/servicers' repurchase requests outstanding over 120 days as a percentage of our total repurchase requests outstanding over 120 days, as of September 30, 2013 and December 31, 2012.

Table 44: Outstanding Repurchase Requests[1]

	Outstanding Repurchase Requests as of							
	September 30, 2013				December 31, 2012			
	Total	Over 120 Days[2]			Total	Over 120 Days[2]		
	Outstanding Balance[3]	Balance[3]	%	% of Total	Outstanding Balance[3]	Balance[3]	%	% of Total
	(Dollars in millions)							
Mortgage Seller/Servicer Counterparty:								
Wells Fargo Bank, N.A.[4]	$829	$416	50 %	42 %	$758	$358	47 %	3 %
JPMorgan Chase Bank, N.A.[6]	482	52	11	5	688	173	25	2
SunTrust Bank, Inc.[4][6]	195	32	16	3	494	224	45	2
Bank of America, N.A.	159	114	72	12	11,735	9,163	78	84
CitiMortgage, Inc.[4][5]	11	3	27	*	909	284	31	3
Other[4][6]	1,282	374	29	38	1,429	724	51	6
Total	$2,958	$991		100 %	$16,013	$10,926		100 %

* Represents less than 0.5% of total balance over 120 days.

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

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

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

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

(5) Due to the resolution agreement in the second quarter of 2013, CitiMortgage is no longer in our top five mortgage sellers/ servicers by outstanding repurchase requests as of September 30, 2013.

(6) Subsequent to September 30, 2013, we entered into resolution agreements with JPMorgan Chase and SunTrust as well as other smaller single-family counterparties.

We continue to aggressively pursue our contractual rights associated with outstanding repurchase requests, and we continue to enter into resolution agreements with mortgage seller/servicers to resolve outstanding amounts owed. Failure by a mortgage seller/servicer to repurchase a loan or to otherwise make us whole for our losses may result in the imposition of certain sanctions including, but not limited to:

- requiring the posting of collateral,
- denying transfer of servicing requests or denying pledged servicing requests,
- modifying or suspending any contract or agreement with a lender, or

- suspending or terminating a lender or imposing some other formal sanction on a lender.

If we are unable to resolve these matters to our satisfaction, we may seek additional remedies. If we are unable to resolve our repurchase requests, either through collection or additional remedies, we will not recover the losses we have recognized on the associated loans.

As described in “Credit Risk Management—Single-Family Mortgage Credit Risk Management,” we implemented a new representation and warranty framework on January 1, 2013. With the implementation of these changes we will review a larger sample of loans near the time of acquisition for compliance with our underwriting and eligibility requirements. As a

result, a greater proportion of our repurchase requests in the future may be issued on performing loans, as compared with our currently outstanding repurchase requests, the substantial majority of which relate to loans that are either nonperforming or have been foreclosed upon.

Mortgage Insurers

We are generally required, pursuant to our charter, to obtain credit enhancement on single-family conventional mortgage loans that we purchase or securitize with LTV ratios over 80% at the time of purchase. We use several types of credit enhancement to manage our single-family mortgage credit risk, including primary and pool mortgage insurance coverage. Table 45 displays our risk in force for the primary and pool mortgage insurance coverage on single-family loans in our guaranty book of business and our insurance in force for our mortgage insurer counterparties as of September 30, 2013 and December 31, 2012. The table includes our top ten mortgage insurer counterparties, which provided over 99% of our total mortgage insurance coverage on single-family loans in our guaranty book of business as of September 30, 2013 and December 31, 2012. See "Risk Management—Credit Risk Management—Institutional Counterparty Risk Management—Mortgage Insurers" in our 2012 Form 10-K for a discussion of the credit ratings of our mortgage insurers.

Table 45: Mortgage Insurance Coverage

	Risk in Force[1]				Insurance in Force[2]			
	As of September 30, 2013			As of December 31, 2012	As of September 30, 2013			As of December 31, 2012
	Primary	Pool	Total	2012	Primary	Pool	Total	2012
	(Dollars in millions)							
Counterparty:[3]								
Radian Guaranty, Inc.	$21,287	$90	$21,377	$18,126	$85,325	$706	$86,031	$73,746
United Guaranty Residential Insurance Co.	20,723	65	20,788	17,182	82,101	257	82,358	69,185
Mortgage Guaranty Insurance Corp.	20,330	277	20,607	20,089	79,682	2,054	81,736	82,346
Genworth Mortgage Insurance Corp.	14,259	13	14,272	13,626	57,228	125	57,353	54,764
PMI Mortgage Insurance Co.[4]	7,399	54	7,453	8,901	29,762	686	30,448	36,743
Republic Mortgage Insurance Co.[4]	5,817	202	6,019	7,142	22,931	2,168	25,099	30,402
Essent Guaranty, Inc.	3,758	—	3,758	1,724	15,378	—	15,378	7,148
CMG Mortgage Insurance Co.[5]	2,775	—	2,775	2,340	11,530	—	11,530	9,823
Triad Guaranty Insurance Corp.[4]	1,761	228	1,989	2,368	6,543	1,459	8,002	9,895
National Mortgage Insurance Corp.	—	93	93	—	1	5,150	5,151	—
Others	180	—	180	197	1,034	—	1,034	1,118
Total	$98,289	$1,022	$99,311	$91,695	$391,515	$12,605	$404,120	$375,170
Total as a percentage of single-family guaranty book of business			3 %	3 %			14 %	13 %

(1)

Risk in force is generally the maximum potential loss recovery under the applicable mortgage insurance policies in force and is based on the loan level insurance coverage percentage and, if applicable, any aggregate pool loss limit, as specified in the policy.

(2) Insurance in force represents the unpaid principal balance of single-family loans in our guaranty book of business covered under the applicable mortgage insurance policies.

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

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

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

Although the financial condition of some of our primary mortgage insurer counterparties continues to improve, there is still significant risk that our primary mortgage insurer counterparties will fail to fulfill their obligations to pay our claims under insurance policies. If we determine that it is probable that we will not collect all of our claims from one or more of these mortgage insurer counterparties, or if we have already made that determination and our estimate of the shortfall increases, it could result in an increase in our loss reserves, which could adversely affect our earnings, liquidity, financial condition and net worth.

PMI Mortgage Insurance Co. (“PMI”), Republic Mortgage Insurance Company (“RMIC”) and Triad Guaranty Insurance Corporation (“Triad”) are under various forms of supervised control by their state regulators and are in run-off. These three

mortgage insurers provided a combined $15.5 billion, or 16%, of our risk in force mortgage insurance coverage of our single-family guaranty book of business as of September 30, 2013. A mortgage insurer that is in run-off continues to collect renewal premiums and process claims on its existing insurance business, but no longer writes new insurance, which increases the risk that the mortgage insurer will pay claims only in part or fail to pay claims at all under existing insurance policies.

The payment of claims by PMI and RMIC have been partially deferred pursuant to orders from their state regulators. State regulators could take additional corrective actions against these entities. PMI is now paying 55% of all valid claims and deferring 45% of policyholder claims. This is an increase from the 50% it paid prior to the second quarter of 2013 and is retroactive for all claims previously paid at 50%. It is uncertain when, or if, PMI or RMIC will be permitted to begin paying deferred policyholder claims and/or increase or decrease the amount of cash they pay on claims. In October 2013, a court approved a petition by Triad's regulator for a new plan of rehabilitation that will increase the amount of cash Triad pays on policyholder claims from 60% to 75%, as well as pay 37.5% of Triad's outstanding deferred payment obligations (bringing payment on those claims to 75%). The new plan provides that these payments will constitute payment in full by Triad and it will no longer be obligated to pay policyholders more than 75% on claims, except in specified limited circumstances.

While our remaining mortgage insurers have continued to pay claims owed to us in full, there is still the risk that they will be unable to do so given their current financial condition.

Genworth Mortgage Insurance Corporation ("Genworth") had been operating pursuant to waivers of state regulatory capital requirements applicable to its main insurance writing entity, as its capital had fallen below applicable state regulatory capital requirements. Genworth subsequently announced that, as of June 30, 2013, its risk-to-capital ratio met the regulatory capital requirements of all or most jurisdictions where it conducts business. We previously approved a subsidiary of Genworth to write new insurance in certain states where Genworth was unable to obtain a waiver of the state regulatory capital requirement.

Mortgage Guaranty Insurance Corporation ("MGIC") and Radian Guaranty, Inc. ("Radian") disclosed that they received additional capital contributions in March 2013 to supplement their capital positions. As of September 30, 2013, MGIC announced that it expects to meet the capital requirements where it conducts business. Radian met the capital requirements where it conducts business as of June 30, 2013.

Some mortgage insurers have explored corporate restructurings designed to provide relief from risk-to-capital limits in certain states. We have approved several restructurings so that certain of our mortgage insurer counterparties or their subsidiaries could continue to write new business.

During the first quarter of 2013, we approved an application from National Mortgage Insurance Corporation ("NMI"), a new mortgage insurer, requesting eligibility to do business with us. On July 15, 2013, we executed an agreement with NMI to insure a pool of loans with an unpaid principal balance of over $5 billion as part of FHFA's 2013 conservatorship scorecard objective to transfer $30 billion in single-family risk to other entities. The coverage was effective as of September 1, 2013.

The number of mortgage loans for which our mortgage insurer counterparties have rescinded coverage decreased but remained high during the first nine months of 2013. In those cases where the mortgage insurer has rescinded coverage, we require the mortgage seller/servicer to repurchase the loan or indemnify us against loss. The table below displays cumulative rescission rates as of September 30, 2013 by the period in which the claim was filed and also displays the percentage of claims resolved by the period in which the claims were filed. We do not present information for claims filed in the most recent two quarters to allow sufficient time for a substantial percentage of the claims filed to be resolved.

Table 46: Rescission Rates and Claims Resolution of Mortgage Insurance

	As of September 30, 2013	
	Cumulative Rescission Rate[1]	Cumulative Claims Resolution Percentage[2]
Primary mortgage insurance claims filed in:		
First three months of 2013	3 %	55 %

2012	4		73	
2011	8		83	
Pool mortgage insurance claim filed in:				
First three months of 2013	4	%	78	%
2012	10		92	
2011	10		97	

(1) Represents claims filed during the period where coverage was rescinded as of September 30, 2013, divided by total claims filed during the same period. Denied claims are excluded from the rescinded population.

(2) Represents claims filed during the period that were resolved as of September 30, 2013, divided by the total claims filed during the same period. Claims resolved mainly consist of claims for which we have settled and claims for which coverage has been rescinded by the mortgage insurer.

When we estimate the credit losses that are inherent in our mortgage loans and under the terms of our guaranty obligations we also consider the recoveries that we will receive on primary mortgage insurance, as mortgage insurance recoveries would reduce the severity of the loss associated with defaulted loans. We evaluate the financial condition of our mortgage insurer counterparties and adjust the contractually due recovery amounts to ensure that only probable losses as of the balance sheet date are included in our loss reserve estimate. As a result, if our assessment of one or more of our mortgage insurer counterparties' ability to fulfill their respective obligations to us worsens, it could result in an increase in our loss reserves.

The following table displays the amount by which our estimated benefit from mortgage insurance as of September 30, 2013 and December 31, 2012 reduced our total loss reserves as of those dates.

Table 47: Estimated Mortgage Insurance Benefit

	As of	
	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Contractual mortgage insurance benefit	$7,117	$9,993
Less: Collectibility adjustment[1]	459	708
Estimated benefit included in total loss reserves	$6,658	$9,285

(1) Represents an adjustment that reduces the contractual benefit for our assessment of our mortgage insurer counterparties' inability to fully pay the contractual mortgage insurance claims.

When an insured loan subsequently goes into foreclosure, we charge off the loan, eliminating any previously-recorded loss reserves, and record REO and a mortgage insurance receivable for the claim proceeds deemed probable of recovery, as appropriate. However, if a mortgage insurer rescinds, cancels or denies insurance coverage, the initial receivable becomes due from the mortgage seller/servicer. We had outstanding receivables of $2.5 billion as of September 30, 2013 and $3.7 billion as of December 31, 2012 related to amounts claimed on insured, defaulted loans excluding government insured loans. Of this amount, $554 million as of September 30, 2013 and $1.1 billion as of December 31, 2012 was due from our mortgage sellers/servicers. We assessed the total outstanding receivables for collectibility, and they were recorded net of a valuation allowance of $598 million as of September 30, 2013 and $551 million as of December 31, 2012 in "Other assets." The valuation allowance reduces our claim receivable to the amount that we consider probable of collection. We received proceeds from private mortgage insurers (and, in cases where policies were rescinded or canceled or coverage was denied by the mortgage insurer, from mortgage sellers/servicers) for single-family loans of $1.1 billion for the third quarter of 2013 and $4.4 billion for the first nine months of 2013, compared with $1.1 billion for the third quarter of 2012 and $3.6 billion for the first nine months of 2012.

Financial Guarantors

We are the beneficiary of non-governmental financial guarantees on non-agency securities held in our retained mortgage portfolio and on non-agency securities that have been resecuritized to include a Fannie Mae guaranty and sold to third parties. Table 48 displays the total unpaid principal balance of guaranteed non-agency securities in our retained mortgage portfolio as of September 30, 2013 and December 31, 2012.

Table 48: Unpaid Principal Balance of Financial Guarantees

	As of	
	September 30, 2013	December 31, 2012
	(Dollars in millions)	
Alt-A private-label securities	$552	$928
Subprime private-label securities	883	1,264
Mortgage revenue bonds	4,041	4,374
Other mortgage-related securities	270	292
Total	$5,746	$6,858

With the exception of Ambac Assurance Corporation ("Ambac"), none of our financial guarantor counterparties has failed to repay us for claims under guaranty contracts. However, based on the stressed financial condition of our non-governmental financial guarantor counterparties, we believe that all but one of these counterparties may not fully meet their obligations to us in the future. Pursuant to a court order, effective August 31, 2012, Ambac pays 25% on all filed claims that are valid. Ambac provided coverage on $2.6 billion, or 46%, of our total non-governmental financial guarantees as of September 30, 2013. When assessing our securities for impairment, we consider the benefit of non-governmental financial guarantees for those guarantors that we determine are creditworthy, although we continue to seek collection of any amounts due to us from all counterparties. See "Note 5, Investments in Securities" for a further discussion of our model methodology and key inputs used to determine other-than-temporary impairment.

We are also the beneficiary of financial guarantees included in securities issued by Freddie Mac, the federal government and its agencies that totaled $23.7 billion as of September 30, 2013 and $27.3 billion as of December 31, 2012.

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 $10.8 billion as of September 30, 2013, compared with $11.9 billion as of December 31, 2012. As of September 30, 2013, 53% of our maximum potential loss recovery on single-family loans was from three lenders, compared with 55% as of December 31, 2012. Our maximum potential loss recovery from lenders under risk sharing agreements on DUS and non-DUS multifamily loans was $38.2 billion as of September 30, 2013, compared with $36.4 billion as of December 31, 2012. As of September 30, 2013, 34% of our maximum potential loss recovery on multifamily loans was from three DUS lenders, compared with 35% as of December 31, 2012.

Although market conditions have improved, unfavorable market conditions prior to 2012 adversely affected the liquidity and financial condition of our lender counterparties. The percentage of single-family recourse obligations from lenders with investment grade credit ratings (based on the lower of S&P, Moody's and Fitch ratings) was 54% as of September 30, 2013, compared with 51% as of December 31, 2012. The recourse obligations from lender counterparties rated below investment grade was 22% as of September 30, 2013 and December 31, 2012. The remaining recourse obligations were from lender counterparties that were not rated by rating agencies, which was 24% as of September 30, 2013, compared with 27% as of December 31, 2012. Given the stressed financial condition of some of our single-family lenders, we expect in some cases we will recover less than the amount the lender is obligated to provide us under our risk sharing arrangement with them. Depending on the financial strength of the counterparty, we may require a lender to pledge collateral to secure its recourse obligations.

As noted in "Multifamily Mortgage Credit Risk Management," our primary multifamily delivery channel is our DUS program, which is comprised of lenders that range from large depositories to independent non-bank financial institutions. As of September 30, 2013, approximately 38% of the unpaid principal balance of loans in our multifamily guaranty book of business serviced by our DUS lenders was from institutions with an external investment grade credit rating or a guaranty from an affiliate with an external investment grade credit rating, compared with approximately 40% as of December 31, 2012. Given the recourse nature of the DUS program, the lenders are bound by eligibility standards that dictate, among other items, minimum capital and liquidity levels, and the posting of collateral at a

highly rated custodian to secure a portion of the lenders' future obligations. We actively monitor the financial condition of these lenders to help ensure the level of risk remains within our standards and to ensure required capital levels are maintained and are in alignment with actual and modeled loss projections.

Custodial Depository Institutions

A total of $47.7 billion in deposits for single-family payments were received and held by 285 institutions during the month of September 2013 and a total of $74.0 billion in deposits for single-family payments were received and held by 292 institutions during the month of December 2012. Of these total deposits, 94% as of September 30, 2013, compared with 93% as of December 31, 2012, were held by institutions rated as investment grade by S&P, Moody's and Fitch. Our transactions with custodial depository institutions are concentrated. Our six largest custodial depository institutions held 86% of these deposits as of September 30, 2013, compared with 87% as of December 31, 2012.

If a custodial depository institution were to fail while holding remittances of borrower payments of principal and interest due to us in our custodial account, we would be an unsecured creditor of the depository for balances in excess of the deposit insurance protection and might not be able to recover all of the principal and interest payments being held by the depository on our behalf, or there might be a substantial delay in receiving these amounts. If this were to occur, we would be required to replace these amounts with our own funds to make payments that are due to Fannie Mae MBS certificateholders. Accordingly, the insolvency of one of our principal custodial depository counterparties could result in significant financial losses to us. During the month of September 2013, approximately $3.0 billion, or 6%, of our total deposits for single-family payments received and held by these institutions was in excess of the deposit insurance protection limit compared with approximately $7.2 billion, or 10%, during the month of December 2012. These amounts can vary as they are calculated based on individual payments of mortgage borrowers and we must estimate which borrowers are paying their regular principal and interest payments and other types of payments, such as prepayments from refinancing or sales.

Issuers of Investments Held in our Cash and Other Investments Portfolio

Our cash and other investments portfolio consists of cash and cash equivalents, federal funds sold and securities purchased under agreements to resell or similar arrangements and U.S. Treasury securities. Our cash and other investment counterparties are primarily financial institutions and the Federal Reserve Bank. As of September 30, 2013, we held a $1.0 billion short-term unsecured deposit with a financial institution that had a short-term credit rating of P-2 from Moody's (based on the lowest credit rating issued by S&P, Moody's and Fitch) and no other unsecured positions. We held no unsecured positions with financial institutions as of December 31, 2012. See "Liquidity and Capital Management—Liquidity Management—Cash and Other Investments Portfolio" for more detailed information on our cash and other investments portfolio.

Derivative Counterparty Credit Exposure

Our derivative counterparty credit exposure relates principally to interest rate derivative contracts. We are exposed to the risk that a counterparty in a derivative transaction will default on payments due to us, which may require us to seek a replacement derivative from a different counterparty. This replacement may be at a higher cost, or we may be unable to find a suitable replacement. Historically, our risk management derivative transactions have been made pursuant to bilateral contracts with a specific counterparty governed by the terms of an International Swaps and Derivatives Association Inc. ("ISDA") master agreement. Pursuant to new regulations implementing the Dodd-Frank Act, effective June 10, 2013, we are required to submit certain categories of new interest rate swaps to a derivatives clearing organization. Once a contract is accepted by a derivatives clearing organization, such contract is not governed by the terms of an ISDA master agreement. We refer to our derivative transactions made pursuant to bilateral contracts as our over-the-counter ("OTC") derivative transactions and our derivative transactions accepted for clearing by a derivatives clearing organization as our OTC-cleared derivative transactions.

We manage our derivative counterparty credit exposure relating to our OTC derivative transactions through master netting arrangements. These arrangements allow us to net derivative asset and liabilities with the same counterparty. We also manage our derivative counterparty exposure relating to our OTC derivative transactions by requiring counterparties to post collateral, which includes cash, U.S. Treasury securities, agency debt and agency mortgage-related securities.

Our OTC-cleared derivative transactions are submitted to a derivatives clearing organization on our behalf through a member of the organization. As a result, we are exposed to the institutional credit risk of both the derivatives clearing organization and the member who is acting on our behalf. Our institutional credit risk exposure to derivatives clearing organizations and certain of their members will increase substantially in the future as OTC-cleared derivative

contracts will comprise a larger percentage of our derivative instruments. Our agreements relating to our OTC-cleared derivative transactions are not master netting arrangements.

We estimate our exposure to credit loss on derivative instruments by calculating the replacement cost, on a present value basis, to settle at current market prices all outstanding derivative contracts in a net gain position at the counterparty level

where the right of legal offset exists. For derivative instruments where the right of legal offset does not exist (such as our OTC-cleared derivative transactions), we calculate the replacement cost of the outstanding derivative contracts in a gain position at the transaction level.

The fair value of derivatives in a gain position is included in our condensed consolidated balance sheets in "Other assets." Table 49 below displays our counterparty credit exposure on outstanding risk management derivative instruments in a gain position as of September 30, 2013 and December 31, 2012. For our OTC derivative transactions, the table displays our exposure by counterparty credit ratings and number of counterparties. Our counterparty credit exposure to our OTC-cleared derivative transactions is shown in the "Exchange-Traded/Cleared" column. Also displayed below are the notional amounts outstanding for all risk management derivatives for the periods indicated.

Table 49: Credit Loss Exposure of Risk Management Derivative Instruments

	As of September 30, 2013						
	Credit Rating[1]						
	AA+/ AA/AA-	A+/A/A-	BBB+/BBB/BBB-	Subtotal[2]	Exchange-Traded/Cleared[3]	Other[4]	Total
	(Dollars in millions)						
Credit loss exposure[5]	$56	$850	$ —	$906	$ 1,119	$27	$2,052
Less: Collateral held[6]	50	839	—	889	1,106	—	1,995
Exposure net of collateral	$6	$11	$ —	$17	$ 13	$27	$57
Additional information:							
Notional amount	$29,320	$422,789	$ 45,235	$497,344	$ 125,431	$281	$623,056
Number of counterparties[7]	4	11	1	16			

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

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

(2) We had credit loss exposure to 6 counterparties with a notional balance of $164.6 billion as of September 30, 2013 and one counterparty with a notional balance of $5.9 billion as of December 31, 2012.

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

(4) Includes mortgage insurance contracts and swap credit enhancements accounted for as derivatives.

(5) Represents the exposure to credit loss on derivative instruments, which we estimate using the fair value of all outstanding derivative contracts in a gain position. We net derivative gains and losses with the same counterparty where a legal right of offset exists under an enforceable master netting agreement. This table excludes mortgage commitments accounted for as derivatives.

(6) Represents cash and non-cash collateral posted by our counterparties to us. Does not include collateral held in excess of exposure. We reduce the value of non-cash collateral in accordance with the counterparty agreements to ensure recovery of any loss through the disposition of the collateral.

(7) Represents counterparties with which we have an enforceable master netting arrangements.

OTC derivative transactions with 10 of our counterparties accounted for approximately 74% of our total outstanding notional amount of our total derivative transactions as of September 30, 2013, with each of these counterparties accounting for

between approximately 3% and 13% of that total outstanding notional amount. OTC derivative transactions with 10 of our counterparties accounted for approximately 90% of our total outstanding notional amount of our total derivative transactions as of December 31, 2012, with each of these counterparties accounting for between approximately 6% and 14% of that total outstanding notional amount.

See "Note 9, Derivative Instruments" and "Note 15, Netting Arrangements" for additional information on our derivative contracts as of September 30, 2013 and December 31, 2012.

Market Risk Management, Including Interest Rate Risk Management

We are subject to market risk, which includes interest rate risk, spread risk and liquidity risk. These risks arise from our mortgage asset investments. Interest rate risk is the risk of loss in value or expected future earnings that may result from changes to interest rates. Spread risk is the resulting impact of changes in the spread between our mortgage assets and our debt and derivatives we use to hedge our position. Liquidity risk is the risk that we will not be able to meet our funding obligations in a timely manner. We describe our sources of interest rate risk exposure and our strategy for managing interest rate risk and spread risk in "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management" in our 2012 Form 10-K.

Measurement of Interest Rate Risk

Below we present two quantitative metrics that provide estimates of our interest rate exposure: (1) fair value sensitivity of Fannie Mae assets and liabilities, which we refer to as our net portfolio, to changes in interest rate levels and slope of yield curve; and (2) duration gap. The metrics presented are calculated using internal models that require standard assumptions regarding interest rates and future prepayments of principal over the remaining life of our securities. These assumptions are derived based on the characteristics of the underlying structure of the securities and historical prepayment rates experienced at specified interest rate levels, taking into account current market conditions, the current mortgage rates of our existing outstanding loans, loan age and other factors. On a continuous basis, management makes judgments about the appropriateness of the risk assessments and will make adjustments as necessary to properly assess our interest rate exposure and manage our interest rate risk. The methodologies used to calculate risk estimates are periodically changed on a prospective basis to reflect improvements in the underlying estimation process.

Interest Rate Sensitivity to Changes in Interest Rate Level and Slope of Yield Curve

As part of our disclosure commitments with FHFA, we disclose on a monthly basis the estimated adverse impact on the fair value of our net portfolio that would result from the following hypothetical situations:

- A 50 basis point shift in interest rates.
- A 25 basis point change in the slope of the yield curve.

In measuring the estimated impact of changes in the level of interest rates, we assume a parallel shift in all maturities of the U.S. LIBOR interest rate swap curve.

In measuring the estimated impact of changes in the slope of the yield curve, we assume a constant 7-year rate and a shift of 16.7 basis points for the 1-year rate and 8.3 basis points for the 30-year rate. We believe the aforementioned interest rate shocks for our monthly disclosures represent moderate movements in interest rates over a one-month period.

Duration Gap

Duration gap measures the price sensitivity of our assets and liabilities in our net portfolio to changes in interest rates by quantifying the difference between the estimated durations of our assets and liabilities. Our duration gap analysis reflects the extent to which the estimated maturity and repricing cash flows for our assets are matched, on average, over time and across interest rate scenarios to the estimated cash flows of our liabilities. A positive duration gap indicates that the duration of our assets exceeds the duration of our liabilities. We disclose duration gap on a monthly basis under the caption "Interest Rate Risk Disclosures" in our Monthly Summary, which is available on our website and announced in a press release.

While our goal is to reduce the price sensitivity of our net portfolio to movements in interest rates, various factors can contribute to a duration gap that is either positive or negative. For example, changes in the market environment can increase or decrease the price sensitivity of our mortgage assets relative to the price sensitivity of our liabilities because of prepayment uncertainty associated with our assets. In a declining interest rate environment, prepayment

rates tend to accelerate, thereby shortening the duration and average life of the fixed rate mortgage assets we hold in our net portfolio. Conversely, when interest rates increase, prepayment rates generally slow, which extends the duration and average life of our mortgage assets. Our debt and derivative instrument positions are used to manage the interest rate sensitivity of our mortgage assets. As a

result, the degree to which the interest rate sensitivity of our assets is offset will be dependent upon, among other factors, the mix of funding and other risk management derivative instruments we use at any given point in time.

Convexity reflects the degree to which the duration of the assets and liabilities in our net portfolio changes in response to a given change in interest rates. We use convexity measures to provide us with information about how quickly and by how much our net portfolio's duration gap may change in different interest rate environments. The market value sensitivity measures presented in Table 50 below are impacted by both the duration and convexity of our net portfolio and, depending on our position at that time, may not move symmetrically in response to hypothetical interest rate shocks.

The sensitivity measures presented in Table 50, which we disclose on a quarterly basis as part of our disclosure commitments with FHFA, are an extension of our monthly sensitivity measures. There are three primary differences between our monthly sensitivity disclosure and the quarterly sensitivity disclosure presented below: (1) the quarterly disclosure is expanded to include the sensitivity results for larger rate level shocks of plus or minus 100 basis points; (2) the monthly disclosure reflects the estimated pre-tax impact on the market value of our net portfolio calculated based on a daily average, while the quarterly disclosure reflects the estimated pre-tax impact calculated based on the estimated financial position of our net portfolio and the market environment as of the last business day of the quarter; and (3) the monthly disclosure shows the most adverse pre-tax impact on the market value of our net portfolio from the hypothetical interest rate shocks, while the quarterly disclosure includes the estimated pre-tax impact of both up and down interest rate shocks.

Table 50 displays the pre-tax market value profile of our net portfolio as of September 30, 2013 and December 31, 2012. In addition, Table 50 also provides the average, minimum, maximum and standard deviation for duration gap and for the most adverse market value impact on the net portfolio for non-parallel and parallel interest rate shocks for the three months ended September 30, 2013 and 2012. The effective duration gap was approximately zero months for the three months ended September 30, 2013 and 2012.

Table 50: Interest Rate Sensitivity of Net Portfolio to Changes in Interest Rate Level and Slope of Yield Curve[1]

	As of September 30, 2013	December 31, 2012
	(Dollars in billions)	
Rate level shock:		
-100 basis points	$(0.4)	$0.8
-50 basis points	(0.2)	0.2
+50 basis points	—	0.1
+100 basis points	(0.2)	—
Rate slope shock:		
-25 basis points (flattening)	—	—
+25 basis points (steepening)	—	—

	For the Three Months Ended September 30, 2013		
	Duration Gap	Rate Slope Shock 25 Bps	Rate Level Shock 50 Bps
		Exposure	
	(In months)	(Dollars in billions)	
Average	(0.2)	$—	$0.2
Minimum	(0.9)	—	0.1
Maximum	0.8	0.1	0.4
Standard deviation	0.3	—	0.1

	For the Three Months Ended September 30, 2012		
	Duration Gap	Rate Slope Shock 25 Bps	Rate Level Shock 50 Bps
		Exposure	
	(In months)	(Dollars in billions)	
Average	0.0	$—	$0.2
Minimum	(0.3)	—	—
Maximum	0.5	—	0.1
Standard deviation	0.1	—	—

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(1) Computed based on changes in LIBOR swap rates.

A majority of the interest rate risk associated with our mortgage-related securities and loans is hedged with our debt issuances, which includes callable debt. We use derivatives to help manage the residual interest rate risk exposure between our assets and liabilities. Derivatives have enabled us to keep our interest rate risk exposure at consistently low levels in a wide range of interest-rate environments. Table 51 displays an example of how risk management derivatives impacted the net market value exposure for a 50 basis point parallel interest rate shock.

From December 31, 2012 to September 30, 2013, as displayed below in Table 51, debt issuance hedged a majority of the interest rate risk associated with our mortgage-related securities and loans. As displayed in Table 50, risk management derivatives were also used to maintain a low interest rate risk exposure as the average duration gap was approximately zero months.

Table 51: Derivative Impact on Interest Rate Risk (50 Basis Points)

	As of September 30, 2013	December 31, 2012
	(Dollars in billions)	
Before Derivatives	$(0.1)	$(0.5)
After Derivatives	—	0.1
Effect of Derivatives	0.1	0.6

Other Interest Rate Risk Information

The interest rate risk measures discussed above exclude the impact of changes in the fair value of our net guaranty assets resulting from changes in interest rates. We exclude our guaranty business from these sensitivity measures based on our current assumption that the guaranty fee income generated from future business activity will largely replace guaranty fee income lost due to mortgage prepayments.

In “MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management—Measurement of Interest Rate Risk—Other Interest Rate Risk Information” in our 2012 Form 10-K, we provided additional interest rate sensitivities including separate disclosure of the potential impact on the fair value of our trading assets and other financial instruments. As of September 30, 2013, these sensitivities were relatively unchanged compared with December 31, 2012. The fair value of our trading financial instruments and our other financial instruments as of September 30, 2013 and December 31, 2012 can be found in “Note 16, Fair Value.”

Liquidity Risk Management

See “Liquidity and Capital Management—Liquidity Management” for a discussion on how we manage liquidity risk.

Operational Risk Management

See “Risk Management—Operational Risk Management” in our 2012 Form 10-K for more information on our framework for managing operational risk.

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 (the “Exchange Act”). In addition, our senior management may from time to time make forward-looking statements orally to analysts, investors, the news media and others. Forward-looking statements often include words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” “forecast,” “project,” “woul “could,” “likely,” “may,” or similar words.

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

- Our expectation that we will remain profitable for the foreseeable future;
- Our expectation that, while our annual earnings will remain strong over the next few years, our earnings may vary significantly from quarter to quarter and year to year due to many different factors, such as changes in interest rates or home prices;
- Our expectations that our revenues will continue to be stable and that the source of our revenues will shift in the future;
- Our expectation of volatility from period to period in our financial results due to changes in market conditions that result in periodic fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings;
- Our expectation that we will make substantial federal income tax payments to Treasury going forward;

- Our expectation that we will pay Treasury a senior preferred stock dividend of $8.6 billion in the fourth quarter of 2013;
- Our expectation that, in compliance with our dividend obligation to Treasury, we will retain only a limited amount of any future earnings because we must pay Treasury each quarter the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount;
- Our expectation that the amount of dividends we pay Treasury will exceed the amounts we have drawn;
- Our expectation that the single-family loans we have acquired since the beginning of 2009, in the aggregate, will be profitable over their lifetime, by which we mean that we expect our fee income on these loans to exceed our credit losses and administrative costs for them;
- Our expectation that the single-family loans we acquired from 2005 through 2008, in the aggregate, will not be profitable over their lifetime;
- Our expectation that, as a result of our having increased our guaranty fees in 2012 on loans acquired after the increase, we will benefit from receiving significantly more revenue from guaranty fees in future periods than we have in prior periods, even after we remit some of this revenue to Treasury as we are required to do under the TCCA;
- Our belief that we will increase our guaranty fees in the future;
- Our expectation that the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties will in a number of years become the primary source of our revenues;
- Our expectation that revenues generated from the difference between the interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets will decrease as we reduce the size of our retained mortgage portfolio;
- Our expectation that, if current housing market conditions continue and if we are not required to sell more of our retained mortgage portfolio assets than we currently anticipate selling, increases in our revenues from guaranty fees will generally offset the expected declines in the revenues we generate from the difference between the interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets;
- Our expectation that any future increases in guaranty fees will likely further increase our guaranty fee revenue;
- Our expectation that improvements in the credit quality of our loan acquisitions since 2009 and increases in our charged guaranty fees on recently acquired loans will contribute significantly to our revenues for years to come, especially because these loans have relatively low interest rates, making them less likely to be refinanced than loans with higher interest rates;
- Our expectation that the serious delinquency rates for single-family loans acquired in more recent years will be higher after the loans have aged, but will not be as high as the September 30, 2013 serious delinquency rates of loans in our legacy book of business;
- Our expectation that the housing market will benefit if employment continues to improve;
- Our expectation that nearly 200,000 new multifamily units will be completed this year, which could impact multifamily fundamentals in certain localized areas, producing a temporary slowdown in net absorption rates, occupancy levels, and effective rents starting in 2014;
- Our expectation that, despite steady demand and stable fundamentals at the national level, the multifamily sector may continue to exhibit below average fundamentals in certain local markets and with certain properties;
- Our expectation that the level of multifamily foreclosures for 2013 overall will generally remain commensurate with 2012 levels, although conditions may worsen if the unemployment rate increases on either a national or regional basis;
- Our expectation that single-family mortgage loan delinquency and severity rates will continue their downward trend, but that single-family serious delinquency, default and severity rates will remain high compared with pre-housing crisis levels;
- Our belief that the recent increase in mortgage rates will result in a decline in overall single-family mortgage originations in 2013 as compared with 2012, driven by a decline in refinancings;

- Our forecast that total originations in the U.S. single-family mortgage market in 2013 will decrease from 2012 levels by approximately 15%, from an estimated $2.15 trillion in 2012 to $1.83 trillion in 2013;
- Our forecast that the amount of originations in the U.S. single-family mortgage market that are refinancings will decrease from an estimated $1.54 trillion in 2012 to $1.13 trillion in 2013;
- Our expectation that home prices will increase only minimally on a national basis in the fourth quarter of 2013;
- Our expectation of significant regional variation in the timing and rate of home price growth;
- Our expectation that our credit losses will decrease in the future as a result of the higher credit quality of our new book of business, the decrease in our legacy book and anticipated positive home price growth;
- Our expectation that our credit losses will remain elevated in 2013 relative to pre-housing crisis levels;
- Our expectation that, to the extent the slow pace of foreclosures continues in the fourth quarter of 2013, our realization of some credit losses will be delayed;
- Our belief that our total loss reserves peaked at $76.9 billion as of December 31, 2011;
- Our expectation that, if delinquencies continue to trend downward and home prices continue to increase, our loss reserves will continue to decline, but at a slower pace than in recent quarters because the pace of home price growth has slowed;
- Our expectation that our loss reserves will remain significantly elevated relative to historical levels for an extended period because (1) we expect future defaults on loans that we acquired prior to 2009 and the resulting charge-offs will occur over a period of years and (2) a significant portion of our reserves represents concessions granted to borrowers upon modification of their loans and our reserves will continue to reflect these concessions until the loans are fully repaid or in default;
- Our expectation that uncertainty regarding the future of our company will continue;
- Our expectation that Congress will continue to consider housing finance system reform in the current congressional session, including conducting hearings on GSE reform and considering legislation that would alter the housing finance system or the activities or operations of the GSEs;
- Our anticipation that we will enter into additional agreements relating to Common Securitization Solutions, LLC in the future;
- Our expectation that, upon our adoption of Advisory Bulletin AB 2012-02, the amount of the charge-off for single-family loans classified as a “loss” will exceed the amount of incurred losses we have recognized for those loans in our allowance for loan losses, because the charge-off will not be reduced by the benefit we expect from borrower re-performance on these loans;
- Our expectations that, going forward after our adoption of Advisory Bulletin AB 2012-02, the amount of the charge-off at the time a loan is classified as a “loss” will exceed our best estimate of incurred losses, and that we will record larger loss recoveries for loans that become 180 days or more past due and subsequently re-perform;
- Our expectation that, if recent trends continue, the population of loans that will be subject to accelerated charge-off under Advisory Bulletin AB 2012-02 will decline either through liquidation or re-performance and that, therefore, the impact upon adoption of the guidance will be less than $1.0 billion;
- Our conclusion that it is more likely than not that our deferred tax assets, except the deferred tax assets relating to capital loss carryforwards, will be realized;
- Our belief that our capital loss carryforwards will expire unused;
- Our anticipation that we will utilize all of our net operating loss carryforwards by the end of 2013;
- Our expectation that our remaining deferred tax asset valuation allowance not related to capital loss carryforwards will be released against income before federal income taxes during the fourth quarter of 2013;
- Our expectation that, starting in 2014, our effective tax rate will approach the statutory tax rate;
- Our expectation that the guaranty fees we collect and the expenses we incur pursuant to the TCCA will increase in the future;

- Our expectation that we will continue to purchase loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity and other factors including the limit on the mortgage assets that we may own pursuant to the senior preferred stock purchase agreement;
- Our expectation that sales of non-agency mortgage-related securities will result in a decrease in future net interest income from our retained mortgage portfolio;
- Our belief that our liquidity contingency plan may be difficult or impossible to execute for a company of our size and circumstances;
- Our intention to repay our short-term and long-term debt obligations as they become due primarily through proceeds from the issuance of additional debt securities;
- Our expectation that we may also use proceeds from our mortgage assets to pay our debt obligations;
- Our belief that continued federal government support of our business and the financial markets, as well as our status as a GSE, are essential to maintaining our access to debt funding;
- Our belief that changes or perceived changes in federal government support of our business and the financial markets or our status as a GSE could materially and adversely affect our liquidity, financial condition and results of operations;
- Our expectations regarding our credit ratings and their impact on us as set forth in "MD&A—Liquidity and Capital Management—Liquidity Management—Credit Ratings" and "Risk Factors";
- Our expectation that we will not eliminate our deficit of core capital over statutory minimum capital due to our dividend obligations on the senior preferred stock;
- Our belief that we have limited credit exposure on government loans;
- Our expectation that the ultimate performance of all our loans will be affected by borrower behavior, public policy and macroeconomic trends, including unemployment, the economy and home prices;
- Our belief that loans we acquire under Refi Plus and HARP may not perform as well as the other loans we have acquired since the beginning of 2009, but they will perform better than the loans they replace because they should either reduce the borrowers' monthly payments or provide more stable terms than the borrowers' old loans (for example, by refinancing into a mortgage with a fixed interest rate instead of an adjustable rate);
- Our expectation that the volume of refinancings under HARP will decline due to increased interest rates and a decrease in the population of borrowers with loans that have high LTV ratios who are willing to refinance and would benefit from refinancing;
- Our expectation that our acquisitions of Alt-A mortgage loans (which are limited to refinancings of existing Fannie Mae loans) will continue to be minimal in future periods and the percentage of the book of business attributable to Alt-A will continue to decrease over time;
- Our belief that the slow pace of foreclosures will continue to negatively affect our single-family serious delinquency rates, foreclosure timelines and credit-related income (expense);
- Our expectation that the number of our single-family loans in our book of business that are seriously delinquent will remain above pre-2008 levels for years;
- Our belief that the performance of our workouts will be highly dependent on economic factors, such as unemployment rates, household wealth and income, and home prices;
- Our expectation that our dispositions of foreclosed properties may decline in the future due to increases in home prices and interest rates, which may lead to less attractive purchasing opportunities for investors and potential home owners;
- Our expectation that we may be unable to recover on all outstanding loan repurchase obligations resulting from mortgage sellers/servicers' breaches of contractual obligations;
- Our expectation that, by the end of 2013, we will have completed our loan reviews for potential underwriting defects on all of the loans we acquired between 2005 and 2008 through our standard whole loan and MBS acquisitions that we currently intend to review;

- Our expectation that, with the implementation of our new representation and warranty framework, a greater proportion of our repurchase requests in the future may be issued on performing loans, as compared with our currently outstanding repurchase requests, the substantial majority of which relate to loans that are either nonperforming or have been foreclosed upon;
- Our belief that the financial condition of some of our primary mortgage insurer counterparties continues to improve;
- Our belief, based on the stressed financial condition of our non-governmental financial guarantor counterparties, that all but one of these counterparties may not fully meet their obligations to us in the future;
- Our expectation, given the stressed financial condition of some of our single-family lenders, that in some cases we will recover less than the amount the lender is obligated to provide us under our risk sharing arrangement with the lender;
- Our expectation that, depending on the financial strength of a single-family lender with whom we have a risk sharing arrangement, we may require the lender to pledge collateral to secure its recourse obligations; and
- Our plans and expectations relating to the distribution of benefits remaining under our retirement plans and the termination of those plans.

Forward-looking statements reflect our management's expectations, forecasts or predictions of future conditions, events or results based on various assumptions and management's estimates of trends and economic factors in the markets in which we are active, as well as our business plans. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. There are a number of factors that could cause actual conditions, events or results to differ materially from those described in the forward-looking statements contained in this report, including, but not limited to, the following: the uncertainty of our future; legislative and regulatory changes affecting us; the timing and level of, as well as regional variation in, home price changes; changes in interest rates, unemployment rates and other macroeconomic and housing market variables; our future guaranty fee pricing and the impact of that pricing on our competitive environment; challenges we face in retaining and hiring qualified employees; our future serious delinquency rates; the deteriorated credit performance of many loans in our guaranty book of business; the conservatorship and its effect on our business; the investment by Treasury and its effect on our business; adverse effects from activities we undertake to support the mortgage market and help borrowers; a decrease in our credit ratings; limitations on our ability to access the debt capital markets; disruptions in the housing and credit markets; significant changes in modification and foreclosure activity; changes in borrower behavior; the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies; defaults by one or more institutional counterparties; resolution or settlement agreements we may enter into with our counterparties; our need to rely on third parties to fully achieve some of our corporate objectives; our reliance on mortgage servicers; changes in GAAP; guidance by the Financial Accounting Standards Board ("FASB"); future changes to our accounting policies; changes in the fair value of our assets and liabilities; impairments of our assets; operational control weaknesses; our reliance on models; future updates to our models, including the assumptions used by these models; the level and volatility of interest rates and credit spreads; changes in the structure and regulation of the financial services industry; natural or other disasters; and those factors described in "Risk Factors" in this report and in our 2012 Form 10-K, as well as the factors described in "Executive Summary—Outlook—Factors that Could Cause Actual Results to be Materially Different from our Estimates and Expectations" in 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 "Risk Factors" in our 2012 Form 10-K and in this report. These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under the federal securities laws.

Item 1. Financial Statements
FANNIE MAE
(In conservatorship)
Condensed Consolidated Balance Sheets — (Unaudited)
(Dollars in millions, except share amounts)

	As of September 30, 2013	December 31, 2012
ASSETS		
Cash and cash equivalents	$30,784	$21,117
Restricted cash (includes $26,804 and $61,976, respectively, related to consolidated trusts)	31,525	67,919
Federal funds sold and securities purchased under agreements to resell or similar arrangements	40,300	32,500
Investments in securities:		
Trading, at fair value	32,860	40,695
Available-for-sale, at fair value (includes $911 and $935, respectively, related to consolidated trusts)	41,000	63,181
Total investments in securities	73,860	103,876
Mortgage loans:		
Loans held for sale, at lower of cost or fair value (includes $41 and $72, respectively, related to consolidated trusts)	998	464
Loans held for investment, at amortized cost:		
Of Fannie Mae	313,267	355,544
Of consolidated trusts (includes $13,877 and $10,800, respectively, at fair value and loans pledged as collateral that may be sold or repledged of $477 and $943, respectively)	2,744,084	2,652,193
Total loans held for investment	3,057,351	3,007,737
Allowance for loan losses	(45,169)	(58,795)
Total loans held for investment, net of allowance	3,012,182	2,948,942
Total mortgage loans	3,013,180	2,949,406
Accrued interest receivable, net (includes $7,568 and $7,567, respectively, related to consolidated trusts)	8,696	9,176
Acquired property, net	11,380	10,489
Deferred tax assets, net	48,256	—
Other assets (includes cash pledged as collateral of $2,635 and $1,222, respectively)	23,241	27,939
Total assets	$3,281,222	$3,222,422
LIABILITIES AND EQUITY		
Liabilities:		
Accrued interest payable (includes $8,234 and $8,645, respectively, related to consolidated trusts)	$10,769	$11,303
Debt:		
Of Fannie Mae (includes $684 and $793, respectively, at fair value)	565,110	615,864
Of consolidated trusts (includes $14,414 and $11,647, respectively, at fair value)	2,675,011	2,573,653
Other liabilities (includes $501 and $1,059, respectively, related to consolidated trusts)	18,715	14,378
Total liabilities	3,269,605	3,215,198
Commitments and contingencies (Note 17)	—	—
Fannie Mae stockholders’ equity:		
Senior preferred stock, 1,000,000 shares issued and outstanding	117,149	117,149

Preferred stock, 700,000,000 shares are authorized—555,374,922 shares issued and outstanding, respectively	19,130	19,130
Common stock, no par value, no maximum authorization—1,308,762,703 shares issued, respectively, 1,158,080,657 and 1,158,077,970 shares outstanding, respectively	687	687
Accumulated deficit	(119,067)	(122,766)
Accumulated other comprehensive income	1,070	384
Treasury stock, at cost, 150,682,046 and 150,684,733 shares, respectively	(7,401)	(7,401)
Total Fannie Mae stockholders' equity	11,568	7,183
Noncontrolling interest	49	41
Total equity (See Note 1: Impact of U.S. Government Support and Earnings (Loss) per Share for information on our dividend obligation to Treasury)	11,617	7,224
Total liabilities and equity	$3,281,222	$3,222,422

See Notes to Condensed Consolidated Financial Statements

FANNIE MAE
(In conservatorship)
Condensed Consolidated Statements of Operations and Comprehensive Income — (Unaudited)
(Dollars and shares in millions, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2013	2012	2013	2012
Interest income:				
Trading securities	$185	$234	$633	$756
Available-for-sale securities	546	789	1,870	2,551
Mortgage loans (includes $25,351 and $27,057, respectively, for the three months ended and $75,592 and $84,482, respectively, for the nine months ended related to consolidated trusts)	28,299	30,593	85,579	95,186
Other	37	53	143	131
Total interest income	29,067	31,669	88,225	98,624
Interest expense:				
Short-term debt	29	38	109	112
Long-term debt (includes $20,905 and $23,395, respectively, for the three months ended and $62,785 and $73,469, respectively, for the nine months ended related to consolidated trusts)	23,456	26,314	70,563	82,570
Total interest expense	23,485	26,352	70,672	82,682
Net interest income	5,582	5,317	17,553	15,942
Benefit (provision) for credit losses	2,609	(2,079)	8,949	(1,038)
Net interest income after benefit (provision) for credit losses	8,191	3,238	26,502	14,904
Investment gains, net	648	134	1,056	381
Net other-than-temporary impairments	(27)	(38)	(42)	(701)
Fair value gains (losses), net	335	(1,020)	1,998	(3,186)
Debt extinguishment gains (losses), net	92	(54)	96	(181)
Fee and other income	741	378	1,794	1,148
Non-interest income (loss)	1,789	(600)	4,902	(2,539)
Administrative expenses:				
Salaries and employee benefits	307	294		