

FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE  
Form 10-Q  
May 05, 2016

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

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

For the quarterly period ended March 31, 2016

OR

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

For the transition period from to

Commission File No.: 0-50231

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation	52-0883107
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

3900 Wisconsin Avenue, NW	20016
Washington, DC	(Zip Code)

(Address of principal executive offices)

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  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  No

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

Large accelerated filer  Accelerated filer

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

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

As of March 31, 2016, there were 1,158,082,750 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, 2015 (“2015 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 2015 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 our 2015 Form 10-K.

You can find a “Glossary of Terms Used in This Report” in the “MD&A” of our 2015 Form 10-K.

## INTRODUCTION

Fannie Mae is a government-sponsored enterprise (“GSE”) that was chartered by Congress in 1938. We serve an essential role in the functioning of the U.S. housing market and are investing in improvements to the U.S. housing finance system. Our public mission is to support liquidity and stability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold, and to 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.

Fannie Mae provides reliable, large-scale access to affordable mortgage credit and indirectly enables families to buy, refinance or rent homes. We securitize mortgage loans originated by lenders into Fannie Mae mortgage-backed securities that we guarantee, which we refer to as Fannie Mae MBS. One of our key functions is to evaluate, price and manage the credit risk on the loans and securities that we guarantee. We also purchase mortgage loans and mortgage-related securities, primarily for securitization and sale at a later date. 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, which attracts global capital to the United States housing market.

We remain in conservatorship and our conservatorship has no specified termination date. We do not know when or how the conservatorship will terminate, what further changes to our business will be made during or following conservatorship, what form we will have and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated or whether we will continue to exist following conservatorship. In addition, as a result of our agreements with Treasury and dividend directives from our conservator, we are not permitted to retain our net worth (other than a limited amount that will decrease to zero by 2018), rebuild our capital position or pay dividends or other distributions to stockholders other than Treasury. Our senior preferred stock purchase agreement with Treasury also includes covenants that significantly restrict our business activities. Congress and the Obama Administration continue to consider options for reform of the housing finance system, including the GSEs. We cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation or actions the Administration or FHFA may take with respect to housing finance reform. The conservatorship, the uncertainty of our future, limitations on executive and employee compensation, and negative publicity concerning the GSEs have had and are likely to continue to have an adverse effect on our ability to retain and recruit well-qualified executives and other employees. We provide additional information on the conservatorship, the provisions of our agreements with Treasury, and their impact on our business in our 2015 Form 10-K in

“Business—Conservatorship and Treasury Agreements” and “Risk Factors.” We discuss the uncertainty of our future in

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“Executive Summary—Outlook” and “Risk Factors” in this report. We discuss proposals for housing finance reform that could materially affect our business in our 2015 Form 10-K in “Business—Housing Finance Reform.”

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

#### Overview

We reported net income of \$1.1 billion for the first quarter of 2016, compared with net income of \$1.9 billion for the first quarter of 2015. See “Summary of Our Financial Performance” below for an overview of our financial performance for the first quarter of 2016, compared with the first quarter of 2015. We expect to remain profitable on an annual basis for the foreseeable future; however, certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year. For more information regarding our expectations for our future financial performance, see “Outlook” below.

With our expected June 2016 dividend payment to Treasury, we will have paid a total of \$148.5 billion in dividends to Treasury on our senior preferred stock. The aggregate amount of draws we have received from Treasury to date under the senior preferred stock purchase agreement is \$116.1 billion. Under the terms of the senior preferred stock purchase agreement, dividend payments do not offset prior Treasury draws. For more information regarding our dividend payments to Treasury, see “Treasury Senior Preferred Stock Purchase Agreement” below.

#### Our Strategy and Business Objectives

Our vision is to be America’s most valued housing partner and to provide liquidity, access to credit and affordability in all U.S. housing markets at all times, while effectively managing and reducing risk to our business, taxpayers and the housing finance system. In support of this vision, we are focused on:

- advancing a sustainable and reliable business model that reduces risk to the housing finance system and taxpayers;
- providing reliable, large-scale access to affordable mortgage credit for qualified borrowers and helping struggling homeowners; and
- serving customer needs and improving our business efficiency.

Advancing a sustainable and reliable business model that reduces risk to the housing finance system and taxpayers

We have significantly changed our business model since we entered conservatorship in 2008 and our business continues to evolve. We have strengthened our underwriting and eligibility standards, we are moving from a portfolio-focused business to a guaranty-focused business and we are transferring an increasing portion of the credit risk on our guaranty book of business. These changes are transforming our business model and reducing certain risks of our business as compared with our business prior to entering conservatorship.

**Stronger Underwriting and Eligibility Standards.** Beginning in 2008, we made changes to strengthen our underwriting and eligibility standards that have improved the credit quality of our single-family guaranty book of business and contributed to improvement in our credit performance. See “Single-Family Guaranty Book of Business” below for information on the credit performance of the mortgage loans in our single-family guaranty book of business and on our recent single-family acquisitions.

**Moving from a portfolio-focused business to a guaranty-focused business.** In recent years, an increasing portion of our net interest income has been derived from the guaranty fees we receive for managing the credit risk on loans underlying our Fannie Mae MBS, rather than from interest income on our retained mortgage portfolio assets. This shift has been driven by both the impact of guaranty fee increases implemented in 2012 and the reduction of our retained mortgage portfolio in accordance with the requirements of our senior preferred stock purchase agreement with Treasury and direction from FHFA. 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). In the first quarter of 2016, approximately two-thirds of our net interest income was derived from our guaranty business. As described in more detail in



“Outlook—Revenues” below, we expect that guaranty fees will continue to account for an increasing portion of our net interest income.

Transferring a portion of the mortgage credit risk on our single-family book of business. In late 2013, we began entering into credit risk transfer transactions with the goal of transferring, to the extent economically sensible, a portion of the mortgage credit risk on some of the recently-acquired loans in our single-family book of business in order to reduce the economic risk to us and to taxpayers of future borrower defaults. In the aggregate, our credit risk transfer transactions completed through March 31, 2016 transferred a significant portion of the mortgage credit risk on single-family mortgages with an unpaid principal balance of over \$590 billion. We intend to continue to engage in credit risk transfer transactions on an ongoing basis, subject to market conditions. Approximately 18% of the loans in our single-family conventional guaranty book of business as of March 31, 2016, measured by unpaid principal balance, were included in a reference pool for a Connecticut Avenue Securities™ (“CAS”) or a Credit Insurance Risk Transfer™ (“CIRT™”) transaction. Over time, we expect that a larger portion of our single-family conventional guaranty book of business will be covered by credit risk transfer transactions. For further discussion of our credit risk transfer transactions, see “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Transfer of Mortgage Credit Risk—Credit Risk-Sharing Transactions.”

Our business also continues to evolve as a result of our many other efforts to build a safer and sustainable housing finance system and to pursue the strategic goals identified by our conservator, and we continue to invest significant resources towards these goals. See “Business—Executive Summary—Helping to Build a Sustainable Housing Finance System” in our 2015 Form 10-K for a discussion of these efforts and FHFA’s strategic goals for our conservatorship, including a description of some of the actions we are taking pursuant to the mandates of FHFA’s conservatorship scorecards in order to build the policies and infrastructure for a sustainable housing finance system. For more information on FHFA’s 2016 conservatorship scorecard objectives, see our Current Report on Form 8-K filed with the Securities and Exchange Commission (“SEC”) on December 17, 2015.

Providing reliable, large-scale access to affordable mortgage credit for qualified borrowers and helping struggling homeowners

We continued to provide reliable, large-scale access to affordable mortgage credit to the U.S. housing market in the first quarter of 2016 and remained a leading source of liquidity in the single-family and multifamily markets. We also continued to help struggling homeowners. In the first quarter of 2016, we provided approximately 27,000 loan workouts to help homeowners stay in their homes or otherwise avoid foreclosure. We discuss our activities to support the housing and mortgage markets in “Contributions to the Housing and Mortgage Markets” below.

Serving customer needs and improving our business efficiency

We are continuing our initiatives to better serve our customers’ needs and improve our business efficiency in 2016. These initiatives include continuing to revise and clarify our representation and warranty framework, implementing innovative new and enhanced tools that deliver greater value and certainty to lenders, simplifying our business processes, and updating our infrastructure. We discuss these initiatives in “Serving Customer Needs and Improving Our Business Efficiency” below and in our 2015 Form 10-K in “Business—Executive Summary.”

Summary of Our Financial Performance

Comprehensive Income

We recognized comprehensive income of \$936 million in the first quarter of 2016, consisting of net income of \$1.1 billion and other comprehensive loss of \$200 million. In comparison, we recognized comprehensive income of \$1.8 billion in the first quarter of 2015, consisting of net income of \$1.9 billion and other comprehensive loss of \$92 million. The decline in our net income in the first quarter of 2016 compared to the first quarter of 2015 was primarily driven by higher fair value losses and lower net revenues, partially offset by an increase in credit-related income. Fair value losses increased to \$2.8 billion in the first quarter of 2016 compared with \$1.9 billion in the first quarter of 2015. Fair value losses in the first quarter of 2016 were driven by declines in longer-term swap rates during the period.

Net revenues, which consist of net interest income and fee and other income, were \$5.0 billion in the first quarter of 2016, compared with \$5.4 billion in the first quarter of 2015. Net interest income of \$4.8 billion for the first quarter of 2016 was driven by guaranty fee revenue and interest income earned on mortgage assets in our retained mortgage



portfolio.

We recognized credit-related income of \$850 million in the first quarter of 2016 compared with \$60 million in the first quarter of 2015. Credit-related income in the first quarter of 2016 was primarily driven by a \$1.2 billion benefit for credit losses during the quarter, which was primarily attributable to a decline in actual and projected mortgage interest rates. As

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mortgage interest rates decline, we expect an increase in future prepayments on single-family individually impaired loans, including modified loans. Higher expected prepayments shorten the expected lives of modified loans, which decreases the impairment relating to concessions provided on these loans and results in a decrease in our provision for credit losses. In addition, an increase in home prices, including distressed property valuations, also contributed to the benefit for credit losses during the first quarter of 2016.

We expect volatility from period to period in our financial results from a number of factors, particularly changes in market conditions that result in fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings. These instruments include derivatives and certain securities. The estimated fair value of our derivatives and securities may fluctuate substantially from period to period because of changes in interest rates, the yield curve, mortgage and credit spreads, and implied volatility, as well as activity related to these financial instruments. We use derivatives to manage the interest rate risk exposure of our net portfolio, which consists of our retained mortgage portfolio, cash and other investments portfolio, and outstanding debt of Fannie Mae. Some of these financial instruments in our net portfolio are not recorded at fair value in our condensed consolidated financial statements, and as a result we may experience accounting gains or losses due to changes in interest rates or other market conditions that may not be indicative of the economic interest rate risk exposure of our net portfolio. See “Risk Management—Market Risk Management, Including Interest Rate Risk Management” for more information. In addition, our credit-related income or expense can vary substantially from period to period based on factors such as changes in actual and expected home prices, borrower payment behavior, the types and volume of our loss mitigation activities, the volumes of foreclosures completed, redesignations of loans from held for investment (“HFI”) to held for sale (“HFS”), and fluctuations in mortgage interest rates.

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

#### Net Worth

Our net worth decreased to \$2.1 billion as of March 31, 2016 from \$4.1 billion as of December 31, 2015 primarily due to our payment to Treasury of \$2.9 billion in senior preferred stock dividends, partially offset by our comprehensive income of \$936 million during the first quarter of 2016. Our expected dividend payment of \$919 million for the second quarter of 2016 is calculated based on our net worth of \$2.1 billion as of March 31, 2016 less the applicable capital reserve amount of \$1.2 billion.

#### Single-Family Guaranty Book of Business

##### Credit Performance

We continued to acquire loans with strong credit profiles and to execute on our strategies for reducing credit losses in the first quarter of 2016, such as helping eligible Fannie Mae borrowers with high loan-to-value (“LTV”) ratio loans refinance into more sustainable loans through the Administration’s Home Affordable Refinance Program<sup>®</sup> (“HARP<sup>®</sup>”), offering borrowers loan modifications that can significantly reduce their monthly payments, pursuing foreclosure alternatives and managing our REO inventory to appropriately manage costs and maximize sales proceeds. As we work to reduce credit losses, we also seek to assist struggling homeowners, help stabilize communities and support the housing market.

Table 1 presents information about the credit performance of mortgage loans in our single-family guaranty book of business and our workouts. The term “workouts” refers to both home retention solutions (loan modifications and other solutions that enable a borrower to stay in his or her home) and foreclosure alternatives (short sales and deeds-in-lieu of foreclosure). The workout information in Table 1 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 1: Credit Statistics, Single-Family Guaranty Book of Business<sup>(1)</sup>

	2016	2015					
	Q1	Full Year	Q4	Q3	Q2	Q1	
	(Dollars in millions)						
As of the end of each period:							
Serious delinquency rate <sup>(2)</sup>	1.44	% 1.55	% 1.55	% 1.59	% 1.66	% 1.78	%
Seriously delinquent loan count	247,281	267,174	267,174	275,548	287,372	308,546	
Foreclosed property inventory:							
Number of properties <sup>(3)</sup>	52,289	57,253	57,253	60,958	68,717	79,319	
Carrying value	\$5,963	\$6,608	\$6,608	\$7,245	\$7,997	\$8,915	
Combined loss reserves	\$26,092	\$28,325	\$28,325	\$29,404	\$31,510	\$32,157	
During the period:							
Credit-related income (expense) <sup>(4)</sup>	\$828	\$(1,035 )	\$(819 )	\$1,029	\$(1,238 )	\$(7 )	)
Credit losses <sup>(5)</sup>	\$1,569	\$10,731	\$2,081	\$1,168	\$2,109	\$5,373	
REO net sales price to unpaid principal balance <sup>(6)</sup>	73	% 72	% 73	% 72	% 72	% 70	%
Short sales net sales price to unpaid principal balance <sup>(7)</sup>	73	% 73	% 74	% 74	% 74	% 73	%
Loan workout activity (number of loans):							
Home retention loan workouts <sup>(8)</sup>	22,195	100,208	20,300	23,571	27,769	28,568	
Short sales and deeds-in-lieu of foreclosure	4,740	22,077	4,761	5,531	6,128	5,657	
Total loan workouts	26,935	122,285	25,061	29,102	33,897	34,225	
Loan workouts as a percentage of delinquent loans in our guaranty book of business <sup>(9)</sup>	19.24	% 19.95	% 16.66	% 19.28	% 22.69	% 21.71	%

(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 or in the foreclosure process, divided by the number of loans in our single-family conventional guaranty book of business.

(3) 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."

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

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

(6) 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 sellers or servicers, divided by the aggregate unpaid principal balance 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.

(7) Calculated as the amount of sale proceeds received on properties sold in short sale transactions during the respective periods divided by the aggregate unpaid principal balance 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.

(8) Consists of (a) modifications, which do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as troubled debt restructurings ("TDRs"), or repayment plans or forbearances that have been initiated but not completed and (b) repayment plans and forbearances completed. See "Table 30: 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.

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

Beginning in 2008, we took actions to significantly strengthen our underwriting and eligibility standards to promote sustainable homeownership and stability in the housing market. These actions have improved the credit quality of our book of

business and contributed to improvement in our credit performance. For information on the credit risk profile of our single-family guaranty book of business, see “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management,” including “Table 27: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business.”

Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010, and was 1.44% as of March 31, 2016, compared with 1.55% as of December 31, 2015. We continue to experience disproportionately higher serious delinquency rates and credit losses from single-family loans originated in 2005 through 2008 than from loans originated in other years. Single-family loans originated in 2005 through 2008 constituted 10% of our single-family book of business as of March 31, 2016, but constituted 55% of our seriously delinquent single-family loans as of March 31, 2016 and drove 69% of our single-family credit losses in the first quarter of 2016. For information on the credit performance of our single-family book of business based on loan vintage, see “Table 11: Credit Loss Concentration Analysis” in “Consolidated Results of Operations—Credit-Related Income—Credit Loss Performance Metrics” and “Table 29: Single-Family Conventional Seriously Delinquent Loan Concentration Analysis” in “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management.” For information on certain credit characteristics of our single-family book of business based on the period in which we acquired the loans, see “Table 24: Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period” in “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management.” We provide additional information on our credit-related income and credit losses in “Consolidated Results of Operations—Credit-Related Income.” We provide more information on the credit performance of mortgage loans in our single-family book of business and our efforts to reduce our credit losses in “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management.” See also “Risk Factors” in our 2015 Form 10-K, where we describe factors that may increase our credit-related expense and credit losses, as well as factors that may adversely affect the success of our efforts to reduce our credit losses.

#### Recently Acquired Single-Family Loans

Table 2 below displays information regarding our average charged guaranty fee on and select risk characteristics of the single-family loans we acquired in each of the last five quarters, including HARP acquisitions. Table 2 also displays 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 in these periods.

Table 2: Single-Family Acquisitions Statistics

	2016 Q1	2015 Q4	Q3	Q2	Q1	
	(Dollars in millions)					
Single-family average charged guaranty fee on new acquisitions, net of TCCA fee (in basis points) <sup>(1)</sup>	49.2	50.5	50.6	49.9	51.2	
Single-family Fannie Mae MBS issuances	\$101,797	\$104,359	\$126,144	\$130,974	\$110,994	
Select risk characteristics of single-family conventional acquisitions: <sup>(2)</sup>						
Weighted average FICO® credit score at origination	746	746	747	750	748	
FICO credit score at origination less than 660	6	%6	%6	%5	%5	%
Weighted average original LTV ratio <sup>(3)</sup>	75	%75	%76	%74	%74	%
Original LTV ratio over 80% <sup>(3)(4)</sup>	27	%30	%30	%27	%26	%
Original LTV ratio over 95% <sup>(3)</sup>	3	%3	%3	%3	%2	%
Loan purpose:						
Purchase	46	%50	%54	%40	%37	%
Refinance	54	%50	%46	%60	%63	%

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Excludes the impact of a 10 basis point guaranty fee increase implemented in 2012 pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011 (the "TCCA"). This TCCA-related fee is unrelated to our pricing strategy, as the incremental revenue from this fee is remitted to Treasury and not retained by us. Average charged guaranty fee is calculated based on the average contractual fee rate, net of TCCA fee, 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.

- (1) as the incremental revenue from this fee is remitted to Treasury and not retained by us. Average charged guaranty fee is calculated based on the average contractual fee rate, net of TCCA fee, 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.
- (2) Calculated based on unpaid principal balance of single-family loans for each category at time of acquisition. 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.
- (3) We purchase loans with original LTV ratios above 80% as part of our mission to serve the primary mortgage market and provide liquidity to the housing finance 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%.

We purchase loans with original LTV ratios above 80% as part of our mission to serve the primary mortgage market and provide liquidity to the housing finance 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%.

The average charged guaranty fee on our newly-acquired single-family loans may vary from period to period as a result of shifts in the loan level price adjustments we charge or changes we make to our contractual fee rates. Loan level price adjustments refer to one-time cash fees that we charge at the time we acquire a loan based on its credit characteristics. The contractual fee rates we charge vary to the extent we make changes in our pricing strategy in response to the market and competitive environment.

The single-family loans we acquired in the first quarter of 2016 continued to have a strong credit profile, with a weighted average original LTV ratio of 75% and a weighted average FICO credit score of 746. For more information on the credit risk profile of our single-family conventional loan acquisitions in the first quarter of 2016, see "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management," including "Table 27: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business" in that section. 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 guaranty fee pricing and any impact of that pricing on the volume and mix of loans we acquire; our future eligibility standards and those of mortgage insurers, the Federal Housing Administration ("FHA") and the Department of Veterans Affairs ("VA"); the percentage of loan originations representing refinancings; changes in interest rates; our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers; government policy; market and competitive conditions; and the volume and characteristics of HARP loans we acquire in the future. In addition, if our lender customers retain more of the higher-quality loans they originate, it could negatively affect the credit risk profile of our new single-family acquisitions.

#### Providing Access to Credit Opportunities for Creditworthy Borrowers

We are continuing our efforts to increase access to mortgage credit for creditworthy borrowers, consistent with the full extent of our applicable credit requirements and risk management practices. As part of these efforts, in 2014 we changed our eligibility requirements to increase our maximum LTV ratio from 95% to 97% for loans meeting certain criteria, and in 2015 we announced an improved affordable lending product, HomeReady®, which is designed for creditworthy borrowers with lower and moderate incomes and provides expanded eligibility for financing homes in designated low-income, minority and disaster-impacted communities. We began acquiring loans under our revised eligibility criteria in December 2014 and under HomeReady in December 2015. See "Business—Executive Summary—Single-Family Guaranty Book of Business—Providing Access to Credit Opportunities for Creditworthy Borrowers" in our 2015 Form 10-K for more information regarding these loans, including a discussion of their eligibility requirements, the number of these loans acquired in 2015 and our expectations regarding our future acquisitions of these loans.

We continue to seek new ways to responsibly expand access to mortgage credit. FHFA's 2016 conservatorship scorecard specifies that in 2016 we should continue to assess impediments to credit access and develop recommendations to address these barriers. To the extent we are able to encourage lenders to increase access to

mortgage credit, we may acquire a greater number of single-family loans with higher risk characteristics than we acquired in recent periods; however, we expect our single-family acquisitions will continue to have a strong overall credit risk profile given our current underwriting and eligibility standards and product design. We actively monitor the credit risk profile and credit performance of our single-family loan acquisitions, in conjunction with housing market and economic conditions, to determine if our pricing, eligibility and underwriting criteria accurately reflect the risks associated with loans we acquire or guarantee.

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## Contributions to the Housing and Mortgage Markets

### Liquidity and Support Activities

As a leading provider of residential mortgage credit in the United States, we indirectly enable families to buy, refinance or rent homes. During the first quarter of 2016, we continued to provide 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. We provided approximately \$115 billion in liquidity to the mortgage market in the first quarter of 2016 through our purchases of loans and guarantees of loans and securities. This liquidity enabled borrowers to complete approximately 256,000 mortgage refinancings and approximately 210,000 home purchases, and provided financing for approximately 161,000 units of multifamily housing.

Our role in the market enables qualified borrowers to have reliable access to affordable mortgage credit, including a variety of conforming mortgage products such as the prepayable 30-year fixed-rate mortgage that protects homeowners from fluctuations in interest rates.

We provided approximately 27,000 loan workouts in the first quarter of 2016 to help homeowners stay in their homes or otherwise avoid foreclosure. Our loan workout efforts have helped to stabilize neighborhoods, home prices and the housing market.

We helped borrowers refinance loans, including through our Refi Plus™ initiative, which offers additional refinancing flexibility to eligible borrowers who are current on their loans, whose loans are owned or guaranteed by us and who meet certain additional criteria. We acquired approximately 38,000 Refi Plus loans in the first quarter of 2016.

Refinancings delivered to us through Refi Plus in the first quarter of 2016 reduced borrowers' monthly mortgage payments by an average of \$192.

We support affordability in the multifamily rental market. Over 80% of the multifamily units we financed in the first quarter of 2016 were affordable to families earning at or below 120% of the median income in their area, providing support for both workforce housing and affordable housing.

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 our 2015 Form 10-K in "Business—Business Segments—Capital Markets."

### 2016 Market Share

We were one of the largest issuers of mortgage-related securities in the secondary market during the first quarter of 2016, with an estimated market share of new single-family mortgage-related securities issuances of 37%, compared with 36% in the fourth quarter of 2015 and 40% in the first quarter of 2015.

We remained a continuous source of liquidity in the multifamily market in the first quarter of 2016. We owned or guaranteed approximately 18% of the outstanding debt on multifamily properties as of December 31, 2015 (the latest date for which information is available).

### Serving Customer Needs and Improving Our Business Efficiency

We are engaged in various initiatives to better serve our customers' needs and improve our business efficiency. We are committed to providing our lender partners with the products, services and tools they need to serve the market more effectively and efficiently. To further this commitment, we are focused on continuing to revise and clarify our representation and warranty framework, implementing innovative new and enhanced tools that deliver greater value and certainty to lenders, and making our customers' interactions with us simpler and more efficient.

Continuing to revise and clarify our representation and warranty framework. We have taken several actions in recent years to improve our representation and warranty framework. These actions have significantly reduced uncertainty surrounding lenders' repurchase risk relating to loans they deliver to us, and our intention is that these actions will encourage lenders to safely expand their lending to a wider range of qualified borrowers. As of March 31, 2016, over 1.8 million loans in our book of business had obtained relief from repurchases for breaches of certain representations and warranties. We continue to work on new ways to reduce or clarify lenders' repurchase risk. See "Business—Executive Summary—Serving Customer Needs and Improving Our Business Efficiency" in our 2015 Form 10-K and "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" in both our 2015 Form 10-K and this report for further discussion of changes to our representation and warranty framework and actions we have



taken to reduce and clarify lenders' repurchase risk.

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Implementing innovative new and enhanced tools that deliver greater value and certainty to lenders. As described in “Business—Executive Summary—Serving Customer Needs and Improving Our Business Efficiency” in our 2015 Form 10-K, in 2015 we implemented a number of changes designed to help our customers originate mortgages with increased certainty, efficiency and lower costs, and we continue to focus on improving our business to provide value to customers. For example, we expect to implement additional enhancements to Desktop Underwriter<sup>®</sup> during 2016 to further help our lender customers originate mortgages with increased efficiency and lower costs and to help increase access to credit for creditworthy borrowers, such as incorporating trended credit data and offering third-party validation of specified borrower data.

Making our customers’ interactions with us simpler and more efficient. We are also engaged in a multi-year effort to improve our business efficiency and agility through simplification of our business processes and enhancements to our infrastructure. Many of these improvements are also designed to enhance our customers’ experience when doing business with us, including making our customers’ interactions with us simpler and more efficient. These efforts include replacing some of our systems with simpler, more automated infrastructure that will enable us to more efficiently process transactions and manage our book of business, as well as to better adapt to industry and regulatory changes in the future. We are also implementing infrastructure improvements to support the integration of our business with the common securitization platform and our ability to issue a single GSE security.

#### Treasury Senior Preferred Stock Purchase Agreement

From 2009 through the first quarter of 2012, we received a total of \$116.1 billion from Treasury under the senior preferred stock purchase agreement. This funding 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 triggering mandatory receivership under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act of 2008 (together, the “GSE Act”). In addition, a portion of the \$116.1 billion we received from Treasury was drawn to pay dividends to Treasury because, prior to 2013, our dividend payments on the senior preferred stock accrued at an annual rate of 10%, and we were directed by our conservator to pay these dividends to Treasury each quarter even when we did not have sufficient income to pay the dividend. We have not received funds from Treasury under the agreement since the first quarter of 2012.

From 2008 through the first quarter of 2016, we paid a total of \$147.6 billion in dividends to Treasury on the senior preferred stock. Under the terms of the senior preferred stock purchase agreement, dividend payments do not offset prior Treasury draws, and we are not permitted to pay down draws we have made under the agreement except in limited circumstances. Accordingly, the current aggregate liquidation preference of the senior preferred stock is \$117.1 billion, due to the initial \$1.0 billion liquidation preference of the senior preferred stock (for which we did not receive cash proceeds) and the \$116.1 billion we have drawn from Treasury.

The Director of FHFA has directed us to make dividend payments on the senior preferred stock on a quarterly basis. We expect to pay Treasury a senior preferred stock dividend of \$919 million by June 30, 2016 for the second quarter of 2016.

We expect to retain only a limited amount of any future net worth because we are required by the dividend provisions of the senior preferred stock and quarterly directives from our conservator to pay Treasury each quarter any dividends declared consisting of 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 \$1.2 billion for each quarter of 2016, will decrease to \$600 million in 2017 and will decrease to zero in 2018. Those dividend payment provisions are referred to as “net worth sweep” dividend provisions.

Although we expect to remain profitable on an annual basis for the foreseeable future, due to our expectation of continued declining capital and the potential for significant volatility in our financial results, we could experience a net worth deficit in a future quarter, particularly as our capital reserve amount approaches or reaches zero. If that were to occur, we would be required to draw additional funds from Treasury under the senior preferred stock purchase agreement in order to avoid being placed into receivership. As of the date of this filing, the maximum amount of remaining funding under the agreement is \$117.6 billion. If we were to draw additional funds from Treasury under the agreement in a future period, the amount of remaining funding under the agreement would be reduced by the amount

of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement. See “Risk Factors” in our 2015 Form 10-K for a discussion of the risks associated with our limited and declining capital.

As described in “Legal Proceedings” and “Note 16, Commitments and Contingencies,” several lawsuits have been filed by preferred and common stockholders of Fannie Mae and Freddie Mac against one or more of the United States, Treasury and FHFA challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac, including challenges to the net worth sweep dividend provisions of the

senior preferred stock. We are also a party to some of those lawsuits. We cannot predict the course or the outcome of these lawsuits, or the actions the U.S. government (including Treasury or FHFA) may take in response to any ruling or finding in any of these lawsuits.

#### Housing and Mortgage Market and Economic Conditions

Economic growth moderated in the first quarter of 2016. According to the U.S. Bureau of Economic Analysis advance estimate, the inflation-adjusted U.S. gross domestic product, or GDP, rose by 0.5% on an annualized basis in the first quarter of 2016, compared with an increase of 1.4% in the fourth quarter of 2015. The overall economy gained an estimated 628,000 non-farm jobs in the first quarter of 2016. According to the U.S. Bureau of Labor Statistics, over the 12 months ending in March 2016, the economy created an estimated 2.8 million non-farm jobs. The unemployment rate was 5.0% in both March 2016 and December 2015.

According to the Federal Reserve, total U.S. residential mortgage debt outstanding, which includes \$10.0 trillion of single-family debt outstanding, was estimated to be approximately \$11.1 trillion as of December 31, 2015 (the latest date for which information is available), compared with \$11.0 trillion as of September 30, 2015.

Housing sales increased in the first quarter of 2016 as compared with the fourth quarter of 2015. Total existing home sales averaged 5.3 million units annualized in the first quarter of 2016, a 1.7% increase from the fourth quarter of 2015, according to data from the National Association of REALTORS®. Sales of foreclosed homes and preforeclosure, or “short,” sales (together, “distressed sales”) accounted for 8% of existing home sales in March 2016, compared with 8% in December 2015 and 10% in March 2015. According to the U.S. Census Bureau, new single-family home sales increased during the first quarter of 2016, averaging an annualized rate of 517,000 units, a 1.5% gain from the fourth quarter of 2015.

The number of months’ supply, or the inventory/sales ratio, of available existing homes and of new homes increased in the first quarter of 2016. According to the U.S. Census Bureau, the months’ supply of new single-family unsold homes was 5.8 months as of March 31, 2016, compared with 5.3 months as of December 31, 2015. According to the National Association of REALTORS®, the months’ supply of existing unsold homes was 4.5 months as of March 31, 2016, compared with a 3.9 months’ supply as of December 31, 2015.

The overall mortgage market serious delinquency rate fell to 3.4% as of December 31, 2015 (the latest date for which information is available), according to the Mortgage Bankers Association’s National Delinquency Survey, its lowest level since the third quarter of 2007, compared with 4.5% as of December 31, 2014. We provide information about Fannie Mae’s serious delinquency rate, which decreased in the first quarter of 2016, in “Single-Family Guaranty Book of Business—Credit Performance.”

Based on our home price index, we estimate that home prices on a national basis increased by 0.5% in the first quarter of 2016, following increases of 4.9% in 2015, 4.4% in 2014 and 7.9% in 2013. Despite the recent increases in home prices, we estimate that, through March 31, 2016, home prices on a national basis remained 5.7% 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.

Despite the recent increases in home prices, many homeowners continue to have “negative equity” in their homes as a result of declines in home prices since 2006, which means their mortgage principal 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 fourth quarter of 2015 was approximately 4.3 million, up from 4.2 million in the third quarter of 2015 and down from 5.3 million in the fourth quarter of 2014. The percentage of properties with mortgages in a negative equity position in the fourth quarter of 2015 was 8.5%, up from 8.3% in the third quarter of 2015 and down from 10.7% in the fourth quarter of 2014.

Thirty-year fixed-rate mortgage rates ended the quarter at 3.71% for the week of March 31, 2016, down from 4.01% for the week of December 31, 2015, according to the Freddie Mac Primary Mortgage Market Survey®.

During the first quarter of 2016, the multifamily sector exhibited positive but slowing fundamentals, according to preliminary third-party data, with a modestly higher national vacancy level but also increasing rent growth. The estimated national multifamily vacancy rate for institutional investment-type apartment properties was 5.1% as of March 31, 2016, compared with 5.0% as of December 31, 2015. National asking rents increased by an estimated

0.50% during the first quarter of 2016, compared with a 0.25% increase during the fourth quarter of 2015. Because estimated multifamily rent growth has outpaced wage growth over the past few years, multifamily rental housing affordability has declined in recent years.

Despite the increase in the multifamily vacancy rate, continued demand for multifamily rental units was reflected in the estimated positive net absorption (that is, the net change in the number of occupied rental units during the time period) of

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approximately 31,000 units during the first quarter of 2016, according to preliminary data from Reis, Inc., compared with approximately 37,000 units during the fourth quarter of 2015. 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. More than 386,000 new multifamily units are expected to be completed this year. Although the bulk of this new supply is concentrated in a limited number of metropolitan areas, we believe this increase in supply will result in lower national net absorption levels in 2016, leading to an increase in the national multifamily vacancy rate and a slowdown in rent growth.

#### Outlook

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

We cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation. See “Business—Housing Finance Reform” in our 2015 Form 10-K for a discussion of proposals for reform of the housing finance system, including the GSEs, that could materially affect our business, including proposals to wind down Fannie Mae and Freddie Mac. See “Risk Factors” in both this report and our 2015 Form 10-K for a discussion of the risks to our business relating to the uncertain future of our company.

**Financial Results.** We continued to be profitable in the first quarter of 2016, with net income of \$1.1 billion. We expect to remain profitable on an annual basis for the foreseeable future; however, certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year. Our future financial results also will be affected by a number of other factors, including: our guaranty fee rates; the volume of single-family mortgage originations in the future; the size, composition and quality of our retained mortgage portfolio and guaranty book of business; and economic and housing market conditions. Although we expect to remain profitable on an annual basis for the foreseeable future, due to our expectation of continued declining capital and the potential for significant volatility in our financial results, we could experience a net worth deficit in a future quarter, particularly as our capital reserve amount approaches or reaches zero. See “Treasury Senior Preferred Stock Purchase Agreement” above and “Risk Factors” in our 2015 Form 10-K for more information on, and the risks associated with, our limited and declining capital. In addition, our expectations for our future financial results do not take into account the impact on our business of potential future legislative or regulatory changes, which could have a material impact on our financial results, particularly the enactment of housing finance reform legislation as noted in “Uncertainty Regarding our Future Status” above.

**Revenues.** We currently have two primary sources of revenues: (1) the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties; and (2) 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. In recent years, an increasing portion of our net interest income has been derived from guaranty fees rather than from our retained mortgage portfolio assets, due to the impact of guaranty fee increases implemented in 2012 and the reduction of our retained mortgage portfolio. Approximately two-thirds of our net interest income in the first quarter of 2016 was derived from the loans underlying our Fannie Mae MBS in consolidated trusts, which primarily generate income through guaranty fees. We expect that guaranty fees will continue to account for an increasing portion of our net interest income.

We expect continued decreases in the size of our retained mortgage portfolio, which will continue to negatively impact our net interest income and net revenues; however, we also expect increases in our guaranty fee revenues will partially offset the negative impact of the decline in our retained mortgage portfolio. We expect our guaranty fee revenues to increase over the next several years, as loans with lower guaranty fees liquidate from our book of business and are replaced with new loans with higher guaranty fees. The extent to which the positive impact of increased guaranty fee revenues will offset the negative impact of the decline in the size of our retained mortgage portfolio will depend on many factors, including: changes to guaranty fee pricing we may make in the future and their impact on our competitive environment and guaranty fee revenues; the size, composition and quality of our guaranty book of

business; the life of the loans in our guaranty book of business; the size, composition and quality of our retained mortgage portfolio; economic and housing market conditions, including changes in interest rates; our market share; and legislative and regulatory changes.

Overall Market Conditions. While we expect the single-family serious delinquency rate for the overall mortgage market will continue to decline, we believe the rate of decline will be gradual. We expect the national single-family serious delinquency rate will remain high compared with pre-housing crisis levels because it will take some time for the remaining delinquent loans originated prior to 2009 to work their way through the foreclosure process.

We forecast that total originations in the U.S. single-family mortgage market in 2016 will decrease from 2015 levels by approximately 9% from an estimated \$1.71 trillion in 2015 to \$1.56 trillion in 2016, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will decrease from an estimated \$795 billion in 2015 to \$615 billion in 2016.

**Home Prices.** Based on our home price index, we estimate that home prices on a national basis increased by 0.5% in the first quarter of 2016. We expect the rate of home price appreciation in 2016 to be similar to the rate in 2015. 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 fiscal policies, mortgage finance programs and policies, and housing finance reform; the Federal Reserve's purchases and sales of mortgage-backed securities; 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 and political 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. Our credit losses were \$1.6 billion in the first quarter of 2016, down from \$5.4 billion in the first quarter of 2015. We expect our credit losses to be lower in 2016 than our 2015 credit losses. See "Consolidated Results of Operations—Credit-Related Income—Credit Loss Performance Metrics" for a discussion of our credit losses for the first quarter of 2016 and 2015, including the impact on our first quarter 2015 credit losses of our adoption of FHFA's Advisory Bulletin AB 2012-02, "Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention" (the "Advisory Bulletin") and a change in our accounting policy for nonaccrual loans, which collectively resulted in \$3.6 billion in charge-offs in the first quarter of 2015.

**Loss Reserves.** Our combined loss reserves were \$26.3 billion as of March 31, 2016, down from \$28.6 billion as of December 31, 2015. Our loss reserves have declined substantially from their peak and are expected to decline further. For a discussion of the factors that contributed to the decline in our loss reserves in the first quarter of 2016, see "Consolidated Results of Operations—Credit-Related Income" and "Consolidated Balance Sheet Analysis—Mortgage Loans."

**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, the level and sources of our future revenues and net interest income, our future dividend payments to Treasury, the credit characteristics of, and the credit risk posed by, our future acquisitions, our future credit risk transfer transactions, 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 single-family loan delinquency rates, future mortgage originations, future refinancings, future home prices and future conditions in the multifamily market. 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, including negative interest rates; changes in unemployment rates and other macroeconomic and housing market variables; our future guaranty fee pricing and the impact of that pricing on our guaranty fee revenues and competitive environment; our future serious delinquency rates; our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers; future legislative or regulatory requirements or changes that have a significant impact on our business, such as the enactment of housing finance reform legislation; actions we may be required to take by FHFA, in its role as our conservator or as our regulator, such as changes in the type of business we do or implementation of a single GSE security; limitations on our business imposed by FHFA, in its role as our conservator or as our regulator; future updates to our models relating to our loss reserves, including the assumptions used by these models; future changes to our accounting policies; significant changes in modification and foreclosure activity; the volume and pace of future nonperforming loan sales and their impact on our results and serious delinquency rates; changes in borrower behavior, such as an increasing number of underwater borrowers who strategically default on their mortgage loans; the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies;



whether our counterparties meet their obligations in full; resolution or settlement agreements we may enter into with our counterparties; changes in the fiscal and monetary policies of the Federal Reserve, including any change in the Federal Reserve's policy towards the reinvestment of principal payments of mortgage-backed securities or any future sales of such securities; changes in the fair value of our assets and liabilities; changes in generally accepted accounting principles ("GAAP"); credit availability; global political risks; natural disasters, environmental disasters, terrorist attacks, pandemics or other major disruptive events; information security breaches; and other factors, including those discussed in "Forward-Looking Statements," "Risk Factors" and elsewhere in this report and in our 2015 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—Housing Finance Reform” and “Business—Our Charter and Regulation of Our Activities” in our 2015 Form 10-K. Also see “Risk Factors” in this report and in our 2015 Form 10-K for a discussion of risks relating to legislative and regulatory matters.

##### Housing Finance Reform

Congress continues to consider housing finance reform that could result in significant changes in our structure and role in the future. As described in “Business—Housing Finance Reform—Legislative Developments” in our 2015 Form 10-K, in the first session of the 114th Congress, which convened in January 2015, several bills were introduced and considered in the Senate and the House of Representatives relating to Fannie Mae, Freddie Mac and the housing finance system, two of which were enacted into law.

We expect Congress to continue to consider legislation relating to the GSEs and housing finance reform in the current congressional session, including conducting hearings and considering legislation that would alter the housing finance system or the activities or operations of the GSEs. See “Risk Factors” in this report and our 2015 Form 10-K for a discussion of the risks to our business relating to the uncertain future of our company.

##### 2015 Housing Goals Performance

We are subject to housing goals, which establish specified requirements for our mortgage acquisitions 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.

For 2015, we believe we met three of our five single-family benchmarks. The two single-family benchmarks we believe we did not meet were the low-income families home purchase benchmark and the very low-income families home purchase benchmark. In addition, we believe we met our multifamily goal and subgoals for 2015. Final performance results will be calculated and published by FHFA after the release in the fall of 2016 of data reported by primary market originators under the Home Mortgage Disclosure Act. To determine whether we met our low-income families home purchase goal and our very low-income families home purchase goal, FHFA will compare our performance with that of the market. We will be in compliance with these goals if we meet the applicable market share measures for these goals. See “Business—Our Charter and Regulation of Our Activities—The GSE Act—Housing Goals and Duty to Serve Underserved Markets—Housing Goals for 2015 to 2017” in our 2015 Form 10-K for a more detailed discussion of our housing goals.

##### Proposed Rule on Incentive Compensation

On April 26, 2016, FHFA reissued its portion of a proposed rule under Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) relating to incentive compensation. Section 956 of the Dodd-Frank Act requires that FHFA and other financial regulators issue rules or guidelines: (1) prohibiting incentive-based payment arrangements that the regulators determine encourage inappropriate risks by providing excessive compensation or that could lead to material financial loss; and (2) requiring enhanced disclosure and reporting of incentive compensation arrangements. The proposed rule provides that, while we are in conservatorship, FHFA will determine how to best fulfill the requirements and purpose of Section 956, taking into consideration the possible duration of the conservatorship, the nature of our governance, the need to attract and retain management and other talent, limitations on the ability to employ equity-like instruments as incentive-based compensation, and any other circumstances FHFA deems relevant.

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 2015 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 2015 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 two 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: fair value measurement and combined loss reserves. See “MD&A—Critical Accounting Policies and Estimates” in our 2015 Form 10-K for a discussion of these critical accounting policies and estimates.

CONSOLIDATED  
RESULTS OF  
OPERATIONS

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

Table 3: Summary of Condensed Consolidated Results of Operations

	For the Three Months Ended March 31,		
	2016	2015	Variance
	(Dollars in millions)		
Net interest income	\$4,769	\$5,067	\$ (298 )
Fee and other income	203	308	(105 )
Net revenues	4,972	5,375	(403 )
Investment gains, net	69	342	(273 )
Fair value losses, net	(2,813 )	(1,919 )	(894 )
Administrative expenses	(688 )	(723 )	35
Credit-related income			
Benefit for credit losses	1,184	533	651
Foreclosed property expense	(334 )	(473 )	139
Total credit-related income	850	60	790
Temporary Payroll Tax Cut Continuation Act of 2011 (“TCCA”) fees	(440 )	(382 )	(58 )
Other income (expenses), net	(264 )	5	(269 )
Income before federal income taxes	1,686	2,758	(1,072 )
Provision for federal income taxes	(550 )	(870 )	320
Net income attributable to Fannie Mae	\$1,136	\$1,888	\$ (752 )
Total comprehensive income attributable to Fannie Mae	\$936	\$1,796	\$ (860 )

## Net Interest Income

We currently have two primary sources of net interest income: (1) the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties; and (2) 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. We recognize almost all of our guaranty fee revenue in net interest income due to the consolidation of the substantial majority of loans underlying our Fannie Mae MBS in consolidated trusts on our balance sheet. Those guaranty fees are the primary component of the difference between the interest income on loans in consolidated trusts and the interest expense on the debt of consolidated trusts.

Table 4 displays an analysis of our net interest income, average balances, and related yields earned on assets and incurred on liabilities. 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 5 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 4: Analysis of Net Interest Income and Yield

	For the Three Months Ended March 31,							
	2016		2015					
	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	\$238,041	\$2,335	3.92 %		\$271,127	\$2,422	3.57 %	
Mortgage loans of consolidated trusts	2,817,328	24,626	3.50		2,783,994	24,622	3.54	
Total mortgage loans <sup>(1)</sup>	3,055,369	26,961	3.53		3,055,121	27,044	3.54	
Mortgage-related securities	85,638	893	4.17		121,734	1,426	4.69	
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(59,058 )	(624 )	4.23		(83,587 )	(947 )	4.53	
Total mortgage-related securities, net	26,580	269	4.05		38,147	479	5.02	
Non-mortgage-related securities <sup>(2)</sup>	50,257	54	0.43		43,941	12	0.11	
Federal funds sold and securities purchased under agreements to resell or similar arrangements	24,195	29	0.48		33,409	12	0.14	
Advances to lenders	3,546	19	2.12		4,001	21	2.10	
Total interest-earning assets	\$3,159,947	\$27,332	3.46 %		\$3,174,619	\$27,568	3.47 %	
Interest-bearing liabilities:								
Short-term funding debt	\$60,085	\$50	0.33 %		\$98,043	\$29	0.12 %	
Long-term funding debt	318,944	1,854	2.33		358,182	1,957	2.19	
Total funding debt	379,029	1,904	2.01		456,225	1,986	1.74	
Debt securities of consolidated trusts	2,859,494	21,283	2.98		2,849,447	21,462	3.01	
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(59,058 )	(624 )	4.23		(83,587 )	(947 )	4.53	
Total debt securities of consolidated trusts held by third parties	2,800,436	20,659	2.95		2,765,860	20,515	2.97	
Total interest-bearing liabilities	\$3,179,465	\$22,563	2.84 %		\$3,222,085	\$22,501	2.79 %	
Net interest income/net interest yield		\$4,769	0.60 %			\$5,067	0.64 %	



	As of March	
	31,	
	2016	2015
Selected benchmark interest rates		
3-month LIBOR	0.63%	0.27%
2-year swap rate	0.84	0.81
5-year swap rate	1.17	1.53
10-year swap rate	1.64	2.02
30-year Fannie Mae MBS par coupon rate	2.57	2.65

Average balance includes mortgage loans on nonaccrual status. Typically, interest income on nonaccrual mortgage loans is recognized when cash is received. Interest income not recognized for loans on nonaccrual status was \$338 million for the first quarter of 2016 compared with \$412 million for the first quarter of 2015.

(2) Includes cash equivalents.

Table 5: Rate/Volume Analysis of Changes in Net Interest Income

For the Three

Months Ended

March 31, 2016

vs. 2015

Total Due  
to:<sup>(1)</sup>

Variance