

FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE  
Form 10-K  
February 21, 2014

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

Form 10-K

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

For the fiscal year ended December 31, 2013

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class

Name of Each Exchange on Which Registered

None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, without par value

(Title of class)

8.25% Non-Cumulative Preferred Stock, Series T, stated value \$25 per share

(Title of class)

8.75% Non-Cumulative Mandatory Convertible Preferred Stock, Series 2008-1, stated value \$50 per share

(Title of class)

Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series S, stated value \$25 per share

(Title of class)

7.625% Non-Cumulative Preferred Stock, Series R, stated value \$25 per share

(Title of class)

6.75% Non-Cumulative Preferred Stock, Series Q, stated value \$25 per share

(Title of class)

Variable Rate Non-Cumulative Preferred Stock, Series P, stated value \$25 per share

(Title of class)

Variable Rate Non-Cumulative Preferred Stock, Series O, stated value \$50 per share

(Title of class)

5.375% Non-Cumulative Convertible Series 2004-1 Preferred Stock, stated value \$100,000 per share

(Title of class)

5.50% Non-Cumulative Preferred Stock, Series N, stated value \$50 per share

(Title of class)

4.75% Non-Cumulative Preferred Stock, Series M, stated value \$50 per share

(Title of class)

5.125% Non-Cumulative Preferred Stock, Series L, stated value \$50 per share

(Title of class)

5.375% Non-Cumulative Preferred Stock, Series I, stated value \$50 per share

(Title of class)

5.81% Non-Cumulative Preferred Stock, Series H, stated value \$50 per share

(Title of class)

Variable Rate Non-Cumulative Preferred Stock, Series G, stated value \$50 per share

(Title of class)

Variable Rate Non-Cumulative Preferred Stock, Series F, stated value \$50 per share

(Title of class)

5.10% Non-Cumulative Preferred Stock, Series E, stated value \$50 per share

(Title of class)

5.25% Non-Cumulative Preferred Stock, Series D, stated value \$50 per share

(Title of class)

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

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

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

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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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The aggregate market value of the common stock held by non-affiliates of the registrant computed by reference to the last reported sale price of the common stock quoted on the OTC Bulletin Board on June 28, 2013 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$1.6 billion. As of January 31, 2014, there were 1,158,080,657 shares of common stock of the registrant outstanding.

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## PART I

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

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

### Item 1. Business

#### INTRODUCTION

Fannie Mae is a government-sponsored enterprise (“GSE”) that was chartered by Congress in 1938. We serve an essential role in the functioning of the U.S. housing market and we 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 for securitization and sale at a later date and, to a declining extent, for our retained mortgage portfolio. 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. Our conservatorship has no specified termination date, and we do not know when or how the conservatorship will terminate, whether we will continue to exist following conservatorship, what changes to our business structure will be made during or following the conservatorship, or what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated. In addition, our agreements with Treasury that provide for financial support permit us to retain only a limited and decreasing amount of our earnings and 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 under “Conservatorship and Treasury Agreements” and “Risk Factors.” We discuss the uncertainty of our future in “Executive Summary—Outlook” and “Risk Factors.” We discuss proposals for GSE reform that could materially affect our business in “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

Please read this Executive Summary together with our MD&A and our consolidated financial statements as of December 31, 2013 and related notes to the consolidated financial statements.

### Our Strategy and Progress

We are focused on three primary goals:

- achieving strong financial performance and continued improvement in our book of business;
- supporting the housing recovery by providing reliable, large-scale access to affordable mortgage credit and helping struggling homeowners; and
- helping to lay the foundation for a safer, transparent and sustainable housing finance system going forward.

While we remain under conservatorship and subject to the restrictions of the senior preferred stock purchase agreement with Treasury, our company has undergone significant changes over the past several years, resulting in improved financial performance and a stronger book of business. For example:

**Improved Financial Results.** We reported net income of \$84.0 billion and pre-tax income of \$38.6 billion in 2013, the highest annual net income and annual pre-tax income in our history. See “Summary of Our Financial Performance for 2013” below for an overview of our 2013 financial performance. As of December 31, 2013, we have been profitable for eight consecutive quarters, and we expect to remain profitable for the foreseeable future. While we expect our annual earnings to remain strong over the next few years, we expect our net income in future years will be substantially lower than our net income for 2013. See “Outlook—Financial Results” and “Strengthening Our Book of Business—Expectations Regarding Future Revenues” below for more information regarding our expectations for our future financial performance.

**Dividend Payments to Treasury.** With our March 2014 dividend payment to Treasury, we will have paid a total of \$121.1 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. We expect to continue to make dividend payments to Treasury. See “Outlook—Dividend Obligations to Treasury” below for more information regarding our expectations for dividend payments to Treasury.

**Stronger Book of Business and Improved Credit Performance.** Changes we have made beginning in 2008 to strengthen our underwriting and eligibility standards have improved the credit quality of our \$2.9 trillion single-family guaranty book of business, and contributed to improvement in our credit performance. As of December 31, 2013, our single-family serious delinquency rate had declined for fifteen consecutive quarters. Single-family seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. Our single-family serious delinquency rate was 2.38% as of December 31, 2013, compared with 3.29% as of December 31, 2012 and its peak of 5.59% as of February 28, 2010. Single-family loans we have acquired since the beginning of 2009 (referred to as our “new single-family book of business”) comprised 77% of our single-family guaranty book of business as of December 31, 2013, while the single-family loans we acquired prior to 2009 (referred to as our “legacy book of business”) comprised 23% of our single-family guaranty 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. We also continue to execute on our strategies for reducing credit losses on our legacy book of business, as described below under “Improving the Credit Performance of our Book of Business.”

Although we have improved our financial performance and the quality of our book of business, as a result of our senior preferred stock purchase agreement with Treasury, we are not permitted to retain our earnings (other than a limited amount that will decrease to zero by 2018), rebuild our capital position or to pay dividends or other distributions to stockholders other than Treasury. See “Conservatorship and Treasury Agreements—Treasury Agreements” for more information regarding our senior preferred stock purchase agreement with Treasury. In addition, the future of our company remains uncertain. Congress continues to consider options for GSE reform and we cannot predict the prospects for the enactment, timing or content of legislative proposals regarding long-term reform of the GSEs. See “Housing Finance Reform” for information on current proposals for GSE reform.

We continued our efforts to support the housing recovery in 2013. We remained the largest single issuer of mortgage-related securities in the secondary market during the fourth quarter of 2013 and a continuous source of liquidity in the multifamily



market. We also continued to help struggling homeowners. In 2013, we provided approximately 234,000 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.

We also contributed to building a sustainable housing finance system in 2013. Our efforts included pursuing the strategic goals and objectives identified by our conservator, as well as investing in improvements to our business and infrastructure. We discuss these efforts in “Helping to Build a Sustainable Housing Finance System” below.

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

- Our 2013 financial performance,
- Our work to strengthen our book of business,
- Our work to improve the credit performance of our single-family book of business,
- Our continued contributions to the housing and mortgage markets,
- Our efforts to help build a sustainable housing finance system,
- Our liquidity position, and
- Our outlook.

#### Summary of Our Financial Performance for 2013

Our financial results for 2013 reflected continued improvements in the housing and mortgage markets, resulting in a further reduction in our loss reserves, and continued stable revenues. Our 2013 financial results were also positively affected by the release of the valuation allowance against our deferred tax assets and the large number of resolutions we entered into during the year relating to representation and warranty matters and servicing matters. Although we expect to continue to enter into resolution agreements and may have credit-related income in future years, we expect these factors will have a smaller impact on our earnings in future years than in 2013. In addition, as of December 31, 2013, we no longer have a significant valuation allowance against our deferred tax assets.

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 derivatives and trading securities. The estimated fair value of our derivatives and trading securities 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 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

We recognized comprehensive income of \$84.8 billion in 2013, consisting of net income of \$84.0 billion and other comprehensive income of \$819 million. In comparison, we recognized comprehensive income of \$18.8 billion in 2012, consisting of net income of \$17.2 billion and other comprehensive income of \$1.6 billion.

Our 2013 comprehensive income includes a benefit for federal income taxes of \$45.4 billion resulting from the release of our valuation allowance against our deferred tax assets, partially offset by our current year provision for federal income taxes. 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 2013 pre-tax income, which excludes the benefit for federal income taxes, was \$38.6 billion, compared with \$17.2 billion in 2012. The increase in our pre-tax income was primarily due to an increase in credit-related income in 2013, fair value gains in 2013 compared with fair value losses in 2012, and an increase in fee and other income in 2013.

Credit-related income increased to \$11.8 billion in 2013 from \$1.1 billion in 2012. Our credit results for 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 in 2013 compared with 2012 was due in part to a decline in the number of delinquent loans in our single-family conventional guaranty book of business, as well as the recognition of compensatory fee income in 2013 related to servicing matters and gains resulting from resolution agreements reached in 2013 related to representation and warranty matters. In addition, in 2013 we updated the assumptions and data used

to estimate our allowance for loan losses for individually impaired single-family loans to reflect faster prepayment and lower default expectations for these loans, which resulted in a

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decrease to our allowance for loan losses. See “Critical Accounting Policies and Estimates—Total Loss Reserves—Single-Family Loss Reserves” for additional information. The positive impact of these factors on our credit-related income in 2013 was partially offset by lower discounted cash flow projections on our individually impaired loans due to increasing mortgage interest rates in 2013. Higher mortgage interest rates lengthen the expected lives of modified loans, which increases the impairment on these loans and results in an increase to the provision for credit losses.

In addition to the positive impact of increases in home prices in 2012, mortgage interest rates decreased, resulting in higher discounted cash flow projections on our individually impaired loans. Our credit-related income in 2012 was partially offset by changes in our 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.

Fair value gains of \$3.0 billion in 2013 were primarily driven by derivatives fair value gains as swap rates increased in 2013 compared with fair value losses of \$3.0 billion in 2012 driven by derivatives fair value losses as swap rates declined in 2012.

Fee and other income increased to \$3.9 billion in 2013 from \$1.5 billion in 2012 primarily as a result of funds we received in 2013 pursuant to settlement agreements resolving certain lawsuits relating to private-label mortgage-related securities (“PLS”) sold to us. See “Legal Proceedings—FHFA Private-Label Mortgage-Related Securities Litigation” for additional information.

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

#### Net Worth

Our net worth of \$9.6 billion as of December 31, 2013 reflects our comprehensive income of \$84.8 billion, partially offset by our payments to Treasury of \$82.5 billion in senior preferred stock dividends during 2013.

As a result of our positive net worth as of December 31, 2013, we are not requesting a draw from Treasury under the senior preferred stock purchase agreement. Our dividend payment for the first quarter of 2014 will be \$7.2 billion, which is calculated based on our net worth of \$9.6 billion as of December 31, 2013 less the applicable capital reserve amount of \$2.4 billion. By March 31, 2014, we will have paid a total of \$121.1 billion in dividends to Treasury.

#### Strengthening Our Book of Business

##### Credit Risk Profile

While continuing to make it possible for families to purchase, refinance or rent homes, we have established responsible credit standards. Beginning in 2008, we took actions to significantly strengthen our underwriting and eligibility standards and change our pricing to promote sustainable homeownership and stability in the housing market. These actions have improved the credit quality of our book of business. Given their strong credit risk profile and based on their performance so far, we expect that in the aggregate the loans we have acquired since January 1, 2009, which comprised 77% of our single-family guaranty book of business as of December 31, 2013, will be profitable over their lifetime, by which we mean that we expect our guaranty 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. See “Outlook—Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations” and “Risk Factors” for a discussion of factors that could cause our expectations regarding the performance of the loans in our single-family book of business to change. For information on the credit characteristics of our new single-family book of business as compared to our legacy book of business, see “Table 38: Selected Credit Characteristics of Single-Family Conventional Loans Held, By Acquisition Period.” For more 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 39: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business” in that section. Our new single-family book of business includes loans that are refinancings of loans that were in our legacy book of business, including loans acquired under the Obama Administration’s Home Affordable Refinance Program (“HARP”) and under our Refi Plus initiative, which offer refinancing flexibility to eligible Fannie Mae borrowers. Information about the impact of HARP and Refi Plus 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—Credit Profile Summary—HARP and Refi Plus Loans” and in “Table 40: Selected Credit Characteristics of Single-Family Conventional Loans Acquired under HARP and Refi Plus” 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 pricing and eligibility standards and those of mortgage

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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 HARP loans we acquire in the future.

#### Guaranty Fees on Recently Acquired Single-Family Loans

Table 1 below displays information regarding our average charged guaranty fee on single-family loans we acquired in each of the last three years, as well as the volume of our single-family Fannie Mae MBS issuances, which is indicative of the volume of single-family loans we acquired.

Table 1: Single-Family Acquisitions Statistics

	For the Year Ended December 31,		
	2013	2012	2011
	(Dollars in millions)		
Single-family average charged guaranty fee on new acquisitions (in basis points) <sup>(1)(2)</sup>	57.4	39.9	28.8
Single-family Fannie Mae MBS issuances <sup>(3)</sup>	\$733,111	\$827,749	\$564,606

Pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011 (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 by 10

<sup>(1)</sup> basis points, and the incremental revenue must be remitted to Treasury. The resulting revenue is included in guaranty fee income and the expense is recognized as “TCCA fees.” This increase in guaranty fee is included in the single-family average charged guaranty fee.

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

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

The revenue we receive from single-family guaranty fees depends on the volume of our acquisitions, the charged guaranty fee at acquisition and the life of the loans. Because we increased our guaranty fees in 2012, 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”).

Several factors contributed to the increase in our average charged guaranty fee on newly acquired single-family loans in 2013 as compared with 2012, including: (1) an average guaranty fee increase of 10 basis points implemented during the fourth quarter of 2012; (2) an increase in total loan level price adjustments charged on our 2013 acquisitions, as the credit profile of our 2013 acquisitions included a higher proportion of loans with higher loan-to-value (“LTV”) ratios and a higher proportion of loans with lower FICO credit scores than our 2012 acquisitions; and (3) the 10 basis point guaranty fee increase implemented on April 1, 2012 pursuant to the TCCA, from which the incremental revenue is remitted to Treasury. Loan level price adjustments refer to one-time cash fees that we charge at the time we initially acquire a loan based on the credit characteristics of the loan. Although there was a shift in the credit risk profile of our 2013 acquisitions to include a greater proportion of loans with higher LTV ratios and lower FICO credit scores than our 2012 acquisitions, the single-family loans we purchased or guaranteed in 2013 continued to have a strong credit profile with a weighted average original LTV ratio of 76%, a weighted average FICO credit score of 753, and a product mix with a significant percentage of fully amortizing fixed-rate mortgage loans. For more information on the credit risk profile of our 2013 single-family conventional loan acquisitions, see “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management,” including “Table 39: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business” in that section.

In December 2013, FHFA directed us to further increase our base single-family guaranty fees by 10 basis points and to make changes to our single-family loan level price adjustments. In January 2014, however, FHFA directed us to delay implementation of these guaranty fee changes. FHFA Director Melvin L. Watt, who was sworn in as Director in January 2014, stated that he intends to conduct a thorough evaluation of the proposed changes and their likely impact as expeditiously as possible. See “Our Charter and Regulation of Our Activities—Potential Changes to Our Single-Family

Guaranty Fee Pricing” for more information on the potential changes to our guaranty fee pricing.

#### Expectations Regarding Future Revenues

We currently have two primary sources of revenues: (1) the difference between interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets; and (2) the guaranty fees



we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties. Our “retained mortgage portfolio” refers to the mortgage-related assets we own (which excludes the portion of assets held by consolidated MBS trusts that back mortgage-related securities owned by third parties). Historically, we have generated the majority of our revenues from the difference between the interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets. As discussed 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 a result of both the shrinking of our retained mortgage portfolio and the impact of guaranty fee increases, an increasing portion of our revenues in recent years has been derived from guaranty fees rather than from interest income earned on our retained mortgage portfolio assets. We recognize almost all of our guaranty fee revenue in net interest income in our consolidated statements of operations and comprehensive income due to the consolidation of the substantial majority of our MBS trusts on our balance sheet. The percentage of our net interest income derived from guaranty fees on loans underlying our Fannie Mae MBS has increased in each of the past two years. We estimate that approximately 40% of our net interest income for the year ended December 31, 2013 was derived from guaranty fees on loans underlying our Fannie Mae MBS, compared with approximately 30% for the year ended December 31, 2012 and approximately 25% for the year ended December 31, 2011. We expect that this trend will continue and that, in the near future, guaranty fees will become the primary source of our revenues.

The decrease in the balance of mortgage assets held in our retained mortgage portfolio contributed to a decline in our net interest income in the fourth quarter of 2013 as compared with the fourth quarter of 2012. We expect continued decreases in the size of our retained mortgage portfolio, which will continue to negatively impact our net interest income and revenues; however, we also expect increases in our guaranty fee revenues will at least partially offset the negative impact of the decline in our retained mortgage portfolio. 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; 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; and legislative and regulatory changes.

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.

#### Improving the Credit Performance of our Book of Business

We continue our efforts to improve the credit performance of our book of business. In addition to acquiring loans with strong credit profiles, as we discuss above in “Strengthening Our Book of Business—Credit Risk Profile,” we continue to execute on our strategies for reducing credit losses on our legacy book of business, such as helping eligible Fannie Mae borrowers with high LTV ratio loans refinance into more sustainable loans through HARP, offering borrowers loan modifications that can significantly reduce their monthly payments, pursuing foreclosure alternatives and managing our real estate owned (“REO”) inventory to minimize costs and maximize sales proceeds. As we work to reduce credit losses, we also seek to assist distressed borrowers, help stabilize communities and support the housing market.

We worked to resolve the substantial majority of our outstanding repurchase requests to our mortgage seller and servicer counterparties in 2013. We also worked with FHFA to resolve certain claims related to our PLS investments. We entered into nearly \$16 billion in resolution and settlement agreements in 2013 related to representation and warranty and PLS matters. The amounts paid to us under some of these agreements are subject to reconciliation and adjustment. Our resolutions of outstanding repurchase requests contributed to the reduction in our credit losses in 2013. In addition, our loan quality initiatives have resulted in lenders delivering better information at the time we acquire loans, allowing us to address data anomalies and potentially reduce future repurchase requests.

See “MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Mortgage

Sellers and Servicers” for more information about our repurchase requests and loan reviews.

Table 2 presents information for each of the last three years about the credit performance of mortgage loans in our single-family guaranty book of business and our workouts. The term “workouts” refers to 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 2 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 2: Credit Statistics, Single-Family Guaranty Book of Business<sup>(1)</sup>

	2013	2012	2011	
	(Dollars in millions)			
As of the end of each period:				
Serious delinquency rate <sup>(2)</sup>	2.38	% 3.29	% 3.91	%
Seriously delinquent loan count	418,837	576,591	690,911	
Troubled debt restructurings on accrual status <sup>(3)</sup>	\$140,512	\$135,196	\$107,991	
Nonaccrual loans <sup>(4)</sup>	\$81,397	\$112,627	\$140,388	
Foreclosed property inventory:				
Number of properties <sup>(5)</sup>	103,229	105,666	118,528	
Carrying value	\$10,334	\$9,505	\$9,692	
Combined loss reserves <sup>(6)</sup>	\$44,705	\$58,809	\$71,512	
Total loss reserves <sup>(7)</sup>	\$46,689	\$61,396	\$75,264	
During the period:				
Foreclosed property (number of properties):				
Acquisitions <sup>(5)</sup>	144,384	174,479	199,696	
Dispositions	(146,821 )	(187,341 )	(243,657 )	
Credit-related income (expense) <sup>(8)</sup>	\$11,205	\$919	\$(27,218 )	
Credit losses <sup>(9)</sup>	\$4,452	\$14,392	\$18,346	
REO net sales prices to unpaid principal balance <sup>(10)</sup>	67	% 59	% 54	%
Short sales net sales price to unpaid principal balance <sup>(11)</sup>	67	% 61	% 59	%
Loan workout activity (number of loans):				
Home retention loan workouts <sup>(12)</sup>	172,029	186,741	248,658	
Short sales and deeds-in-lieu of foreclosure	61,949	88,732	79,833	
Total loan workouts	233,978	275,473	328,491	
Loan workouts as a percentage of delinquent loans in our guaranty book of business <sup>(13)</sup>	29.20	% 26.38	% 27.05	%

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.

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.

A troubled debt restructuring (“TDR”) is a restructuring of a mortgage loan in which a concession is granted to a borrower experiencing financial difficulty.

We generally classify single-family loans as nonaccrual when the payment of principal or interest on the loan is 60 days or more past due. Includes off-balance sheet loans in unconsolidated Fannie Mae MBS trusts that would meet our criteria for nonaccrual status if the loans had been on-balance sheet.

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

Consists of the allowance for loan losses for single-family loans recognized in our consolidated balance sheets and the reserve for guaranty losses related to both loans backing Fannie Mae MBS that we do not consolidate in our 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.”

(7)

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

<sup>(8)</sup> Consists of (a) the benefit (provision) for credit losses and (b) foreclosed property income (expense).

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- (9) 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.  
 Calculated as the amount of sale proceeds received on disposition of REO properties during the respective
- (10) periods, excluding those subject to repurchase requests made to our seller 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.  
 Calculated as the amount of sale proceeds received on properties sold in short sale transactions during the
- (11) respective period 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.  
 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 plans or forbearances that have been initiated
- (12) but not completed and (b) repayment plans and forbearances completed. See “Table 45: 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.
- (13) Calculated based on 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 additional information on our credit-related expense or income in “Consolidated Results of Operations—Credit-Related (Income) Expense” and on the credit performance of mortgage loans in our single-family book of business in “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management.” We provide more information on our efforts to reduce our credit losses in “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management” and “MD&A—Risk Management—Institutional Counterparty Credit Risk Management.” See also “Risk Factors,” where we describe factors that may adversely affect the success of our efforts, including our reliance on third parties to service our loans, conditions in the foreclosure environment, and risks relating to our mortgage insurer counterparties.

#### Contributions to the Housing and Mortgage Markets

##### Liquidity and Support Activities

As the largest provider of residential mortgage credit in the United States, we indirectly enable families to buy, refinance or rent homes. During 2013, 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. The approximately \$797 billion in liquidity we provided to the mortgage market in 2013 through our purchases and guarantees of loans and securities enabled borrowers to complete 2.6 million mortgage refinancings and 1.0 million home purchases, and provided financing for approximately 507,000 units of multifamily housing.

Our role in the market enables 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 234,000 loan workouts in 2013 to help homeowners stay in their homes or otherwise avoid foreclosure. These efforts helped to stabilize neighborhoods, home prices and the housing market.

We helped borrowers refinance loans, including through our Refi Plus initiative. We acquired approximately 1 million Refi Plus loans in 2013. Refinancings delivered to us through Refi Plus in the fourth quarter of 2013 reduced borrowers’ monthly mortgage payments by an average of \$166. 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 in 2013 were affordable to families earning at or below the median income in their area.

In addition to purchasing and guaranteeing loans, we provide funds to the mortgage market through short-term financing and other activities. These activities are described in more detail in “Business Segments—Capital Markets.”

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### 2013 Market Share

We estimate that our single-family market share was 40% in 2013, compared with 39% in 2012. These amounts represent our single-family mortgage acquisitions for each year, excluding delinquent loans we purchased from our MBS trusts, as a percentage of the single-family first-lien mortgages we currently estimate were originated in the United States that year. Because our estimate of mortgage originations in prior periods is subject to change as additional data become available, these market share estimates may change in the future, perhaps materially. We remained the largest single issuer of mortgage-related securities in the secondary market during the fourth quarter of 2013, with an estimated market share of new single-family mortgage-related securities issuances of 46%, compared with 48% in the third quarter of 2013 and 48% in the fourth quarter of 2012. For all of 2013, we estimate our market share of new single-family mortgage-related securities issuances was 47%, compared with 49% for 2012. One of FHFA's goals has been to gradually contract our dominant presence in the marketplace; however, our market share remained high in 2013 in the absence of substantial issuances of mortgage-related securities by private institutions during the year. We estimate that the share of single-family mortgage-related securities issuances issued by Freddie Mac, Ginnie Mae and us was 99% in 2013.

We remained a continuous source of liquidity in the multifamily market in 2013. We owned or guaranteed approximately 21% of the outstanding debt on multifamily properties as of September 30, 2013 (the latest date for which information was available).

### Helping to Build a Sustainable Housing Finance System

We have invested significant resources towards helping to build a safer, transparent and sustainable housing finance system, primarily through pursuing the strategic goals identified by our conservator. In a February 2012 letter to Congress, Edward DeMarco, then the Acting Director of FHFA, identified three strategic goals for the conservatorships of Fannie Mae and Freddie Mac:

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

In March 2013, FHFA directed us to implement a set of corporate performance objectives for 2013, referred to as the 2013 conservatorship scorecard, which provides the implementation roadmap for FHFA's strategic plan for Fannie Mae and Freddie Mac. FHFA determined that we completed the vast majority of these 2013 conservatorship scorecard objectives. For a description of all of the objectives included in FHFA's 2013 conservatorship scorecard and our performance against these objectives, see "Executive Compensation—Compensation Discussion and Analysis—Determination of 2013 Compensation—Assessment of Corporate Performance on 2013 Conservatorship Scorecard."

Many of the 2013 conservatorship scorecard objectives were designed to further the reform of the housing finance system. For example, one of FHFA's objectives for 2013 was to continue to develop a common securitization platform that can be used to perform certain aspects of the securitization process. See "Housing Finance Reform—Conservator Developments" for further information on the progress of the common securitization platform initiative. Another FHFA objective for 2013 was to complete credit risk transfer transactions to further FHFA's strategic goal to contract the GSEs' dominant presence in the market. We issued our first credit risk sharing securities pursuant to this objective in October 2013 and additional credit risk sharing securities in January 2014. See "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" for a description of these transactions.

It is uncertain whether FHFA will make changes to its strategic goals and objectives for Fannie Mae and Freddie Mac under its new Director. As of the date of this filing, FHFA has not announced its 2014 conservatorship scorecard objectives.

In addition to working on FHFA's conservatorship scorecard objectives, we are also working on additional related initiatives to help prepare our business and infrastructure for potential future changes in the structure of the U.S. housing finance system and to help ensure our safety and soundness during conservatorship. 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 initiatives. As described in "Risk Factors," the magnitude of the many new initiatives we are

undertaking may increase our operational risk.

#### Liquidity

During 2013, we issued a variety of non-callable and callable debt securities in a wide range of maturities to achieve cost-efficient funding. We believe that our ready access to debt funding in recent years has been primarily due to the actions taken by the federal government to support us and the financial markets. Accordingly, we believe that continued federal government support of our business and the financial markets, as well as our status as a GSE, are essential to maintaining our access to debt funding. Changes or perceived changes in federal government support of our business and the financial markets or our status as a GSE could materially and adversely affect our liquidity, financial condition and results of operations, or our ability to continue as a going concern. Demand for our debt securities could decline in the future, as the Administration, Congress and our regulators debate our future. See “MD&A—Liquidity and Capital Management—Liquidity Management” for more information on our debt funding activities and “Risk Factors” for a discussion of the risks to our business posed by our reliance on the issuance of debt securities to fund our operations.

#### Outlook

**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 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 cannot predict the prospects for the enactment, timing or content of legislative proposals regarding long-term reform of the GSEs or the housing finance system. See “Housing Finance Reform” for a discussion of proposals for GSE reform that could materially affect our business, including bills introduced in Congress that, among other things, would require the wind down of Fannie Mae and Freddie Mac. See “Risk Factors” for a discussion of the risks to our business relating to the uncertain future of our company.

**Financial Results.** Our financial results continued to be strong in 2013, with pre-tax income of \$38.6 billion and net income of \$84.0 billion. We expect to remain profitable for the foreseeable future. While we expect our annual earnings to remain strong over the next few years, we expect our net income in future years will be substantially lower than our net income for 2013. The following factors contributed to a large portion of our 2013 net income: the release of the valuation allowance against our deferred tax assets, which contributed to a benefit for federal income taxes of \$45.4 billion for the year; substantial credit-related income resulting from the substantial decrease in our loss reserves during the year; and the large number of resolutions we entered into during the year relating to representation and warranty matters and servicing matters. Although we expect to continue to enter into resolution agreements and may have credit-related income in future years, we expect these factors will have a smaller impact on our earnings in future years than in 2013. In addition, as of December 31, 2013, we no longer have a significant valuation allowance against our deferred tax assets. Our future earnings also will be affected by a number of other factors, including: changes in home prices; changes in interest rates; 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. Some of these factors, such as changes in interest rates or home prices, could result in significant variability in our earnings from quarter to quarter or year to year. For a discussion of our expectations regarding our future revenues, see “Strengthening Our Book of Business.”

**Dividend Obligations to Treasury.** In compliance with our dividend obligation to Treasury, we will retain only a limited amount of any future earnings because we are required to 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 \$2.4 billion for each quarter of 2014 and then decreases by \$600 million annually until it reaches zero in 2018.

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 a trigger of mandatory receivership under the Federal Housing Finance Regulatory Reform Act of 2008 (the “2008 Reform 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 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 2013, we paid a total of \$113.9 billion in dividends to Treasury under the senior preferred stock purchase agreement. In March 2014, we will pay Treasury additional senior preferred stock dividends of \$7.2 billion for the first quarter of 2014. With this dividend payment, we will have paid a total of \$121.1 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 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.

**Overall Market Conditions.** We expect that single-family mortgage loan serious delinquency and severity rates will continue their downward trend, but that single-family serious delinquency 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 in 2014 will generally remain commensurate with 2013 levels.

We believe that the recent increase in mortgage rates will result in a decline in overall single-family mortgage originations in 2014 as compared with 2013, driven by a decline in refinancings. We forecast that total originations in the U.S. single-family mortgage market in 2014 will decrease from 2013 levels by approximately 30% from an estimated \$1.82 trillion to \$1.28 trillion, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will decrease from an estimated \$1.14 trillion in 2013 to \$491 billion in 2014. Refinancings comprised approximately 70% of our single-family business volume in 2013, compared with approximately 79% in 2012. Because we expect refinancings to decline in 2014, we expect that refinancings will constitute a smaller portion of our single-family business volume in 2014 than in 2013.

**Home Prices.** Based on our home price index, we estimate that home prices on a national basis increased by 8.8% in 2013. Although we expect home price growth to continue in 2014, we expect the rate of home price growth on a national basis in 2014 will be lower than in 2013. Future home price changes may be very different from our expectations as a result of significant inherent uncertainty in the current market environment, including uncertainty about the effect of 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, at the time of foreclosure or when we accept short sales or deeds-in-lieu of foreclosure. Our credit losses were \$4.5 billion in 2013, down from \$14.6 billion in 2012. We expect our credit losses in 2014 and 2015 will be higher than 2013 levels. The amounts we recognized in 2013 pursuant to a number of repurchase and compensatory fee resolution agreements reduced our 2013 credit losses from what they otherwise would have been. Moreover, we expect our implementation of the charge-off provisions required by FHFA's Advisory Bulletin AB 2012-02 in 2015 will increase our credit losses for 2015 from what they otherwise would have been. We expect our credit losses to resume their downward trend beginning in 2016. See "Our Charter and Regulation of Our Activities—FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans" for further information about this Advisory Bulletin.

**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 were \$47.3 billion as of December 31, 2013, down from \$62.6 billion as of December 31, 2012 and their peak of \$76.9 billion as of December 31, 2011. We expect our loss reserves will continue to decline in 2014, but at a slower pace than in 2013. Although our loss reserves have declined substantially from their peak and are expected to decline further, we expect our loss reserves will remain elevated relative to the levels experienced prior to the 2008 housing crisis 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.

**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 payments to Treasury, our future revenues, the profitability and performance of single-family loans we have acquired, our future acquisitions, our future delinquency 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; actions we may be required to take by FHFA, as our conservator or as our regulator, such as changes in the type of business we do; 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; 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 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. Due to the large size of our guaranty book of business, even small changes in these factors could have a significant impact on our financial results for a particular period.

## RESIDENTIAL MORTGAGE MARKET

### The U.S. Residential Mortgage Market

We conduct business in the U.S. residential mortgage market and the global securities market. According to the Federal Reserve, total U.S. residential mortgage debt outstanding, which includes \$9.9 trillion of single-family mortgage debt outstanding, was estimated to be approximately \$10.8 trillion as of September 30, 2013 (the latest date for which information was available). We owned or guaranteed mortgage assets representing approximately 29% of total U.S. residential mortgage debt outstanding as of September 30, 2013.

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

### Housing and Mortgage Market and Economic Conditions

According to the U.S. Bureau of Economic Analysis advance estimate, the inflation-adjusted U.S. gross domestic product, or GDP, for 2013 was 1.9% higher than for 2012, compared with an increase of 2.8% from 2011 to 2012. According to the U.S. Bureau of Labor Statistics as of January 2014, the economy created an estimated 2.3 million non-farm jobs in each of 2013 and 2012. The unemployment rate declined from 7.9% in December 2012 to 6.7% in December 2013. In January 2014, non-farm payrolls increased by 113,000 jobs, and the unemployment rate decreased to 6.6%.

The most comprehensive measure of the unemployment rate, which includes those working part-time who would rather work full-time (part-time workers for economic reasons) and those not looking for work but who want to work and are available for work (discouraged workers), declined to 13.1% in December 2013 from 14.4% in December 2012.

Housing activity continued to improve in 2013 as compared with 2012. Total existing home sales of 5.1 million units in 2013 represent an increase of 9.2% from 2012, following a 9.4% increase in 2012, according to 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 December 2013, compared with 24% in December 2012. According to the U.S. Census Bureau, new single-family home sales increased 16.4% in 2013, after increasing by 20.3% in 2012. Homebuilding activity continued to increase in 2013, as single-family housing starts rose approximately 15% in 2013, compared with an increase of 24% in 2012. Multifamily starts rose approximately 25% in 2013, compared with an increase of 38% in 2012.

At the end of 2013, the number of months’ supply, or the inventory/sales ratio, of available existing homes and of new homes were each below their historical average. According to the U.S. Census Bureau’s January 2014 New Residential Sales Report, the months’ supply was 5.0 months as of December 31, 2013, compared with 4.5 months as of December 31, 2012. According to data through January 2014 from the National Association of REALTORS®, the months’ supply of existing unsold homes was 4.6 months as of December 31, 2013, compared with a 4.5 months’ supply as of

December 31, 2012.

The overall mortgage market serious delinquency rate, which has trended down since peaking in the fourth quarter of 2009, remained historically high at 5.7% as of September 30, 2013 (the latest date for which information was available), according to the Mortgage Bankers Association National Delinquency Survey, compared with 6.8% as of December 31, 2012. We provide information about Fannie Mae's serious delinquency rate, which also decreased during 2013, in "Executive Summary—Improving the Credit Performance of our Book of Business."

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

Table 3: Housing and Mortgage Market Indicators<sup>(1)</sup>

	2013	2012	2011	% Change		
				2013 vs. 2012	2012 vs. 2011	
Home sales (units in thousands)	5,518	5,028	4,566	9.7	% 10.1	%
New home sales	428	368	306	16.3	20.3	
Existing home sales	5,090	4,660	4,260	9.2	9.4	
Home price change based on Fannie Mae Home Price Index ("HPI" <sup>(2)</sup> )	8.8	% 4.2	% (3.6)	)	%	
Annual average fixed-rate mortgage interest rate <sup>(3)</sup>	4.0	% 3.7	% 4.5	%		
Single-family mortgage originations (in billions)	\$1,823	\$2,153	\$1,498	(15.3)	)	43.7
Type of single-family mortgage origination:						
Refinance share	62	% 72	% 66	%		
Adjustable-rate mortgage share	7	% 5	% 6	%		
Total U.S. residential mortgage debt outstanding (in billions) <sup>(4)</sup>	\$10,772	\$10,811	\$11,039	(0.4)	)	(2.1)

The sources of the housing and mortgage market data in this table are the Federal Reserve Board, the U.S. Census Bureau, the Department of Housing and Urban Development, the National Association of Realtors and the Mortgage Bankers Association. Home sales data are based on information available through December 2013.

(1) Single-family mortgage originations, as well as refinance shares, are based on January 2014 estimates from Fannie Mae's Economic & Strategic Research group. The adjustable-rate mortgage share is based on the number of conventional mortgage applications data reported by the Mortgage Bankers Association. Certain previously reported data may have been changed to reflect revised historical data from any or all of these organizations.

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

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

(4) U.S. residential mortgage debt outstanding information for 2013 is provided as of September 30, 2013, the latest date for which information was available.

Based on our home price index, we estimate that home prices on a national basis increased by 8.8% in 2013, following an increase of 4.2% in 2012. Despite the recent increases in home prices, we estimate that, through December 31, 2013, home prices on a national basis remained 13.5% 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.

We estimate that total single-family mortgage originations decreased by approximately 15% to \$1.82 trillion in 2013, compared with \$2.15 trillion in 2012, with a purchase share of 38% and a refinance share of 62%. The decline in single-family mortgage originations in 2013 was driven by a decline in refinancings resulting from the overall increase in mortgage rates since the beginning of May 2013. Thirty-year mortgage rates were 3.34% for the week of January 3, 2013 and increased significantly during the year, primarily during the second half of the year, ending at 4.48% for the week of December 26, 2013.

Single-family mortgage debt outstanding declined steadily from the second quarter of 2008 to the second quarter of 2013, but increased at a 0.5% annualized rate in the third quarter of 2013. Despite the increase in the third quarter, total U.S. residential mortgage debt outstanding fell by 0.8% from the third quarter of 2012 to the third quarter of 2013.

Despite recent improvement in the housing market and declining delinquency rates, approximately one out of eleven borrowers was delinquent or in foreclosure during the third quarter of 2013, according to the Mortgage Bankers Association National Delinquency Survey.

Many homeowners continue to have “negative equity” in their homes as a result of declines in home prices since 2006, which means their principal mortgage balance exceeds the current market value of their home. This increases the likelihood that borrowers will 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 third

quarter of 2013 was approximately 6.4 million, down from 10.6 million in the third quarter of 2012 and from its peak of 12.2 million reached in the fourth quarter of 2009. The percentage of properties with mortgages in a negative equity position in the third quarter of 2013 was 13.0%, down from 22.0% in the third quarter of 2012 and its peak of 26.0% reached in the fourth quarter of 2009.

National multifamily market fundamentals, which include factors such as vacancy rates and rents, remained stable during 2013. Despite an increase in supply in 2013, apartment demand was steady. Vacancy levels remained near historic lows, benefiting from sustained rental demand coupled with ongoing job growth and new household formation. According to preliminary third-party data, the national multifamily vacancy rate for institutional investment-type apartment properties remained at an estimated 5.10% as of December 31, 2013, unchanged from September 30, 2013 and down from an estimated 5.50% as of December 31, 2012.

Effective rents and net absorption both continued to increase during 2013. National asking rents grew by an estimated 3.0% in 2013. National asking rents increased by an estimated 1.0% during the fourth quarter of 2013, compared with a 1.0% increase in the third quarter of 2013.

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 approximately 165,000 units in 2013.

According to preliminary data from Reis, Inc. there was positive net absorption of approximately 51,000 units during the fourth quarter of 2013, compared with approximately 41,000 units during the third quarter of 2013. Although an estimated 127,000 units were added to inventory in 2013, the new supply was not disruptive on a national basis.

Vacancy rates and rents are important to loan performance because multifamily loans are generally repaid from the cash flows generated by the underlying property. Several years of improvement in these fundamentals helped to increase property values in most metropolitan areas in 2013, and contributed to an increase in new construction development. Reis, Inc. estimates that there will be more than 160,000 new multifamily units completed in 2014. We believe this increase in supply is likely to result in a slowdown in rent growth in certain local areas and a slight increase in the national vacancy level in 2014. Nevertheless, the overall national rental market supply and demand is expected to remain in balance over the longer term, based on expected construction completions, expected obsolescence, positive household formation trends and expected increases in the population of 20- to 34-year olds, which as a group rents multifamily housing at a higher rate than other groups.

#### MORTGAGE SECURITIZATIONS

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

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

#### Lender Swaps and Portfolio Securitizations

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

Our most common type of securitization transaction is our "lender swap transaction." Mortgage lenders that operate in the primary mortgage market generally deliver pools of mortgage loans to us in exchange for Fannie Mae MBS backed by these mortgage loans. A pool of mortgage loans is a group of mortgage loans with similar characteristics.

After receiving the mortgage loans in a lender swap transaction, we place them in a trust for which we serve as trustee. This trust is established for the sole purpose of holding the mortgage loans separate and apart from our corporate assets. We deliver to the lender (or its designee) Fannie Mae MBS that are backed by the pool of mortgage loans in the trust and that represent an undivided beneficial ownership interest in each of the mortgage loans. We guarantee to each MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the related Fannie Mae MBS. We retain a portion of the interest payment as a fee for providing our guaranty. The mortgage servicer also retains a portion of the interest payment as a fee for servicing the loan. Then, on behalf of the trust, we make monthly distributions to the Fannie Mae MBS certificateholders from the



principal and interest payments and other collections on the underlying mortgage loans.

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

#### Features of Our MBS Trusts

Our MBS trusts hold either single-family or multifamily mortgage loans or mortgage-related securities. Each trust operates in accordance with a trust agreement or a trust indenture. Each MBS trust is also governed by an issue supplement documenting the formation of that MBS trust, the identification of its related assets and the issuance of the related Fannie Mae MBS. The trust agreement or the trust indenture, together with the issue supplement and any amendments, are considered the “trust documents” that govern an individual MBS trust.

#### Purchases of Loans from our MBS Trusts

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

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

The cost of purchasing most delinquent loans from Fannie Mae MBS trusts and holding them in our retained mortgage portfolio is currently less than the cost of advancing delinquent payments to security holders. We generally purchase loans from MBS trusts as they become four or more consecutive monthly payments delinquent. During 2013, we purchased delinquent loans with an unpaid principal balance of approximately \$27.9 billion from our single-family MBS trusts. We expect to continue purchasing loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity and other factors, including the limit on the amount of mortgage assets that we may own pursuant to the senior preferred stock purchase agreement.

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

#### Single-Class and Multi-Class Fannie Mae MBS

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

#### BUSINESS SEGMENTS

We have three business segments for management reporting purposes: Single-Family Credit Guaranty, Multifamily and Capital Markets. In this report we refer to our business groups that run these segments as our “Single-Family business,” our “Multifamily business” and our “Capital Markets group.” These groups engage in complementary business activities in pursuing our mission of providing liquidity, stability and affordability to the U.S. housing market. These activities are

summarized in the table below and described in more detail following this table. We also summarize in the table below the key sources of revenue for each of our segments and the primary expenses.

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

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

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

Table 4: Business Segment Revenues<sup>(1)</sup>

	For the Year Ended					
	December 31, 2013		2012		2011	
		%		%		%
Single-Family	43	%	35	%	28	%
Multifamily	5		5		5	
Capital Markets	44		55		63	

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

Single-Family Business

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

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

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

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

#### Single-Family Mortgage Securitizations and Other Acquisitions

Our Single-Family business securitizes single-family mortgage loans and issues single-class Fannie Mae MBS, which are described above in “Mortgage Securitizations—Single-Class and Multi-Class Fannie Mae MBS,” for our lender customers. Unlike our Capital Markets group, which securitizes loans from our retained mortgage portfolio, our Single-Family business securitizes loans solely in lender swap transactions. We describe lender swap transactions, and how they differ from portfolio securitizations, in “Mortgage Securitizations—Lender Swaps and Portfolio Securitizations.” Our Single-Family business also works with our Capital Markets group to acquire single-family loans through purchases of loans.

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

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

##### Servicing

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

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

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

REO Management

If a loan defaults and we acquire a home through foreclosure or a deed-in-lieu of foreclosure, we market and sell the home through local real estate professionals. Our primary objectives are both to minimize the severity of loss to Fannie Mae by maximizing sales prices and to stabilize neighborhoods by preventing empty homes from depressing home values. In cases

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where the property does not sell, we use alternative methods of disposition, including selling homes to cities, municipalities and other public entities, and selling properties in bulk or through public auctions.

#### Lender Repurchase Evaluations

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

#### Multifamily Business

Our Multifamily business provides mortgage market liquidity for properties with five or more residential units, which may be apartment communities, cooperative properties, seniors housing, dedicated student housing or manufactured housing communities. Our Multifamily business works with our lender customers to provide funds to the mortgage market primarily by securitizing multifamily mortgage loans into Fannie Mae MBS. We also purchase multifamily mortgage loans and provide credit enhancement for bonds issued by state and local housing finance authorities to finance multifamily housing. In addition, we have offered debt financing structures that can be used to facilitate construction loans.

Our Multifamily business also works with our Capital Markets group to facilitate the purchase and securitization of multifamily mortgage loans and securities for our retained mortgage portfolio, as well as to facilitate portfolio securitization and resecuritization activities. Our multifamily guaranty book of business consists primarily of multifamily mortgage loans underlying Fannie Mae MBS and multifamily loans and securities held in our retained mortgage portfolio. Our Multifamily business has primary responsibility for pricing the credit risk on our multifamily guaranty book of business and for managing the credit risk on multifamily loans and Fannie Mae MBS backed by multifamily loans that are held in our retained mortgage portfolio.

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

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

#### Key Characteristics of the Multifamily Mortgage Market and Multifamily Transactions

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

**Funding sources:** The multifamily market is made up of a wide variety of lending sources, including commercial banks, life insurance companies, investment banks, FHA, state and local housing finance agencies, and the GSEs.

**Number of lenders; lender relationships:** During 2013, we executed multifamily transactions with 31 lenders. Of these, 24 lenders delivered loans to us under our Delegated Underwriting and Servicing, or DUS<sup>®</sup>, product line. In determining whether to do business with a multifamily lender, we consider the lender’s financial strength, multifamily underwriting and servicing experience, portfolio performance and willingness and ability to share in the risk of loss associated with the multifamily loans they originate.

**Loan size:** The average size of a loan in our multifamily guaranty book of business is \$6 million. A significant number of our multifamily loans are under \$5 million, and some of our multifamily loans are greater than \$25 million.

**Collateral:** Multifamily loans are collateralized by properties that generate cash flows and effectively operate as businesses, such as garden and high-rise apartment complexes, seniors housing communities, cooperatives, dedicated student housing and manufactured housing communities.

**Borrower and sponsor profile:** Multifamily borrowers are entities that are typically owned, directly or indirectly, by for-profit corporations, limited liability companies, partnerships, real estate investment trusts and individuals who

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invest in real estate for cash flow and equity returns in exchange for their original investment in the asset. The

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ultimate owners of a multifamily borrower are referred to as the borrower's "sponsors." In this report, we refer to both the borrowing entities and their sponsors as "borrowers." Because borrowing entities are typically single-asset entities, with the property as their only asset, in evaluating a borrowing entity we also evaluate its sponsors. Multifamily loans are generally non-recourse to the sponsors. When considering a multifamily borrower, creditworthiness is evaluated through a combination of quantitative and qualitative data including liquid assets, net worth, number of units owned, experience in a market and/or property type, multifamily portfolio performance, access to additional liquidity, debt maturities, asset/property management platform, senior management experience, reputation and lender exposure.

**Borrower and lender investment:** Borrowers are required to contribute equity into multifamily properties on which they borrow, while lenders generally share in any losses realized from the loans that we purchase.

**Underwriting process:** Multifamily loans require detailed underwriting similar in many respects to that required for loans for an operating business. Our underwriting includes an evaluation of the property's ability to support the loan, property quality, market and submarket factors, ability to exit at maturity and an initial risk categorization for the loan.

**Term and lifecycle:** In contrast to the standard 30-year single-family residential loan, multifamily loans typically have terms of 5, 7 or 10 years, with balloon payments due at maturity.

**Prepayment terms:** Multifamily Fannie Mae loans and MBS trade in a market in which investors expect commercial investment terms, particularly limitations on prepayments of loans and the imposition of prepayment premiums.

#### Multifamily Mortgage Securitizations and Acquisitions

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

#### Delegated Underwriting and Servicing (DUS)

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

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

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

#### Multifamily Mortgage Servicing

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



### The Multifamily Markets in which We Operate

In the multifamily mortgage market, we aim to address the rental housing needs of a wide range of the population, with the substantial majority of our focus on supporting rental housing that is affordable to families earning at or below the median income in their area. Our mission requires us to serve the market steadily, rather than moving in and out depending on market conditions. Through the secondary mortgage market, we support rental housing for the workforce population, for senior citizens and students, and for families with the greatest economic need. Our Multifamily business is organized and operated as an integrated commercial real estate finance business, addressing the spectrum of multifamily housing finance needs, including the needs described below.

To meet the growing need for smaller multifamily property financing, we focus on the acquisition of multifamily loans up to \$3 million (\$5 million in high cost areas). We acquire these loans primarily from DUS lenders; however, we have also acquired these loans from other financial institutions. Over the years, we have been an active purchaser of these loans from both DUS and non-DUS lenders, and, as of December 31, 2013, they represented 63% of our multifamily guaranty book of business by loan count and 14% based on unpaid principal balance.

To serve low- and very low-income households, we have a team that focuses exclusively on relationships with lenders financing privately-owned multifamily properties that receive public subsidies in exchange for maintaining long-term affordable rents. We enable borrowers to leverage housing programs and subsidies provided by local, state and federal agencies. These public subsidy programs are largely targeted to providing housing to families earning less than 60% of area median income (as defined by the U.S. Department of Housing and Urban Development "HUD") and are structured to ensure that the low and very low-income households who benefit from the subsidies pay no more than 30% of their gross monthly income for rent and utilities. As of December 31, 2013, this type of financing represented approximately 15% of our multifamily guaranty book of business, based on unpaid principal balance, including \$14.9 billion in bond credit enhancements.

### Capital Markets

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

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

**Whole Loan Conduit.** Whole loan conduit activities involve our purchase of single-family loans principally for the purpose of securitizing them. We purchase loans from a large group of lenders and then securitize them as Fannie Mae MBS, which may then be sold to dealers and investors.

**Early Funding.** Lenders who deliver whole loans or pools of whole loans to us in exchange for MBS typically must wait between 30 and 45 days from the closing and settlement of the loans or pools and the issuance of the MBS. This delay may limit lenders' ability to originate new loans. Under our early lender funding programs, we purchase whole loans or pools of loans on an accelerated basis, allowing lenders to receive quicker payment for the whole loans and pools, which replenishes their funds and allows them to originate more mortgage loans.

**REMICs and Other Structured Securitizations.** We issue structured Fannie Mae MBS (including REMICs), typically for our lender customers or securities dealer customers, in exchange for a transaction fee.

**MBS Trading.** We regularly enter into purchase and sale transactions with other market participants involving mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae, which we refer to as "agency MBS." These transactions can provide for the future delivery of mortgage-backed securities with underlying single-family loans that share certain general characteristics (often referred to as the "TBA market"). These purchase and sale transactions also can provide for the future delivery of specifically identified mortgage-backed securities with underlying loans that have other characteristics considered desirable by some investors (often referred to as the "Specified Pools market"). Through our trading activity in the TBA and Specified Pools markets, we provide significant liquidity to the agency MBS markets.



### Securitization Activities

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

**Portfolio securitizations.** Our Capital Markets group creates single-class and multi-class Fannie Mae MBS from mortgage-related assets held in our retained mortgage portfolio. Our Capital Markets group may sell these Fannie Mae MBS into the secondary market or may retain the Fannie Mae MBS in our retained mortgage portfolio.

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

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

### Other Customer Services

Our Capital Markets group provides our lender customers with services that include offering to purchase mortgage assets; segregating customer portfolios to obtain optimal pricing for their mortgage loans; and assisting customers with hedging their mortgage business. These activities help to create a broader market for our customers and enhance liquidity in the secondary mortgage market.

### Retained Mortgage Portfolio

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

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

### Liquidity Support and Financing Activities

Our Capital Markets group seeks to increase the liquidity of the mortgage market by maintaining a presence as an active aggregator of mortgage loans and supports the liquidity of Fannie Mae MBS in a variety of market conditions. Our Capital Markets group funds its purchases primarily through the issuance of a variety of debt securities in a wide range of maturities in the domestic and international capital markets. The most active investors in our debt securities include commercial bank portfolios and trust departments, investment fund managers, insurance companies, pension funds, state and local governments, and central banks. The approved dealers for underwriting various types of Fannie Mae debt securities may differ by funding program. See “MD&A—Liquidity and Capital Management—Liquidity Management” for information on the composition of our outstanding debt and a discussion of our liquidity and debt activity.

Our Capital Markets group’s liquidity support and financing activities are affected by market conditions. In addition, the Capital Markets group’s purchases are subject to contractual limitations, including the provisions of the senior preferred stock purchase agreement with Treasury, and to regulatory constraints, to the extent described below under “Conservatorship and Treasury Agreements” and “Our Charter and Regulation of Our Activities.”

## CONSERVATORSHIP AND TREASURY AGREEMENTS

### Conservatorship

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

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

### Management of the Company during Conservatorship

Upon its appointment, the conservator immediately succeeded to (1) all rights, titles, powers and privileges of Fannie Mae, and of any shareholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and (2) title to the books, records and assets of any other legal custodian of Fannie Mae. The conservator subsequently delegated specified authorities to our Board of Directors and delegated to management the authority to conduct our day-to-day operations. In connection with its delegation of authority, FHFA has instructed the Board to oversee that management consult with and obtain the written approval of the conservator before taking action in any of the areas described in “Directors, Executive Officers and Corporate Governance—Corporate Governance—Conservatorship and Delegation of Authority to Board of Directors.” FHFA’s instructions also require the company to notify FHFA of planned changes in business processes or operations, so that FHFA may participate in decision-making as FHFA determines appropriate. The conservator retains the authority to amend or withdraw its delegations at any time.

Our directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, where required, of the conservator. Our directors have no fiduciary duties to any person or entity except to the conservator. Accordingly, our directors are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator. Because we are in conservatorship, our common stockholders currently do not have the ability to elect directors or to vote on other matters. The conservator eliminated common and preferred stock dividends (other than dividends on the senior preferred stock issued to Treasury) during the conservatorship, and we are no longer managed with a strategy to maximize shareholder returns. For additional information about our primary goals, see “Executive Summary—Our Strategy and Progress,” and for additional information about the goals of the conservatorship, see “Executive Summary—Helping to Build a Sustainable Housing Finance System.”

### Powers of the Conservator under the GSE Act

FHFA has broad powers when acting as our conservator. As conservator, FHFA can direct us to enter into contracts or enter into contracts on our behalf. Further, FHFA may transfer or sell any of our assets or liabilities (subject to limitations and post-transfer notice provisions for transfers of certain types of financial contracts), without any approval, assignment of rights or consent of any party. The GSE Act provides, however, that mortgage loans and mortgage-related assets that have been transferred to a Fannie Mae MBS trust must be held by the conservator for the beneficial owners of the Fannie Mae MBS and cannot be used to satisfy the general creditors of the company. For more information on FHFA’s powers as conservator and the rules governing conservatorship and receivership operations for the GSEs, see “Our Charter and Regulation of Our Activities—The GSE Act—Receivership.” Neither the conservatorship nor the terms of our agreements with Treasury change our obligation to make required payments on our debt securities or perform under our mortgage guaranty obligations.

Under the GSE Act, FHFA must place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations (that is, we have a net worth deficit) or if we have not been paying our debts, in either case, for a period of 60 days. In addition, the Director of FHFA may place us in receivership at his discretion at



any time for other reasons set forth in the GSE Act, including if we are undercapitalized and have no reasonable prospect of becoming

adequately capitalized. Placement into receivership would likely have a material adverse effect on holders of our common stock, preferred stock, debt securities and Fannie Mae MBS. Should we be placed into receivership, different assumptions would be required to determine the carrying value of our assets, which could lead to substantially different financial results. For more information on the risks to our business relating to conservatorship and uncertainties regarding the future of our business, see “Risk Factors.”

#### Treasury Agreements

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

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

##### Senior Preferred Stock Purchase Agreement

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

The senior preferred stock and warrant were issued to Treasury as an initial commitment fee in consideration of the commitment from Treasury to provide funds to us under the terms and conditions set forth in the senior preferred stock purchase agreement. The senior preferred stock purchase agreement provides that, on a quarterly basis, we may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected in our consolidated balance sheet, prepared in accordance with GAAP, for the applicable fiscal quarter (referred to as the “deficiency amount”), up to the maximum amount of remaining funding under the agreement. As of the date of this filing, the maximum amount of remaining funding under the agreement is \$117.6 billion. The senior preferred stock purchase agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process.

The terms of the senior preferred stock purchase agreement provided for the payment of an unspecified quarterly commitment fee to Treasury; however, the August 2012 amendment to the agreement provided that this commitment fee will not be set, accrue or be payable, provided that the current dividend payment provisions of the senior preferred stock remain in effect.

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

The senior preferred stock purchase agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury’s aggregate funding commitment or add conditions to Treasury’s funding commitment if

the waiver or amendment would adversely affect in any material respect the holders of our debt securities or guaranteed Fannie Mae MBS.

In the event of our default on payments with respect to our debt securities or guaranteed Fannie Mae MBS, if Treasury fails to perform its obligations under its funding commitment and if we and/or the conservator are not diligently pursuing remedies in respect of that failure, the holders of our debt securities or Fannie Mae MBS may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of (1) the amount necessary to cure the payment defaults on our debt and Fannie Mae MBS and (2) the lesser of (a) the deficiency amount and (b) the maximum amount that may be funded under the agreement less the aggregate amount of funding previously provided under the commitment. Any payment

that Treasury makes under those circumstances will be treated for all purposes as a draw under the senior preferred stock purchase agreement that will increase the liquidation preference of the senior preferred stock.

#### Senior Preferred Stock

Pursuant to the senior preferred stock purchase agreement, we issued one million shares of senior preferred stock to Treasury on September 8, 2008 with an aggregate initial liquidation preference of \$1.0 billion. The stock's liquidation preference is subject to adjustment. For any dividend period for which dividends are payable, to the extent that dividends are not paid in cash they will accrue and be added to the liquidation preference. In addition, any amounts Treasury pays to us pursuant to its funding commitment under the senior preferred stock purchase agreement and any quarterly commitment fees that are either not paid in cash to Treasury or not waived by Treasury will be added to the liquidation preference. Accordingly, the aggregate liquidation preference of the senior preferred stock was \$117.1 billion as of December 31, 2013.

Treasury, as holder of the senior preferred stock, is entitled to receive, when, as and if declared, out of legally available funds, cumulative quarterly cash dividends. Pursuant to the August 2012 amendment to the agreement, beginning in 2013, the method for calculating the amount of dividends for each quarter was changed from an annual rate of 10% per year on the then-current liquidation preference of the senior preferred stock to an amount determined based on our net worth as of the end of the immediately preceding fiscal quarter. Our net worth as defined by the agreement is the amount, if any, by which our total assets (excluding Treasury's funding commitment and any unfunded amounts related to the commitment) exceed our total liabilities (excluding any obligation in respect of capital stock), in each case as reflected on our balance sheet prepared in accordance with GAAP. The new dividend payment provision is referred to as a "net worth sweep" dividend provision. For each dividend period from January 1, 2013 through and including December 31, 2017, the dividend amount will be the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. The capital reserve amount was \$3.0 billion for dividend periods in 2013, decreased to \$2.4 billion for dividend periods in 2014 and will continue to be reduced by \$600 million each year until it reaches zero on January 1, 2018. For each dividend period beginning in 2018, the dividend amount will be the entire amount of our net worth, if any, as of the end of the immediately preceding fiscal quarter. As a result of these dividend payment provisions, when we have quarterly earnings that result in a net worth greater than the applicable capital reserve amount, we will pay dividends to Treasury in the next quarter; but if our net worth does not exceed the applicable capital reserve amount as of the end of a quarter, then we will not be required to accrue or pay any dividends in the next quarter. See "Risk Factors" for a discussion of the risks relating to our dividend obligations to Treasury on the senior preferred stock.

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

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

senior preferred stock may not be paid down below \$1,000 per share prior to the termination of Treasury's funding commitment. Following the termination of Treasury's funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part.

#### Common Stock Warrant

Pursuant to the senior preferred stock purchase agreement, on September 7, 2008, we, through FHFA, in its capacity as conservator, issued a warrant to purchase common stock to Treasury. The warrant gives Treasury the right to purchase shares

of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise, for an exercise price of \$0.00001 per share. The warrant may be exercised in whole or in part at any time on or before September 7, 2028.

#### Covenants under Treasury Agreements

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

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

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

**Mortgage Asset Limit.** We are restricted in the amount of mortgage assets that we may own. Pursuant to the August 2012 amendment to the agreement, the maximum allowable amount of our mortgage assets was reduced to \$650.0 billion on December 31, 2012 and, on each December 31 thereafter, we are required to reduce our mortgage assets to 85% of the maximum allowable amount that we were permitted to own as of December 31 of the immediately preceding calendar year, until the amount of our mortgage assets reaches \$250 billion in 2018. Our mortgage asset limit was \$552.5 billion as of December 31, 2013 and will be \$469.6 billion as of December 31, 2014. For purposes of the agreement, the definition of mortgage asset is based on the unpaid principal balance of such assets and does not reflect market valuation adjustments, allowance for loan losses, impairments, unamortized premiums and discounts and the impact of our consolidation of variable interest entities. Based on this definition, our mortgage assets were \$490.7 billion as of December 31, 2013. We disclose the amount of our mortgage assets on a monthly basis under the caption “Gross Mortgage Portfolio” in our Monthly Summaries, which are available on our Web site and announced in a press release.

**Debt Limit.** We are subject to a limit on the amount of our indebtedness. Our debt limit in 2013 was \$780.0 billion and in 2014 is \$663.0 billion. For every year thereafter, our debt cap will equal 120% of the amount of mortgage assets we are allowed to own on December 31 of the immediately preceding calendar year. The definition of indebtedness for purposes of our debt cap is based on the par value of each applicable loan and does not reflect the impact of consolidation of variable interest entities. Under this definition, our indebtedness as of December 31, 2013 was \$534.2 billion. We disclose the amount of our indebtedness on a monthly basis under the caption “Total Debt Outstanding” in our Monthly Summaries, which are available on our Web site and announced in a press release.

**Annual Risk Management Plan Covenant.** We are required to provide an annual risk management plan to Treasury not later than December 15 of each year we remain in conservatorship, beginning in 2012. Each annual risk management plan is required to set out our strategy for reducing our risk profile and to describe the actions we will take to reduce the financial and operational risk associated with each of our business segments. Each plan delivered after the first plan must include an assessment of our performance against the planned actions described in the prior year’s plan. We submitted our annual risk management plan to Treasury in December 2013.



### Lawsuits Challenging the Senior Preferred Stock Purchase Agreements and Conservatorship

Several lawsuits have been filed by preferred and common stockholders of Fannie Mae and Freddie Mac against the United States, Treasury and/or FHFA challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac. Some of these lawsuits also contain claims against Fannie Mae and Freddie Mac. For a description of these lawsuits, see “Legal Proceedings,” “Note 19, Commitments and Contingencies” and “Risk Factors.”

### HOUSING FINANCE REFORM

#### Overview

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, called for enactment of meaningful structural reforms of Fannie Mae and Freddie Mac. The Dodd-Frank Act also required the Treasury Secretary to submit a report to Congress with recommendations for ending the conservatorships of Fannie Mae and Freddie Mac.

#### Administration Developments

In 2011, the Administration released a white paper on the future of housing finance reform. The report provides that the Administration will work with FHFA to determine the best way to responsibly reduce Fannie Mae and Freddie Mac’s role in the market and ultimately wind down both institutions. The report identifies a number of possible policy steps for winding down Fannie Mae and Freddie Mac, reducing the government’s role in housing finance and helping bring private capital back to the mortgage market. These steps include (1) increasing guaranty fees, (2) gradually increasing the level of required down payments so that any mortgages insured by Fannie Mae or Freddie Mac eventually have at least a 10% down payment, (3) reducing conforming loan limits to those established under the 2008 Reform Act, (4) encouraging Fannie Mae and Freddie Mac to pursue additional credit loss protection and (5) reducing Fannie Mae’s and Freddie Mac’s portfolios, consistent with Treasury’s senior preferred stock purchase agreements with the companies. In addition, the report outlines three potential options for a new long-term structure for the housing finance system following the wind-down of Fannie Mae and Freddie Mac.

In August 2013, President Obama publicly discussed the Administration’s housing policy priorities, including a core principle that included winding down Fannie Mae and Freddie Mac through a responsible transition. In a paper released by the White House, the Administration endorsed several initiatives to facilitate this transition, including the reduction of Fannie Mae’s and Freddie Mac’s investment portfolios by at least 15% per year through 2018, engaging in credit risk transfer pilot programs and continuing to develop a common securitization platform. In January 2014, the White House issued a fact sheet reaffirming the Administration’s view that housing finance reform should include ending Fannie Mae and Freddie Mac’s business model.

#### Conservator Developments

In addition to the Administration’s actions described above, FHFA has taken a number of steps consistent with the goals laid out in the Administration’s 2011 white paper. In 2012, Edward DeMarco, then the Acting Director of FHFA, identified FHFA’s strategic goals for Fannie Mae and Freddie Mac’s conservatorships. These goals are described in “Executive Summary—Helping to Build a Sustainable Housing Finance System.” In March 2013, the then-Acting Director of FHFA released the 2013 conservatorship scorecard for Fannie Mae and Freddie Mac, which detailed specific priorities for implementing these strategic goals. Many of FHFA’s 2013 conservatorship scorecard objectives were designed to further the reform of the housing finance system.

For example, one of FHFA’s priorities has been to develop a common securitization platform that can be used to perform certain aspects of the securitization process. To further this objective, 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. The new business entity would be designed to provide securitization services, replacing some of Fannie Mae and Freddie Mac’s legacy securitization infrastructure. In October 2013, FHFA announced that the new joint venture by Fannie Mae and Freddie Mac, Common Securitization Solutions, LLC, had been established and that office space for the new entity had 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.





FHFA's 2013 conservatorship scorecard also established priorities relating to the goal that we contract our dominant presence in the marketplace. In support of this goal, FHFA set as objectives that we (1) demonstrate the viability of multiple types of risk transfer transactions involving single-family mortgages with at least \$30 billion of unpaid principal balances in 2013, (2) reduce the unpaid principal balance of new multifamily business relative to 2012 by at least 10% by tightening underwriting, adjusting pricing and limiting product offerings, while not increasing the proportion of our retained risk, and (3) sell 5% of the assets we held in our retained mortgage portfolio as of December 31, 2012 that are not agency securities. In addition, in August 2013, FHFA issued a statement seeking public input on strategies for reducing Fannie Mae and Freddie Mac's presence in the multifamily housing finance market in 2014, and outlined possible alternatives to meet this goal.

For more detailed information on FHFA's 2013 conservatorship scorecard objectives and our performance in meeting these objectives, see "Executive Compensation—Compensation Discussion and Analysis—Determination of 2013 Compensation—Assessment of Corporate Performance on 2013 Conservatorship Scorecard."

In January 2014, Melvin L. Watt became the new Director of FHFA. As of the date of this filing, FHFA has not announced its 2014 conservatorship scorecard objectives.

#### Legislative Developments

Congress has also continued to consider housing finance reform. In the first session of the current Congress, members of Congress introduced several bills to reform the housing finance system. In June 2013, the "Housing Finance Reform and Taxpayer Protection Act of 2013" was introduced in the Senate. The Senate bill, among other matters, would require the wind down of Fannie Mae and Freddie Mac within five years of enactment. In July 2013, the Financial Services Committee of the House of Representatives approved the "Protecting American Taxpayers and Homeowners Act of 2013." The House bill, among other matters, would require FHFA to place Fannie Mae and Freddie Mac into receivership within five years of enactment or potentially longer in certain circumstances. Both bills would place certain restrictions on Fannie Mae's and Freddie Mac's activities prior to being wound down or placed into receivership, as applicable.

In addition, two bills were introduced during the first session of the current Congress related to the terms of Fannie Mae's and Freddie Mac's senior preferred stock purchase agreements with Treasury. The "Jumpstart GSE Reform Act," which was introduced in the Senate in March 2013, would prohibit Congress from increasing the GSEs' guaranty fees to offset spending unrelated to the business operations of the GSEs and also would prohibit Treasury from disposing of its GSE senior preferred stock until legislation has been enacted that includes specific instruction for its disposition. The "Let the GSEs Pay Us Back Act of 2013," which was introduced in the House of Representatives in June 2013, would require the amendment of Fannie Mae's and Freddie Mac's senior preferred stock purchase agreements with Treasury to, among other things, terminate the dividends on the senior preferred stock and allow Fannie Mae and Freddie Mac to repay the liquidation preference of the senior preferred stock.

We expect Congress to continue to consider 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. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding the future status of the GSEs. As a result, there continues to be significant uncertainty regarding the future of our company. See "Risk Factors" for discussions of the risks to our business relating to the uncertain future of our company and of how the uncertain future of our company may adversely affect our ability to retain and recruit well-qualified employees, including senior management.

#### OUR CHARTER AND REGULATION OF OUR ACTIVITIES

##### Charter Act

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

- provide stability in the secondary market for residential mortgages;
- respond appropriately to the private capital market;
- provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be

less than the

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return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and promote access to mortgage credit throughout the nation (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

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

#### Loan Standards

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

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

The national conforming loan limit for mortgages that finance one-family residences is \$417,000 in 2014, as it was in 2010 through 2013, with higher limits for mortgages secured by two- to four-family residences and in four statutorily-designated states and territories (Alaska, Hawaii, Guam and the U.S. Virgin Islands). Higher loan limits also apply in designated high-cost areas (counties or county-equivalent areas). FHFA provides Fannie Mae with the designated high-cost areas annually. Our charter sets loan limits for high-cost areas up to 150% of the national loan limit (\$625,500 for a one-family residence; higher for two- to four-family residences and in the four statutorily-designated states and territories).

In December 2013, FHFA requested public input on a plan to gradually reduce the conforming loan limit for one-family residences. FHFA’s announcement notes that reducing loan limits furthers its goal of contracting the market presence of Fannie Mae and Freddie Mac gradually over time, and is in line with President Obama’s August 2013 request that FHFA reduce loan limits in order to reduce the government’s footprint in the market. In areas where the statutory maximum loan limit for one-family residences is currently \$417,000, FHFA’s plan would reduce the loan limit to \$400,000, a reduction of approximately 4%. The loan limit would be reduced by the same percentage in areas with higher limits. In areas where the current loan limit is at \$625,500, the limit would be reduced to \$600,000.

FHFA’s announcement stated that no final decision on loan limits will be made until comments are reviewed, and the proposed changes will not affect loans originated before October 1, 2014.

No statutory limits apply to the maximum original principal balance of multifamily mortgage loans that we purchase or securitize. In addition, the Charter Act imposes no maximum original principal balance limits on loans we purchase or securitize that are insured by FHA or guaranteed by the VA.

**Loan-to-Value and Credit Enhancement Requirements.** The Charter Act generally requires credit enhancement on any single-family conventional mortgage loan that we purchase or securitize if it has a loan-to-value ratio over 80% at the time of purchase. Although we do not currently purchase or securitize second lien single-family mortgage loans, the Charter Act requires a second lien mortgage loan to have credit enhancement if the combined loan-to-value ratio exceeds 80%. The credit enhancement required by our charter may take the form of one or more of the following:

(1) insurance or a guaranty by a qualified insurer of the over-80% portion of the unpaid principal balance of the mortgage; (2) a seller’s agreement to repurchase or replace the mortgage in the event of default (for such period and under such circumstances as we may require); or (3) retention by the seller of at least a 10% participation interest in the mortgage. Regardless of loan-to-value ratio, the Charter Act does not require us to obtain credit enhancement to purchase or securitize loans insured by FHA or guaranteed by the VA.

#### Authority of U.S. Treasury to Purchase GSE Securities

Pursuant to our charter, at the discretion of the Secretary of the Treasury, Treasury may purchase our obligations up to a maximum of \$2.25 billion outstanding at any one time. Under the 2008 Reform Act, Treasury temporarily received

expanded authority, which expired on December 31, 2009, to purchase our obligations and other securities in unlimited amounts (up to

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the national debt limit). We describe Treasury's investment in our senior preferred stock and a common stock warrant pursuant to this expanded temporary authority under "Conservatorship and Treasury Agreements—Treasury Agreements." Other Charter Act Provisions

The Charter Act has the following additional provisions.

**Issuances of Our Securities.** We are authorized, upon the approval of the Secretary of the Treasury, to issue debt obligations and mortgage-related securities. Neither the U.S. government nor any of its agencies guarantees, directly or indirectly, our debt or mortgage-related securities.

**Exemptions for Our Securities.** The Charter Act generally provides that our securities are exempt under the federal securities laws administered by the SEC. As a result, we are not required to file registration statements with the SEC under the Securities Act of 1933 with respect to offerings of any of our securities. Our non-equity securities are also exempt securities under the Securities Exchange Act of 1934 (the "Exchange Act"). However, our equity securities are not treated as exempt securities for purposes of Sections 12, 13, 14 or 16 of the Exchange Act. Consequently, we are required to file periodic and current reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.

**Exemption from Specified Taxes.** Fannie Mae is exempt from taxation by states, territories, counties, municipalities and local taxing authorities, except for taxation by those authorities on our real property. We are not exempt from the payment of federal corporate income taxes.

**Other Limitations and Requirements.** We may not originate mortgage loans or advance funds to a mortgage seller on an interim basis, using mortgage loans as collateral, pending the sale of the mortgages in the secondary market. In addition, we may only purchase or securitize mortgages on properties located in the United States and its territories. The GSE Act

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

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

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

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

**New Products.** The GSE Act requires us to obtain FHFA's approval before initially offering any product, subject to certain exceptions. The GSE Act also requires us to provide FHFA with written notice before commencing any new activity. In July 2009, FHFA published an interim final rule implementing these provisions of the GSE Act.

Subsequently, the then-Acting Director of FHFA concluded that permitting us to offer new products at this time is inconsistent with the goals of the conservatorship. He therefore instructed us not to submit requests for approval of

new products under the interim final rule. We cannot predict when or if FHFA will permit us to submit new product requests under the rule.

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

In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons set forth in the GSE Act. The statutory grounds for discretionary appointment of a receiver include: a substantial dissipation of assets or earnings due to unsafe or unsound practices; the existence of an unsafe or unsound condition to transact business; an inability to meet our obligations in the ordinary course of business; a weakening of our condition due to unsafe or unsound practices or conditions; critical undercapitalization; undercapitalization and no reasonable prospect of becoming adequately capitalized; the likelihood of losses that will deplete substantially all of our capital; or by consent.

In June 2011, FHFA issued a final rule establishing a framework for conservatorship and receivership operations for the GSEs, which became effective in July 2011. The rule implements and supplements the procedures and processes set forth in the GSE Act, and does not seek to anticipate or predict future conservatorships or receiverships. For example, the final rule clarifies that:

the powers of the conservator or receiver include continuing our mission and ensuring that our operations foster liquid, efficient, competitive and resilient national housing finance markets;

the conservator or receiver may disaffirm or repudiate any contract or lease to which we are a party for up to 18 months following the appointment of a conservator or receiver;

we are prohibited from making capital distributions while in conservatorship unless authorized by the Director of FHFA; and

claims by current or former shareholders (including securities litigation claims) would receive the lowest priority in a receivership, behind: (1) administrative expenses of the receiver (or an immediately preceding conservator), (2) our other general or senior liabilities, and (3) obligations subordinated to those of general creditors.

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

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

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



Affordable Housing Allocations. The GSE Act requires us and Freddie Mac to set aside in each fiscal year an amount equal to 4.2 basis points for each dollar of the unpaid principal balance of our total new business purchases to fund HUD's Housing Trust Fund and Treasury's Capital Magnet Fund, with 65% of this amount allocated to the Housing Trust Fund and the remaining 35% allocated to the Capital Magnet Fund. The GSE Act authorizes the Director of FHFA to temporarily suspend these allocations in specified circumstances. In November 2008, FHFA suspended allocations for these funds and directed Fannie Mae and Freddie Mac to not set aside or allocate funds for the Housing Trust Fund and Capital Magnet Fund until further notice. In July 2013, a lawsuit was filed against FHFA challenging its decision to suspend Fannie Mae's and Freddie Mac's contributions to the Housing Trust Fund. See "Note 19, Commitments and Contingencies" for a description of this lawsuit.

Executive Compensation. Fannie Mae's Charter provides that the company has the power to pay compensation to our executives that the Board of Directors determines is reasonable and comparable with the compensation of executives performing similar duties in similar businesses, except that a significant portion of potential compensation must be based on our performance. The GSE Act directs FHFA to prohibit us from providing unreasonable or non-comparable compensation to our executive officers. FHFA may at any time review the reasonableness and comparability of an executive officer's compensation and may require us to withhold any payment to the officer during such review. FHFA is also authorized by the GSE Act to prohibit or limit certain golden parachute and indemnification payments to directors, officers and certain other parties. In addition, pursuant to the Stop Trading on Congressional Knowledge Act (the "STOCK Act") and related regulations issued by FHFA, our senior executives are prohibited from receiving bonuses during any period of conservatorship on or after the April 4, 2012 enactment of the law.

In January 2014, FHFA issued a revised final rule relating to the compensation of executive officers (as defined under the rule), which will become effective on February 27, 2014. The rule, among other things, provides that the Director of FHFA must prohibit us from providing any compensation to an executive officer that the Director determines is not reasonable or comparable with compensation for employment in other similar businesses involving similar duties and responsibilities. The rule also requires the approval of the Director of FHFA before we may enter into any agreement providing compensation in connection with the termination of an executive officer's employment. FHFA also issued a revised final rule relating to golden parachute payments in January 2014, which will become effective on February 27, 2014. The rule generally prohibits us from making golden parachute payments to any current or former director, officer, employee, controlling stockholder or agent of the company during any period in which we are in conservatorship, receivership or other troubled condition unless either a specific exception applies or the Director of FHFA approves the payments. For a description of regulatory and other legal requirements affecting our executive compensation, see "Executive Compensation—Compensation Discussion and Analysis—Chief Executive Officer Compensation and 2013 Executive Compensation Program—Impact of Conservatorship and Other Legal Requirements." Fair Lending. The GSE Act requires the Secretary of HUD to assure that the GSEs meet their fair lending obligations. Among other things, HUD is required to periodically review and comment on the underwriting and appraisal guidelines of each company to ensure consistency with the Fair Housing Act. HUD is currently conducting such a review.

#### Capital Adequacy Requirements

The GSE Act establishes capital adequacy requirements. The statutory capital framework incorporates two different quantitative assessments of capital—a minimum capital requirement and a risk-based capital requirement. The minimum capital requirement is ratio-based, while the risk-based capital requirement is based on simulated stress test performance. The GSE Act requires us to maintain sufficient capital to meet both of these requirements in order to be classified as "adequately capitalized." However, during the conservatorship, FHFA has suspended our capital classifications and announced that our existing statutory and FHFA-directed regulatory capital requirements will not be binding. FHFA has advised us that, because we are under conservatorship, we will not be subject to corrective action requirements that would ordinarily result from our receiving a capital classification of "undercapitalized." Minimum Capital Requirement. Under the GSE Act, we must maintain an amount of core capital that equals or exceeds our minimum capital requirement. The GSE Act defines core capital as the sum of the stated value of outstanding common stock (common stock less treasury stock), the stated value of outstanding non-cumulative perpetual preferred stock, paid-in capital, and retained earnings, as determined in accordance with GAAP. Our

minimum capital requirement is generally equal to the sum of 2.50% of on-balance sheet assets and 0.45% of off-balance sheet obligations. For purposes of minimum capital, FHFA has directed us to continue reporting loans backing Fannie Mae MBS held by third parties based on 0.45% of the unpaid principal balance regardless of whether these loans have been consolidated pursuant to accounting rules. FHFA retains authority under the GSE Act to raise the minimum capital requirement for any of our assets or activities.

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

**Critical Capital Requirement.** The GSE Act also establishes a critical capital requirement, which is the amount of core capital below which we would be classified as "critically undercapitalized." Under the GSE Act, such classification is a discretionary ground for appointing a conservator or receiver. Our critical capital requirement is generally equal to the sum of 1.25% of on-balance sheet assets and 0.25% of off-balance sheet obligations. FHFA has directed us, for purposes of critical capital, to continue reporting loans backing Fannie Mae MBS held by third parties based on 0.25% of the unpaid principal balance, notwithstanding our consolidation of substantially all of the loans backing these securities. FHFA has stated that it does not intend to publish our critical capital level during the conservatorship.

#### **Housing Goals and Duty to Serve Underserved Markets**

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

#### **Housing Goals**

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

**Low-Income Families Home Purchase Benchmark:** At least 23% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to low-income families (defined as income equal to or less than 80% of area median income).

**Very Low-Income Families Home Purchase Benchmark:** At least 7% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to very low-income families (defined as income equal to or less than 50% of area median income).

**Low-Income Areas Home Purchase Goal Benchmark:** The benchmark level for our acquisitions of single-family owner-occupied purchase money mortgage loans for families in low-income areas is set annually by notice from FHFA, based on the benchmark level for the low-income areas home purchase subgoal (below), plus an adjustment factor reflecting the additional incremental share of mortgages for moderate-income families (defined as income equal to or less than 100% of area median income) in designated disaster areas. For 2013, FHFA set the overall low-income areas home purchase benchmark goal at 21%.

**Low-Income Areas Home Purchase Subgoal Benchmark:** At least 11% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to families in low-income census tracts or to moderate-income families in high-minority census tracts.

**Low-Income Families Refinancing Benchmark:** At least 20% of our acquisitions of single-family owner-occupied refinance mortgage loans must be affordable to low-income families.

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

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

year in the fall. We will be in compliance with the housing goals if we meet either the benchmarks or market share measures.

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To meet FHFA's housing goals, our multifamily mortgage acquisitions must finance a certain number of units affordable to low-income families and a certain number of units affordable to very low-income families. The specific requirements for each year are set forth in Table 5 below. There is no market-based alternative measurement for the multifamily goals.

Table 5: Multifamily Housing Goals for 2012 to 2014

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

In adopting the rule in 2010 establishing the structure of our housing goals, FHFA indicated "FHFA does not intend for [Fannie Mae] to undertake uneconomic or high-risk activities in support of the [housing] goals. However, the fact that [Fannie Mae is] in conservatorship should not be a justification for withdrawing support from these market segments." If our efforts to meet our goals prove to be insufficient, FHFA determines whether the goals were feasible. If FHFA finds that our goals were feasible, we may become subject to a housing plan that could require us to take additional steps that could have an adverse effect on our results of operations and financial condition. The housing plan must describe the actions we would take to meet the goal in the next calendar year and be approved by FHFA. The potential penalties for failure to comply with housing plan requirements include a cease-and-desist order and civil money penalties. As described in "Risk Factors," actions we may take to meet our housing goals may increase our credit losses and credit-related expense.

In October 2013, FHFA determined that we met all of our single-family and multifamily housing goals for 2012. The following table presents our performance against our single-family housing benchmarks and market share measures, as well as our multifamily housing goals, for 2012 and 2011, as validated by FHFA.

Table 6: Housing Goals Performance

	2012			2011			
	Result	Bench-mark	Single-Family Market Level	Result	Bench-mark	Single-Family Market Level	
Single-family housing goals: <sup>(1)</sup>							
Low-income families home purchases	25.6	% 23	% 26.6	% 25.8	% 27	% 26.5	%
Very low-income families home purchases	7.3	7	7.7	7.6	8	8.0	
Low-income areas home purchases	22.3	20	20.5	22.4	24	22.0	
Low-income and high-minority areas home purchases	13.1	11	13.6	11.6	13	11.4	
Low-income families refinancing	21.8	20	22.3	23.1	21	21.5	
				2012 Result (in units)	Goal	2011 Result	Goal
Multifamily housing goals:							
Affordable to families with income no higher than 80% of area median income				375,924	285,000	301,224	177,750
Affordable to families with income no higher than 50% of area median income				108,878	80,000	84,244	42,750

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

Based on preliminary numbers, with the exception of the single-family very low-income families home purchase goal benchmark, we believe we met all of our single-family housing goal benchmarks for 2013, as well as both of our 2013 multifamily housing goals. To determine whether we met our very low-income families home purchase goal, FHFA will

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compare our performance with that of the market after the release of data reported by primary market originators under HMDA in the fall of 2014. We will be in compliance with the single-family very low-income families home purchase goal if we meet the market share measure.

We will file our assessment of our 2013 housing goals performance with FHFA in March 2014. FHFA will issue a final determination on our 2013 housing goals performance after the release of data reported under HMDA later this year.

#### Duty to Serve

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

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

• The loan product assessment factor requires evaluation of our “development of loan products, more flexible underwriting guidelines, and other innovative approaches to providing financing to each” underserved market.

The outreach assessment factor requires evaluation of “the extent of outreach to qualified loan sellers and other market participants.” We are expected to engage market participants and pursue relationships with qualified sellers that serve each underserved market.

The loan purchase assessment factor requires FHFA to consider the volume of loans acquired in each underserved market relative to the market opportunities available to us. The 2008 Reform Act prohibits the establishment of specific quantitative targets by FHFA. However, in its evaluation FHFA could consider the volume of loans acquired in past years.

• The investment and grants assessment factor requires evaluation of the amount of investment and grants in projects that assist in meeting the needs of underserved markets.

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

#### The Dodd-Frank Act

The Dodd-Frank Act has significantly changed the regulation of the financial services industry, including requiring new standards related to regulatory oversight of systemically important financial companies, derivatives transactions, asset-backed securitization, mortgage underwriting and consumer financial protection. The Dodd-Frank Act has directly affected and will continue to affect our business through new and expanded regulatory oversight and standards applicable to us. We are also indirectly affected by provisions of the Dodd-Frank Act and implementing regulations that impact the activities of our customers and counterparties in the financial services industry. Some of the regulations required to implement provisions of the Dodd-Frank Act still have not been finalized or proposed. As a result, it remains difficult to assess fully the impact of this legislation on our business and industry at this time. We discuss the potential risks to our business resulting from the Dodd-Frank Act in “Risk Factors.” Below we summarize some key provisions of the Dodd-Frank Act, as well as some proposed and final rules that have been promulgated by various government agencies to implement provisions of the legislation.

Enhanced supervision and prudential standards. The Dodd-Frank Act established the Financial Stability Oversight Council (the “FSOC”), chaired by the Secretary of the Treasury, to ensure that all financial companies—not just banks—whose failure could pose a threat to the financial stability of the United States will be subject to strong oversight. Under the Dodd-Frank Act, the FSOC is responsible for designating systemically important nonbank financial companies, while the Federal Reserve is responsible for establishing stricter prudential standards that will apply to FSOC-designated systemically important nonbank financial companies, as well as to large bank holding companies. The Federal Reserve must establish standards related to risk-based capital, leverage limits, liquidity, single-counterparty exposure limits, resolution plans, reporting credit exposures and other risk management measures. In December 2011, the Board of Governors of the Federal Reserve System issued proposed rules addressing a number of these enhanced prudential standards and, in February 2014, the Board of Governors of the Federal Reserve System issued an interim final rule implementing some of these enhanced prudential standards. The Federal Reserve may also

impose other standards related to contingent capital, enhanced public disclosure, short-term debt limits and other requirements as appropriate.

Depending on the scope and final form of the Federal Reserve's enhanced standards, and the extent to which they apply to us if we are designated by the FSOC as a systemically important nonbank financial company, or to our customers and other



counterparties, their adoption and application could increase our costs, pose operational challenges and adversely affect demand for Fannie Mae debt and MBS. We have not received any notification of possible designation as a systemically important financial institution.

Swap Transactions; Minimum Capital and Margin Requirements. The Dodd-Frank Act includes provisions requiring additional regulation of swap transactions. Because we are a user of interest rate swaps, the Dodd-Frank Act requires us, among other items, to submit new swap transactions for clearing to a derivatives clearing organization. Additionally, the Federal Reserve Board, the Federal Deposit Insurance Corporation (the "FDIC"), FHFA, the Farm Credit Administration and the Office of the Comptroller of the Currency have proposed rules under the Dodd-Frank Act governing margin and capital requirements applicable to entities that are subject to their oversight. These proposed rules would require that, for all trades that have not been submitted to a derivatives clearing organization, we collect from and provide to our counterparties collateral in excess of the amounts we have historically collected or provided.

Ability to Repay. The Dodd-Frank Act amended the Truth in Lending Act to require creditors to determine that borrowers have a "reasonable ability to repay" most mortgage loans prior to making such loans. In 2013, the Consumer Financial Protection Bureau (the "CFPB") issued a final rule under Regulation Z that, among other things, requires creditors to determine a borrower's "ability to repay" a mortgage loan. If a creditor fails to comply, a borrower may be able to offset a portion of the amount owed in a foreclosure proceeding or recoup monetary damages. The rule offers several options for complying with the ability to repay requirement, including making loans that meet certain terms and characteristics (so-called "qualified mortgages"), which may provide creditors and their assignees with special protection from liability. Generally, a loan will be a qualified mortgage under the rule if, among other things, (1) the points and fees paid in connection with the loan do not exceed 3% of the total loan amount, (2) the loan term does not exceed 30 years, (3) the loan is fully amortizing with no negative amortization, interest-only or balloon features and (4) the debt-to-income ratio on the loan does not exceed 43%. The CFPB also defined a special class of conventional mortgage loans that will be qualified mortgages if they (1) meet the points and fees, term and amortization requirements of qualified mortgages generally, and (2) are eligible for sale to Fannie Mae or Freddie Mac. This class of qualified mortgages expires on the earlier of January 10, 2021 or when the GSEs cease to be in conservatorship or receivership.

In May 2013, FHFA directed Fannie Mae and Freddie Mac to limit our acquisition of single-family loans to those loans that meet the points and fees, term and amortization requirements for qualified mortgages, or to loans that are exempt from the ability-to-repay rule, such as loans made to investors. This limitation applies to loans with application dates on or after January 10, 2014, the effective date of the ability-to-repay rule. We continue to evaluate the potential impact of these changes on our business.

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. In August 2013, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, the SEC, FHFA and HUD proposed a joint rule that would implement this risk retention requirement. Under the proposed rule, securitizers would be required to retain at least 5% of the credit risk of the assets they securitize. The proposed rule offers several compliance options, one of which is to have either Fannie Mae or Freddie Mac (so long as they are in conservatorship or receivership) securitize and fully guarantee the assets, in which case no further retention of credit risk is required. In addition, securities backed solely by mortgage loans meeting the definition of a "Qualified Residential Mortgage" are exempt from the risk retention requirements of the rule. The proposed rule defines Qualified Residential Mortgage to have the same meaning as the term "qualified mortgage" as defined by the CFPB in connection with its "ability to repay" rule discussed above.

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. In September 2013, FHFA issued a final rule implementing the Dodd-Frank Act's stress test requirements for Fannie Mae, Freddie Mac and the FHLBs. 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 three different scenarios of financial conditions provided by FHFA: baseline,

adverse and severely adverse. In conducting the stress test, we are 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 submit the stress test results for the three scenarios to FHFA and the Federal Reserve Board of Governors by February 5 of each year. In addition, we are required to publish the stress test results for the severely adverse scenario between April 15 and April 30 of each year. We submitted our first stress test results under this rule to FHFA and the Federal Reserve Board of Governors on February 5, 2014.

### Bank Capital and Liquidity Standards

Although we are not subject to banking regulations, our business may be affected by changes to the capital and liquidity requirements applicable to U.S. banks. The capital and liquidity regimes for the U.S. banking industry are currently undergoing significant changes as a result of actions by international bank regulators. In December 2010, the Basel Committee on Banking Supervision issued a set of revisions to the international capital requirements. These revisions, known as Basel III, generally narrow the definition of capital that can be used to meet risk-based standards and raise the amount of capital that must be held. Basel III also introduces new quantitative liquidity requirements. In July 2013, U.S. banking regulators issued a final regulation implementing Basel III's capital standards. U.S. banking regulators also issued a proposed regulation in October 2013 setting minimum liquidity standards generally in accordance with Basel III standards. See "Risk Factors" for a discussion of this proposed rule and how, if it is adopted as currently proposed, it could materially adversely affect demand by banks for our debt and MBS securities in the future, as well as how Basel III could otherwise affect our company and the future business practices of our customers and counterparties.

In addition, although we are not subject to bank capital or liquidity requirements, any revised framework for GSE standards may be based on bank requirements, particularly if the GSEs are deemed to be systemically important financial companies subject to Federal Reserve oversight.

### Potential Changes to Our Single-Family Guaranty Fee Pricing

In December 2013, FHFA directed us and Freddie Mac to increase our base single-family guaranty fees for all mortgages by 10 basis points. FHFA also directed us and Freddie Mac to make changes to our single-family loan level price adjustments, which are one-time cash fees that we charge at the time we initially acquire a loan based on the credit characteristics of the loan. These changes to our single-family loan level price adjustments consist of: (1) eliminating the current 25 basis point adverse market delivery charge, which has been assessed on all single-family mortgages purchased by us since 2008, for all loans except those secured by properties located in Connecticut, Florida, New Jersey and New York, due to the significantly higher foreclosure carrying costs in these states; and (2) implementing changes to our upfront fees for single-family loans to better align pricing with the credit risk characteristics of the borrower. FHFA's December 2013 directive stated that these price changes would be effective on March 1, 2014 for whole loan commitments and on April 1, 2014 for loans exchanged for Fannie Mae MBS; however, in January 2014, FHFA directed us and Freddie Mac to delay implementation of these guaranty fee changes. FHFA Director Watt stated that he intends to conduct a thorough evaluation of the proposed changes and their likely impact as expeditiously as possible.

### 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" (the "Advisory Bulletin"), which is applicable to Fannie Mae, Freddie Mac and the Federal Home Loan Banks. The Advisory Bulletin establishes guidelines for adverse classification and identification of specified single-family and multifamily assets and off-balance sheet credit exposures. The Advisory Bulletin indicates that this guidance considers and is generally consistent with the Uniform Retail Credit Classification and Account Management Policy issued by the federal banking regulators in June 2000. Among other requirements, 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." The Advisory Bulletin specifies that, if we subsequently receive full or partial payment of a previously charged-off loan, we may report a recovery of the amount, either through our loss reserves or as a reduction in our foreclosed property expenses. 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.

We establish an allowance for loan losses against our loans either through our collective loss reserve or 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. 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 short sale).

In the period in which we adopt the Advisory Bulletin, our allowance for loan losses on the impacted loans will be eliminated and the corresponding recorded investment in the loan will be reduced by the amounts that are charged off. 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 over time; however, the timing of when we recognize the losses in our financial statements will differ.

We are working with FHFA to consider how the Advisory Bulletin may impact our credit risk management practices. At present, approximately 50% of our modifications are initiated after loans become 180 days delinquent. This is a result of a number of factors, including servicer backlogs, lack of borrower responsiveness to loss mitigation efforts, and extended foreclosure timelines, which affect the willingness of borrowers to engage regarding loss mitigation options. Given the current rate of modification activity after loans become 180 days delinquent, the benefit we expect from borrower re-performance is significant in estimating the losses for this population of loans. In July 2013, we introduced a streamlined modification program which may accelerate the timing of our modifications; however, we still expect a meaningful amount of modifications to be initiated after our loans become 180 days past due. As we obtain incremental information on the performance of this program, we will enhance our loss estimates, as necessary, to reflect the change in the expected timing and volume of modifications.

We are working with FHFA to resolve certain implementation issues related to our adoption of the Advisory Bulletin. We do not expect that the adoption of the Advisory Bulletin will have a material impact on our financial position or results of operations.

See "Risk Factors" for information on the risks presented by our adoption of the Advisory Bulletin.

#### OUR CUSTOMERS

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

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

During 2013, approximately 1,200 lenders delivered single-family mortgage loans to us, either for securitization or for purchase. We acquire a significant portion of our single-family mortgage loans from several large mortgage lenders. During 2013, our top five lender customers, in the aggregate, accounted for approximately 42% of our single-family business volume, down from approximately 46% in 2012. Wells Fargo Bank, N.A., together with its affiliates, was the only customer that accounted for 10% or more of our single-family business volume in 2013, with approximately 20%.

A number of factors impacted our customers in 2013 and affected the volume of business and mix of customers with whom we and our competitors do business. We obtained a smaller portion of our single-family loan acquisitions from large mortgage lenders in 2012 and 2013 than in prior years as a result of (1) exits from correspondent or broker lending by several large lenders who are focusing instead on lending through their retail channels, and (2) a number of large mortgage lenders having gone out of business since 2006. At the same time, we sought and continue to seek to provide liquidity to a broader, more diverse set of mortgage lenders. In addition to the decrease in single-family mortgage seller concentration, we are acquiring an increasing portion of our business volume from non-depository sellers rather than depository financial institutions. Doing more business with a more diverse set of mortgage lenders has lowered to a degree the significant exposure concentration we have built up with a few large institutions.

However, the potentially lower financial strength, liquidity and operational capacity of many of these smaller or non-depository mortgage sellers and servicers may negatively affect their ability to satisfy their repurchase or compensatory fee obligations or to service the loans on our behalf. The decrease in the concentration of our business

with large depository financial institutions could increase both our institutional counterparty credit risk and our mortgage credit risk and, as a result, could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

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

#### COMPETITION

Historically, our competitors have included Freddie Mac, FHA, Ginnie Mae (which primarily guarantees securities backed by FHA-insured loans), the twelve FHLBs, financial institutions, securities dealers, insurance companies, pension funds, investment funds and other investors. Today, we primarily compete with Freddie Mac, FHA, Ginnie Mae and the FHLBs, as many private market competitors dramatically reduced or ceased their activities in the residential mortgage finance business following the 2008 housing crisis.

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 high in 2013 as we have continued to meet the needs of the single-family mortgage market in the absence of substantial issuances of mortgage-related securities by private institutions during the year. We estimate that our single-family market share was 40% in 2013, compared with 39% in 2012. These amounts represent our single-family mortgage acquisitions for each year, excluding delinquent loans we purchased from our MBS trusts, as a percentage of the single-family first-lien mortgages we currently estimate were originated in the United States that year. Because our estimate of mortgage originations in prior periods is subject to change as additional data become available, these market share estimates may change in the future, perhaps materially. We remained the largest single issuer of mortgage-related securities in the secondary market in 2013. During 2013, our primary competitors for the issuance of mortgage-related securities were Ginnie Mae and Freddie Mac.

We compete to acquire mortgage assets in the secondary market. We also compete for the issuance of mortgage-related securities to investors. Competition in these areas is affected by many factors, including the number of residential mortgage loans offered for sale in the secondary market by loan originators and other market participants, the nature of the residential

mortgage loans offered for sale (for example, whether the loans represent refinancings), the current demand for mortgage assets from mortgage investors, the interest rate risk investors are willing to assume and the yields they will require as a result, and the credit risk and prices associated with available mortgage investments.

We compete with Freddie Mac and, especially for loans with higher LTV ratios to finance home purchases, with FHA. Competition to acquire mortgage assets is significantly affected by pricing and eligibility standards. In the future, our guaranty fees may increase and our loan limits may decrease, either of which would likely affect our competitive environment. See “Our Charter and Regulation of Our Activities—Potential Changes to Our Single-Family Guaranty Fee Pricing” for more information on possible increases in our guaranty fees and “Our Charter and Regulation of Our Activities—Charter Act—Loan Standards” for more information on possible decreases in our loan limits. Our competitive environment also may be affected by many other factors in the future, such as new legislation or regulations. See “Housing Finance Reform,” “Our Charter and Regulation of Our Activities” and “Risk Factors” for more information on legislation and regulations that could affect our business and competitive environment.

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

We expect to face more competition in the future. See “Our Charter and Regulation of Our Activities” and “Risk Factors” for discussions of recent legislative reform of the financial services industry that is likely to affect our business.

#### EMPLOYEES

As of January 31, 2014, we employed approximately 7,400 personnel, including full-time and part-time employees, term employees and employees on leave.

#### WHERE YOU CAN FIND ADDITIONAL INFORMATION

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

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

#### FORWARD-LOOKING STATEMENTS

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

- Our expectation that we will remain profitable for the foreseeable future;
- Our expectation that, while our annual earnings will remain strong over the next few years, our net income in future years will be substantially lower than our net income for 2013;
- Our expectation that, although we expect to continue to enter into resolution agreements and may have credit-related income in future years, these factors will have a smaller impact on our earnings in future years than in 2013;

Our expectation that our future earnings also will be affected by a number of other factors, including changes in home prices, changes in interest rates, our guaranty fee rates, the volume of single-family mortgage originations in the future, and the size, composition and quality of our retained mortgage portfolio and guaranty book of business, and economic and housing market conditions; and our expectation that some of these factors, such as changes in interest rates or home prices, could result in significant variability in our earnings from quarter to quarter or year to year; 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 pay Treasury a senior preferred stock dividend for the first quarter of 2014 of \$7.2 billion by March 31, 2014;

Our expectation that we will continue to make dividend payments to Treasury;

Our expectation that, in compliance with our dividend obligation to Treasury, we will retain only a limited amount of any future earnings because we are required to 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 single-family loans we have acquired since January 1, 2009, in the aggregate, will be profitable over their lifetime, by which we mean that we expect our guaranty 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, 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 expectation that the recent trend relating to the shift in the primary sources of our revenues will continue and, in the near future, the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties will become the primary source of our revenues;

Our expectation that continued decreases in the size of our retained mortgage portfolio will continue to negatively impact our net interest income and revenues;

Our expectation that increases in our guaranty fee revenues will at least partially offset the negative impact of the decline in our retained mortgage portfolio, and that 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; 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; and legislative and regulatory changes;

Our expectation that the 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, due to the expected decline in refinancings in 2014, refinancings will constitute a smaller portion of our single-family business volume in 2014 than in 2013;

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 in 2014 will generally remain commensurate with 2013 levels;

Our belief that the increase in the supply of multifamily units in 2014 is likely to result in a slowdown in rent growth in certain local areas and a slight increase in the national vacancy level in 2014;

Our expectation that overall national rental market supply and demand will remain in balance over the longer term, based on expected construction completions, expected obsolescence, positive household formation trends and expected increases in the population of 20- to 34-year olds;





Our expectation that single-family mortgage loan serious delinquency and severity rates will continue their downward trend, but that single-family serious delinquency 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 2014 as compared with 2013, driven by a decline in refinancings;
- Our forecast that total originations in the U.S. single-family mortgage market in 2014 will decrease from 2013 levels by approximately 30% from an estimated \$1.82 trillion in 2013 to \$1.28 trillion in 2014;
- Our forecast that the amount of originations in the U.S. single family mortgage market that are refinancings will decrease from an estimated \$1.14 trillion in 2013 to \$491 billion in 2014;
- Our expectation that home price growth will continue in 2014, but that the rate of home price growth on a national basis in 2014 will be lower than in 2013;
- Our expectation of significant regional variation in the timing and rate of home price growth;
- Our expectation that our credit losses in 2014 and 2015 will be higher than 2013 levels because: (1) the amounts we recognized in 2013 pursuant to a number of repurchase and compensatory fee resolution agreements reduced our 2013 credit losses from what they otherwise would have been; and (2) we expect our implementation of the charge-off provisions required by FHFA's Advisory Bulletin AB 2012-02 in 2015 will increase our credit losses for 2015 from what they otherwise would have been;
- Our expectation that our credit losses will resume their downward trend beginning in 2016;
- Our belief that our total loss reserves peaked at \$76.9 billion as of December 31, 2011;
- Our expectation that our loss reserves will continue to decline in 2014, but at a slower pace than in 2013;
- Our expectation that our loss reserves will remain elevated relative to the levels experienced prior to the 2008 housing crisis 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;
- 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 and considering legislation that would alter the housing finance system or the activities or operations of the GSEs;
- Our belief that, if we are liquidated, it is unlikely that there would be sufficient funds remaining after payment of amounts to our creditors and to Treasury as holder of the senior preferred stock to make any distribution to holders of our common stock and other preferred stock;
- Our anticipation that we will enter into additional agreements relating to Common Securitization Solutions, LLC in the future;
- Our expectation that, in the period in which we adopt FHFA's Advisory Bulletin AB 2012-02, our allowance for loan losses on the impacted loans will be eliminated and the corresponding recorded investment in the loan will be reduced by the amounts that are charged off;
- Our expectation that, although the streamlined modification program we introduced in July 2013 may accelerate the timing of our modifications, a meaningful amount of modifications will be initiated after our loans become 180 days past due;
- Our expectation that the adoption of FHFA's Advisory Bulletin AB 2012-02 will not have a material impact on our financial position or results of operations;
- Our belief that our capital loss carryforwards will expire unused;
- Our expectation that the guaranty fees we collect and the expenses we incur pursuant to the TCCA will continue to increase in the future, and that the amounts we remit to Treasury pursuant to the TCCA will increase in future periods;

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 amount of mortgage assets that we may own pursuant to the senior preferred stock purchase agreement;

- Our belief that our liquidity contingency plans may be difficult or impossible to execute for a company of our size in our circumstances;

Our belief that the amount of mortgage-related assets that we could successfully sell or borrow against in the event of a liquidity crisis or significant market disruption is substantially lower than the amount of mortgage-related assets we hold;

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 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 December 31, 2013 serious delinquency rates of loans in our legacy book of business;

Our belief that we have limited credit exposure to losses on home equity conversion mortgages;

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 continue to 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 expectation that the recent performance trends for our interest-only loans and negative-amortizing loans that have recently reset compared to those that are still in the initial period would not continue if interest rates rose significantly;

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 belief that retaining special servicers to service loans using high-touch protocols will reduce our future credit losses on the transferred loan portfolio;

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 nonaccrual loans or have been foreclosed upon;

Our expectation, based on the stressed financial condition of many of our non-governmental financial guarantor counterparties, that we will receive full cash payment from only two of these counterparties;

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 we will receive only a portion of our allowed amount under the terms of the Lehman Plan of Reorganization;

Our expectation that our new out-of-region data center for disaster recovery will be operational later in 2014;

Our expectation that we will conclude the audit with the IRS for our federal tax returns related to the 2009 and 2010 tax years by the end of 2014;

Our plans and expectations relating to the distribution of benefits remaining under our terminated pension plans, including our expectation that the distributions will be completed by December 31, 2015 and that we will purchase annuity contracts from an insurance company for retirees and participants that choose annuities as a payment option;

Our expectations of the amounts we will recognize, contributions we will make and benefits we will pay relating to our benefit plans, as well as our expectations relating to our plan assets;

Our expectation that our objectives and business activities will continue to change, possibly significantly, including in pursuit of our public mission and other non-financial objectives;

Our belief that implementing recent FHFA directives will increase our operational risk and could result in one or more significant deficiencies or material weaknesses in our internal control over financial reporting in a future period; and

Our expectation that our administrative expenses may increase in 2014 compared with 2013 as we continue to execute on our strategic goals.

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; actions we may be required to take by FHFA, as our conservator or as our regulator; 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; credit availability; natural or other disasters; and those factors described in "Risk Factors," as well as the factors described in "Executive Summary—Outlook—Factors that Could

Cause Actual Results to be Materially Different from our Estimates and Expectations.”

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

#### Item 1A. Risk Factors

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

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

#### RISKS RELATING TO OUR BUSINESS

The future of our company is uncertain.

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

In 2011, the Administration released a report to Congress on ending the conservatorships of the GSEs and reforming America’s housing finance market. The report provides that the Administration will work with FHFA to determine the best way to responsibly reduce Fannie Mae and Freddie Mac’s role in the market and ultimately wind down both institutions. The report also addresses three options for a reformed housing finance system. The report does not state whether or how the existing infrastructure or human capital of Fannie Mae may be used in the establishment of such a reformed system. The report emphasizes the importance of proceeding with a careful transition plan and providing the necessary financial support to Fannie Mae and Freddie Mac during the transition period. In August 2013, the White House released a paper confirming that a core principle of the Administration’s housing policy priorities is to wind down Fannie Mae and Freddie Mac through a responsible transition. In January 2014, the White House issued a fact sheet reaffirming the Administration’s view that housing finance reform should include ending Fannie Mae and Freddie Mac’s business model.

In a February 2012 letter to Congress, Edward DeMarco, then the Acting Director of FHFA, provided a strategic plan for Fannie Mae and Freddie Mac’s conservatorships that included, among its three strategic goals, gradually contracting Fannie Mae and Freddie Mac’s dominant presence in the marketplace while simplifying and shrinking our and Freddie Mac’s operations. In January 2014, Melvin L. Watt became the new Director of FHFA. It is uncertain whether Director Watt will make changes to FHFA’s strategic goals and objectives for Fannie Mae and Freddie Mac. In the first session of the current Congress, members of Congress introduced several bills to reform the housing finance system, including bills that, among other things, would require Fannie Mae and Freddie Mac to be wound down after a period of time and place certain restrictions on Fannie Mae’s and Freddie Mac’s activities prior to being wound down. We expect that Congress will continue to hold hearings and consider legislation on the future status of Fannie Mae and Freddie Mac, including proposals that would result in a substantial change to our business structure or our operations, or that involve Fannie Mae’s liquidation or dissolution. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding the future status of the GSEs. See “Business—Housing Finance Reform” for more information about the Administration’s report and paper, and Congressional proposals regarding GSE reform.

Congress or FHFA may also consider legislation or regulation aimed at reducing our market share including, for example, significant changes to conforming loan limits that could reduce the number of loans available for us to acquire, which would affect the amount of guaranty fees we receive. For example, in December 2013, FHFA requested public input on a plan to gradually reduce the conforming loan limit for one-family residences. See “Business—Our Charter and Regulation of Our Activities—Charter Act—Loan Standards” for more information on FHFA’s proposal.

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

As a result of our dividend obligation to Treasury, we will retain only a limited amount of our future earnings, and we will be obligated to 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 \$2.4 billion for each quarterly dividend period in 2014 and decreases by \$600 million annually until it reaches zero in 2018. Accordingly, our dividend obligations will result in our retaining a limited and decreasing amount of our earnings each year until 2018. Beginning in 2018, we will no longer retain any of our earnings, as the entire amount of our net worth at the end of each quarter will be required to be paid to Treasury.

Because we are permitted to retain only a limited and decreasing amount of capital reserves through 2017, we may not have sufficient reserves to avoid a net worth deficit if we experience a comprehensive loss in a future quarter. In addition, beginning in 2018, we are not permitted to retain any capital reserves against losses in subsequent quarters; therefore, if we have a comprehensive loss for a quarter we will also have a net worth deficit for that quarter. For any quarter for which we have a net worth deficit, we will be required to draw funds from Treasury under the senior preferred stock purchase agreement in order to avoid being placed into receivership. As of the date of this filing, the maximum amount of remaining funding under the agreement is \$117.6 billion.

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

FHFA is required to place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations for a period of 60 days after the filing deadline for our Form 10-K or Form 10-Q with the SEC. Although Treasury committed to providing us funds in accordance with the terms of the senior preferred stock purchase agreement, if we need funding from Treasury to avoid triggering FHFA's obligation, Treasury may not be able to provide sufficient funds to us within the required 60 days if it has exhausted its borrowing authority, if there is a government shutdown, or if the funding we need exceeds the amount available to us under the agreement. In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons set forth in the GSE Act, including if we are critically undercapitalized or if we are undercapitalized and have no reasonable prospect of becoming adequately capitalized.

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

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

In the event of a liquidation of our assets, only after payment of the administrative expenses of the receiver and the immediately preceding conservator, the secured and unsecured claims against the company (including repaying all outstanding debt obligations), and the liquidation preference of the senior preferred stock, would any liquidation proceeds be available to repay the liquidation preference on any other series of preferred stock. Finally, only after the liquidation preference on all series of preferred stock is repaid would any liquidation proceeds be available for distribution to the holders of our common stock. We believe that in the event of a liquidation of our assets it is unlikely that there would be sufficient proceeds to make any distribution to holders of our preferred stock or common stock, other than to Treasury as a holder of our senior preferred stock.

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

Our business processes are highly dependent on the talents and efforts of our employees. The conservatorship, the uncertainty of our future, limitations on employee compensation and negative publicity concerning the GSEs have had

and are likely to continue to have an adverse effect on our ability to retain and recruit well-qualified employees. Turnover in key management positions and challenges in integrating new management could harm our ability to manage our business effectively and ultimately adversely affect our financial performance.

Actions taken by Congress, FHFA and Treasury to date, or that may be taken by them or other government agencies in the future, may have an adverse effect on the retention and recruitment of senior executives, management and other employees. We are subject to significant restrictions on the amount and type of compensation we may pay our executives and other employees under conservatorship. For example, in April 2012, the STOCK Act was enacted, which includes a provision that



prohibits senior executives at Fannie Mae and Freddie Mac from receiving bonuses during any period of conservatorship on or after the date of enactment of the law. In addition, we are unable to offer equity-based compensation.

The compensation we pay our senior executives is significantly less than executives' compensation at many comparable companies. As discussed more fully in "Executive Compensation—Compensation Discussion and Analysis—Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data," total target direct compensation for 2013 for each of our executives identified as a named executive was more than 30% below the market median for comparable firms and, in the case of our Chief Executive Officer, was more than 90% below the market median.

Congress has considered other legislation in the past that would alter the compensation for Fannie Mae and Freddie Mac employees. In 2011, the Financial Services Committee of the House of Representatives approved a bill that would put our employees on a federal government pay scale. Although this legislation was not passed by the House or the Senate, if similar legislation were to become law, our employees could experience a sudden and sharp decrease in compensation, which would harm our ability to retain and recruit employees.

We face competition from within the financial services industry and from businesses outside of the financial services industry for qualified employees. Additionally, an improving economy may put additional pressures on turnover, as attractive opportunities become available to our employees. Our competitors for talent are generally not subject to the same limitations on employee compensation. The constraints on our compensation could adversely affect our ability to attract qualified candidates. While we engage in succession planning for our senior management and other critical positions and have been able to fill a number of important positions internally, our inability to offer market-based compensation may limit our ability to attract and retain qualified employees below the senior executive level that could fill our senior executive level positions if there is an increase in turnover.

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

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

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

Because we are under the control of our conservator, our strategic and operational focus may not be consistent with the investment objectives of our investors. In addition, we may be required to engage in activities that are operationally difficult, costly to implement or unprofitable. For example, under the portfolio reduction requirement of our senior preferred stock purchase agreement with Treasury, we may be required to dispose of assets at unfavorable prices or that may be more economical to hold.

FHFA, as conservator, has determined that, while we are in conservatorship, we will be limited to continuing our existing core business activities and taking actions to advance the goals of the conservatorship. In 2012, FHFA's then-Acting Director identified strategic goals for our and Freddie Mac's conservatorships that included building a new infrastructure for the secondary mortgage market and gradually contracting our and Freddie Mac's dominant presence in the marketplace, while simplifying and shrinking our operations. FHFA has directed us to implement specific objectives to implement these strategic goals and we are devoting significant resources to meeting these objectives. In view of FHFA's strategic goals, we expect that our objectives and business activities will continue to change, possibly significantly, including in pursuit of our public mission and other non-financial objectives. In addition, in January 2014, Melvin L. Watt became the new Director of FHFA, which could result in changes to FHFA's strategic goals for our conservatorship.

The senior preferred stock purchase agreement with Treasury includes a number of covenants that significantly restrict our business activities. We cannot, without the prior written consent of Treasury: pay dividends (except on the senior

preferred stock); sell, issue, purchase or redeem Fannie Mae equity securities; sell, transfer, lease or otherwise dispose of assets in specified situations; engage in transactions with affiliates other than on arm's-length terms or in the ordinary course of business; issue subordinated debt; or incur indebtedness that would result in our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are allowed to own. In deciding whether to consent to any request for approval it receives from us under the agreement, Treasury has the right to withhold its consent for any reason and is not required by the

agreement to consider any particular factors, including whether or not management believes that the transaction would benefit the company. Pursuant to the senior preferred stock purchase agreement, the maximum allowable amount of mortgage assets we are permitted to own as of December 31, 2013 was \$552.5 billion, and on each December 31 thereafter, our mortgage assets may not exceed 85% of the maximum allowable amount that we were permitted to own as of December 31 of the immediately preceding calendar year until the amount of our mortgage assets reaches \$250 billion. This limit on the amount of mortgage assets we are permitted to hold could constrain the amount of delinquent loans we purchase from single-family MBS trusts, which could increase our costs.

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

Several lawsuits have been filed by preferred and common stockholders of Fannie Mae and Freddie Mac against the United States, Treasury and/or FHFA challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac. We are not a party to these lawsuits, except for the In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action and Arrowood Indemnity Company suits described in "Note 19, Commitments and Contingencies" and the Fisher v. United States of America suit described in "Legal Proceedings." The legal claims being advanced by one or more of these lawsuits include challenges to the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendments to the agreements, as well as to FHFA's decision to require Fannie Mae and Freddie Mac to draw funds from Treasury in order to pay dividends to Treasury during conservatorship. We cannot predict the course or the outcome of these lawsuits, or the actions the U.S. government (including Treasury or FHFA) may take in response to any ruling or finding in any of these lawsuits. Accordingly, we cannot predict what impact, if any, these lawsuits will have on our business.

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

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

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

Dividends to common and preferred shareholders, other than to Treasury, have been eliminated. Under the terms of the senior preferred stock purchase agreement, dividends may not be paid to common or preferred shareholders (other than on the senior preferred stock) without the prior written consent of Treasury, regardless of whether we are in conservatorship. In addition, as described in a risk factor above, the terms of the senior preferred stock purchase agreement and the senior preferred stock ultimately require the payment of our entire net worth to Treasury. As a result, our net income is not available to common shareholders or preferred shareholders other than Treasury as holder of the senior preferred stock.

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

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

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

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

Basel III and U.S. capital and liquidity rules could materially and adversely affect demand by banks for our debt and MBS securities in the future and otherwise could affect the future business practices of our customers and counterparties.

Basel III is a set of revised global regulatory standards developed by the Basel Committee on Banking Supervision establishing minimum bank capital and liquidity requirements. In October 2013, U.S. banking regulators issued a proposed rule setting minimum liquidity standards for large U.S. banks generally in accordance with Basel III standards. Under the proposed rule, U.S. banks subject to the standards would be required to hold a minimum level of high-quality liquid assets based on projections of their cash needs over a 30-day stress scenario. The debt and mortgage-related securities of Fannie Mae, Freddie Mac and the other GSEs would be permitted to count toward only up to 40% of the banks’ high-quality liquid asset requirement, and then only after applying a 15% discount to the market value of those securities.

U.S. banks currently hold large amounts of our outstanding debt and Fannie Mae MBS securities, and current U.S. banking regulations do not limit the amount of these securities that banks may count toward their liquidity requirements. Accordingly, if this rule is adopted as currently proposed, it may materially adversely affect demand by banks for Fannie Mae debt securities and MBS in the future, which could adversely affect the price of those securities and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

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

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

Some of the mortgage loans we acquired prior to 2009 have performed poorly, which increased our credit losses and credit-related expenses, and our risk of future credit losses and credit-related expenses, as a result of borrowers failing to make required payments of principal and interest on their mortgage loans. In addition, although home prices have improved in each of the last two years on a national basis, a portion of the loans in our single-family guaranty book of business continues to have an estimated mark-to-market LTV ratio greater than 100%, which increases the likelihood that either these borrowers will strategically default on their mortgage loans even if they have the ability to continue to pay the loans or that distressed homeowners will sell their homes in a “short sale” for significantly less than the unpaid amount of the loans. We present detailed information about the risk characteristics of our single-family conventional guaranty book of business in “MD&A—Risk Management—Credit Risk Management—Mortgage Credit Risk Management,” and we present detailed information on our 2013 credit-related expenses, credit losses and results of operations in “MD&A—Consolidated Results of Operations.” The credit performance of loans in our guaranty book of business, particularly those in our legacy book of business, could deteriorate in the future, particularly if we experience national and regional declines in home prices, weakening economic conditions and high unemployment.

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

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

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

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

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

Shortcomings or failures in our internal processes, people or systems could disrupt our business or have a material adverse effect on our risk management, liquidity, financial statement reliability, financial condition and results of operations. Such a

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

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

We also face the risk of operational failure, termination or capacity constraints of any of the clearing agents, exchanges, clearinghouses or other financial intermediaries we use to facilitate our securities and derivatives transactions. In recent years, there has been significant consolidation among clearing agents, exchanges and clearing houses. This consolidation and interconnectivity increases the risk of operational failure, on both an individual basis and an industry-wide basis, as disparate complex systems need to be integrated, often on an accelerated basis. Any such failure, termination or constraint could adversely affect our ability to effect transactions or manage our exposure to risk, and could have a significant adverse impact on our business, liquidity, financial condition, net worth and results of operations.

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

Additionally, nearly all of our employees in our primary locations, including the Washington, DC and Dallas, Texas metropolitan areas, work in relatively close proximity to one another. Notwithstanding the business continuity plans and facilities that we have in place, given that most of our facilities and employees are located in the Washington, DC and Dallas metropolitan areas, a catastrophic event such as a terrorist attack, natural disaster, extreme weather event or disease pandemic could overwhelm our recovery capabilities. Although we are currently building an out-of-region data center for disaster recovery in order to increase the geographic diversity of our business continuity plans, even when this new facility is operational, most of our employees will still be located in the Washington, DC and Dallas metropolitan areas. If a regional disruption occurs and our employees are not able to occupy our facilities, work remotely, or communicate with or travel to other locations, we may not be able to successfully implement our contingency plans, which could materially adversely affect our ability to conduct our business and lead to financial losses.

A breach of the security of our systems, or those of third parties with which we do business, including as a result of cyber attacks, could disrupt our business or result in the disclosure or misuse of confidential information, which could result in significant losses, reputational damage, litigation, and regulatory fines or penalties.

Our operations rely on the secure processing, storage and transmission of confidential and other information in our computer systems and networks and with our business partners, including confidential or personal information that is subject to privacy laws, regulations or customer-imposed controls. Information security risks for large institutions like us have significantly increased in recent years and from time to time we have been, and likely will continue to be, the target of attempted cyber attacks and other information security breaches. To date, we have not experienced any material losses relating to cyber attacks or other information security breaches, but we could suffer such losses in the

future.

Although we take measures to protect the security of our computer systems, software and networks, our computer systems, software and networks may be vulnerable to cyber attack, breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. If one or more such events were to occur, this could jeopardize or result in the unauthorized disclosure, misuse or corruption of our or our customers', our counterparties' or borrowers' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, or otherwise cause interruptions or malfunctions in our, our customers', our counterparties' or third parties'

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operations. This could result in significant losses, reputational damage, litigation, regulatory fines or penalties, or otherwise adversely affect our business, financial condition or results of operations. In addition, we may be required to expend significant additional resources to modify our protective measures and to investigate and remediate vulnerabilities or other exposures arising from operational and security risks. We currently do not maintain insurance coverage relating to cybersecurity risks.

Third parties with which we do business may also be sources of cybersecurity or other technological risks. We outsource certain functions and these relationships allow for the storage and processing of our information, as well as customer, counterparty and borrower information. While we engage in actions to reduce our exposure resulting from outsourcing, such as performing onsite security control assessment and limiting third-party access to the lowest privileged level necessary to perform job functions, ongoing threats may result in unauthorized access, loss or destruction of data or other cybersecurity incidents with increased costs and consequences to us such as those described above.

Our implementation of FHFA directives and other initiatives may increase our operational risk and result in one or more significant deficiencies or material weaknesses in our internal control over financial reporting.

The magnitude of the many new initiatives we are undertaking, including as part of our effort to help build a sustainable housing finance system, may increase our operational risk. Some actions we have been directed to take by FHFA also present significant operational challenges for us, and we believe that implementing these directives will increase our operational risk and could result in one or more significant deficiencies or material weaknesses in our internal control over financial reporting in a future period. In April 2012, FHFA issued supervisory guidance requiring that we change our method of accounting for delinquent loans. This directive, which is described in “Business—Our Charter and Regulation of Our Activities—FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans,” creates significant operational burdens and costs for us. We are also currently working on implementing a number of other FHFA directives and initiatives that may increase our operational burdens and our costs. In addition, we are working with FHFA and Freddie Mac on a multi-year effort to build a common securitization platform to eventually replace some of our current securitization infrastructure. This initiative, in coordination with related internal infrastructure upgrades, is expected to result in significant changes to our current systems and operations, and involves a high degree of complexity.

While implementation of each individual initiative and directive creates operational challenges, implementing multiple initiatives and directives during the same time period significantly increases these challenges. Implementing these initiatives and directives requires a substantial time commitment from management and the employees responsible for implementing the changes, limiting the amount of time they can spend on other corporate priorities. In addition, some of these initiatives and directives require significant changes to our accounting methods and systems. Due to the operational complexity associated with these changes and the limited time periods for implementing them, we believe there is a significant risk that implementing these changes could result in one or more significant deficiencies or material weaknesses in our internal control over financial reporting in a future period. If this were to occur, we could experience material errors in our reported financial results. In addition, FHFA, Treasury, other agencies of the U.S. government or Congress may require us to take actions in the future that could further increase our operational risk.

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

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

worth.

Other agencies of the U.S. government or Congress also may ask us to undertake significant efforts to support the housing and mortgage markets, as well as struggling homeowners. They may also ask us to take actions in support of other goals. For example, in December 2011 Congress enacted the TCCA under which, at the direction of FHFA, we increased the guaranty fee on all single-family residential mortgages delivered to us by 10 basis points effective April 1, 2012. This fee increase helps offset the cost of a two-month extension of the payroll tax cut from January 1, 2012 through February 29, 2012. FHFA and Treasury advised us to remit this fee increase to Treasury with respect to all loans acquired by us on or after April 1, 2012

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and before January 1, 2022, and to continue to remit these amounts to Treasury on and after January 1, 2022 with respect to loans we acquired before this date until those loans are paid off or otherwise liquidated.

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

As described in “Note 19, Commitments and Contingencies,” in July 2013, a lawsuit was filed against FHFA challenging its decision to suspend Fannie Mae’s and Freddie Mac’s contributions to HUD’s Housing Trust Fund. We cannot predict the course or the outcome of this lawsuit, or the actions FHFA may take in response. If we are required to contribute some or all of the amounts we would have contributed to the Housing Trust Fund in past years had FHFA not suspended these allocations or to begin contributing these amounts going forward, it would have an adverse impact on our financial results. See “Business—Our Charter and Regulation of Our Activities—The GSE Act—Affordable Housing Allocations” for a description of the GSE Act’s requirements relating to the Housing Trust Fund.

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

Many state and local governments are seeking ways to address the effects of the housing crisis, including high levels of foreclosures. State and local governments are also seeking ways to address declining tax revenues. Some of the legislative, regulatory or litigation-related actions governments take to address these issues may adversely affect us by, for example, increasing our costs or affecting our ability to achieve our business goals efficiently and effectively. For example, a number of lawsuits have been filed against us challenging our right to claim an exemption, under our charter, from transfer taxes in connection with the recordation of deeds upon transfers of real property. Additional similar lawsuits could be filed against us, and taxing authorities in jurisdictions that do not normally impose a tax on the transfer of real property could also seek to impose transfer taxes on us. If we were to become subject to real property transfer taxes in a large number of states and localities, and if we were required to pay a number of years of past transfer taxes in these states and localities, it would increase our costs going forward and have an adverse effect on our financial results.

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

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

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

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

Future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, as well as our liquidity position. If we are unable to issue both short- and long-term debt securities at

attractive rates and in amounts sufficient to operate our business and meet our obligations, it likely would interfere with the operation of our business and have a material adverse effect on our liquidity, results of operations, financial condition and net worth.

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

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

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

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

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

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

As of February 13, 2014, our long-term debt was rated “AA+” by Standard & Poor’s Ratings Services (“S&P”), “Aaa” by Moody’s Investors Services (“Moody’s”) and “AAA” by Fitch Ratings Limited (“Fitch”). Our Fitch long-term senior debt, short-term senior debt, and qualifying subordinated debt ratings were on “Rating Watch Negative.” A rating being placed on Rating Watch is typically event-driven and indicates there is a heightened probability of a rating change. Because we rely on the U.S. government for capital support, in recent years, when a rating agency has taken an action relating to the U.S. government’s credit rating, they have taken a similar action relating to our ratings at approximately the same time. S&P, Moody’s and Fitch have all indicated that they would likely lower their ratings on the debt of Fannie Mae and certain other government-related entities if they were to lower their ratings on the U.S. government. We currently cannot predict whether one or more of these rating agencies will downgrade our debt ratings in the future, nor can we predict the potential impact. Although S&P’s downgrade of our credit rating from “AAA” to “AA+” in August 2011 has not increased our borrowing costs or limited our access to the debt capital markets to date, an additional reduction in our credit ratings could have a material adverse impact on our access to debt funding or on the cost of our debt funding, and would likely do so if it were not based on a similar action on the credit ratings of the U.S. government.

An additional reduction in our credit ratings may also trigger additional collateral requirements under our derivative contracts because a majority of our over-the-counter (“OTC”) derivative contracts contain provisions that require our senior unsecured debt to maintain a minimum credit rating from S&P and Moody’s. If our senior unsecured debt credit ratings were downgraded to established thresholds in our OTC derivative contracts, which range from A+ to BBB+, we could be required to provide additional collateral to or terminate transactions with certain counterparties. The aggregate fair value of all OTC derivatives with credit-risk-related contingent features that were in a net liability position as of December 31, 2013 was \$2.1 billion, for which we posted collateral of \$2.0 billion in the normal course of business. If our senior unsecured debt had been downgraded to AA or Aa1, or even to AA- or Aa2, we would not have been required to post any additional collateral under these agreements as of December 31, 2013. If all of the

credit-risk-related contingency features underlying these agreements had been triggered, an additional \$130 million would have been required either to be posted as collateral or to immediately settle our positions based on the individual agreements and our fair value position as of December 31, 2013. An additional reduction in our credit ratings also could cause derivatives clearing organizations or their members to demand that we post additional collateral for our OTC-cleared derivative contracts. Further, an additional reduction in our credit ratings may materially adversely affect our liquidity, our ability to conduct our normal business operations, our financial condition and

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our results of operations. Our credit ratings and ratings outlook are included in “MD&A—Liquidity and Capital Management—Liquidity Management—Credit Ratings.”

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

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

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

An institutional counterparty may default in its obligations to us for a number of reasons, such as changes in financial condition that affect its credit rating, a reduction in liquidity, operational failures or insolvency. Although the liquidity and financial condition of some of our institutional counterparties continued to improve in 2013, there is still significant risk to our business of defaults by these counterparties. Counterparty defaults or limitations on their ability to do business with us could result in significant financial losses or hamper our ability to do business, which would adversely affect our business, results of operations, financial condition, liquidity and net worth. For example, failure by a significant seller or servicer counterparty, or a number of sellers or servicers, to fulfill repurchase obligations to us could result in a significant increase in our credit losses and have a material adverse effect on our results of operations and financial condition.

We routinely execute a high volume of transactions with counterparties in the financial services industry. Many of the transactions we engage in with these counterparties expose us to credit risk relating to the possibility of a default by our counterparties. In addition, to the extent these transactions are secured, our credit risk may be exacerbated to the extent that the collateral we hold cannot be realized or can be liquidated only at prices too low to recover the full amount of our exposure. These losses could materially and adversely affect our business, results of operations, financial condition, liquidity and net worth.

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

We may incur losses as a result of claims under our mortgage insurance policies not being paid in full or at all.

We rely heavily on mortgage insurers to provide insurance against borrower defaults on single-family conventional mortgage loans with LTV ratios over 80% at the time of acquisition. Several of our mortgage insurer counterparties incurred losses in recent years, which increases the risk that these counterparties may fail to fulfill their obligations to pay in full our claims under insurance policies.

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. 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. Entering run-off may close off a source of profits and liquidity that may have otherwise assisted a mortgage insurer in paying claims under insurance policies, and could also cause the quality and speed of its claims processing to deteriorate. PMI and RMIC have been paying only a portion of policyholder claims and deferring the remaining portion. Currently, PMI is paying 55% of claims under its mortgage insurance policies in cash and is deferring the remaining 45%, and RMIC is paying 60% of claims in cash and deferring the remaining 40%. 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. Effective December 1, 2013, Triad increased its cash payments on policyholder claims from 60% to 75%, and paid sufficient amounts of its outstanding deferred payment obligations to bring payment on those claims to 75%. It is uncertain whether Triad will be permitted in the future to pay any remaining deferred policyholder claims and/or increase or



decrease the amount of cash they pay on claims. PMI, RMIC and Triad provided a combined \$14.8 billion, or 14%, of our risk in force mortgage insurance coverage of our single-family guaranty book of business as of December 31, 2013.

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

Changes in the mortgage industry may negatively impact our business.

A number of our largest single-family mortgage seller and servicer counterparties have reduced or eliminated their purchases of mortgage loans from mortgage brokers and correspondent lenders. As a result, we are acquiring an increasing portion of our business volume directly from, and a larger portion of our servicing is being performed by, smaller or non-depository financial institutions that may not have the same financial strength, liquidity or operational capacity as our larger depository financial institution counterparties.

Our top five lender customers in terms of single-family business acquisition volume, in the aggregate, accounted for approximately 42% of our single-family business acquisition volume in 2013, compared with approximately 46% in 2012 and approximately 60% in 2011. Our five largest single-family mortgage servicers, including their affiliates, serviced approximately 49% of our single-family guaranty book of business as of December 31, 2013, compared with approximately 57% as of December 31, 2012.

The potentially lower financial strength, liquidity and operational capacity of smaller or non-depository mortgage sellers and servicers may negatively affect their ability to satisfy their repurchase or compensatory fee obligations or to service the loans on our behalf. In addition, some of our non-depository mortgage servicer counterparties have grown significantly in recent years, which could negatively impact their ability to effectively manage their servicing portfolios and increase their operational risk. The decrease in the concentration of our business with large depository financial institutions could increase both our institutional counterparty credit risk and our mortgage credit risk, and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. The loss of business volume from a key lender customer could adversely affect our business and result in a decrease in our revenues, especially if we are unable to replace the business volume that customer provided to us.

Our ability to generate revenue from the purchase and securitization of mortgage loans depends on our ability to acquire a steady flow of mortgage loans from the originators of those loans. Although we are acquiring an increasing portion of our single-family business volume directly from smaller financial institutions, we continue to acquire a significant portion of our mortgage loans from several large mortgage lenders, with our top five lender customers in terms of single-family business acquisition volume, in the aggregate, accounting for approximately 42% of our single-family business acquisition volume in 2013. Accordingly, maintaining our current business relationships and business volumes with our top lender customers is important to our business. To the extent a key lender customer significantly reduces the volume or quality of mortgage loans that the lender delivers to us or that we are willing to buy from them, we could lose significant business volume that we might be unable to replace, which could adversely affect our business and result in a decrease in our revenues. In addition, a significant reduction in the volume of mortgage loans that we securitize could reduce the liquidity of Fannie Mae MBS, which in turn could have an adverse effect on their market value.

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

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

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

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

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

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

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

Challenges to the MERS<sup>®</sup> company, system and processes could pose operational, reputational and legal risks for us. MERSCORP Holdings, Inc. (“MERSCORP”) is a privately held company that maintains an electronic registry (the “MERS System”) that tracks servicing rights and ownership of loans in the United States. Mortgage Electronic Registration Systems, Inc. (“MERS”), a wholly owned subsidiary of MERSCORP, can serve as a nominee for the owner of a mortgage loan and, in that role, become the mortgagee of record for the loan in local land records. Fannie Mae sellers/servicers may choose to use MERS as a nominee; however, we have prohibited servicers from initiating foreclosures on Fannie Mae loans in MERS’s name. A large portion of the loans we own or guarantee are registered in MERS’s name and the related servicing rights are tracked in the MERS System. The MERS System is widely used by participants in the mortgage finance industry. Along with a number of other organizations in the mortgage finance industry, we are a shareholder of MERSCORP.

Several legal challenges have been made disputing MERS’s ability to initiate foreclosures, act as nominee in local land records, and/or assign mortgages or take other action on behalf of the loan owner. These challenges seek judicial relief ranging from money damages to injunctive/declaratory relief seeking the prevention of mortgage assignments by MERS and/or the voiding of completed foreclosures in which MERS appeared in the chain of title. These challenges have focused public attention on MERS and on how loans are recorded in local land records. As a result, these challenges could negatively affect MERS’s ability to serve as the mortgagee of record in some jurisdictions, which could cause additional costs and time in the recordation process and could negatively impact our interest in the loans. These challenges also could result in court decisions that substantially delay new or pending foreclosures, or void completed foreclosures in certain jurisdictions, which would require that we re-foreclose on the affected properties, thereby increasing our costs and lengthening the time it takes for us to foreclose on and dispose of the properties. In addition, where MERS is the mortgagee of record, it must execute assignments of mortgages, affidavits and other legal documents in connection with foreclosure proceedings. In April 2011, federal banking regulators and FHFA announced that they were taking enforcement action against MERS and MERSCORP to address significant weaknesses in, among other things, oversight, management supervision and corporate governance at MERS and MERSCORP that were uncovered as part of the regulators’ review of mortgage servicers’ foreclosure processing. Failures by MERS or MERSCORP to apply prudent and effective process controls and to comply with legal and other requirements could pose counterparty, operational, reputational and legal risks for us. If investigations or new regulation or legislation restricts servicers’ use of MERS, our counterparties may be required to record all mortgage transfers in land records, incurring additional costs and time in the recordation process. At this time, we cannot predict the ultimate outcome of these legal challenges to, or the enforcement action against, MERS and MERSCORP or the impact on our business, results of operations or financial condition.

Changes in accounting standards and policies can be difficult to predict and can materially impact how we record and report our financial results.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the FASB or the SEC changes the financial accounting and reporting standards or the policies that govern the preparation of our financial statements. In addition, FHFA provides guidance that affects our adoption or implementation of financial accounting or reporting standards. These changes can be difficult to predict and expensive to

implement, and can materially impact how we record and report our financial condition and results of operations. We could be required to apply new or revised guidance retrospectively, which may result in the revision of prior period financial statements by material amounts. The implementation of new or revised accounting guidance could have a material adverse effect on our financial results or net worth and result in or contribute to the need for additional draws from Treasury under the senior preferred stock purchase agreement.

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

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

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

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

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

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

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

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

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statements, as well as our estimates of our future results of operations, may be inaccurate, perhaps significantly.

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

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

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

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

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

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

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

We fund our operations primarily through the issuance of debt and invest our funds primarily in mortgage-related assets that permit mortgage borrowers to prepay their mortgages at any time. These business activities expose us to market risk, which is the risk of adverse changes in the fair value of financial instruments resulting from changes in market conditions. Our most significant market risks are interest rate risk and prepayment risk. We describe these risks in more detail in "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management." Changes in interest rates affect both the value of our mortgage assets and prepayment rates on our mortgage loans. Changes in interest rates could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. Our ability to manage interest rate risk depends on our ability to issue debt instruments with a range of maturities and other features, including call provisions, at attractive rates and to engage in derivatives transactions. We must exercise judgment in selecting the amount, type and mix of debt and derivatives instruments that will most effectively manage our interest rate risk. The amount, type and mix of financial instruments that are available to us may not offset possible future changes in the spread between our borrowing costs and the interest we earn on our mortgage assets.

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

As a federally chartered corporation, we are subject to the limitations imposed by the Charter Act, extensive regulation, supervision and examination by FHFA and regulation by other federal agencies, including Treasury, HUD and the SEC. As a company under conservatorship, our primary regulator has management authority over us in its role

as our conservator. We are also subject to other laws and regulations that affect our business, including those regarding taxation and privacy.

The Charter Act defines our permissible business activities. For example, we may not originate mortgage loans or purchase single-family loans in excess of the conforming loan limits, and our business is limited to the U.S. housing finance sector. In

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addition, our conservator has determined that, while in conservatorship, we will not be permitted to engage in new products and will be limited to continuing our existing business activities and taking actions necessary to advance the goals of the conservatorship. As a result of these limitations on our ability to diversify our operations, our financial condition and results of operations depend almost entirely on conditions in a single sector of the U.S. economy, specifically, the U.S. housing market. Weak or unstable conditions in the housing market, as we have seen in recent years, can therefore have a significant adverse effect on our results of operations, financial condition and net worth. We could be required to pay substantial judgments, settlements or other penalties as a result of civil litigation. We are a party to a number of lawsuits. We are unable at this time to estimate our potential liability in these matters, but may be required to pay substantial judgments, settlements or other penalties and incur significant expenses in connection with these lawsuits, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. In addition, responding to these lawsuits may divert significant internal resources away from managing our business. More information regarding these lawsuits is included in “Note 19, Commitments and Contingencies.”

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

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

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

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

#### RISKS RELATING TO OUR INDUSTRY

A decline in U.S. home prices would likely cause higher credit losses and credit-related expense.

Changes in home prices can have a significant impact on the amount of our credit-related expense or income and on the amount of our credit losses. A decline in home prices would likely result in a higher level of credit losses and credit-related expense, which could have a material adverse effect on our results of operations, net worth and financial condition.

A decline in activity in the U.S. housing market or increasing interest rates could lower our business volumes.

Our business volume is affected by the rate of growth in total U.S. residential mortgage debt outstanding and the size of the U.S. residential mortgage market. A decline in mortgage debt outstanding reduces the unpaid principal balance of mortgage loans available for us to securitize or purchase, which in turn could reduce our guaranty fee income and net interest income. Even if we were able to increase our share of the secondary mortgage market, it may not be sufficient to make up for a decline in the rate of growth in mortgage originations.

Mortgage interest rates also affect our business volume. Rising interest rates generally result in fewer mortgage originations, particularly for refinances. Interest rates increased significantly in the second half of 2013, which reduced our business volume in the second half of the year as compared to the first half. If interest rates rise further, particularly if the increase is sudden and steep, it could significantly reduce our business volume. Significant reductions in our business volume could adversely affect our results of operations and financial condition.

The Dodd-Frank Act and regulatory changes in the financial services industry may negatively impact our business. The Dodd-Frank Act has significantly changed the regulation of the financial services industry, including requiring new standards related to regulatory oversight of systemically important financial companies, derivatives transactions, asset-backed securitization, mortgage underwriting and consumer financial protection. This legislation is affecting and will continue to



affect many aspects of our business and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. The Dodd-Frank Act and related regulatory changes have required us to change certain business practices, limit the types of products we offer and incur additional costs. As additional implementing regulations of Dodd-Frank Act provisions are finalized, these regulations could require us to change additional business practices, further limit the types of products we offer, incur significant additional costs or otherwise adversely affect our business. Additionally, implementation of this legislation has resulted in and will continue to result in increased supervision and more comprehensive regulation of our customers and counterparties in the financial services industry, which may have a significant impact on the business practices of our customers and counterparties, as well as on our counterparty credit risk.

Examples of aspects of the Dodd-Frank Act and related regulatory changes that have affected us or may affect us in the future include: rules requiring the clearing of certain derivatives transactions and margin and capital rules for uncleared derivative trades, which will impose additional costs on us; the CFPB's "ability to repay" rule, which has limited the types of products we offer and could impact the volume of loans sold to us in the future; and the development of credit risk retention regulations applicable to residential mortgage loan securitizations, which could impact the types and volume of loans sold to us in the future. We could also be designated as a systemically important nonbank financial company subject to supervision and regulation by the Federal Reserve. If this were to occur, the Federal Reserve would have the authority to examine us and could impose stricter prudential standards on us, including risk-based capital requirements, leverage limits, liquidity requirements, single-counterparty exposure limits, resolution plan and credit exposure reporting requirements, overall risk management requirements, contingent capital requirements, enhanced public disclosures and short-term debt limits.

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

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

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

Legislative and regulatory changes may negatively impact our business, results of operations or financial condition. As a result of actions by Congress or government agencies, significant changes may be effected that could negatively impact our business, results of operations or financial condition. These changes could be the result of actions taken in connection with housing finance reform. Alternatively, changes aimed at addressing other issues could affect us. For example, if Congress addresses fiscal issues by restricting the deductibility of mortgage interest, depending on the extent and nature of the restrictions, our business and financial results could be significantly adversely affected.

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

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

The occurrence of a major disruptive event could negatively impact a geographic area in a number of different ways, depending on the nature of the event. A major disruptive event that either damages or destroys residential or multifamily real estate securing mortgage loans in our book of business or negatively impacts the ability of borrowers to continue to make principal and interest payments on mortgage loans in our book of business could increase our

delinquency rates, default rates and average loan loss severity of our book of business in the affected region or regions, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. While we attempt to create a geographically diverse mortgage credit book of business, there can be no assurance that a major disruptive event, depending on its magnitude, scope and nature, will not generate significant credit losses and credit-related expenses.

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In addition, as described in a risk factor above, although we have business continuity plans and facilities in place, the occurrence of a catastrophic event could overwhelm our recovery capabilities, which could materially adversely affect our ability to conduct our business and lead to financial losses.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own our principal office, which is located at 3900 Wisconsin Avenue, NW, Washington, DC, as well as additional Washington, DC facilities at 3939 Wisconsin Avenue, NW and 4250 Connecticut Avenue, NW. We also own two office facilities in Herndon, Virginia, as well as two additional facilities located in Reston, Virginia and Urbana, Maryland. These owned facilities contain a total of approximately 1,459,000 square feet of space. We lease the land underlying the 4250 Connecticut Avenue building pursuant to a ground lease that automatically renews on July 1, 2029 for an additional 49 years unless we elect to terminate the lease by providing notice to the landlord of our decision to terminate at least one year prior to the automatic renewal date. In addition, we lease approximately 429,000 square feet of office space, including a conference center, at 4000 Wisconsin Avenue, NW, which is adjacent to our principal office. The lease term for the office and conference center at 4000 Wisconsin Avenue expires in April 2018. We also lease an additional approximately 170,000 square feet of office space at two other locations in Washington, DC and Virginia. We maintain approximately 715,000 square feet of office space in leased premises in Pasadena, California; Irvine, California; Atlanta, Georgia; Chicago, Illinois; Philadelphia, Pennsylvania; and three facilities in Dallas, Texas.

Item 3. Legal Proceedings

This item describes our material legal proceedings. We describe additional material legal proceedings in “Note 19, Commitments and Contingencies,” which is incorporated herein by reference. In addition to the matters specifically described or incorporated by reference in this item, we are involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that do not have a material impact on our business. Litigation claims and proceedings of all types are subject to many factors that generally cannot be predicted accurately.

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

FHFA Private-Label Mortgage-Related Securities Litigation

In the third quarter of 2011, FHFA, as conservator, filed 16 lawsuits on behalf of both Fannie Mae and Freddie Mac against various financial institutions, their officers and affiliated and unaffiliated underwriters that were responsible for marketing and selling private-label mortgage-related securities to us. The lawsuits seek to recover losses we and Freddie Mac incurred on the securities. The lawsuits allege that the defendants violated federal and state securities laws and, in some cases, committed fraud by making material misstatements and omissions regarding the characteristics of the loans underlying the securities in the offering documents for the securities that were sold to Fannie Mae and Freddie Mac. All of the lawsuits were filed on September 2, 2011, except for the lawsuit against UBS Americas Inc., which was filed on July 27, 2011. The complaints seek, among other things, rescission and recovery of consideration paid for the securities at issue in the lawsuits, monetary damages, interest and, in certain cases, punitive damages for common law fraud claims.

SDNY cases

Fourteen of the lawsuits were filed or transferred to the U.S. District Court for the Southern District of New York (“SDNY”). These cases are or were against Bank of America Corp.; Barclays Bank PLC; Citigroup, Inc.; Credit Suisse Holdings (USA), Inc.; Deutsche Bank AG; First Horizon National Corporation; Goldman, Sachs & Co.; HSBC North America Holdings Inc.; JPMorgan Chase & Co.; Merrill Lynch & Co.; Morgan Stanley; Nomura Holding America Inc.; SG Americas, Inc.; and UBS Americas Inc. (“UBS”) and against certain related entities and individuals.

Five of the above-listed fourteen lawsuits were resolved in 2013 or 2014:

Citigroup. On May 24, 2013, we, along with FHFA and Freddie Mac, entered into a settlement agreement with Citigroup Inc. and certain related entities resolving the Citigroup Inc. case in exchange for a payment of \$250

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million from Citigroup. Citigroup paid us approximately \$145 million of this amount. On May 29, 2013, the district court entered a voluntary order dismissing the case.

UBS. On July 25, 2013, we, along with FHFA and Freddie Mac, entered into a settlement agreement with UBS and certain related entities and individuals resolving the UBS case and certain other claims in exchange for a payment of \$885 million. UBS paid us approximately \$416 million of this amount. On July 30, 2013, the district court entered a voluntary order dismissing the case.

JPMorgan Chase. On October 25, 2013, we, along with FHFA and Freddie Mac, entered into a settlement agreement with JPMorgan Chase & Co. and certain related entities and individuals (collectively with JPMorgan Chase, the “JPMorgan Chase parties”) resolving the JPMorgan case and certain other claims in exchange for a payment of \$4.0 billion. The JPMorgan Chase parties paid us approximately \$1.3 billion of this amount. On November 18, 2013, the district court entered a voluntary order dismissing the case.

Deutsche Bank. On December 19, 2013, we, along with FHFA and Freddie Mac, entered into a settlement agreement with Deutsche Bank and certain related entities resolving the Deutsche Bank case and certain other claims in exchange for a payment of \$1.9 billion. Deutsche Bank paid us approximately \$297 million of this amount. On January 6, 2014, the district court entered a voluntary order dismissing the case.

Morgan Stanley. On February 7, 2014, we, along with FHFA and Freddie Mac, entered into a settlement agreement with Morgan Stanley and certain related entities resolving the Morgan Stanley case for a payment of \$1.25 billion. Morgan Stanley paid us \$625 million of this amount. On February 18, 2014, the district court entered a voluntary order dismissing the case.

The other nine lawsuits listed above remain pending in the U.S. District Court for the Southern District of New York.

RBS case

FHFA’s lawsuit against The Royal Bank of Scotland Group PLC (“RBS”) and certain related entities and individuals is pending in the U.S. District Court for the District of Connecticut.

Countrywide case

FHFA’s lawsuit against Countrywide Financial Corporation (“Countrywide”) and certain related entities and individuals is pending in the U.S. District Court for the Central District of California.

Senior Preferred Stock Purchase Agreements Litigation

Between June 2013 and February 2014, several lawsuits were filed by preferred and common stockholders of Fannie Mae and Freddie Mac in the U.S. Court of Federal Claims, the U.S. District Court for the District of Columbia and the U.S. District Court for the Southern District of Iowa against the United States, Treasury and/or FHFA, challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac. Some of these lawsuits also contain claims against Fannie Mae and Freddie Mac. The legal claims being advanced by one or more of these lawsuits include challenges to the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendments to the agreements, as well as to FHFA’s decision to require Fannie Mae and Freddie Mac to draw funds from Treasury in order to pay dividends to Treasury during conservatorship. The plaintiffs seek various forms of equitable and injunctive relief, including rescission of the August 2012 amendments, as well as damages. The matters where Fannie Mae is a named defendant are described below and in “Note 19, Commitments and Contingencies.”

Specifically, Fannie Mae is a nominal defendant in a consolidated derivative action that was filed against the United States in the U.S. Court of Federal Claims on December 2, 2013: *Fisher v. United States of America*. Plaintiffs in this case allege that the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendment to the senior preferred stock purchase agreement constitute a taking of Fannie Mae’s property without just compensation in violation of the U.S. Constitution. Plaintiffs in this case request just compensation to Fannie Mae in an unspecified amount. The United States filed a motion to dismiss the case on January 23, 2014.

LIBOR Lawsuit

On October 31, 2013, Fannie Mae filed a lawsuit in the U.S. District Court for the Southern District of New York against Barclays Bank PLC, UBS AG, The Royal Bank of Scotland Group PLC, The Royal Bank of Scotland PLC, Deutsche Bank AG, Credit Suisse Group AG, Credit Suisse International, Bank of America Corp., Bank of America, N.A., Citigroup Inc., Citibank, N.A., J.P. Morgan Chase & Co., J.P. Morgan Chase Bank, N.A., Coöperative Centrale

Raiffeisen-Boerenleenbank B.A., the British Bankers Association and BBA LIBOR Ltd. alleging they manipulated LIBOR. The complaint alleges,

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among other things, that the banks submitted false borrowing costs to the BBA in order to suppress LIBOR. The complaint seeks compensatory and punitive damages based on claims for breach of contract, breach of the implied duty of good faith and fair dealing, fraud and conspiracy to commit fraud. The lawsuit is currently stayed by court order.

Item 4. Mine Safety Disclosures

None.

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## PART II

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

Our common stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board under the ticker symbol "FNMA." The transfer agent and registrar for our common stock is Computershare, P.O. Box 30170, College Station, TX 77842-3170.

## Common Stock Data

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

Quarter	High	Low
2012		
First Quarter	\$0.41	\$0.20
Second Quarter	0.32	0.25
Third Quarter	0.34	0.20
Fourth Quarter	0.31	0.25
2013		
First Quarter	\$1.47	\$0.26
Second Quarter	5.44	0.68
Third Quarter	1.79	1.03
Fourth Quarter	3.50	1.31

## Dividends

Our payment of dividends is subject to the following restrictions:

**Restrictions Relating to Conservatorship.** Our conservator announced on September 7, 2008 that we would not pay any dividends on the common stock or on any series of preferred stock, other than the senior preferred stock. In addition, FHFA's regulations relating to conservatorship and receivership operations prohibit us from paying any dividends while in conservatorship unless authorized by the Director of FHFA. The Director of FHFA directs us to make dividend payments on the senior preferred stock on a quarterly basis.

**Restrictions Under Senior Preferred Stock Purchase Agreement.** The senior preferred stock purchase agreement prohibits us from declaring or paying any dividends on Fannie Mae equity securities (other than the senior preferred stock) without the prior written consent of Treasury. In addition, in 2012 the terms of the senior preferred stock purchase agreement and the senior preferred stock were amended to ultimately require the payment of our entire net worth to Treasury. As a result, our net income is not available to common stockholders. For more information on the terms of the senior preferred stock purchase agreement and senior preferred stock, see "Business—Conservatorship and Treasury Agreements—Treasury Agreements—Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant."

**Additional Restrictions Relating to Preferred Stock.** Payment of dividends on our common stock is also subject to the prior payment of dividends on our preferred stock and our senior preferred stock. Payment of dividends on all outstanding preferred stock, other than the senior preferred stock, is also subject to the prior payment of dividends on the senior preferred stock.

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

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

preferred stock.

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#### Holders

As of January 31, 2014, we had approximately 14,000 registered holders of record of our common stock, including holders of our restricted stock. In addition, as of January 31, 2014, Treasury held a warrant giving it the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise.

#### Recent Sales of Unregistered Securities

Under the terms of our senior preferred stock purchase agreement with Treasury, we are prohibited from selling or issuing our equity interests, other than as required by (and pursuant to) the terms of a binding agreement in effect on September 7, 2008, without the prior written consent of Treasury. During the quarter ended December 31, 2013, we did not issue any equity securities.

#### Information about Certain Securities Issuances by Fannie Mae

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

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

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

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

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

#### Our Purchases of Equity Securities

We did not repurchase any of our equity securities during the fourth quarter of 2013.

## Item 6. Selected Financial Data

The selected consolidated financial data displayed below are summarized from our results of operations for the five-year period ended December 31, 2013, as well as selected consolidated balance sheet data as of the end of each year within this five-year period. Certain prior period amounts have been reclassified to conform to the current period presentation. This data should be reviewed in conjunction with the audited consolidated financial statements and related notes and with the MD&A included in this annual report on Form 10-K.

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

	For the Year Ended December 31,									
	2013		2012		2011		2010		2009	
	(Dollars in millions)									
Statement of operations data:										
Net revenues <sup>(1)</sup>	\$26,334		\$22,988		\$20,444		\$17,493		\$22,494	
Net income (loss) attributable to Fannie Mae	83,963		17,224		(16,855 )		(14,014 )		(71,969 )	
New business acquisition data:										
Fannie Mae MBS issues acquired by third parties <sup>(2)</sup>	\$527,132		\$630,077		\$478,870		\$497,975		\$496,067	
Retained mortgage portfolio purchases <sup>(3)</sup>	269,430		288,337		173,978		357,573		327,578	
New business acquisitions	\$796,562		\$918,414		\$652,848		\$855,548		\$823,645	
Performance ratios:										
Net interest yield <sup>(4)</sup>	0.70	%	0.68	%	0.60	%	0.51	%	1.65	%
Credit loss ratio (in basis points) <sup>(5)</sup>	14.7	bps	48.2	bps	61.3	bps	77.4	bps	44.6	bps
	As of December 31,									
	2013		2012		2011		2010		2009	
	(Dollars in millions)									
Balance sheet data:										
Investments in securities	\$68,939		\$103,876		\$151,780		\$151,248		\$349,667	
Mortgage loans, net of allowance <sup>(6)</sup>	3,026,240		2,949,406		2,898,621		2,923,720		394,561	
Total assets	3,270,108		3,222,422		3,211,484		3,221,972		869,141	
Short-term debt	74,449		108,716		151,725		157,243		200,437	
Long-term debt	3,160,074		3,080,801		3,038,147		3,039,757		574,117	
Total liabilities	3,260,517		3,215,198		3,216,055		3,224,489		884,422	
Senior preferred stock	117,149		117,149		112,578		88,600		60,900	
Preferred stock	19,130		19,130		19,130		20,204		20,348	
Total Fannie Mae stockholders' equity (deficit)	9,541		7,183		(4,624 )		(2,599 )		(15,372 )	
Net worth surplus (deficit) <sup>(7)</sup>	9,591		7,224		(4,571 )		(2,517 )		(15,281 )	



	As of December 31,					
	2013	2012	2011	2010	2009	
	(Dollars in millions)					
Book of business data:						
Total mortgage assets <sup>(8)</sup>	\$3,092,424	\$3,063,712	\$3,065,616	\$3,099,250	\$769,252	
Unconsolidated Fannie Mae MBS, held by third parties <sup>(9)</sup>	13,744	16,915	19,612	21,323	2,432,789	
Other guarantees <sup>(10)</sup>	30,597	36,215	42,406	35,619	27,624	
Mortgage credit book of business	\$3,136,765	\$3,116,842	\$3,127,634	\$3,156,192	\$3,229,665	
Guaranty book of business <sup>(11)</sup>	\$3,090,538	\$3,039,457	\$3,037,549	\$3,054,488	\$3,097,201	
Credit quality:						
Total TDRs on accrual status	\$141,227	\$136,064	\$108,797	\$82,702	\$9,880	
Total nonaccrual loans <sup>(12)</sup>	83,606	114,833	143,152	170,877	212,184	
Total loss reserves	47,290	62,629	76,938	66,251	64,891	
Total loss reserves as a percentage of total guaranty book of business	1.53	% 2.06	% 2.53	% 2.17	% 2.10	%
Total loss reserves as a percentage of total nonaccrual loans	56.56	54.54	53.75	38.77	30.58	

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

Reflects unpaid principal balance of Fannie Mae MBS issued and guaranteed by us during the reporting period

(2) less: (a) securitizations of mortgage loans held in our retained mortgage portfolio during the reporting period and (b) Fannie Mae MBS purchased for our retained mortgage portfolio during the reporting period.

Reflects unpaid principal balance of mortgage loans and mortgage-related securities we purchased for our retained mortgage portfolio during the reporting period. Includes acquisition of mortgage-related securities accounted for as the extinguishment of debt because the entity underlying the mortgage-related securities has been consolidated in

(3) our consolidated balance sheets. For 2013, 2012, 2011 and 2010, includes unpaid principal balance of approximately \$28 billion, \$46 billion, \$67 billion and \$217 billion, respectively, of delinquent loans purchased from our single-family MBS trusts. Under our MBS trust documents, we have the option to purchase from MBS trusts loans that are delinquent as to four or more consecutive monthly payments.

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

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

(5) and HomeSaver Advance loans) divided by the average guaranty book of business during the period, expressed in basis points. See “MD&A—Consolidated Results of Operations—Credit-Related (Income) Expense—Credit Loss Performance Metrics” for a discussion of how our credit loss metrics are calculated.

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

(7) Total assets less total liabilities.

Reflects unpaid principal balance of mortgage loans and mortgage-related securities reported in our consolidated balance sheets. The principal balance of resecutitized Fannie Mae MBS is included only once in the reported

(8) amount. As a result of our adoption of the consolidation accounting guidance as of January 1, 2010, we reflect a substantial majority of our Fannie Mae MBS as mortgage assets and the balance as unconsolidated Fannie Mae MBS.

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

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

(11)

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

We generally classify single-family loans as nonaccrual when the payment of principal or interest on the loan is  
(12) 60 days or more past due. Includes off-balance sheet loans in unconsolidated Fannie Mae MBS trusts that would meet our criteria for nonaccrual status if the loans had been on-balance sheet.



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

You should read this MD&A in conjunction with our consolidated financial statements as of December 31, 2013 and related notes to the consolidated financial statements, and with "Business—Executive Summary." Please also see "Glossary of Terms Used in This Report."

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

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as necessary based on changing conditions. Management has discussed any significant changes in judgments and assumptions in applying our critical accounting policies with the Audit Committee of our Board of Directors. See "Risk Factors" for a discussion of the 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

#### Fair Value Measurement

The use of fair value to measure our assets and liabilities is fundamental to our financial statements and our fair value measurement is a critical accounting estimate because we account for and record a portion of our assets and liabilities at fair value. In determining fair value, we use various valuation techniques. We describe the valuation techniques and inputs used to determine the fair value of our assets and liabilities and disclose their carrying value and fair value in "Note 18, Fair Value."

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

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

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

Level 3: Unobservable inputs.

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

In the absence of such information or if we are not able to corroborate these prices by other available, relevant market information, we estimate their fair values based on single source quotations from brokers or dealers or by using internal



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

#### Fair Value Hierarchy—Level 3 Assets and Liabilities

The assets and liabilities that we have classified as Level 3 consist primarily of financial instruments for which there is limited market activity and therefore little or no price transparency. As a result, the valuation techniques that we use to estimate the fair value of Level 3 instruments involve significant unobservable inputs, which generally are more subjective and involve a high degree of management judgment and assumptions. Our Level 3 assets and liabilities consist of certain mortgage-backed securities and residual interests, certain mortgage loans, acquired property, certain long-term debt arrangements and certain highly structured, complex derivative instruments. We provide a detailed discussion of our Level 3 assets and liabilities, including the valuation techniques and significant unobservable inputs used to measure the fair value of these instruments, in “Note 18, Fair Value.”

#### Valuation Control Processes

We have control processes that are designed to ensure that our fair value measurements are appropriate and reliable, that they are based on observable inputs wherever possible and that our valuation approaches are consistently applied and the assumptions used are reasonable. Our control processes consist of a framework that provides for a segregation of duties and oversight of our fair value methodologies and valuations, as well as validation procedures. We provide a detailed discussion of our valuation control processes in “Note 18, Fair Value.”

#### Total Loss Reserves

Our total loss reserves consist of the following components:

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

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

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

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

We have an established process, using analytical tools, benchmarks and management judgment, to determine our loss reserves. Our process for determining our loss reserves is complex and involves significant management judgment. Although our loss reserve process benefits from extensive historical loan performance data, this process is subject to

risks and uncertainties, including a reliance on historical loss information that may not be representative of current conditions. We

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continually monitor delinquency and default trends and make changes in our historically developed assumptions and estimates as necessary to better reflect present conditions, including current trends in borrower risk and/or general economic trends, changes in risk management practices, and changes in public policy and the regulatory environment. We also consider the recoveries that we expect to receive on mortgage insurance and other loan-specific credit enhancements entered into contemporaneously with and in contemplation of a guaranty or loan purchase transaction, as such recoveries reduce the severity of the loss associated with defaulted loans.

We provide more detailed information on our accounting for the allowance for loan losses in “Note 1, Summary of Significant Accounting Policies.”

#### Single-Family Loss Reserves

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

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

We regularly 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 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 and an incremental benefit for credit losses of approximately \$2.2 billion.

#### Multifamily Loss Reserves

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

We establish a specific multifamily loss reserve for multifamily loans that we determine are individually impaired. We identify multifamily loans for evaluation for impairment through a credit risk assessment process. As part of this assessment process, we stratify multifamily loans into different internal risk categories based on the credit risk inherent in each individual loan and management judgment. We categorize loan credit risk, taking into consideration

available operating statements and expected cash flows from the underlying property, the estimated value of the property, the historical loan payment experience and current relevant market conditions that may impact credit quality. If we conclude that a multifamily loan is impaired, we measure the impairment based on the difference between our recorded investment in the loan and the fair value of the underlying property less the estimated discounted costs to sell the property and any lender loss sharing or other proceeds we

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expect to receive. When a multifamily loan is deemed individually impaired because we have modified it, we measure the impairment based on the difference between our recorded investment in the loan and the present value of expected cash flows discounted at the loan's original interest rate unless foreclosure is probable, at which time we measure impairment the same way we measure it for other individually impaired multifamily loans. We obtain property appraisals and broker price opinions when we foreclose on a multifamily property. We then allocate a portion of the reserve to interest accrued on the loans as of the balance sheet date.

#### Other-Than-Temporary Impairment of Investment Securities

We evaluate available-for-sale securities in an unrealized loss position as of the end of each quarter for other-than-temporary impairment. We recognize other-than-temporary impairment in earnings if one of the following conditions exists: (1) our intent is to sell the security; (2) it is more likely than not that we will be required to sell the security before the impairment is recovered; or (3) we do not expect to recover our amortized cost basis. Our evaluation requires significant management judgment and considers various factors including: the severity and duration of the impairment; recent events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings; and the failure of the issuer to make scheduled interest or principal payments. We apply those factors to evaluate debt securities for other-than-temporary impairment using a model that estimates the present value of cash flows to determine if we will recover the amortized cost basis of our available-for-sale securities.

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

#### Deferred Tax Assets

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

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

- the sustainability of recent profitability required to realize the deferred tax assets;
- the cumulative net income or 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;
- the funding available to us under the senior preferred stock purchase agreement; and
- the carryforward periods for net operating losses, capital losses and tax credits.

As of December 31, 2012, we had a valuation allowance against our deferred tax assets of \$58.9 billion. 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 was more likely than not that our deferred tax assets, except the deferred tax assets relating to capital loss carryforwards, would 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.

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;
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the significant size of our guaranty book of business and our contractual rights for future revenue from this book of business;

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- our taxable income for 2012 and our expectations regarding the likelihood of future taxable income; and
- that our net operating loss carryforwards would not expire until 2030 through 2031. We anticipated that we would utilize all of these carryforwards upon filing our 2013 federal income tax return.

Releasing the majority of the valuation allowance 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.

As of December 31, 2013, we continued to conclude that the positive evidence in favor of releasing the allowance outweighed the negative evidence against releasing the allowance and that it was more likely than not that our deferred tax assets, except the deferred tax assets relating to capital loss carryforwards, would be realized. As of December 31, 2013, we had no additional valuation allowance except for the \$525 million of the valuation allowance we retained that pertains to our capital loss carryforwards, which we believe will expire unused. We recognized a benefit for federal income taxes of \$45.4 billion in our consolidated statement of operations and comprehensive income for the year ended December 31, 2013 due to the release of the valuation allowance, partially offset by our 2013 provision for federal income taxes. The balance of our net deferred tax assets was \$47.6 billion as of December 31, 2013, compared with net deferred tax liabilities of \$509 million as of December 31, 2012.

#### CONSOLIDATED RESULTS OF OPERATIONS

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

Table 7 displays a summary of our consolidated results of operations for the periods indicated.

Table 7: Summary of Consolidated Results of Operations

	For the Year Ended December 31,			Variance	
	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
	(Dollars in millions)				
Net interest income	\$22,404	\$21,501	\$19,281	\$903	\$2,220
Fee and other income	3,930	1,487	1,163	2,443	324
Net revenues	\$26,334	\$22,988	\$20,444	\$3,346	\$2,544
Investment gains, net	1,191	487	506	704	(19 )
Net other-than-temporary impairments	(64 )	(713 )	(308 )	649	(405 )
Fair value gains (losses), net	2,959	(2,977 )	(6,621 )	5,936	3,644
Administrative expenses	(2,545 )	(2,367 )	(2,370 )	(178 )	3
Credit-related income (expense)					
Benefit (provision) for credit losses	8,949	852	(26,718 )	8,097	27,570
Foreclosed property income (expense)	2,839	254	(780 )	2,585	1,034
Total credit-related income (expense)	11,788	1,106	(27,498 )	10,682	28,604
Other non-interest expenses <sup>(1)</sup>	(1,096 )	(1,304 )	(1,098 )	208	(206 )
Income (loss) before federal income taxes	38,567	17,220	(16,945 )	21,347	34,165
Benefit for federal income taxes	45,415	—	90	45,415	(90 )
Net income (loss)	\$83,982	\$17,220	\$(16,855)	\$66,762	\$34,075
Less: Net (income) loss attributable to noncontrolling interest	(19 )	4	—	(23 )	4
Net income (loss) attributable to Fannie Mae	\$83,963	\$17,224	\$(16,855)	\$66,739	\$34,079
Total comprehensive income (loss) attributable to Fannie Mae	\$84,782	\$18,843	\$(16,408)	\$65,939	\$35,251

<sup>(1)</sup> Consists of debt extinguishment gains (losses), net, TCCA fees and other expenses, net.



## Net Interest Income

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

Table 8 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 9 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 8: Analysis of Net Interest Income and Yield

	For the Year Ended December 31,								
	2013			2012			2011		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)								
Interest-earning assets:									
Mortgage loans of Fannie Mae	\$326,399	\$12,790	3.92 %	\$370,455	\$14,255	3.85 %	\$392,719	\$14,829	3.78 %
Mortgage loans of consolidated trusts	2,710,838	101,448	3.74	2,621,317	110,451	4.21	2,596,816	123,633	4.76
Total mortgage loans <sup>(1)</sup>	3,037,237	114,238	3.76	2,991,772	124,706	4.17	2,989,535	138,462	4.63
Mortgage-related securities	203,514	9,330	4.58	268,761	12,709	4.73	316,963	14,607	4.61
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(133,243 )	(6,236 )	4.68	(173,933 )	(8,492 )	4.88	(202,806 )	(10,360 )	5.11
Total mortgage-related securities, net <sup>(2)</sup>	70,271	3,094	4.40	94,828	4,217	4.45	114,157	4,247	3.72
Non-mortgage securities <sup>(3)</sup>	41,484	42	0.10	50,282	71	0.14	71,713	117	0.16
Federal funds sold and securities purchased under agreements to resell or similar arrangements	61,644	68	0.11	38,708	73	0.19	26,045	32	0.12
Advances to lenders	5,115	107	2.09	6,220	123	1.98	3,943	85	2.16
Total interest-earning assets	\$3,215,751	\$117,549	3.66 %	\$3,181,810	\$129,190	4.06 %	\$3,205,393	\$142,943	4.46 %
Interest-bearing liabilities:									

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Short-term debt <sup>(4)</sup>	\$95,098	\$128	0.13 %	\$102,877	\$147	0.14 %	\$160,704	\$301	0.19 %
Long-term debt	498,735	10,263	2.06	561,280	11,925	2.12	585,362	14,711	2.51
Total short-term and long-term funding debt	593,833	10,391	1.75	664,157	12,072	1.82	746,066	15,012	2.01
Debt securities of consolidated trusts	2,783,622	90,990	3.27	2,697,592	104,109	3.86	2,651,121	119,010	4.49
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(133,243 )	(6,236 )	4.68	(173,933 )	(8,492 )	4.88	(202,806 )	(10,360 )	5.11
Total debt securities of consolidated trusts held by third parties	2,650,379	84,754	3.20	2,523,659	95,617	3.79	2,448,315	108,650	4.44
Total interest-bearing liabilities	\$3,244,212	\$95,145	2.93 %	\$3,187,816	\$107,689	3.38 %	\$3,194,381	\$123,662	3.87 %
Net interest income/net interest yield <sup>(2)</sup>		\$22,404	0.70 %		\$21,501	0.68 %		\$19,281	0.60 %

	As of December 31,					
	2013		2012		2011	
Selected benchmark interest rates <sup>(5)</sup>						
3-month LIBOR	0.25	%	0.31	%	0.58	%
2-year swap rate	0.49		0.39		0.73	
5-year swap rate	1.79		0.86		1.22	
30-year Fannie Mae MBS par coupon rate	3.61		2.23		2.88	

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

Includes an out-of-period adjustment of \$727 million to reduce “Interest income: Available-for-sale securities” in our consolidated statements of operations and comprehensive income (loss) for the year ended December 31, 2011.

(2) Without this adjustment, the average interest rate earned on total mortgage-related securities would have been 4.36% and the total net interest yield would have been 0.62% for the year ended December 31, 2011.

(3) Includes cash equivalents.

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

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

Table 9: Rate/Volume Analysis of Changes in Net Interest Income

	2013 vs. 2012			2012 vs. 2011		
	Total Variance	Volume	Due to: <sup>(1)</sup> Rate	Total Variance	Volume	Due to: <sup>(1)</sup> Rate
	(Dollars in millions)					
Interest income:						
Mortgage loans of Fannie Mae	\$(1,465 )	\$(1,722 )	\$257	\$(574 )	\$(853 )	\$279
Mortgage loans of consolidated trusts	(9,003 )	3,673	(12,676 )	(13,182 )	1,156	(14,338 )
Total mortgage loans	(10,468 )	1,951	(12,419 )	(13,756 )	303	(14,059 )
Total mortgage-related securities, net <sup>(2)</sup>	(1,123 )	(1,085 )	(38 )	(757 )	(846 )	89
Non-mortgage securities <sup>(3)</sup>	(29 )	(11 )	(18 )	(46 )	(32 )	(14 )
Federal funds sold and securities purchased under agreements to resell or similar arrangements	(5 )	33	(38 )	41	20	21
Advances to lenders	(16 )	(23 )	7	38	46	(8 )
Total interest income	(11,641 )	865	(12,506 )	(14,480 )	(509 )	(13,971 )
Interest expense:						
Short-term debt <sup>(4)</sup>	(19 )	(10 )	(9 )	(154 )	(93 )	(61 )
Long-term debt	(1,662 )	(1,297 )	(365 )	(2,786 )	(586 )	(2,200 )
Total short-term and long-term funding debt	(1,681 )	(1,307 )	(374 )	(2,940 )	(679 )	(2,261 )
Total debt securities of consolidated trusts held by third parties	(10,863 )	5,150	(16,013 )	(13,033 )	3,479	(16,512 )
Total interest expense	(12,544 )	3,843	(16,387 )	(15,973 )	2,800	(18,773 )
Net interest income <sup>(2)</sup>	\$903	\$(2,978 )	\$3,881	\$1,493	\$(3,309 )	\$4,802

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

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

(3) Includes cash equivalents.

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

The increase in net interest income in 2013, compared with 2012, was due to a decrease in interest expense exceeding a decrease in interest income, which was primarily due to the following:

- 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 in single-family guaranty fees of 10 basis points implemented during the fourth quarter of 2012 and the 10 basis point increase in single-family guaranty fees related to the TCCA implementation on April 1, 2012. The incremental TCCA-related guaranty fees are remitted to Treasury and recorded in “TCCA fees” in our consolidated statements of operations and comprehensive income (loss). We recognize almost all of our guaranty fees in net interest income due to the consolidation of the substantial majority of our MBS trusts on our balance sheet; and

- a reduction in the amount of interest income not recognized for nonaccrual mortgage loans. The balance of nonaccrual loans in our consolidated balance sheets declined as we continued to complete a high number of loan workouts and foreclosures, and fewer loans became seriously delinquent.

The factors that drove the increase in net interest income in 2013 were partially offset by lower interest income on mortgage loans and securities held in our retained mortgage portfolio primarily due to a decrease in their average balance, as we continued to reduce our retained mortgage portfolio pursuant to the requirements of our senior preferred stock purchase agreement with Treasury and sold non-agency mortgage-related assets to meet an objective of FHFA’s 2013 conservatorship scorecard. See “Business Segment Results—The Capital Markets Group’s Mortgage Portfolio” for additional information on our retained mortgage portfolio.

Net interest income increased in 2012 compared with 2011, primarily due to the following:

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

- higher coupon interest income recognized on mortgage loans due to a reduction in the amount of interest income not recognized for nonaccrual mortgage loans. The balance of nonaccrual loans in our consolidated balance sheets declined as we continued to complete a high number of loan workouts and foreclosures, and fewer loans became seriously delinquent; and

- accelerated net amortization income related to mortgage loans and debt of consolidated trusts driven by a high volume of prepayments due to declining interest rates.

The factors that drove the increase in net interest income in 2012 were partially offset by:

- lower interest income on Fannie Mae mortgage loans due to a decrease in average balance and new business acquisitions, which continued to replace higher-yielding loans with loans issued at lower mortgage rates; and lower interest income on mortgage securities due to a decrease in the balance of our mortgage securities, as we continued to manage our retained mortgage portfolio to the requirements of the senior preferred stock purchase agreement.

We initially recognize mortgage loans and debt of consolidated trusts in our consolidated balance sheets at fair value. We recognize the difference between (1) the initial fair value of the consolidated trust’s mortgage loans and debt and (2) the unpaid principal balance as cost basis adjustments in our consolidated balance sheets. 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 of consolidated trusts by \$25.0 billion as of December 31, 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 2012 to 2013 was primarily due to an increase in upfront fees collected on acquisitions in 2013.

We had \$14.3 billion in net unamortized discounts and other cost basis adjustments on mortgage loans of Fannie Mae included in our consolidated balance sheets as of December 31, 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.

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Table 10 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 10: Impact of Nonaccrual Loans on Net Interest Income

	For the Year Ended December 31,					
	2013		2012		2011	
	Interest	Reduction	Interest	Reduction	Interest	Reduction
	Income	in Net	Income	in Net	Income	in Net
	not	Interest	not	Interest	not	Interest
	Recognized	Yield <sup>(1)</sup>	Recognized	Yield <sup>(1)</sup>	Recognized	Yield <sup>(1)</sup>
	for		for		for	
	Nonaccrual		Nonaccrual		Nonaccrual	
	Loans		Loans		Loans	
	(Dollars in millions)					
Mortgage loans of Fannie Mae	\$ (2,415 )		\$ (3,403 )		\$ (4,666 )	
Mortgage loans of consolidated trusts	(342 )		(594 )		(896 )	
Total mortgage loans	\$ (2,757 )	(8 ) bps	\$ (3,997 )	(12 ) bps	\$ (5,562 )	(18 ) bps

(1) Calculated based on 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 net interest income in “Business Segment Results—Capital Markets Group 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 2013 compared with 2012 primarily as a result of funds we received in 2013 pursuant to settlement agreements resolving certain lawsuits relating to private-label mortgage-related securities sold to us. See “Legal Proceedings—FHFA Private-Label Mortgage-Related Securities Litigation” for additional information. In addition, we recognized higher yield maintenance fees in 2013 related to large multifamily loan prepayments during the year.

#### Investment Gains, Net

Investment gains, net include gains and losses recognized from the sale of available-for-sale (“AFS”) securities and gains and losses recognized on the securitization of loans and securities from our retained mortgage portfolio. Investment gains increased in 2013 compared with 2012 primarily due to a significantly higher volume of sales of non-agency mortgage-related securities in 2013 to meet an objective of FHFA’s 2013 conservatorship scorecard. 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 decreased in 2013 compared with 2012 and increased in 2012 compared with 2011. In 2013, net other-than-temporary impairments were primarily driven by a change in our intent to sell certain securities. As a result, we recognized the entire difference between the amortized cost basis of these securities and their fair value as net other-than-temporary impairments.

In 2012, net other-than-temporary impairments were primarily driven by an update to the assumptions used to project cash flow estimates on our Alt-A and subprime private-label securities, which resulted in a significant decrease in the net present value of projected cash flows on these securities.

In 2011, net other-than-temporary impairments were primarily driven by an increase in collateral losses on certain Alt-A private-label securities, which resulted in a decrease in the present value of our cash flow projections on these Alt-A private-label securities, partially offset by an out-of-period adjustment in 2011.



## Fair Value Gains (Losses), Net

Table 11 displays the components of our fair value gains and losses.

Table 11: Fair Value Gains (Losses), Net

	For the Year Ended December 31,		
	2013	2012	2011
	(Dollars in millions)		
Risk management derivatives fair value gains (losses) attributable to:			
Net contractual interest expense accruals on interest rate swaps	\$ (767 )	\$ (1,430 )	\$ (2,185 )
Net change in fair value during the period	3,546	(508 )	(3,954 )
Total risk management derivatives fair value gains (losses), net	2,779	(1,938 )	(6,139 )
Mortgage commitment derivatives fair value gains (losses), net	501	(1,688 )	(423 )
Total derivatives fair value gains (losses), net	3,280	(3,626 )	(6,562 )
Trading securities gains, net	260	1,004	266
Other, net <sup>(1)</sup>	(581 )	(355 )	(325 )
Fair value gains (losses), net	\$2,959	\$ (2,977 )	\$ (6,621 )
	2013	2012	2011
5-year swap rate:			
As of March 31	0.95	% 1.27	% 2.47
As of June 30	1.57	0.97	2.03
As of September 30	1.54	0.76	1.26
As of December 31	1.79	0.86	1.22

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

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 financial instruments that we mark to market through our earnings. These instruments include derivatives and trading securities. The estimated fair value of our derivatives and trading securities 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 consolidated financial statements. Therefore, the accounting volatility resulting from market fluctuations related to our derivatives and trading securities may not be indicative of the economics of these transactions.

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

We present, by derivative instrument type, the fair value gains and losses on our derivatives for the years ended December 31, 2013, 2012 and 2011 in "Note 9, Derivative Instruments."

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

**Changes in interest rates:** Our derivatives, in combination with our issuances of debt securities, are intended to offset changes in the fair value of our mortgage assets. Mortgage assets tend to increase in value when interest rates decrease and, conversely, decrease in value when interest rates rise. Pay-fixed swaps decrease in value and receive-fixed swaps increase in value as swap rates decrease (with the opposite being true when swap rates increase). Because the composition of our pay-fixed and receive-fixed derivatives varies across the yield curve, the overall fair value gains and losses of our derivatives are sensitive to flattening and steepening of the yield curve.

**Implied interest rate volatility:** Our derivatives portfolio includes option-based derivatives, which we purchase to economically hedge the prepayment option embedded in our mortgage investments and sell to offset the options obtained through callable debt issuances when those options are not needed for risk management purposes. A key variable in estimating the fair value of option-based derivatives is implied volatility, which reflects the market's expectation of the magnitude of future changes in interest rates. Assuming all other factors are held equal, including interest rates, a decrease in implied volatility would reduce the fair value of our purchased options and an increase in implied volatility would increase the fair value of our purchased options, while having the opposite effect on the options that we have sold.

**Changes in our derivative activity:** As interest rates change, we are likely to rebalance our portfolio to manage our interest rate exposure. As interest rates decrease, expected mortgage prepayments are likely to increase, which reduces the duration of our mortgage investments. In this scenario, we generally will rebalance our existing portfolio to manage this risk by adding receive-fixed swaps, which shortens the duration of our liabilities. Conversely, when interest rates increase and the duration of our mortgage assets increases, we are likely to add pay-fixed swaps, which have the effect of extending the duration of our liabilities. We use derivatives to rebalance our portfolio when the duration of our mortgage assets changes as the result of mortgage purchases or sales. We also use foreign-currency swaps to manage the foreign exchange impact of our foreign currency-denominated debt issuances.

**Time value of purchased options:** Intrinsic value and time value are the two primary components of an option's price. The intrinsic value is determined by the amount by which the market rate exceeds or is below the exercise, or strike rate, such that the option is in-the-money. The time value of an option is the amount by which the price of an option exceeds its intrinsic value. Time decay refers to the diminishing value of an option over time as less time remains to exercise the option.

We recognized risk management derivative fair value gains in 2013 primarily as a result of increases in the fair value of our pay-fixed derivatives as longer-term swap rates increased during the year. We recognized risk management derivatives fair value losses in 2012 and 2011 primarily as a result of decreases in the fair value of our pay-fixed derivatives due to declines in swap rates during each of these years. Risk management derivative fair value losses in 2011 were greater than the losses in 2012, primarily due to a significant decline in swap rates in 2011 compared with a more modest decline in swap rates in 2012.

Because risk management derivatives are an important part of our interest rate risk management strategy, it is important to evaluate the impact of our derivatives in the context of our overall interest rate risk profile and in conjunction with the other mark-to-market gains and losses presented in Table 11. For additional information on our use of derivatives to manage interest rate risk, including the economic objective of our use of various types of derivative instruments, changes in our derivatives activity and the outstanding notional amounts, see "Risk Management—Market Risk Management, Including Interest Rate Risk Management—Interest Rate Risk Management." Mortgage Commitment Derivatives Fair Value Gains (Losses), Net

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

settlement date as a component of debt in the cost basis of the debt issued.

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We recognized fair value gains on our mortgage commitments in 2013 primarily due to gains on commitments to sell mortgage-related securities primarily driven by interest rates increasing during the commitment period. We recognized fair value losses on our mortgage commitments in 2012 and 2011 primarily due to losses on commitments to sell mortgage-related securities as a result of interest rates decreasing during the commitment period. Mortgage commitment derivative fair value losses in 2012 were greater than the losses in 2011, primarily as a result of (1) a higher volume of net commitments to sell mortgage-related securities in 2012 and (2) a further increase in prices driven by the Federal Reserve's announcement that it would increase its MBS purchases from financial institutions beginning in September 2012.

#### Trading Securities Gains, Net

The estimated fair value of our trading securities may fluctuate substantially from period-to-period primarily due to changes in interest rates and credit spreads. Gains from trading securities in 2013 were primarily driven by higher prices on Alt-A and subprime private-label securities due to narrowing of credit spreads on these securities, as well as improvements in the credit outlook of certain financial guarantors of these securities. These gains were partially offset by losses on commercial mortgage-backed securities ("CMBS") and agency securities due to lower prices resulting from higher interest rates.

Gains from our trading securities in 2012 were primarily driven by the narrowing of credit spreads on CMBS. Gains from our trading securities in 2011 were primarily driven by higher prices on our CMBS as a result of significant narrowing of the U.S. Treasury yield curve and swap yield curve spreads offset by widening credit spreads.

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

#### Administrative Expenses

Administrative expenses increased in 2013 compared with 2012 driven by costs related to the execution of FHFA's 2013 conservatorship scorecard objectives, as well as costs associated with FHFA's private-label mortgage-related securities litigation. These costs more than offset reductions in our ongoing operating costs.

Administrative expenses were flat in 2012 compared with 2011, as continued efforts to reduce ongoing operating costs were offset by additional costs related to the execution of FHFA's strategic goals. We expect that our administrative expenses may increase in 2014 compared with 2013 as we continue to execute on our strategic goals.

#### 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 consists 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 12 displays the components of our total loss reserves and our total fair value losses previously recognized on loans purchased out of unconsolidated MBS trusts reflected in our consolidated balance sheets. Because these fair value losses lowered our recorded loan balances, we have fewer inherent losses in our guaranty book of business and consequently require lower total loss reserves. For these reasons, we consider these fair value losses as an "effective reserve," apart from our total loss reserves, to the extent that we expect to realize these amounts as credit losses on the acquired loans in the future. The fair value losses shown in Table 12 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 12: Total Loss Reserves

	As of December 31,	
	2013	2012
	(Dollars in millions)	
Allowance for loan losses	\$43,846	\$58,795
Reserve for guaranty losses <sup>(1)</sup>	1,449	1,231
Combined loss reserves	45,295	60,026
Allowance for accrued interest receivable	1,156	1,737
Allowance for preforeclosure property taxes and insurance receivable <sup>(2)</sup>	839	866
Total loss reserves	47,290	62,629
Fair value losses previously recognized on acquired credit-impaired loans <sup>(3)</sup>	11,316	13,694
Total loss reserves and fair value losses previously recognized on acquired credit-impaired loans	\$58,606	\$76,323

<sup>(1)</sup> Amount included in "Other liabilities" in our consolidated balance sheets.

<sup>(2)</sup> Amount included in "Other assets" in our consolidated balance sheets.

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

Table 13 displays changes in the total allowance for loan losses, reserve for guaranty losses and the total combined loss reserves for the periods indicated.

Table 13: Allowance for Loan Losses and Reserve for Guaranty Losses (Combined Loss Reserves)

	For the Year Ended December 31,					
	2013	2012	2011	2010	2009	
	(Dollars in millions)					
Changes in combined loss reserves:						
Allowance for loan losses:						
Beginning balance	\$58,795	\$72,156	\$61,556	\$9,925	\$2,772	
Adoption of consolidation accounting guidance <sup>(1)</sup>	—	—	—	43,576	—	
(Benefit) provision for loan losses	(9,316 )	(1,191 )	25,914	24,702	9,569	
Charge-offs <sup>(2)</sup>	(8,867 )	(15,139 )	(21,170 )	(22,878 )	(2,245 )	
Recoveries	2,626	1,784	5,272	3,077	214	
Other <sup>(3)</sup>	608	1,185	584	3,154	(385 )	
Ending balance	\$43,846	\$58,795	\$72,156	\$61,556	\$9,925	
Reserve for guaranty losses:						
Beginning balance	\$1,231	\$994	\$323	\$54,430	\$21,830	
Adoption of consolidation accounting guidance <sup>(1)</sup>	—	—	—	(54,103 )	—	
Provision for guaranty losses	367	339	804	194	63,057	
Charge-offs	(150 )	(174 )	(138 )	(203 )	(31,142 )	
Recoveries	1	72	5	5	685	
Ending balance	\$1,449	\$1,231	\$994	\$323	\$54,430	
Combined loss reserves:						
Beginning balance	\$60,026	\$73,150	\$61,879	\$64,355	\$24,602	
Adoption of consolidation accounting guidance <sup>(1)</sup>	—	—	—	(10,527 )	—	
Total (benefit) provision for credit losses	(8,949 )	(852 )	26,718	24,896	72,626	
Charge-offs <sup>(2)</sup>	(9,017 )	(15,313 )	(21,308 )	(23,081 )	(33,387 )	
Recoveries	2,627	1,856	5,277	3,082	899	
Other <sup>(3)</sup>	608	1,185	584	3,154	(385 )	
Ending balance	\$45,295	\$60,026	\$73,150	\$61,879	\$64,355	
Attribution of charge-offs:						
Charge-offs attributable to guaranty book of business	\$(8,979 )	\$(15,249 )	\$(21,192 )	\$(22,901 )	\$(12,832 )	
Charge-offs attributable to fair value losses on acquired credit-impaired and HomeSaver Advance loans	(38 )	(64 )	(116 )	(180 )	(20,555 )	
Total charge-offs	\$(9,017 )	\$(15,313 )	\$(21,308 )	\$(23,081 )	\$(33,387 )	
Allocation of combined loss reserves:						
Balance at end of each period attributable to:						
Single-family	\$44,705	\$58,809	\$71,512	\$60,163	\$62,312	
Multifamily	590	1,217	1,638	1,716	2,043	
Total	\$45,295	\$60,026	\$73,150	\$61,879	\$64,355	
Single-family and multifamily combined loss reserves as a percentage of applicable guaranty book of business:						
Single-family	1.55	% 2.08	% 2.52	% 2.10	% 2.14	%
Multifamily	0.29	0.59	0.84	0.91	1.10	
Combined loss reserves as a percentage of:						
Total guaranty book of business	1.47	% 1.97	% 2.41	% 2.03	% 2.08	%
Recorded investment in nonaccrual loans <sup>(4)</sup>	54.18	52.27	51.10	36.21	30.33	

Because we recognized mortgage loans held by newly consolidated trusts upon adoption of the consolidation accounting guidance on January 1, 2010, we increased our “Allowance for loan losses” and decreased our “Reserve for guaranty losses.” The impact at the transition date is reported as “Adoption of consolidation accounting guidance.”

- (1) The decrease in the combined loss reserves on the adoption date represents a difference in the methodology used to estimate incurred losses for our allowance for loan losses as compared with our reserve for guaranty losses and our separate presentation of the portion of the allowance related to accrued interest as our “Allowance for accrued interest receivable.”
- (2) Includes accrued interest of \$436 million, \$872 million, \$1.4 billion, \$2.4 billion and \$1.5 billion for the years ended December 31, 2013, 2012, 2011, 2010 and 2009, respectively.  
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.
- (3)
- (4) Includes off-balance sheet loans in unconsolidated Fannie Mae MBS trusts that would meet our criteria for nonaccrual status if the loans had been on-balance sheet.

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 and 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 of \$8.9 billion in 2013 and \$852 million in 2012. The following factors contributed to our benefit for credit losses in 2013:

Home prices increased by 8.8% in 2013 compared with an increase of 4.2% in 2012. Higher home prices decrease the likelihood that loans will default and reduce the amount of credit loss on loans that default, which reduces our total loss reserves and provision for credit losses.

The number of our seriously delinquent single-family loans declined 27% to approximately 419,000 as of December 31, 2013 from approximately 577,000 as of December 31, 2012 and the number of “early stage” delinquent loans (loans that are 30 to 89 days past due) declined 18% to approximately 375,000 as of December 31, 2013 from approximately 459,000 as of December 31, 2012. The reduction in the number of delinquent loans was primarily the result of home retention solutions, foreclosure alternatives and completed foreclosures, and 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.

Sales prices on dispositions of our REO properties improved in 2013 compared with 2012. We received net proceeds from our single-family REO sales equal to 67% of the loans’ unpaid principal balance in 2013 compared with 59% in 2012. The increase in sales prices contributed to a reduction in the single-family initial charge-off severity rate to 24.2% for 2013 from 30.7% for 2012. The decrease in our charge-off severity rate indicates a lower amount of expected credit loss at foreclosure and, accordingly, results in 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 \$2.2 billion decrease to our allowance for loan losses. For additional information on this update, see “Critical Accounting Policies and Estimates—Total Loss Reserves—Single-Family Loss Reserves.”

The factors that contributed to our benefit for credit losses in 2013 were partially offset by lower discounted cash flow projections on our individually impaired loans due to increasing mortgage interest rates in 2013. Higher mortgage interest rates lengthen the expected lives of modified loans, which increases the impairment on these loans and results in an increase to the provision for credit losses. Conversely, in 2012, mortgage interest rates declined, causing higher



discounted cash flow projections on our individually impaired loans, which resulted from shortened expected lives on modified loans and lower impairment on these loans.

We recognized a benefit for credit losses in 2012 compared with a provision for credit losses in 2011 primarily due to: (1) an increase in home prices in 2012 compared with a home price decline in 2011; (2) an increase in sales prices of our REO properties; and (3) a continued reduction in the number of delinquent loans in our single-family guaranty book of business.

The improvement in our credit results in 2012 was partially offset by a \$3.5 billion increase in our provision for credit losses due to changes in our assumptions and data used in calculating our loss reserves and a \$1.1 billion increase in our provision for credit losses due to a change in our accounting for loans to certain borrowers who have received bankruptcy relief, which led to an increase in the number of loans we classify as TDRs.

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

Certain loan categories have contributed disproportionately to our single-family loss reserves, including loans related to higher-risk product types, such as Alt-A loans, and loans originated in 2005 through 2008. Our Alt-A loans accounted for approximately 26% of our total single-family loss reserves as of December 31, 2013, compared with approximately 27% as of December 31, 2012. Our 2005 to 2008 loan vintages accounted for approximately 84% of our total single-family loss reserves as of December 31, 2013, compared with approximately 85% as of December 31, 2012. See “Note 6, Financial Guarantees” for additional information regarding our Alt-A loans and 2005 to 2008 loan vintages as a percentage of our single-family conventional guaranty book of business.

#### Troubled Debt Restructurings and Nonaccrual Loans

Table 14 displays the composition of loans restructured in a TDR that are on accrual status, loans on nonaccrual status and off-balance sheet loans in unconsolidated Fannie Mae MBS trusts which would meet our criteria for nonaccrual status if the loans had been on-balance sheet. The table includes held-for-investment and held-for-sale mortgage loans. For information on the impact of TDRs and other individually impaired loans on our allowance for loan losses, see “Note 3, Mortgage Loans.” For activity related to our single-family TDRs, see Table 46 in “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management.”

Table 14: Troubled Debt Restructurings and Nonaccrual Loans

	As of December 31,				
	2013	2012	2011	2010	2009
	(Dollars in millions)				
TDRs on accrual status <sup>(1)</sup>					
Single-family	\$140,512	\$135,196	\$107,991	\$81,767	\$9,880
Multifamily	715	868	806	935	—
Total TDRs on accrual status	\$141,227	\$136,064	\$108,797	\$82,702	\$9,880
Nonaccrual loans					
Single-family	\$81,355	\$112,555	\$140,234	\$169,775	\$36,764
Multifamily	2,209	2,206	2,764	1,013	832
Total nonaccrual loans	\$83,564	\$114,761	\$142,998	\$170,788	\$37,596
Other <sup>(2)</sup>	\$42	\$72	\$154	\$89	\$174,588
Accruing on-balance sheet loans past due 90 days or more <sup>(3)</sup>	\$719	\$3,580	\$768	\$896	\$612
	For the Year Ended December 31,				
	2013	2012	2011	2010	2009
	(Dollars in millions)				
Interest related to on-balance sheet TDRs and nonaccrual loans:					
Interest income forgone <sup>(4)</sup>	\$6,805	\$7,554	\$8,224	\$8,185	\$1,341
Interest income recognized for the period <sup>(5)</sup>	5,915	6,442	6,598	7,995	1,206

(1) Includes loans to certain borrowers who have received bankruptcy relief and therefore are classified as TDRs and HomeSaver Advance first-lien loans on accrual status.

(2) Consists of off-balance sheet loans in unconsolidated Fannie Mae MBS trusts that would meet our criteria for nonaccrual status if the loans had been on-balance sheet.

(3) Recorded investment in loans that, as of the end of each period, are 90 days or more past due and continuing to accrue interest. As of December 31, 2012, includes loans with a recorded investment of \$2.8 billion which were repurchased in January 2013 pursuant to our resolution agreement with Bank of America. These loans were

returned to accrual status to reflect the change in our assessment of

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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.

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

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

#### Foreclosed Property (Income) Expense

Foreclosed property income increased in 2013 compared with 2012 primarily due to the recognition of compensatory fee income related to servicing matters, gains resulting from resolution agreements reached in 2013 related to representation and warranty matters and an improvement in sales prices on dispositions of our REO properties.

Compensatory fees are amounts we charge our primary servicers for servicing delays within their control when they fail to comply with established loss mitigation and foreclosure timelines as required by our Servicing Guide, which sets forth our policies and procedures related to servicing our single-family mortgages.

We recognized foreclosed property income in 2012 compared with foreclosed property expense in 2011 primarily due to: (1) improved sales prices on dispositions of our REO properties in 2012, resulting from strong demand in markets with limited REO supply and (2) the recognition of compensatory fee income in 2012.

#### 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 nonaccrual loans and TDRs, 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 15 displays the components of our credit loss performance metrics as well as our average single-family and multifamily initial charge-off severity rates.

Table 15: Credit Loss Performance Metrics

	For the Year Ended December 31,					
	2013		2012		2011	
	Amount	Ratio <sup>(1)</sup>	Amount	Ratio <sup>(1)</sup>	Amount	Ratio <sup>(1)</sup>
	(Dollars in millions)					
Charge-offs, net of recoveries	\$6,390	20.9 bps	\$13,457	44.2 bps	\$16,031	52.4 bps
Foreclosed property (income) expense	(2,839 )	(9.3 )	(254 )	(0.8 )	780	2.6
Credit losses including the effect of fair value losses on acquired credit-impaired loans	3,551	11.6	13,203	43.4	16,811	55.0
Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property (income) expense <sup>(2)</sup>	953	3.1	1,446	4.8	1,926	6.3
Credit losses and credit loss ratio	\$4,504	14.7 bps	\$14,649	48.2 bps	\$18,737	61.3 bps
Credit losses attributable to:						
Single-family	\$4,452		\$14,392		\$18,346	
Multifamily	52		257		391	
Total	\$4,504		\$14,649		\$18,737	

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Single-family initial charge-off severity rate <sup>(3)</sup>	24.22 %	30.71 %	34.82 %
Multifamily initial charge-off severity rate <sup>(3)</sup>	23.56 %	37.43 %	37.10 %

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

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

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. Multifamily rate is net of any risk sharing agreements.

Credit losses decreased in 2013 compared with 2012 primarily due to the recognition of compensatory fee income in 2013 related to servicing matters and gains resulting from resolution agreements reached in 2013 related to representation and warranty matters. Also contributing to the decrease in credit losses in 2013 was an improvement in sales prices on dispositions of our REO properties and lower REO acquisitions primarily driven by lower delinquencies.

The decrease in credit losses in 2012 compared with 2011 was primarily due to improved actual home prices and sales prices of our REO properties and lower REO acquisitions primarily due to the continued slow pace of foreclosures in 2012.

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

Table 16 displays concentrations of our credit losses based on geography, credit characteristics and loan vintages.

Table 16: Credit Loss Concentration Analysis

	Percentage of Single-Family Conventional Guaranty Book of Business Outstanding <sup>(1)</sup>			Percentage of Single-Family Credit Losses <sup>(2)</sup>		
	As of December 31,			For the Year Ended December 31,		
	2013	2012	2011	2013	2012	2011
Geographical Distribution:						
California	20	% 19	% 19	5	% 18	% 27
Florida	6	6	6	29	21	11
Illinois	4	4	4	13	10	4
All other states	70	71	71	53	51	58
Select higher-risk product features <sup>(3)</sup>	23	22	21	55	54	56
Vintages:						
2005 - 2008	15	22	31	78	82	83
All other vintages	85	78	69	22	18	17

(1) Calculated based on the unpaid principal balance of loans, where we have detailed loan-level information, for each category divided by the unpaid principal balance of our single-family conventional guaranty book of business.

(2) Excludes the impact of recoveries resulting from resolution agreements related to representation and warranty matters and compensatory fee income related to servicing matters, which have not been allocated to specific loans.

(3) Includes Alt-A loans, subprime loans, interest-only loans, loans with original LTV ratios greater than 90% and loans with FICO credit scores less than 620.

Our new single-family book of business accounted for approximately 10% of our single-family credit losses for 2013, excluding the impact of recoveries resulting from resolution agreements related to representation and warranty matters and compensatory fee income related to servicing matters, which have not been allocated to specific loans. Credit losses on mortgage loans typically do not peak until the third through sixth years following origination; however, this range can vary based on many factors, including changes in macroeconomic conditions and foreclosure timelines. We provide more detailed credit performance information, including serious delinquency rates by geographic region and

foreclosure activity, in “Risk Management—Credit Risk Management—Mortgage Credit Risk Management.”  
Regulatory Hypothetical Stress Test Scenario

Under a September 2005 agreement with FHFA’s predecessor, OFHEO, 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

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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 17 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 17: Single-Family Credit Loss Sensitivity<sup>(1)</sup>

	As of December 31,	
	2013	2012
	(Dollars in millions)	
Gross single-family credit loss sensitivity	\$9,109	\$13,508
Less: Projected credit risk sharing proceeds	(1,062)	(2,206)
Net single-family credit loss sensitivity	\$8,047	\$11,302
Single-family loans in our retained mortgage portfolio and loans underlying Fannie Mae MBS	\$2,828,395	\$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	0.28	% 0.41

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 December 31, 2013 and 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 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.

The decrease in the projected credit loss sensitivities in 2013 compared with 2012 was the result of the increase in home prices and lower projected default expectations for loans in our single-family guaranty book of business. Because these sensitivities represent hypothetical scenarios, they should be used with caution. Our regulatory stress test scenario is limited in that it assumes an instantaneous uniform 5% nationwide decline in home prices, which is not representative of the historical pattern of changes in home prices. Changes in home prices generally vary on a regional, as well as a local, basis. In addition, these stress test scenarios are calculated independently without considering changes in other interrelated assumptions, such as unemployment rates or other economic factors, which are likely to have a significant impact on our future expected credit losses.

#### Other Non-Interest Expenses

Other non-interest expenses decreased in 2013 compared with 2012 primarily due to increased gains from partnership investments and debt extinguishment gains in 2013 compared with debt extinguishment losses in 2012. These decreases in non-interest expenses were partially offset by an increase in TCCA fees in 2013.

Gains from partnership investments increased in 2013 compared with 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.

Debt extinguishment gains in 2013 were primarily driven by an increase in interest rates in 2013 compared with debt extinguishment losses in 2012 driven by a decrease in interest rates in 2012. See “Fair Value Gains (Losses), Net—Mortgage Commitment Derivatives Fair Value Gains (Losses), Net” for additional information on how the fair value of our commitments impacts debt extinguishments when we purchase securities.

TCCA fees increased in 2013 compared with 2012 due to an increase in the volume of loans in our single-family book of business subject to TCCA provisions. We expect the guaranty fees collected and expenses incurred under the TCCA to continue to increase in the future.

Other non-interest expenses increased in 2012 compared with 2011 primarily due to our obligation to pay fees to Treasury under the TCCA, which began in 2012.





#### Federal Income Taxes

We recognized a benefit for federal income taxes of \$45.4 billion in 2013 due to the release of the substantial majority of the valuation allowance against our deferred tax assets, partially offset by our 2013 provision for federal income taxes. We did not recognize a provision or a benefit for federal income taxes in 2012. We recognized a benefit for federal income taxes of \$90 million for 2011 because we effectively settled our 2007 and 2008 tax years with the Internal Revenue Service (“IRS”) in 2011. We discuss federal income taxes and 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

We provide a more complete description of our business segments in “Business—Business Segments.” 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 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 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 consolidated results of operations. We describe the management reporting and allocation process used to generate our segment results in “Note 13, Segment Reporting.”

In this section, we summarize our segment results for the years ended December 31, 2013, 2012 and 2011 in the tables below and provide a comparative discussion of these results. This section should be read together with our comparative discussion of our consolidated results of operations in “Consolidated Results of Operations.” See “Note 13, Segment Reporting” for a reconciliation of our segment results to our consolidated results.

## Summary

Table 18 displays a summary of our segment results for 2013, 2012 and 2011.

Table 18: Business Segment Summary

	For the Year Ended December 31,		
	2013	2012	2011
	(Dollars in millions)		
Net revenues: <sup>(1)</sup>			
Single-Family	\$11,303	\$8,120	\$5,675
Multifamily	1,325	1,234	1,064
Capital Markets	11,659	12,667	12,901
Consolidated trusts	5,385	2,024	950
Eliminations/adjustments	(3,338 )	(1,057 )	(146 )
Total	\$26,334	\$22,988	\$20,444
Net income (loss) attributable to Fannie Mae:			
Single-Family	\$48,276	\$6,290	\$(23,941 )
Multifamily	10,069	1,511	583
Capital Markets	27,523	14,201	8,999
Consolidated trusts	4,645	1,741	429
Eliminations/adjustments	(6,550 )	(6,519 )	(2,925 )
Total	\$83,963	\$17,224	\$(16,855 )
	As of December 31,		
	2013	2012	2011
	(Dollars in millions)		
Total assets:			
Single-Family	\$41,206	\$17,595	\$11,822
Multifamily	10,848	5,182	5,747
Capital Markets	596,436	723,217	836,700
Consolidated trusts	2,812,459	2,749,571	2,676,952
Eliminations/adjustments <sup>(2)</sup>	(190,841 )	(273,143 )	(319,737 )
Total	\$3,270,108	\$3,222,422	\$3,211,484

<sup>(1)</sup> Includes net interest income (loss), guaranty fee income (expense), and fee and other income (expense).

Includes the elimination of Fannie Mae MBS in the Capital Markets group's retained mortgage portfolio that are issued by consolidated trusts. Also includes the elimination of the allowance for loan losses, allowance for accrued

<sup>(2)</sup> interest receivable and fair value losses previously recognized on acquired credit impaired loans as they are not treated as assets for Single-Family and Multifamily segment reporting purposes because these allowances and losses relate to loan assets that are held by the Capital Markets segment and consolidated trusts.

## Segment Results

Table 19 displays our segment results for 2013.

Table 19: Business Segment Results

	For the Year Ended December 31, 2013					
	Business Segments			Other Activity/Reconciling Items		
	Single-Family	Multifamily	Capital Markets	Consolidated Trusts <sup>(1)</sup>	Eliminations/Adjustments <sup>(2)</sup>	Total Results
	(Dollars in millions)					
Net interest income (loss)	\$205	\$(74 )	\$9,764	\$10,939	\$1,570 <sup>(3)</sup>	\$22,404
Benefit for credit losses	8,469	480	—	—	—	8,949
Net interest income after benefit for credit losses	8,674	406	9,764	10,939	1,570	31,353
Guaranty fee income (expense) <sup>(4)</sup>	10,468	1,217	(1,115 )	(5,233 ) <sup>(5)</sup>	(5,132 ) <sup>(5)</sup>	205 <sup>(5)</sup>
Investment gains (losses), net	3	21	4,911	(122 )	(3,622 ) <sup>(6)</sup>	1,191
Net other-than-temporary impairments	—	—	(64 )	—	—	(64 )
Fair value (losses) gains, net	(10 )	—	3,148	(722 )	543 <sup>(7)</sup>	2,959
Debt extinguishment gains, net	—	—	27	104	—	131
Gains from partnership investments <sup>(8)</sup>	—	498	—	—	19	517
Fee and other income (expense)	630	182	3,010	(321 )	224	3,725
Administrative expenses	(1,706 )	(280 )	(559 )	—	—	(2,545 )
Foreclosed property income	2,736	103	—	—	—	2,839
TCCA fees <sup>(4)</sup>	(1,001 )	—	—	—	—	(1,001 )
Other (expenses) income	(628 )	(2 )	20	—	(133 )	(743 )
Income before federal income taxes	19,166	2,145	19,142	4,645	(6,531 )	38,567
Benefit for federal income taxes <sup>(9)</sup>	29,110	7,924	8,381	—	—	45,415
Net income	48,276	10,069	27,523	4,645	(6,531 )	83,982
Less: Net income attributable to noncontrolling interest	—	—	—	—	(19 ) <sup>(10)</sup>	(19 )
Net income attributable to Fannie Mae	\$48,276	\$10,069	\$27,523	\$4,645	\$(6,550 )	\$83,963

<sup>(1)</sup> Represents activity related to the assets and liabilities of consolidated trusts in our consolidated balance sheets.

<sup>(2)</sup> Represents the elimination of intercompany transactions occurring between the three business segments and our consolidated trusts, as well as other adjustments to reconcile to our consolidated results.

<sup>(3)</sup> Represents the amortization expense of cost basis adjustments on securities in the Capital Markets group's retained mortgage portfolio that on a GAAP basis are eliminated.

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 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 recognized in "TCCA fees." This increase in guaranty fee is also included in the single-family average charged guaranty fee.

<sup>(5)</sup> Represents the guaranty fees paid from consolidated trusts to the Single-Family and Multifamily segments. The adjustment to guaranty fee income in the Eliminations/Adjustments column represents the elimination of the amortization of deferred cash fees related to consolidated trusts that were re-established for segment reporting.

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

Primarily represents the removal of realized gains and losses on sales of Fannie Mae MBS classified as <sup>(6)</sup> available-for-sale securities that are issued by consolidated trusts and in the Capital Markets group's retained mortgage portfolio. The adjustment also includes the

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removal of securitization gains (losses) recognized in the Capital Markets segment relating to portfolio securitization transactions that do not qualify for sale accounting under GAAP.

- (7) Represents the removal of fair value adjustments on consolidated Fannie Mae MBS classified as trading that are in the Capital Markets group's retained mortgage portfolio.
- (8) Gains from partnership investments are included in other expenses in our consolidated statements of operations and comprehensive income (loss).
- (9) Primarily represents the release of the valuation allowance for our deferred tax assets that generally are directly attributable to each segment based on the nature of the item.
- (10) Represents the adjustment from equity method accounting to consolidation accounting for partnership investments that are consolidated in our consolidated balance sheets.

#### Single-Family Business Results

Table 20 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, TCCA fees and administrative expenses.

Table 20: Single-Family Business Results<sup>(1)</sup>

	For the Year Ended December 31,			Variance	
	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
	(Dollars in millions)				
Net interest income (loss) <sup>(2)</sup>	\$205	\$(790)	\$(2,411)	\$995	\$1,621
Guaranty fee income <sup>(3)(4)</sup>	10,468	8,151	\$7,507	2,317	644
Credit-related income (expense) <sup>(5)</sup>	11,205	919	(27,218)	10,286	28,137
TCCA fees <sup>(4)</sup>	(1,001)	(238)	—	(763)	(238)
Other expenses <sup>(6)</sup>	(1,711)	(1,672)	(1,925)	(39)	253
Income (loss) before federal income taxes	19,166	6,370	(24,047)	12,796	30,417
Benefit (provision) for federal income taxes <sup>(7)</sup>	29,110	(80)	106	29,190	(186)
Net income (loss) attributable to Fannie Mae	\$48,276	\$6,290	\$(23,941)	\$41,986	\$30,231
Other key performance data:					
Single-family effective guaranty fee rate (in basis points) <sup>(4)(8)</sup>	36.7	28.7	26.2		
Single-family average charged guaranty fee on new acquisitions (in basis points) <sup>(4)(9)</sup>	57.4	39.9	28.8		
Average single-family guaranty book of business <sup>(10)</sup>	\$2,855,821	\$2,843,718	\$2,864,919		
Single-family Fannie Mae MBS issuances <sup>(11)</sup>	\$733,111	\$827,749	\$564,606		

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

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 consolidated statements of operations and comprehensive income (loss).

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 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 recognized in "TCCA fees." This increase in guaranty fee is also included in the single-family average charged guaranty fee.

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

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

The benefit for 2013 primarily represents the release of the substantial majority of our valuation allowance against  
(7) the portion of our deferred tax assets that we attribute to our Single-Family segment based on the nature of the item.

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

(9) 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.

(10) 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.

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

2013 compared with 2012

Pre-tax income increased in 2013 compared with 2012 primarily due to an increase in credit-related income and increased guaranty fee income combined with net interest income in 2013 compared with a net interest loss in 2012. Our credit results for 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 in 2013 as compared with 2012 was due in part to a decline in the number of delinquent loans in our single-family conventional guaranty book of business, as well as the recognition of compensatory fee income in 2013 related to servicing matters and gains resulting from resolution agreements reached in 2013 related to representation and warranty matters. In addition, in the second quarter of 2013 we updated the assumptions and data used to estimate our allowance for loan losses for individually impaired single-family loans to reflect faster prepayment and lower default expectations for these loans, which resulted in a decrease to our allowance for loan losses. See “Critical Accounting Policies and Estimates—Total Loss Reserves—Single-Family Loss Reserves” for additional information. The positive impact of these factors on our credit-related income in 2013 was partially offset by lower discounted cash flow projections on our individually impaired loans due to increasing mortgage interest rates in 2013. Higher mortgage interest rates lengthen the expected lives of modified loans, which increases the impairment on these loans and results in an increase to the provision for credit losses. Conversely, in 2012, mortgage interest rates decreased, resulting in higher discounted cash flow projections on our individually impaired loans, which resulted from shortened expected lives on modified loans and lower impairment on these loans. 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 2013 compared with 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. 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. This TCCA-related revenue is included in guaranty fee income and the expense is recognized as “TCCA fees.” We expect the guaranty fees collected and expenses incurred under the TCCA to continue to increase in the future.

We recognized net interest income in 2013 compared with a net interest loss in 2012 primarily due to the reduction in the amount of interest income not recognized for nonaccrual mortgage loans as the population of delinquent loans declined, 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.

Net income in 2013 included a benefit for federal income taxes that primarily represents the release 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 2013 compared with 2012 was primarily due to price increases implemented during 2012, as discussed above. In addition, our average single-family charged guaranty fee increased due to an increase in total loan level price adjustments charged on our 2013



acquisitions, as the credit profile of these acquisitions included a higher proportion of loans with higher LTV ratios and a higher proportion of loans with lower FICO credit scores than our 2012 acquisitions. In December 2013, FHFA directed us to further increase our base single-family guaranty fees by 10 basis points and to make changes to our single-family loan level price adjustments. In January 2014, however, FHFA directed us to delay implementation of these guaranty fee changes. FHFA Director Melvin L. Watt stated that he intends to conduct a thorough evaluation of the proposed changes and their likely impact as expeditiously as possible. See “Business—Our Charter and Regulation of Our Activities—Potential Changes to Our Single-Family Guaranty Fee Pricing” for more information on the potential changes to our guaranty fee pricing.

We remained the largest single issuer of mortgage related securities in the secondary market during 2013, with an estimated market share of new single-family mortgage-related securities issuances, which excludes previously securitized mortgages, of 47% for 2013. Despite our continued high market share, our average single-family guaranty book of business remained relatively flat in 2013 compared with 2012, primarily due to U.S. residential mortgage debt outstanding remaining relatively flat.

#### 2012 compared with 2011

Net income in 2012 compared with a net loss in 2011 was primarily due to credit-related income in 2012 compared with credit-related expense in 2011, increased guaranty fee income in 2012 and a reduction in net interest loss in 2012. Credit-related income in 2012 compared with credit-related expense in 2011 was driven primarily by a significant improvement in the profile of our single-family book of business resulting from an increase in actual home prices. Net interest loss decreased in 2012 compared with 2011 primarily due to a reduction in the amount of interest income not recognized for nonaccrual mortgage loans in our consolidated balance sheet as we continued to complete a high number of loan workouts and foreclosures. In addition, as loans with stronger credit profiles became a larger portion of our single-family guaranty book of business, a smaller percentage of our loans became seriously delinquent in 2012 as compared with 2011.

Guaranty fee income increased in 2012 compared with 2011 due to an increase in the amortization of risk-based fees. Additionally, as described above, 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.

In addition, single-family net income increased as a result of our resolution agreements with Bank of America related to repurchase requests and compensatory fees. These agreements led to the recognition of \$1.3 billion in pre-tax income for 2012.

#### 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") investments 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, mortgage loans and re-securitizations, and other miscellaneous income.

Table 21 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 (expense) and administrative expenses.

Table 21: Multifamily Business Results

	For the Year Ended December 31,			Variance	
	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
	(Dollars in millions)				
Guaranty fee income <sup>(1)</sup>	\$1,217	\$1,040	\$884	\$177	\$156
Fee and other income	182	207	218	(25 )	(11 )
Gains from partnership investments <sup>(2)</sup>	498	123	81	375	42
Credit-related income (expense) <sup>(3)</sup>	583	187	(280 )	396	467
Other expenses <sup>(4)</sup>	(335 )	(250 )	(259 )	(85 )	9
Income before federal income taxes	2,145	1,307	644	838	663
Benefit (provision) for federal income taxes <sup>(5)</sup>	7,924	204	(61 )	7,720	265
Net income attributable to Fannie Mae	\$10,069	\$1,511	\$583	\$8,558	\$928
Other key performance data:					
Multifamily effective guaranty fee rate (in basis points) <sup>(6)</sup>	59.6	52.1	46.0		
Multifamily credit loss performance ratio (in basis points) <sup>(7)</sup>	2.5	12.9	20.4		
Average multifamily guaranty book of business <sup>(8)</sup>	\$204,284	\$199,797	\$191,984		
Multifamily new business volume <sup>(9)</sup>	\$28,752	\$33,763	\$24,356		
Multifamily units financed from new business volume	507,000	559,000	423,000		
Multifamily Fannie Mae MBS issuances <sup>(10)</sup>	\$31,403	\$37,738	\$34,066		
Multifamily Fannie Mae structured securities issuances (issued by Capital Markets group)	\$10,185	\$10,084	\$6,435		
Additional net interest income earned on Fannie Mae multifamily mortgage loans and MBS (included in Capital Markets group's results) <sup>(11)</sup>	\$709	\$827	\$873		
Average Fannie Mae multifamily mortgage loans and MBS in Capital Markets group's portfolio <sup>(12)</sup>	\$74,613	\$98,025	\$110,748		
	As of December 31,				
	2013		2012		
	(Dollars in millions)				
Multifamily serious delinquency rate	0.10	%	0.24	%	
Percentage of multifamily guaranty book of business with credit enhancement	91	%	90	%	
Fannie Mae percentage of total multifamily mortgage debt outstanding <sup>(13)</sup>	21	%	22	%	
Multifamily Fannie Mae MBS outstanding <sup>(14)</sup>	\$148,724		\$128,477		

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

(2) Gains from partnership investments are included in other expenses in our consolidated statements of operations and comprehensive income (loss). 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 (provision) for credit losses and foreclosed property income (expense).

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

(5) The benefit for 2013 primarily represents the release 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 Multifamily segment guaranty fee income divided by the average multifamily guaranty book of business, expressed in basis points.

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

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Our Multifamily guaranty book of business consists of (a) multifamily mortgage loans of Fannie Mae, (b) multifamily mortgage loans underlying Fannie Mae MBS, and (c) other credit enhancements that we provide on multifamily mortgage assets. It 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.

Reflects unpaid principal balance of multifamily Fannie Mae MBS issued during the period. Includes:

(10) (a) issuances of new MBS, (b) Fannie Mae portfolio securitization transactions of \$2.9 billion, \$4.4 billion and \$10.0 billion for the years ended December 31, 2013, 2012 and 2011, respectively, and (c) conversions of adjustable-rate loans to fixed-rate loans and discount MBS (“DMBS”) to MBS of \$68 million, \$215 million and \$241 million for the years ended December 31, 2013, 2012 and 2011, 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 our 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 December 31, 2013 is as of September 30, 2013 and is based on the Federal Reserve’s September 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 \$22.4 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 consolidated balance sheets, as of December 31, 2013 and 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 December 31, 2013 and 2012, respectively.

2013 compared with 2012

Pre-tax income increased in 2013 compared with 2012 primarily due to increased guaranty fee income, increased credit-related income and increased gains from partnership investments.

Guaranty fee income increased in 2013 compared with 2012 as we continued 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 2013 compared with 2012, primarily due to improvements in default and loss severity trends and improvements in property valuations.

Gains from partnership investments increased in 2013 compared with 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 2013 included a benefit for federal income taxes that primarily represents the release 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. A benefit for federal income taxes in 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.

Multifamily new business volume decreased in 2013 compared with 2012. FHFA’s 2013 conservatorship scorecard included an objective 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.

2012 compared with 2011

Net income increased in 2012 compared with 2011, primarily due to credit-related income in 2012 compared with credit-related expense in 2011, an increase in guaranty fee income and a benefit for federal income taxes in 2012 as compared with a provision for federal income taxes in 2011.

Credit-related income in 2012 was primarily due to reductions to our total loss reserves resulting from an improvement in national multifamily market fundamentals. In comparison, credit-related expense in 2011 was primarily due to underperformance of certain local markets and properties due to localized economic conditions. Guaranty fee income increased in 2012 compared with 2011 as we continued to acquire loans with higher guaranty fees. Our acquisitions of loans with higher guaranty fees became a larger part of our multifamily guaranty book of business, while loans with lower guaranty fees continued to liquidate.

A benefit for federal income taxes of \$204 million in 2012 was primarily driven by the utilization of tax credits related to LIHTC investments to offset our alternative minimum tax liability resulting from our 2012 taxable income. In comparison, a provision for federal income taxes was recognized in 2011, resulting from an effective settlement of issues with the Internal Revenue Service relating to tax years 2007 and 2008, which reduced our total corporate tax liability. However, the reduction in our tax liability also reduced the tax credits we were able to use, resulting in a provision for federal income taxes for the Multifamily segment in 2011.

#### Capital Markets Group Results

Table 22 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 retained 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" and "Note 9, Derivative Instruments." 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 and losses, investment gains and losses, other-than-temporary impairments, allocated guaranty fee expense and administrative expenses.

Table 22: Capital Markets Group Results

	For the Year Ended December 31,			Variance	
	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
	(Dollars in millions)				
Net interest income <sup>(1)</sup>	\$9,764	\$13,241	\$13,920	\$(3,477 )	\$(679 )
Investment gains, net <sup>(2)</sup>	4,911	6,217	3,711	(1,306 )	2,506
Net other-than-temporary impairments	(64 )	(711 )	(306 )	647	(405 )
Fair value gains (losses), net <sup>(3)</sup>	3,148	(3,041 )	(6,596 )	6,189	3,555
Fee and other income	3,010	717	478	2,293	239
Other expenses <sup>(4)</sup>	(1,627 )	(2,098 )	(2,253 )	471	155
Income before federal income taxes	19,142	14,325	8,954	4,817	5,371
Benefit (provision) for federal income taxes <sup>(5)</sup>	8,381	(124 )	45	8,505	(169 )
Net income attributable to Fannie Mae	\$27,523	\$14,201	\$8,999	\$13,322	\$5,202

<sup>(1)</sup> Includes contractual interest income, excluding recoveries, on nonaccrual loans received from the Single-Family segment of \$3.8 billion, \$5.2 billion and \$6.6 billion for the years ended December 31, 2013, 2012 and 2011, 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.

<sup>(2)</sup> 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.

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

<sup>(4)</sup> Includes allocated guaranty fee expense, debt extinguishment gains (losses), net, administrative expenses, and other income (expenses). 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.

<sup>(5)</sup> The benefit for 2013 primarily represents the release 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.

2013 compared with 2012

Pre-tax income increased in 2013 compared with 2012 primarily due to fair value gains in 2013 compared with fair value losses in 2012, an increase in fee and other income and a decrease in net other-than-temporary impairments.

These factors were partially offset by a decrease in net interest income and a decrease in investment gains. Fair value gains in 2013 were primarily driven by fair value gains on our risk management derivatives. The derivatives fair value gains and losses that are reported for the Capital Markets group are consistent with the gains and losses reported in our



consolidated statement of operations and comprehensive income (loss). We discuss our derivatives fair value gains and losses in “Consolidated Results of Operations—Fair Value Gains (Losses), Net.”

Fee and other income increased in 2013 compared with 2012 primarily as a result of funds we received in 2013 pursuant to settlement agreements resolving certain lawsuits relating to private-label mortgage-related securities sold to us. See “Legal Proceedings—FHFA Private-Label Mortgage-Related Securities Litigation” for additional information. In addition, we recognized higher yield maintenance fees in 2013 related to large multifamily loan prepayments during the year.

Net other-than-temporary impairments in 2013 decreased compared with 2012. The net other-than-temporary impairments that are reported for the Capital Markets group are consistent with the amounts reported in our consolidated statement of operations and comprehensive income (loss). We discuss our net-other-than-temporary impairment in “Consolidated Results of Operations—Other-Than-Temporary Impairment of Investment Securities.” The decrease in net interest income in 2013 compared with 2012 was primarily due to a decrease in the balance of our retained mortgage-related assets as we continued to reduce our retained mortgage portfolio pursuant to the requirements of our senior preferred stock purchase agreement with Treasury. In addition, during 2013, we sold \$21.7 billion of non-agency mortgage-related assets to meet an objective of FHFA’s 2013 conservatorship scorecard. See “The Capital Markets Group’s Mortgage Portfolio” for additional information on our retained mortgage portfolio. 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 11: 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 \$767 million in 2013 compared with a decrease of \$1.4 billion in 2012.

Investment gains decreased in 2013 compared with 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 2013. The decrease in gains during 2013 was partially offset by gains on sales of non-agency mortgage-related securities.

Net income in 2013 included a benefit for federal income taxes that primarily represents the release 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-related assets. See “Note 10, Income Taxes” for additional information.

2012 compared with 2011

Net income increased in 2012 compared with 2011, primarily due to a decrease in fair value losses and an increase in investment gains, partially offset by a decrease in net interest income and an increase in net other-than-temporary impairments.

Fair value losses decreased in 2012 compared with 2011 primarily due to a decrease in risk management derivatives fair value losses.

Investment gains increased in 2012 compared with 2011 primarily due to a higher volume of portfolio securitizations. In 2012, historically low interest rates and continued high acquisitions of HARP loans contributed to elevated portfolio securitization volumes.

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 in 2018. Under the agreement, the maximum allowable amount of mortgage assets we were permitted to own as of December 31, 2013 was \$552.5 billion. The cap on our mortgage assets will decrease to \$469.6 billion as of December 31, 2014. As we reduce the size of our retained mortgage portfolio, our revenues generated by

our retained mortgage portfolio will decrease. As of December 31, 2013, we owned \$490.7 billion in mortgage assets, compared with \$633.1 billion as of December 31, 2012. Additionally, FHFA's 2013 conservatorship scorecard included an objective 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 2013, we sold \$21.7 billion of non-agency mortgage-related assets in accordance with this objective. For additional information on the terms of the senior preferred stock purchase agreement with Treasury, see "Business—Conservatorship and Treasury Agreements—Treasury Agreements." For additional information on FHFA's 2013 conservatorship scorecard objectives, see "Executive Compensation—Compensation Discussion and Analysis—Determination of 2013 Compensation—Assessment of Corporate Performance on 2013 Conservatorship Scorecard."

Table 23 displays our Capital Markets group's mortgage portfolio activity for the periods indicated.

Table 23: Capital Markets Group's Mortgage Portfolio Activity<sup>(1)</sup>

	For the Year Ended December 31,	
	2013	2012
	(Dollars in millions)	
Mortgage loans:		
Beginning balance	\$371,708	\$398,271
Purchases	232,582	261,463
Securitizations <sup>(2)</sup>	(207,437 )	(211,455 )
Liquidations and sales <sup>(3)</sup>	(82,189 )	(76,571 )
Mortgage loans, ending balance	314,664	371,708
Mortgage securities:		
Beginning balance	261,346	310,143
Purchases <sup>(4)</sup>	36,848	26,874
Securitizations <sup>(2)</sup>	207,437	211,455
Sales	(278,421 )	(224,208 )
Liquidations <sup>(3)</sup>	(51,173 )	(62,918 )
Mortgage securities, ending balance	176,037	261,346
Total Capital Markets mortgage portfolio	\$490,701	\$633,054

(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, and lender repurchases.

(4) Includes purchases of Fannie Mae MBS issued by consolidated trusts.

Table 24 displays the composition of the Capital Markets group's mortgage portfolio as of December 31, 2013 and 2012.

Table 24: Capital Markets Group's Mortgage Portfolio Composition<sup>(1)</sup>

	As of December 31,	
	2013	2012
	(Dollars in millions)	
Capital Markets group's mortgage loans:		
Single-family loans:		
Government insured or guaranteed	\$39,399	\$40,886
Conventional:		
Long-term, fixed-rate	215,945	240,791
Intermediate-term, fixed-rate	8,385	10,460
Adjustable-rate	13,171	18,008
Total single-family conventional	237,501	269,259
Total single-family loans	276,900	310,145
Multifamily loans:		
Government insured or guaranteed	267	312
Conventional:		
Long-term, fixed-rate	2,687	3,245
Intermediate-term, fixed-rate	27,325	45,662
Adjustable-rate	7,485	12,344
Total multifamily conventional	37,497	61,251
Total multifamily loans	37,764	61,563
Total Capital Markets group's mortgage loans	314,664	371,708
Capital Markets group's mortgage-related securities:		
Fannie Mae	129,841	183,964
Freddie Mac	8,124	11,274
Ginnie Mae	899	1,049
Alt-A private-label securities	11,153	17,079
Subprime private-label securities	12,322	15,093
CMBS	3,983	20,587
Mortgage revenue bonds	6,319	8,486
Other mortgage-related securities	3,396	3,814
Total Capital Markets group's mortgage-related securities <sup>(2)</sup>	176,037	261,346
Total Capital Markets group's mortgage portfolio	\$490,701	\$633,054

<sup>(1)</sup> Based on unpaid principal balance.

<sup>(2)</sup> The fair value of these mortgage-related securities was \$179.5 billion and \$269.9 billion as of December 31, 2013 and 2012, respectively.

The Capital Markets group's mortgage portfolio decreased 22% as of December 31, 2013 compared with as of December 31, 2012, primarily due to a decline in purchases, and an increase in sales activity. Sales activity increased in 2013 compared with 2012, primarily due to our sales of mortgage-related assets to meet FHFA's 2013 conservatorship scorecard objective to sell 5% of the non-agency mortgage-related assets held in our retained mortgage portfolio as of December 31, 2012. Purchases declined due to fewer purchases of delinquent loans from our MBS trusts in 2013 and a decrease in new loan purchases as a result of increases in mortgage interest rates in the second half of the year.

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 the senior preferred stock purchase agreement with Treasury. We purchased approximately 183,000 delinquent loans with an unpaid principal balance of \$27.9 billion from our single-family MBS trusts in 2013. As of December 31, 2013, the total unpaid principal balance of all loans in single-family MBS trusts that were delinquent as to four or more consecutive monthly payments was \$2.2 billion. As a result of purchasing these delinquent loans and our retained mortgage portfolio decreasing to meet the requirements of the senior preferred stock purchase agreement and FHFA's scorecard objective, an increasing portion of the Capital Markets group's mortgage portfolio is comprised of loans restructured in a TDR and nonaccrual loans. The total unpaid principal balance of TDRs that were on accrual status was \$136.2 billion or 28% of the Capital Markets group's mortgage portfolio as of December 31, 2013, compared with \$130.2 billion or 21% of the Capital Markets group's mortgage portfolio as of December 31, 2012. The population of nonaccrual loans was \$75.0 billion or 15% of the Capital Markets group's mortgage portfolio as of December 31, 2013, compared with \$100.2 billion or 16% of the Capital Markets group's mortgage portfolio as of December 31, 2012.

#### CONSOLIDATED BALANCE SHEET ANALYSIS

We seek to structure the composition of our balance sheet and manage its size to comply with our regulatory requirements, to provide adequate liquidity to meet our needs, and to mitigate our interest rate risk and credit risk exposure. The major asset components of our consolidated balance sheets include our mortgage investments and our cash and other investments portfolio. We fund and manage the interest rate risk on these investments through the issuance of debt securities and the use of derivatives. Our debt securities and derivatives represent the major liability components of our consolidated balance sheets.

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

Table 25 displays a summary of our consolidated balance sheets as of the dates indicated.

Table 25: Summary of Consolidated Balance Sheets

	As of December 31,		Variance
	2013	2012	
	(Dollars in millions)		
<b>Assets</b>			
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	\$58,203	\$53,617	\$4,586
Restricted cash	28,995	67,919	(38,924 )
Investments in securities <sup>(1)</sup>	68,939	103,876	(34,937 )
<b>Mortgage loans:</b>			
Of Fannie Mae	300,508	355,936	(55,428 )
Of consolidated trusts	2,769,578	2,652,265	117,313
Allowance for loan losses	(43,846 )	(58,795 )	14,949
Mortgage loans, net of allowance for loan losses	3,026,240	2,949,406	76,834
Deferred tax assets, net	47,560	—	47,560
Other assets <sup>(2)</sup>	40,171	47,604	(7,433 )
<b>Total assets</b>	<b>\$3,270,108</b>	<b>\$3,222,422</b>	<b>\$47,686</b>
<b>Liabilities and equity</b>			
<b>Debt:</b>			
Of Fannie Mae	\$529,434	\$615,864	\$(86,430 )
Of consolidated trusts	2,705,089	2,573,653	131,436
Other liabilities <sup>(3)</sup>	25,994	25,681	313
<b>Total liabilities</b>	<b>3,260,517</b>	<b>3,215,198</b>	<b>45,319</b>
Senior preferred stock	117,149	117,149	—
Other deficit <sup>(4)</sup>	(107,558 )	(109,925 )	2,367
<b>Total equity</b>	<b>9,591</b>	<b>7,224</b>	<b>2,367</b>
<b>Total liabilities and equity</b>	<b>\$3,270,108</b>	<b>\$3,222,422</b>	<b>\$47,686</b>

Includes \$16.3 billion as of December 31, 2013 and \$18.0 billion as of December 31, 2012 of

- (1) non-mortgage-related securities that are included in our other investments portfolio, which we present in “Table 35: 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 December 31, 2013 compared with the balance as of December 31, 2012, resulting from a decrease in unscheduled payments received due to lower payoff volumes in December 2013 compared with December 2012.

#### Investments in Mortgage-Related Securities

Our investments in mortgage-related securities are classified in our consolidated balance sheets as either trading or available-for-sale and are measured at fair value. Table 26 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 (which we refer to as “wraps”).

Table 26: Summary of Mortgage-Related Securities at Fair Value

	As of December 31,		
	2013	2012	2011
	(Dollars in millions)		
Mortgage-related securities:			
Fannie Mae	\$12,443	\$16,683	\$24,274
Freddie Mac	8,681	12,173	15,555
Ginnie Mae	995	1,188	1,189
Alt-A private-label securities	8,865	12,405	13,032
Subprime private-label securities	8,516	8,766	8,866
CMBS	4,324	22,923	24,437
Mortgage revenue bonds	5,821	8,517	10,978
Other mortgage-related securities	2,988	3,271	3,601
Total	\$52,633	\$85,926	\$101,932

The decrease in mortgage-related securities in 2013 was primarily due to the sale of \$20.4 billion of non-agency mortgage-related securities to meet an objective of FHFA’s 2013 conservatorship scorecard. In addition, in 2013 we continued to reduce our investments in agency MBS as we managed the portfolio reduction requirement of the senior preferred stock purchase agreement. See “Business Segment Results—Capital Markets Group Results—The Capital Markets Group’s Mortgage Portfolio” for additional information related to the reduction in 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 December 31, 2013 and 2012.

#### Mortgage Loans

The mortgage loans reported in our consolidated balance sheets include loans owned by Fannie Mae and loans held in consolidated trusts and are classified as either held for sale or held for investment. The increase in the balance of mortgage loans, net of the allowance for loan losses, as of December 31, 2013 compared with the balance as of December 31, 2012 was primarily driven by an increase in mortgage loans held for investment due to securitization activity from our lender swap and portfolio securitization programs and a decrease in our allowance for loan losses. For additional information on our mortgage loans, see “Note 3, Mortgage Loans” and for changes in our allowance for loan losses, see “Consolidated Results of Operations—Credit-Related (Income) Expense.” 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.

The increase in our deferred tax assets in 2013 was primarily driven by the release of the substantial majority of the valuation allowance against our deferred tax assets. For additional information on the release of our valuation allowance against our deferred tax assets and our net deferred tax assets, see “Critical Accounting Policies and Estimates—Deferred Tax Assets” and “Note 10, Income Taxes.”

#### Debt

Debt of Fannie Mae is the primary means of funding our mortgage investments. Debt of consolidated trusts represents the amount of Fannie Mae MBS issued from consolidated trusts and held by third-party certificateholders. 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.

The decrease in debt of Fannie Mae in 2013 was primarily driven by lower funding needs, as our retained mortgage portfolio decreased. The increase in the balance of debt of consolidated trusts as of December 31, 2013 compared with the balance as of December 31, 2012 was primarily driven by securitization activity from our lender swap and portfolio securitization programs and sales of Fannie Mae MBS, which are accounted for as reissuances of debt of consolidated trusts in our consolidated balance sheets, since the MBS certificate ownership is transferred from us to a third party.

#### Stockholders' Equity

Our net equity increased as of December 31, 2013 compared with December 31, 2012. See “Table 27: 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 27 summarizes changes in our stockholders' equity reported in our GAAP consolidated balance sheets and in the estimated fair value of our net assets in our non-GAAP consolidated fair value balance sheets for the year ended December 31, 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 18, Fair Value.”

Table 27: Comparative Measures—GAAP Change in Stockholders' Equity and Non-GAAP Change in Fair Value of N