FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-K
February 20, 2015

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, 2014
Commission File No.: 0-50231
Federal National Mortgage Association
(Exact name of registrant as specified in its charter)
Fannie Mae

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

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

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

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

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

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

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

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

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

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

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

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant computed by reference to the last reported sale price of the common stock quoted on the OTC Bulletin Board on June 30, 2014 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $4.5 billion.

As of January 31, 2015, there were 1,158,082,750 shares of common stock of the registrant outstanding.

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TABLE REFERENCE

PART I

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

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

Item 1. Business

INTRODUCTION

Fannie Mae is a government-sponsored enterprise ("GSE") that was chartered by Congress in 1938. We serve an essential role in the functioning of the U.S. housing market and are investing in improvements to the U.S. housing finance system. Our public mission is to support liquidity and stability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold, and to increase the supply of affordable housing. Our charter does not permit us to originate loans or lend money directly to consumers in the primary mortgage market.

Fannie Mae provides reliable, large-scale access to affordable mortgage credit and indirectly enables families to buy, refinance or rent homes. We securitize mortgage loans originated by lenders into Fannie Mae mortgage-backed securities that we guarantee, which we refer to as Fannie Mae MBS. One of our key functions is to evaluate, price and manage the credit risk on the loans and securities that we guarantee. We also purchase mortgage loans and mortgage-related securities, primarily for securitization and sale at a later date. We use the term "acquire" in this report to refer to both our securitizations and our purchases of mortgage-related assets. We obtain funds to support our business activities by issuing a variety of debt securities in the domestic and international capital markets, which attracts global capital to the United States housing market.

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 include covenants that significantly restrict our business activities and provide for dividends to accrue at a rate equal to our net worth less a capital reserve amount, which continues to decrease annually until it reaches zero, allowing us to retain only a limited and decreasing amount of our net worth. 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 housing finance 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.

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EXECUTIVE SUMMARY

Please read this Executive Summary together with our MD&A and our consolidated financial statements as of December 31, 2014 and related notes to the consolidated financial statements.

Our Strategy

We are focused on:

- achieving strong financial and credit performance;
- supporting the housing recovery by providing reliable, large-scale access to affordable mortgage credit for qualified borrowers and helping struggling homeowners;
- serving customer needs and improving our business efficiency; and
- helping to build a sustainable housing finance system.

Achieving strong financial and credit performance

We continued to achieve strong financial and credit performance in 2014:

- Financial Performance. We reported net income of $14.2 billion and pre-tax income of $21.1 billion in 2014, compared with net income of $84.0 billion and pre-tax income of $38.6 billion in 2013. See "Summary of Our Financial Performance" below for an overview of our 2014 financial performance. We expect to remain profitable on an annual basis for the foreseeable future; however, certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year. For more information regarding our expectations for our future financial performance, see "Outlook—Financial Results" and "Outlook—Revenues" below.
- Dividend Payments to Treasury. With our expected March 2015 dividend payment to Treasury, we will have paid a total of $136.4 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. See "Treasury Draws and Dividend Payments" and "Outlook—Dividend Obligations to Treasury" below for more information regarding our dividend payments to Treasury.
- Book of Business and Credit Performance. Beginning in 2008, we made changes to strengthen our underwriting and eligibility standards that have improved the credit quality of our single-family guaranty book of business, and contributed to improvement in our credit performance. Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010, and was 1.89% as of December 31, 2014, compared with 2.38% as of December 31, 2013. Single-family seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. See "Single-Family Guaranty Book of Business" below for information on the credit performance of the mortgage loans in our single-family guaranty book of business and on our single-family acquisitions for each of the last five years.

Our business model has changed significantly since we entered into conservatorship in 2008 and continues to evolve. To meet the requirements of our senior preferred stock purchase agreement with Treasury, our retained mortgage portfolio has declined substantially since entering conservatorship and will continue to decline until 2018, which has resulted in, and is expected to continue to result in, declines in our revenues from our retained mortgage portfolio assets. In addition, the amount of guaranty fee income we receive for managing the credit risk of loans in our book of business has increased significantly since entering into conservatorship and we expect will continue to increase. See "Outlook—Revenues" for more information on the shift in, and future expectations regarding, the sources of our revenue.

Our business also continues to evolve as a result of our efforts to build a safer and sustainable housing finance system and to pursue the strategic goals identified by our conservator. For example, we have begun to transfer a portion of the existing credit risk on our single-family guaranty book of business in order to reduce the risk to taxpayers of future borrower defaults, and we expect to continue engaging in economically sensible ways to expand our offerings of credit risk transfer transactions in the future. See "Helping to Build a Sustainable Housing Finance System" for a discussion of our credit risk transfer transactions and other efforts to build a safer and sustainable housing finance system.

We remain under conservatorship and subject to the restrictions of the senior preferred stock purchase agreement with Treasury. As a result of the senior preferred stock purchase agreement and directives from our conservator, we are not permitted to retain our net worth (other than a limited amount that will decrease to zero by 2018), rebuild our capital position

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or pay dividends or other distributions to stockholders other than Treasury. See "Conservatorship and Treasury Agreements" for more information regarding our conservatorship and our senior preferred stock purchase agreement with Treasury. In addition, the future of our company remains uncertain. Congress continues to consider options for reform of the housing finance system, including the GSEs, and we cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation. See "Housing Finance Reform" for information on recent proposals for housing finance reform.

Supporting the housing recovery by providing reliable, large-scale access to affordable mortgage credit for qualified borrowers and helping struggling homeowners

We continued our efforts to support the housing recovery in 2014. We remained the largest single issuer of mortgage-related securities in the single-family secondary market in 2014 and a continuous source of liquidity in the multifamily market. We also continued to help struggling homeowners. In 2014, we provided approximately 165,000 loan workouts to help homeowners stay in their homes or otherwise avoid foreclosure. We discuss our activities to support the housing and mortgage markets in "Contributions to the Housing and Mortgage Markets" below.

Serving customer needs and improving our business efficiency

We are undertaking various initiatives to better serve our customers' needs and improve our business efficiency, including: revising and clarifying our representation and warranty framework to reduce lenders' repurchase risk; simplifying our business processes; and updating our infrastructure. We discuss these initiatives in "Serving Customer Needs and Improving Our Business Efficiency" below.

Helping to build a sustainable housing finance system

We continued to help lay the foundation for a safer and sustainable housing finance system in 2014. Our efforts included pursuing the strategic goals and objectives identified by our conservator, as well as investing in enhancements to our business and infrastructure. We discuss these efforts in "Helping to Build a Sustainable Housing Finance System" below.

Summary of Our Financial Performance

Comprehensive Income

We recognized comprehensive income of $14.7 billion in 2014, consisting of net income of $14.2 billion and other comprehensive income of $530 million. In comparison, 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. The decrease in comprehensive income was primarily driven by a provision for federal income taxes of $6.9 billion in 2014 compared to a benefit for federal income taxes of $45.4 billion in 2013 primarily due to the release of our valuation allowance against our deferred tax assets in the first quarter of 2013. See "MD&A—Critical Accounting Polices and Estimates—Deferred Tax Assets" for additional information.

Our 2014 pre-tax income was $21.1 billion, compared with $38.6 billion in 2013. The decrease in our pre-tax income was primarily due to a decrease in credit-related income and a shift to fair value losses from fair value gains.

Credit-related income decreased to $3.8 billion in 2014 from $11.8 billion in 2013. This decrease was primarily attributable to home prices increasing at a slower pace in 2014 as compared with 2013. In addition, 2013 credit-related income benefited from foreclosed property income primarily due to the recognition of income related to compensatory fee arrangements.

Fair value losses of $4.8 billion in 2014 were primarily driven by a decline in longer-term swap rates in 2014. Fair value gains of $3.0 billion in 2013 were primarily driven by an increase in longer-term swap rates in 2013.

Our results included pre-tax income of $5.7 billion in each of 2014 and 2013 as a result of resolution agreements we reached relating to private-label mortgage-related securities ("PLS") sold to us, representation and warranty matters, and compensatory fees.

We expect volatility from period to period in our financial results from a number of factors, particularly changes in market conditions that result in fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings. These instruments include derivatives and certain securities. The estimated fair value of our derivatives and securities may fluctuate substantially from period to period because of changes in interest rates, the yield curve, mortgage spreads and implied volatility, as well as activity related to these financial instruments. We use derivatives to manage the interest rate risk exposure of our net portfolio, which consists of our retained mortgage portfolio, cash and other investments portfolio, and our outstanding debt of Fannie Mae. Some of these financial instruments in our net portfolio are not recorded at fair value in our consolidated financial statements, and as a result we may experience accounting gains or losses due to changes in interest rates or other market conditions that may not be indicative of the economic interest rate risk exposure of

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our net portfolio. See “MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management” for more information. In addition, our credit-related income or expense can vary substantially from period to period primarily due to changes in home prices, borrower payment behavior and economic conditions.
See “MD&A—Consolidated Results of Operations” for more information on our results.

Net Worth

Our net worth decreased to $3.7 billion as of December 31, 2014 from $9.6 billion as of December 31, 2013 primarily due to our payments to Treasury of $20.6 billion in senior preferred stock dividends, partially offset by our comprehensive income of $14.7 billion during 2014.

The dividend amount payable to Treasury on the senior preferred stock for each dividend period from January 1, 2013 through and including December 31, 2017 is the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. The capital reserve amount was $2.4 billion for dividend periods in 2014 and further decreased to $1.8 billion for dividend periods in 2015. Our expected dividend payment of $1.9 billion for the first quarter of 2015 is calculated based on our net worth of $3.7 billion as of December 31, 2014 less the applicable capital reserve amount of $1.8 billion.

Single-Family Guaranty Book of Business

Credit Performance

We continued to achieve strong credit performance in 2014. In addition to acquiring loans with strong credit profiles, as we discuss below in “Recently Acquired Single-Family Loans,” we continued to execute on our strategies for reducing credit losses, such as helping eligible Fannie Mae borrowers with high loan-to-value (“LTV”) ratio loans refinance into more sustainable loans through the Obama Administration’s Home Affordable Refinance Program® (“HARP®”), offering borrowers loan modifications that can significantly reduce their monthly payments, pursuing foreclosure alternatives and managing our real estate owned (“REO”) inventory to appropriately manage costs and maximize sales proceeds. As we work to reduce credit losses, we also seek to assist struggling homeowners, help stabilize communities and support the housing market.

Table 1 presents information 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 1 does not reflect repayment plans and forbearances that have been initiated but not completed, nor does it reflect trial modifications that have not become permanent.

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

	2014	2013	2012
	(Dollars in millions)		
As of the end of each period:			
Serious delinquency rate[2]	1.89 %	2.38 %	3.29 %
Seriously delinquent loan count	329,590	418,837	576,591
Foreclosed property inventory:			
Number of properties[3]	87,063	103,229	105,666
Carrying value	$9,745	$10,334	$9,505
Total loss reserves[4]	$37,762	$46,689	$61,396
During the period:			
Credit-related income[5]	$3,625	$11,205	$919
Credit losses[6]	$5,978	$4,452	$14,392
REO net sales prices to unpaid principal balance[7]	69 %	67 %	59 %
Short sales net sales price to unpaid principal balance[8]	72 %	67 %	61 %
Loan workout activity (number of loans):			
Home retention loan workouts[9]	130,132	172,029	186,741
Short sales and deeds-in-lieu of foreclosure	34,480	61,949	88,732
Total loan workouts	164,612	233,978	275,473
Loan workouts as a percentage of delinquent loans in our guaranty book of business	23.20 %	29.20 %	26.38 %

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

(2) Calculated based on the number of single-family conventional loans that are 90 days or more past due and loans that have been referred to foreclosure but not yet foreclosed upon, divided by the number of loans in our single-family conventional guaranty book of business.

(3) 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.

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

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

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

(7) Calculated as the amount of sale proceeds received on disposition of REO properties during the respective periods, excluding those subject to repurchase requests made to our seller 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.

(8) Calculated as the amount of sale proceeds received on properties sold in short sale transactions during the 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.

(9) Consists of (a) modifications (which do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as troubled debt restructurings ("TDRs"), or repayment plans or forbearances that have been initiated but not completed) and (b) repayment plans and forbearances completed. See "Table 40: 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.

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 and contributed to improvement in our credit performance. For information on the credit risk profile of our single-family guaranty book of business, see “MD&A—Risk Management—Credit Risk Management—

Single-Family Mortgage Credit Risk Management,” including “Table 36: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business.”

We continue to experience disproportionately higher credit losses and serious delinquency rates from single-family loans originated in 2005 through 2008 than from loans originated in other years. Single-family loans originated in 2005 through 2008 constituted 12% of our single-family book of business as of December 31, 2014, but constituted 59% of our seriously delinquent loans as of December 31, 2014 and drove 75% of our 2014 credit losses. For information on the credit performance of our single-family book of business based on loan vintage, see “Table 15: Credit Loss Concentration Analysis” in “MD&A—Consolidated Results of Operations—Credit-Related Income—Credit Loss Performance Metrics” and “Table 39: Single-Family Conventional Seriously Delinquent Loan Concentration Analysis” in “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management.” For informatio on certain credit characteristics of our single-family book of business based on the period in which we acquired the loans, see “Table 33: Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period” in “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management.”

We provide additional information on our credit-related expense or income in “Consolidated Results of Operations—Credit-Related Income” 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.

Recently Acquired Single-Family Loans

Table 2 below displays information regarding our average charged guaranty fee on and select risk characteristics of the single-family loans we acquired in each of the last five years. Table 2 also displays the volume of our single-family Fannie Mae MBS issuances for these periods, which is indicative of the volume of single-family loans we acquired in these periods.

Table 2: Single-Family Acquisitions Statistics

	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Single-family average charged guaranty fee on new acquisitions (in basis points)[(1)(2)]	62.9	57.4	39.9	28.8	25.7
Single-family Fannie Mae MBS issuances	$375,676	$733,111	$827,749	$564,606	$603,247
Select risk characteristics of single-family conventional acquisitions:[(3)]					
Weighted average FICO® credit score at origination	744	753	761	762	762
FICO credit score at origination less than 660	7 %	5 %	3 %	2 %	2 %
Weighted average original LTV ratio[(4)]	77 %	76 %	75 %	69 %	68 %
Original LTV ratio over 80%[(4)(5)]	32 %	29 %	25 %	18 %	16 %
Original LTV ratio over 95%[(4)(6)]	4 %	10 %	11 %	4 %	3 %
Loan purpose:					
Purchase	52 %	30 %	21 %	24 %	22 %
Refinance	48 %	70 %	79 %	76 %	78 %

(1) For the periods 2012 forward, includes the impact of a 10 basis point guaranty fee increase implemented in April 2012 pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, the incremental revenue from which must be remitted to Treasury. The resulting revenue is included in guaranty fee income and the expense is recognized in “TCCA fees.”

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

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

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

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

(6) Approximately 79% of the greater than 95% LTV ratio loans we acquired in 2014 were acquired pursuant to HARP. See "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" for information on HARP loans.

As shown in Table 2, our single-family average charged guaranty fee on new acquisitions has increased significantly since 2012, driven by guaranty fee increases implemented in 2012 and increases in loan level price adjustments charged on our acquisitions, as our acquisitions in 2013 and 2014 included a higher proportion of loans with higher LTV ratios and a higher proportion of loans with lower FICO credit scores than our 2010, 2011 and 2012 acquisitions. 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. The guaranty fee increases implemented in 2012 included a 10 basis point increase implemented pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011 (the "TCCA"), the incremental revenue from which must be remitted to Treasury. See "Our Charter and Regulation of Our Activities—Potential Changes to Our Single-Family Guaranty Fee Pricing" for information on potential future changes to our guaranty fee pricing.

The increase in our average charged guaranty fee on newly-acquired single-family loans in 2014 as compared with 2013 was driven primarily by an increase in loan level price adjustments charged on our acquisitions in 2014, as 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 2013 acquisitions. The increase in our acquisitions of loans with higher LTV ratios in 2014 as compared with 2013 was primarily due to a decline in the percentage of our acquisitions consisting of refinance loans and a corresponding increase in the percentage of our acquisitions consisting of home purchase loans, which typically have higher LTV ratios than non-HARP refinance loans. Despite this shift in the credit risk profile of our acquisitions, the single-family loans we acquired in 2014 continued to have a strong credit profile, with a weighted average original LTV ratio of 77% and a weighted average FICO credit score of 744. For more information on the credit risk profile of our single-family conventional loan acquisitions in 2014, 2013 and 2012, see "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management," including "Table 36: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business."

Our single-family acquisition volume and single-family Fannie Mae MBS issuances decreased significantly in 2014 compared with 2013; however, liquidations of loans from our single-family guaranty book of business also declined due to lower refinance activity. Accordingly, the size of our single-family guaranty book of business remained relatively flat.

Whether the loans we acquire in the future will exhibit an overall credit profile and performance similar to our more recent acquisitions will depend on a number of factors, including our future pricing and eligibility standards and those of mortgage insurers, the Federal Housing Administration ("FHA") and the Department of Veterans Affairs ("VA"), the percentage of loan originations representing refinancings, changes in interest rates, our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers, government policy, market and competitive conditions, and the volume and characteristics of HARP loans we acquire in the future. In addition, if our lender customers retain more of the higher-quality loans they originate, it could negatively affect the credit risk profile of our new single-family acquisitions.

Providing Targeted Access to Credit Opportunities for Creditworthy Borrowers

Pursuant to FHFA's 2015 conservatorship scorecard and our statutory mission, we are continuing to work to increase access to mortgage credit for creditworthy borrowers, consistent with the full extent of our applicable credit requirements and risk management practices. As part of this effort, we are encouraging lenders to originate loans across the full range of credit eligibility for those borrowers meeting our credit requirements. Some actions we are taking in this regard include: providing additional clarity regarding seller and servicer representations and warranties and remedies for poor performance; making new quality control tools available to lenders; conducting increased outreach to lenders and other industry stakeholders to increase awareness of our available products and programs; and conducting consumer research to provide industry partners with information to support their efforts to reach underserved market segments.

In addition, in December 2014, we changed our eligibility requirements to increase our maximum LTV ratio for loans to first-time home buyers from 95% to 97%. We previously acquired loans with LTV ratios up to 97% from all lenders, but in late 2013, we changed our eligibility requirements to reduce our maximum LTV ratio to 95% for non-HARP acquisitions from lenders other than housing finance agencies, effective for acquisitions beginning in July 2014. Although higher LTV ratio loans typically present a higher credit risk than lower LTV ratio loans, we believe our acquisition of single-family loans with

95.01% to 97% LTV ratios will not materially affect our overall credit risk due to our requirements for these loans and our expectation that they will constitute a small portion of our overall acquisition volumes. Our requirements for these loans include compensating factors and risk mitigants, which reduce risk layering. For purchase transactions, at least one borrower on the loan must be a first-time home buyer and occupy the property as his or her principal residence. In some cases, we also require the borrower to receive housing counseling before obtaining the loan. Eligibility for refinance transactions is limited to existing Fannie Mae loans to provide support for borrowers who may not otherwise be eligible for our Refi Plus™ initiative. For both purchase and refinance loans, the loans must have fixed-rate terms and must be underwritten through Desktop Underwriter®, our proprietary automated underwriting system. Desktop Underwriter provides a comprehensive credit risk assessment on loan applications submitted through the system, assessing risk layers and compensating factors, and denying loan applications that do not meet our eligibility requirements. We require mortgage insurance or other appropriate credit enhancement for all non-HARP loans with LTV ratios greater than 80%.

To the extent we are able to encourage lenders to increase access to mortgage credit, we may acquire a greater number of single-family loans with higher risk characteristics than we have acquired in the most recent periods; however, we believe our single-family acquisitions will continue to have a strong overall credit risk profile given our current underwriting and eligibility standards and product design. We actively monitor the credit risk profile and credit performance of our single-family loan acquisitions.

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 2014, we continued to provide critical liquidity and support to the U.S. mortgage market in a number of important ways:

- We serve as a stable source of liquidity for purchases of homes and financing of multifamily rental housing, as well as for refinancing existing mortgages. We provided approximately $434 billion in liquidity to the mortgage market in 2014 through our purchases and guarantees of loans and securities. This liquidity enabled borrowers to complete approximately 937,000 mortgage refinancings and approximately 887,000 home purchases, and provided financing for approximately 446,000 units of multifamily housing.
- Our role in the market enables qualified borrowers to have reliable access to affordable mortgage credit, including a variety of conforming mortgage products such as the prepayable 30-year fixed-rate mortgage that protects homeowners from fluctuations in interest rates.
- We provided approximately 165,000 loan workouts in 2014 to help homeowners stay in their homes or otherwise avoid foreclosure. Our loan workout efforts have helped to stabilize neighborhoods, home prices and the housing market.
- We helped borrowers refinance loans, including through our Refi Plus initiative, which offers additional refinancing flexibility to eligible borrowers who are current on their loans and whose loans are owned or guaranteed by us and meet certain additional criteria. We acquired approximately 302,000 Refi Plus loans in 2014. Refinancings delivered to us through Refi Plus in the fourth quarter of 2014 reduced borrowers' monthly mortgage payments by an average of $172.
- We support affordability in the multifamily rental market. Over 85% of the multifamily units we financed in 2014 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 "Business Segments—Capital Markets."

2014 Market Share

We estimate that our single-family market share was 32% in 2014, compared with 39% in 2013. 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 2014, with an estimated market share of new single-family mortgage-related securities issuances of 40%, compared with 38%

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in the third quarter of 2014 and 46% in the fourth quarter of 2013. For all of 2014, we estimate our market share of new single-family mortgage-related securities issuances was 40%, compared with 47% for 2013.

We remained a continuous source of liquidity in the multifamily market in 2014. We owned or guaranteed approximately 19% of the outstanding debt on multifamily properties as of September 30, 2014 (the latest date for which information is available).

Serving Customer Needs and Improving Our Business Efficiency

We are undertaking various initiatives to better serve our customers' needs and improve our business efficiency. We are committed to providing our lender partners with the products, services and tools they need to serve the market efficiently and profitably. To further this commitment, we are focused on revising and clarifying our representation and warranty framework to reduce lenders' repurchase risk, and making our customers' interactions with us simpler and more efficient.

We have taken several actions in recent years to improve our representation and warranty framework and help lenders reduce their repurchase risk relating to loans they deliver to us, including:

- Revising our representation and warranty framework in 2013 to limit our ability to require lenders to repurchase loans for breaches of certain selling representations and warranties, effective for loans delivered on or after January 1, 2013 that have had 36 timely payments (or 12 timely payments for Refi Plus loans) and meet other eligibility requirements. We further revised our representation and warranty framework in 2014 to relax the timely payment requirement effective for conventional loans delivered on or after July 1, 2014 to permit two instances of 30-day delinquency, and to allow loans to qualify for relief after satisfactory conclusion of a quality control review.
- Providing lenders with greater clarity on the circumstances that would result in a loan repurchase request. For example, in November 2014, we issued a lender announcement updating and clarifying aspects of our new representation and warranty framework, particularly relating to the "life of loan" representations and warranties that are not eligible for repurchase relief.
- Expediting our review of newly acquired performing loans to identify loan defects earlier, and making more frequent use of the alternatives to repurchase specified in our Selling Guide.
- Offering lenders new, innovative tools to help them ensure the quality of the loans they deliver to us. These tools include EarlyCheck™, which enables early validation of loan delivery eligibility, allowing lenders to make corrections and avoid the delivery of ineligible loans, and Collateral Underwriter™, which gives lenders access to the same appraisal review tool we use so that they can address potential appraisal issues prior to delivery of the loan to us.
- Providing lenders with training and feedback to help them resolve origination issues and reduce loan origination defects.

We believe these actions have significantly reduced uncertainty surrounding lenders' repurchase risk relating to loans they deliver to us, and our intention is that these actions will encourage lenders to safely expand their lending to a wider range of qualified borrowers. We continue to consider new ways to reduce or clarify lenders' repurchase risk. See "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" for further discussion of changes to our representation and warranty framework and actions we have taken to reduce and clarify lenders' repurchase risk.

We are also working on a multi-year effort to improve our business efficiency and agility through simplification of our business processes and enhancements to our infrastructure. Many of these improvements are also designed to enhance our customers' experience when doing business with us, including making our customers' interactions with us simpler and more efficient. These efforts include replacing some of our systems with simpler, more automated infrastructure that will enable us to more efficiently process transactions and manage our book of business, as well as to better adapt to industry and regulatory changes in the future. We are also working on implementing infrastructure improvements to support the integration of our business with the common securitization platform and our ability to issue a single common security, which we describe below under "Helping to Build a Sustainable Housing Finance System."

Helping to Build a Sustainable Housing Finance System

We have invested significant resources towards helping to build a safer and sustainable housing finance system, primarily through pursuing the strategic goals identified by our conservator. FHFA's current strategic goals are to:

- Maintain, in a safe and sound manner, credit availability and foreclosure prevention activities for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets.
- Reduce taxpayer risk through increasing the role of private capital in the mortgage market.
- Build a new single-family securitization infrastructure for use by Fannie Mae and Freddie Mac and adaptable for use by other participants in the secondary market in the future.

Beginning in 2012, FHFA has released annual corporate performance objectives for Fannie Mae and Freddie Mac, referred to as the conservatorship scorecard, which detail specific priorities for implementing FHFA's strategic goals. FHFA released its 2014 conservatorship scorecard in May 2014, and its 2015 conservatorship scorecard in January 2015. Both FHFA's 2014 and 2015 conservatorship scorecards include objectives designed to further the goal of reforming the housing finance system. We describe below some of the initiatives we are undertaking pursuant to the mandates of the scorecards in order to build the policies and infrastructure for a sustainable housing finance system.

Representation and Warranty Framework. FHFA's 2014 and 2015 conservatorship scorecards include an objective relating to improving the representation and warranty framework for mortgage originations. We discuss actions we have taken to improve this framework and reduce lenders' repurchase risk relating to loans they deliver to us under "Serving Customer Needs and Improving Our Business Efficiency" above.

Credit Risk Transfer Transactions. FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to credit risk transfer transactions. The goal of these transactions is, to the extent economically sensible, to transfer a limited portion of the existing credit risk on a portion of our single-family guaranty book of business in order to reduce the risk to taxpayers of future borrower defaults. We completed a total of five Connecticut Avenue Securities™ ("CAS") credit risk transfer transactions in 2013 and 2014, which transferred some of the credit risk on single-family mortgages with an unpaid principal balance of $249.0 billion. While these transactions have been relatively small compared to our overall mortgage credit risk exposure, we believe they have attracted broad interest in the private market. We currently intend to complete additional CAS transactions in 2015. In addition to our CAS transactions, we executed additional types of risk sharing transactions in 2014. We expect to continue engaging in economically sensible ways to expand our offerings of credit risk transfer transactions in the future. See "Business Segments—Single-Family Business—Single-Family Credit Risk Transfer Transactions" and "MD&A—Risk Management—Credit Risk Management" for more information on these transactions.

Mortgage Insurance. FHFA's 2014 conservatorship scorecard includes an objective relating to finalizing mortgage insurance master policies and enhanced mortgage insurer eligibility requirements. FHFA's 2015 conservatorship scorecard includes an objective relating to implementing final mortgage insurer eligibility requirements. These reforms are intended to strengthen our mortgage insurer counterparties and reduce the risk to taxpayers of future defaults by mortgage insurers on their obligations to the GSEs. See "MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management" for a description of these new policies and requirements.

Common Securitization Platform. FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to the development of a common securitization platform that is intended to replace certain elements of Fannie Mae's and Freddie Mac's proprietary systems for securitizing mortgages and performing associated back office and administrative functions. In October 2013, Fannie Mae and Freddie Mac established Common Securitization Solutions, LLC ("CSS"), a jointly owned limited liability company formed to design, develop, build and ultimately operate the platform. We continue to work with FHFA, Freddie Mac and CSS on building and testing the common securitization platform, as well as on implementing required changes to our systems and operations to integrate with the common securitization platform. We expect it will be a number of years before CSS will have sufficient operational capabilities to serve its intended purpose as a common securitization platform for us and Freddie Mac. See "Housing Finance Reform—Conservator Developments" for more information on the progress of the common securitization platform initiative.

Single Common Security. FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to the development of a single common mortgage-backed security for Fannie Mae and Freddie Mac. FHFA believes a single common security would increase liquidity in the housing finance market. The development of the single common security is expected to be a multi-year initiative. See "Housing Finance Reform—Conservator Developments" for information on FHFA's single security proposal and "Risk Factors" for a discussion of the risks to our business associated with a single common security for Fannie Mae and Freddie Mac.

Mortgage Data Standardization Initiatives. FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to support of mortgage data standardization initiatives. These initiatives are designed to improve the accuracy and quality of loan data through the mortgage lifecycle with the development and implementation of the uniform data standards for single-family mortgages.

For more information on FHFA's 2014 conservatorship scorecard objectives and our performance against these objectives, see "Executive Compensation—Compensation Discussion and Analysis—Determination of 2014 Compensation—Assessment of Corporate Performance on 2014 Conservatorship Scorecard." For more information on FHFA's 2015 conservatorship scorecard objectives, see our Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC") on January 20, 2015.

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. These projects will likely take a number of years to implement. See "Serving Customer Needs and Improving Our Business Efficiency" above for a description of some of these initiatives.

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.

Treasury Draws and Dividend Payments

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 by our conservator to pay these dividends to Treasury each quarter even when we did not have sufficient income to pay the dividend. We have not received funds from Treasury under the agreement since the first quarter of 2012. As of the date of this filing, the maximum amount of remaining funding under the agreement is $117.6 billion.

From 2008 through 2014, we paid a total of $134.5 billion in dividends to Treasury on the senior preferred stock. Under the terms of the senior preferred stock purchase agreement, dividend payments do not offset prior Treasury draws, and we are not permitted to pay down draws we have made under the agreement except in limited circumstances. Accordingly, the current aggregate liquidation preference of the senior preferred stock is $117.1 billion, due to the initial $1.0 billion liquidation preference of the senior preferred stock (for which we did not receive cash proceeds) and the $116.1 billion we have drawn from Treasury.

The Director of FHFA directs us on a quarterly basis to make dividend payments on the senior preferred stock. In March 2015, we expect to pay Treasury additional senior preferred stock dividends of $1.9 billion for the first quarter of 2015.

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 final content of housing finance reform legislation. See "Housing Finance Reform" for a discussion of proposals for reform of the housing finance system, including the GSEs, that could materially affect our business, including proposals to wind down Fannie Mae and Freddie Mac. See "Risk Factors" 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 2014, with pre-tax income of $21.1 billion and net income of $14.2 billion. We expect to remain profitable on an annual basis for the foreseeable future; however, we expect our earnings in future years will be substantially lower than our earnings for 2014, primarily due to our expectation of substantially lower income from resolution agreements, continued declines in net interest income from our retained mortgage portfolio assets and lower credit-related income. In addition, certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year. Our future financial results also will be affected by a number of other factors, including: our guaranty fee rates; the volume of single-family mortgage originations in the future; the size, composition and quality of our retained mortgage portfolio and guaranty book of business;

and economic and housing market conditions. Our expectations for our future financial results do not take into account the impact on our business of potential future legislative or regulatory changes, which could have a material impact on our financial results, particularly the enactment of housing finance reform legislation as noted in "Uncertainty Regarding our Future Status" above.

As noted under "Dividend Obligations to Treasury" below, under the terms of the senior preferred stock, our capital reserve will decline by $600 million each year until it reaches zero in 2018. Although we expect to remain profitable on an annual basis for the foreseeable future, due to our declining capital reserve, our expectation of substantially lower earnings in future years than our earnings for 2014, and the potential for significant volatility in our financial results, we could experience a net worth deficit in a future quarter, particularly as our capital reserve approaches zero. If that were to occur, we would be required to draw additional funds from Treasury under the senior preferred stock purchase agreement in order to avoid being placed into receivership. See "Risk Factors" for a discussion of the risks associated with our declining capital reserves.

Revenues. We currently have two primary sources of revenues: (1) the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties; and (2) the difference between interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets. Our "retained mortgage portfolio" refers to the mortgage-related assets we own (which excludes the portion of assets held by consolidated MBS trusts that back mortgage-related securities owned by third parties). In recent years, an increasing portion of our net interest income has been derived from guaranty fees rather than from our retained mortgage portfolio assets, due to the shrinking of our retained mortgage portfolio and the impact of guaranty fee increases. We estimate that the portion of our net interest income derived from guaranty fees on loans underlying our Fannie Mae MBS increased from more than one-third in 2013 to approximately half in 2014. We expect that guaranty fees will continue to account for an increasing portion of our net interest income.

The decrease in the balance of mortgage assets held in our retained mortgage portfolio contributed to a decline in our net interest income and revenues in 2014 as compared with 2013. 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 partially offset the negative impact of the decline in our retained mortgage portfolio. We expect our guaranty fee revenues to increase over the long term, as loans with lower guaranty fees liquidate from our book of business and are replaced with new loans with higher guaranty fees. The extent to which the positive impact of increased guaranty fee revenues will offset the negative impact of the decline in the size of our retained mortgage portfolio will depend on many factors, including: changes to guaranty fee pricing we may make in the future, including any directive we receive from FHFA to change our guaranty fee pricing; 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, including the pace at which we are required by our conservator to reduce the size of our portfolio and the types of assets we are required to sell; economic and housing market conditions, including changes in interest rates; our market share; and legislative and regulatory changes.

Dividend Obligations to Treasury. We expect to retain only a limited amount of any future net worth because we are required by the dividend provisions of the senior preferred stock and quarterly directives from our conservator to pay Treasury each quarter the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. This capital reserve amount is $1.8 billion for each quarter of 2015 and continues to decrease by $600 million annually until it reaches zero in 2018.

As described in "Legal Proceedings" and "Note 19, Commitments and Contingencies," 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, including challenges to the net worth sweep dividend provisions of the senior preferred stock. 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.

Overall Market Conditions. We expect that single-family mortgage loan serious delinquency and severity rates will continue their downward trend, but at a slower pace than in recent years. We expect that single-family serious delinquency and severity rates will remain high compared with pre-housing crisis levels because it will take some time for the remaining delinquent loans with high mark-to-market LTV ratios originated prior to 2009 to work their way

through the foreclosure process. 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 forecast that total originations in the U.S. single-family mortgage market in 2015 will increase from 2014 levels by approximately 7% from an estimated $1.19 trillion in 2014 to $1.28 trillion in 2015, and that the amount of originations in the

U.S. single-family mortgage market that are refinancings will increase from an estimated $516 billion in 2014 to $574 billion in 2015.

Home Prices. Based on our home price index, we estimate that home prices on a national basis increased by 4.7% in 2014. We expect a lower rate of home price appreciation in 2015 than in 2014. Future home price changes may be very different from our expectations as a result of significant inherent uncertainty in the current market environment, including uncertainty about the effect of recent and future changes in mortgage rates; actions the federal government has taken and may take with respect to fiscal policies, mortgage finance programs and policies, and housing finance reform; the Federal Reserve’s purchases and sales of mortgage-backed securities; the impact of those actions on and changes generally in unemployment and the general economic and interest rate environment; and the impact on the U.S. economy of global economic and political conditions. We also expect significant regional variation in the timing and rate of home price growth.

Credit Losses. Our credit losses, which include our charge-offs, net of recoveries, reflect our realization of losses on our loans. Our credit losses were $5.9 billion in 2014, up from $4.5 billion in 2013 and down from $14.6 billion in 2012. Our credit losses increased in 2014 compared with 2013 primarily due to a lower level of credit loss recoveries in 2014 compared with 2013. We expect our credit losses in 2015 will be higher than 2014 levels because we expect our approach to implementing the charge-off provisions of FHFA’s Advisory Bulletin AB 2012-02 in 2015 will increase our credit losses for 2015 from what they otherwise would be. 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 $38.2 billion as of December 31, 2014, down from $47.3 billion as of December 31, 2013. As described in “Our Charter and Regulation of Our Activities—FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans,” our approach to implementing the charge-off provisions of FHFA’s Advisory Bulletin AB 2012-02 on January 1, 2015 will result in a decrease to our allowance for loan losses as of that date of approximately $2 billion to eliminate the allowance for loan losses on the charged-off loans, which will be reflected in our financial results for the first quarter of 2015. 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, the level and sources of our future revenues and net interest income, our future dividend payments to Treasury, the level and credit characteristics of, and the credit risk posed by, our future acquisitions, our future credit losses and our future loss reserves. We also present a number of estimates and expectations in this executive summary regarding future housing market conditions, including expectations regarding future single-family loan delinquency and severity rates, future mortgage originations, future refinancings, future home prices and future conditions in the multifamily market. These estimates and expectations are forward-looking statements based on our current assumptions regarding numerous factors. Our future estimates of our performance and housing market conditions, as well as the actual results, may differ materially from our current estimates and expectations as a result of: the timing and level of, as well as regional variation in, home price changes; changes in interest rates, unemployment rates and other macroeconomic and housing market variables; our future guaranty fee pricing, including any directive from FHFA to change our guaranty fee pricing, and the impact of that pricing on our guaranty fee revenues and competitive environment; our future serious delinquency rates; our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers; future legislative or regulatory requirements or changes that have a significant impact on our business, such as a requirement that we implement a principal forgiveness program or the enactment of housing finance reform legislation; 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 fiscal and monetary policies of the Federal Reserve, including any change in the Federal Reserve's policy towards the reinvestment of principal payments of mortgage-backed securities or any future sales of such securities; changes in the fair value of our assets and liabilities; changes in generally accepted accounting principles ("GAAP"); credit availability; global political risks; natural disasters, terrorist attacks, pandemics or other major disruptive events; information security breaches; and other factors, including those discussed in "Forward-Looking Statements," "Risk Factors" and elsewhere in this report. 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, 2014 (the latest date for which information is available). We owned or guaranteed mortgage assets representing approximately 29% of total U.S. residential mortgage debt outstanding as of September 30, 2014.

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, rose by 2.4% in 2014, compared with an increase of 2.2% in 2013. According to the U.S. Bureau of Labor Statistics as of January 2015, the economy created an estimated 3.2 million non-farm jobs in 2014 and 2.4 million non-farm jobs in 2013. The unemployment rate declined to 5.6% in December 2014 from 6.7% in December 2013. In January 2015, non-farm payrolls increased by 257,000 jobs, and the unemployment rate increased to 5.7%. 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 11.2% in December 2014 from 13.1% in December 2013.

Housing activity was mixed in 2014 as compared with 2013. Total existing home sales of 4.9 million units in 2014 represent a decrease of 3.1% from 2013, compared with a 9.2% increase in 2013, according to data from the National Association of REALTORS®. Sales of foreclosed homes and preforeclosure, or "short," sales (together, "distressed sales") accounted for 11% of existing home sales in December 2014, compared with 14% in December 2013. According to the U.S. Census Bureau, new single-family home sales increased 1.2% in 2014, after increasing by 16.6% in 2013. Homebuilding activity continued to increase in 2014, as single-family housing starts rose approximately 5% in 2014, compared with an increase of 15% in 2013. Multifamily starts rose approximately 16% in 2014, compared with an increase of 25% in 2013.

At the end of 2014, 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, the months' supply of new single-family unsold homes was 5.5 months as of December 31, 2014, compared with 5.1 months as of December 31, 2013. According to the National Association of REALTORS®, the months' supply of existing unsold homes was 4.4 months as of December 31, 2014, compared with a 4.6 months' supply as of December 31, 2013.

The overall mortgage market serious delinquency rate, which has trended down since peaking in the fourth quarter of 2009, remained historically high at 4.7% as of September 30, 2014 (the latest date for which information is available), according to the Mortgage Bankers Association National Delinquency Survey, compared with 5.4% as of December 31, 2013. We provide information about Fannie Mae's serious delinquency rate, which also decreased during 2014, in "Executive Summary—Single-Family Guaranty Book of Business—Credit Performance."

Despite recent improvement in the housing market and declining delinquency rates, approximately one out of twelve borrowers was delinquent or in foreclosure during the third quarter of 2014, according to the Mortgage Bankers Association National Delinquency Survey.

Table 3 displays several key indicators related to the total U.S. residential mortgage market.

Table 3: Housing and Mortgage Market Indicators[1]

	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Home sales (units in thousands)	5,365	5,519	5,028	(2.8)%	9.8 %
New home sales	435	429	368	1.2	16.6
Existing home sales	4,930	5,090	4,660	(3.1)	9.2
Home price change based on Fannie Mae Home Price Index ("HPI")[2]	4.7 %	8.0 %	4.1 %		
Annual average fixed-rate mortgage interest rate[3]	4.2 %	4.0 %	3.7 %		
Single-family mortgage originations (in billions)	$1,193	$1,866	$2,154	(36.1)	(13.4)
Type of single-family mortgage origination:					
Refinance share	43 %	60 %	72 %		
Adjustable-rate mortgage share	9 %	7 %	5 %		
Total U.S. residential mortgage debt outstanding (in billions)[4]	$10,824	$10,819	$10,877	*	(0.5)

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* Represents less than 0.05%.

(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 2014. Single-family mortgage originations, as well as refinance shares, are based on February 2015 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 2014 is provided as of September 30, 2014, the latest date for which information is available.

Based on our home price index, we estimate that home prices on a national basis increased by 4.7% in 2014, following increases of 8.0% in 2013 and 4.1% in 2012. Despite the recent increases in home prices, we estimate that, through December 31, 2014, home prices on a national basis remained 10.1% 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.

Many homeowners continue to have "negative equity" in their homes as a result of declines in home prices since 2006, which means their mortgage principal balance exceeds the current market value of their home. This increases the likelihood that borrowers will abandon their mortgage obligations and that the loans will become delinquent and proceed to foreclosure. According to CoreLogic, Inc., the number of residential properties with mortgages in a negative equity position in the third quarter of 2014 was approximately 5.1 million, down from 6.5 million in the third quarter of 2013. The percentage of properties with mortgages in a negative equity position in the third quarter of 2014 was 10.3%, down from 13.3% in the third quarter of 2013.

Thirty-year fixed-rate mortgage rates declined during the year, starting at 4.53% for the week of January 2, 2014 and ending at 3.87% for the week of December 31, 2014, according to the Freddie Mac Primary Mortgage Market Survey®. Thirty-year fixed-rate mortgage rates declined further in January 2015, reaching 3.66% for the week of

January 29, 2015.

Mortgage rates were generally higher during 2014 than they were in the first half of 2013, which contributed to a decline in single-family mortgage originations in 2014, driven by a decline in refinancing activity. We estimate that total single-family mortgage originations decreased by approximately 36% to $1.19 trillion in 2014, compared with $1.87 trillion in 2013. We estimate that the amount of single-family mortgage originations that were refinancings decreased by approximately 54% to $516 billion in 2014, compared with $1.12 trillion in 2013. While single-family mortgage originations declined by an estimated 36% in 2014, we estimate that the amount of single-family mortgage debt outstanding was relatively flat in 2014. As of September 30, 2014 (the latest date for which information is available), total single-family mortgage debt outstanding was $9.9 trillion, a decrease of 0.6% from the amount of total single-family mortgage debt outstanding as of September 30, 2013. Total U.S. residential mortgage debt outstanding decreased by 0.1% from the third quarter of 2013 to the third quarter of 2014 (the latest date for which information is available).

National multifamily market fundamentals, which include factors such as vacancy rates and rents, remained relatively stable during 2014, despite an increase in new apartment supply. Although the national estimated vacancy level increased toward the end of the year, it remained near historic lows, benefiting from steady 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 was an estimated 5.0% as of December 31, 2014, up from an estimated 4.75% as of September 30, 2014 and down from an estimated 5.1% as of December 31, 2013.

Effective rents and net absorption both continued to increase during 2014. National asking rents increased by an estimated 3.0% in 2014 and by an estimated 0.5% during the fourth quarter of 2014, compared with an estimated increase of 1.0% in the third quarter of 2014.

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 2014, according to preliminary data from Reis, Inc. There was positive net absorption of approximately 45,000 units during the fourth quarter of 2014, compared with approximately 37,000 units during the third quarter of 2014. Although an estimated 240,000 multifamily units were added to the nation’s inventory in 2014, demand remained healthy.

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 2014, and contributed to the ongoing increase in new multifamily construction development. As a result, it is estimated that there will be approximately 340,000 new multifamily units completed in 2015. The bulk of this new supply is concentrated in a limited number of metropolitan areas. We believe this increase in supply will result in a temporary slowdown in net absorption rates, occupancy levels and effective rents in those areas throughout 2015. 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 rental household formation trends and expected increases in the population of 20- to 34-year olds, which is the primary age group that tends to rent multifamily housing.

MORTGAGE SECURITIZATIONS

We support market liquidity by issuing Fannie Mae MBS that are readily traded in the capital markets. We create Fannie Mae MBS by placing mortgage loans in a trust and issuing Fannie Mae MBS that are backed by those mortgage loans. Monthly payments received on the loans are the primary source of payments passed through to Fannie Mae MBS holders. 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 substantial 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.

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 2014, we purchased delinquent loans with an unpaid principal balance of approximately $17.9 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 and FHFA's portfolio plan requirements.

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

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

of credit enhancement

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Business Segment	Primary Business Activities	Primary Drivers of Revenue	Primary Drivers of Expense
Capital Markets	Mortgage and other investments: Purchases mortgage assets and invests 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. In addition, the substantial majority of fee and other income for 2013 and 2014 consisted of income resulting from settlement agreements resolving certain lawsuits relating to PLS sold to us.	Fair value gains and losses: Primarily consists of fair value gains and losses on derivatives, trading securities and other financial instruments Investment gains and losses: Primarily consists of (1) gains and losses on the sale or securitization of mortgage assets and (2) 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

Table 4 displays our total net revenues for each of our business segments for each of the last three years. Net revenues include net interest income, guaranty fee income, and fee and other income. Under our segment reporting, the sum of the results for our three business segments does not equal our consolidated statements of operations and comprehensive income, as we separate the activity related to our consolidated trusts from the results generated by our three segments. We also include an eliminations/adjustments category to reconcile our business segment financial results and the activity related to our consolidated trusts to net income in our consolidated statements of operations and comprehensive income. 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

	For the Year Ended December 31,		
	2014	2013	2012
Single-Family	$12,332	$11,303	$8,120
Multifamily	1,384	1,325	1,234
Capital Markets	11,182	11,659	12,667
Consolidated Trusts and Eliminations/Adjustments	957	2,047	967
Total	$25,855	$26,334	$22,988

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 VA, loans guaranteed by the Rural Development Housing and

Community Facilities Program of the U.S. 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.

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 Repurchase Evaluations

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. Some loans are serviced for us by the lenders that initially sold the loans to us. In other cases, our loans are serviced by third-party servicers that did not originate or sell the loans to 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 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 where the property does not sell, we use alternative methods of disposition, including selling homes to municipalities, other public entities or non-profit organizations, 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 generally issue repurchase demands to the seller or other responsible party and seek to collect on our repurchase claims; however, under our revised representation and warranty framework, we no longer require repurchase for loans that have breaches of certain selling representations and warranties if they have met specified criteria for relief. We discuss changes we have made to our post-purchase loan review process and our representation and warranty framework 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."

Single-Family Credit Risk Transfer Transactions

Our Single-Family business has developed risk-sharing capabilities to transfer limited portions of our single-family mortgage credit risk to the private market in support of FHFA's 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac. We completed a total of five CAS credit risk transfer transactions in 2013 and 2014, which transferred some of the credit risk on single-family mortgages with an unpaid principal balance of $249.0 billion. In addition to our CAS transactions, we executed additional types of risk sharing transactions in 2014. See "MD&A—Risk Management—Credit Risk Management" for a description of these transactions.

We expect to continue engaging in economically sensible ways to expand our offerings of credit risk transfer transactions in the future. FHFA's 2015 conservatorship scorecard includes an objective that we transact credit risk transfers on reference pools of single-family mortgages with an unpaid principal balance of at least $150 billion in 2015, with this unpaid principal balance requirement to be reviewed periodically and adjusted as necessary to reflect market conditions. In meeting this target, we must utilize at least two types of risk transfer structures.

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.

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

We describe the credit risk management process employed by our Multifamily business, with oversight from 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."

Revenues for our Multifamily business are derived from a variety of sources, including: (1) guaranty fees received as compensation for assuming 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. In addition, our Capital Markets group earns revenue generated from the difference between the interest income earned on the multifamily mortgage loans and securities held in our retained mortgage portfolio and the interest expense associated with the debt that funds those loans and securities.

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.

- Lenders: During 2014, we executed multifamily transactions with 28 lenders. Of these, 24 lenders delivered loans to us under our Delegated Underwriting and Servicing, or DUS®, product line. In determining whether to partner 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 invest in real estate for cash flow and equity returns in exchange for their original investment in the asset. The ultimate owners of a multifamily borrower are referred to as the borrower's "sponsors." In this report, we refer to both the borrowing entities and their sponsors as "borrowers." Because borrowing entities are typically single-asset entities, with the property as their only asset, in evaluating a borrowing entity we also evaluate its sponsors. Multifamily loans are generally non-recourse to the sponsors. When considering a multifamily borrower, creditworthiness is evaluated through a combination of quantitative and qualitative data including liquid assets, net worth, number of units owned, experience in a market and/or property type, multifamily portfolio performance, access to additional liquidity, debt maturities, asset/property management platform, senior management experience, reputation and lender exposure.
- Borrower and lender investment: Borrowers are required to contribute equity into multifamily properties on which they borrow, while lenders generally share in any losses realized from the loans that we guarantee.
- Underwriting process: Multifamily loans require detailed underwriting of the property's operating cash flow. 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: Most multifamily Fannie Mae loans and MBS have limits on prepayments of loans and impose prepayment premiums, consistent with standard commercial investment terms.

Multifamily Mortgage Securitizations

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.

We also issue structured transactions backed by multifamily Fannie Mae MBS through the Fannie Mae Guaranteed Multifamily Structures ("Fannie Mae GeMS™") program. This provides additional liquidity and stability to the multifamily market, while expanding the investor base for multifamily Fannie Mae MBS.

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.

Our DUS model aligns the interests of the 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

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 our servicing relationships and enforce our right to approve 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 in all markets across the country, 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, 2014, they represented 58% of our multifamily guaranty book of business by loan count and 11% 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, 2014, this type of financing represented approximately 15% of our multifamily guaranty book of business, based on unpaid principal balance, including $14.3 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. 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. We expect these revenues to continue to decrease over time as the maximum allowable amount of mortgage assets we may own continues to decrease each year under our senior preferred stock purchase agreement with Treasury and pursuant to FHFA's additional request that we cap our mortgage portfolio at 90% of the annual limit under the senior preferred stock purchase agreement. 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.

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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 for additional information about the goals of the conservatorship, see "Executive Summary—Helping to Build a Sustainable Housing Finance System" and "Housing Finance Reform—Conservator Developments."

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

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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 critically undercapitalized or 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. If we were to draw additional funds from Treasury under the agreement in a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement. 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, as long as 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, 2014.

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 further decreased to $1.8 billion for dividend periods in 2015. The capital reserve amount 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;
- 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 SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury; and
- seeking or permitting the termination of our conservatorship, other than in connection with a receivership.

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 under the agreement was $469.6 billion as of December 31, 2014 and will be $399.2 billion as of December 31, 2015. 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 $413.3 billion as of December 31, 2014. 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.

FHFA's 2014 conservatorship scorecard required us to submit a portfolio plan to FHFA outlining how we will meet, even under adverse conditions, the reductions in our portfolio required by our senior preferred stock purchase agreement with Treasury. We submitted this plan to FHFA in July 2014. In October 2014, FHFA requested that we revise our portfolio plan to cap the portfolio each year at 90% of the annual limit under our senior preferred stock purchase agreement with Treasury. FHFA's request noted that we may seek FHFA permission to increase this cap up to 95% of the annual limit under our senior preferred stock purchase agreement with Treasury upon written request and with a documented basis for exception, such as changed market conditions. To comply with FHFA's request, we submitted a revised portfolio plan in October 2014 and reduced our mortgage portfolio to $413.3 billion as of December 31, 2014, below the $422.7 billion cap requested by FHFA. See "MD&A—Business Segment Results—The Capital Markets Group's Mortgage Portfolio" for more information about our mortgage portfolio.

- Debt Limit. We are subject to a limit on the amount of our indebtedness. Our debt limit in 2014 was $663.0 billion and in 2015 is $563.6 billion. For every year thereafter, our debt cap will equal 120% of the amount of mortgage assets we are allowed to own under the senior preferred stock purchase agreement 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, 2014 was $464.5 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 2014.

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, and for the Treasury Secretary to submit recommendations to Congress for ending the conservatorships of Fannie Mae and Freddie Mac.

Administration Developments

In 2011, the Administration released a white paper with its recommendations 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. 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 2015, the White House reaffirmed the Administration's view that housing finance reform should include ending Fannie Mae and Freddie Mac's business model.

Legislative Developments

Congress has also continued to consider housing finance reform. In the last session of Congress, the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Financial Services each approved bills to reform the housing finance system. Among other matters, these bills would have required the wind down and eventual liquidation of, or the imposition of receivership for, Fannie Mae and Freddie Mac, and would have constrained our business even prior to these events. Several other bills that would have materially changed the housing finance system, including Fannie Mae's role within the system, were introduced in the last Congress.

We expect Congress 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 final 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.

Conservator Developments

FHFA has taken a number of steps as conservator to further the reform of the housing finance system. In 2012, FHFA's then-Acting Director identified FHFA's initial strategic goals for Fannie Mae and Freddie Mac's conservatorships. In May 2014, FHFA released its 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac, which updated FHFA's 2012 strategic plan and identified three reformulated strategic goals for Fannie Mae and Freddie Mac's conservatorships:

- Maintain, in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets.
- Reduce taxpayer risk through increasing the role of private capital in the mortgage market.
- Build a new single-family securitization infrastructure for use by Fannie Mae and Freddie Mac and adaptable for use by other participants in the secondary market in the future.

In addition, beginning in 2012, FHFA has released annual corporate performance objectives for Fannie Mae and Freddie Mac, referred to as the conservatorship scorecard, which detail specific priorities for implementing FHFA's strategic goals. FHFA released its 2015 conservatorship scorecard in January 2015. FHFA's 2015 conservatorship scorecard identifies essentially the same three strategic goals identified in FHFA's 2014 strategic plan and scorecard; however, the "maintain" goal was revised slightly as follows: "Maintain, in a safe and sound manner, credit availability and foreclosure prevention activities for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets."

FHFA's 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac and FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to the development of a common securitization platform that can be used to perform certain aspects of the securitization process and the development of a single common mortgage-backed security for Fannie Mae and Freddie Mac.

Common Securitization Platform. In October 2013, Fannie Mae and Freddie Mac established Common Securitization Solutions, LLC, a jointly owned limited liability company formed to design, develop, build and ultimately operate a common securitization platform. The intended purpose of the common securitization platform is to replace certain elements of Fannie Mae's and Freddie Mac's proprietary systems for securitizing mortgages and performing associated back office and administrative functions. In addition, FHFA's 2015 conservatorship scorecard specifies that the design of the common securitization platform should allow for the integration of additional market participants in a future system. In November 2014, Fannie Mae and Freddie Mac took further steps to develop CSS's capabilities with the execution of three agreements. Fannie Mae and Freddie Mac entered into an Amended and Restated Limited Liability Company Agreement with CSS that provides further detail regarding the rights, obligations and understandings between the companies with respect to CSS, including the governance of CSS. In connection with the agreement, the companies appointed a chief executive officer and four members of the CSS Board of Managers, two each from Fannie Mae and Freddie Mac. Fannie Mae, Freddie Mac and CSS also entered into a contribution agreement providing for, among other things, the contribution by Fannie Mae and Freddie Mac of intellectual property and cash resources to CSS, as well as the assignment of various agreements necessary for CSS's development and operation of securitization functions. In addition, Fannie Mae and Freddie Mac each entered into a separate agreement with CSS with respect to the administrative support services the companies will provide to CSS until CSS has the capabilities to provide these services on its own. Although these are important steps towards the further development of the common securitization platform, we expect it will be a number of years before CSS will have sufficient operational capabilities to serve its intended purpose as a common securitization platform for us and

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Freddie Mac. We continue to work with FHFA, Freddie Mac and CSS on building and testing the common securitization platform, as well as on implementing required changes to our systems and operations to integrate with the common securitization platform.

Single Common Security. In August 2014, FHFA published a request for public input on a proposed structure for a single security that would be issued and guaranteed by Fannie Mae or Freddie Mac. FHFA's request for public input states that development of the single security will be a multi-year initiative, and that FHFA's goal for the proposed single security structure is for legacy Fannie Mae MBS and legacy Freddie Mac participation certificates to be fungible with the new single security for purposes of fulfilling "to-be-announced" ("TBA") contracts. Many of the proposed features of the single security are similar to those of current Fannie Mae MBS. FHFA's 2015 conservatorship scorecard includes objectives to finalize the structure for the single common security and to develop a plan to implement the single common security in the market. We believe the development of a single common security would likely reduce, and could eliminate, the trading advantage Fannie Mae mortgage-backed securities have over Freddie Mac mortgage-backed securities. If this occurs, we believe it would negatively impact our ability to compete for mortgage assets in the secondary market, and therefore could adversely affect our results of operations. See "Risk Factors" for a discussion of the risks to our business associated with a single common security for Fannie Mae and Freddie Mac.

For more information on FHFA's 2014 conservatorship scorecard objectives and our performance in meeting these objectives, see "Executive Compensation—Compensation Discussion and Analysis—Determination of 2014 Compensation—Assessment of Corporate Performance on 2014 Conservatorship Scorecard." For more information on FHFA's 2015 conservatorship scorecard objectives, see our Current Report on Form 8-K filed with the SEC on January 20, 2015.

OUR CHARTER AND REGULATION OF OUR ACTIVITIES

Charter Act

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

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

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

Loan Standards

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

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

The national conforming loan limit for mortgages that finance one-family residences is $417,000 in 2015, as it was in 2010 through 2014, with higher limits for mortgages secured by two- to four-family residences and in four statutorily-

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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).

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.

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 "Conservatorship and Treasury Agreements—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 and Activities. The GSE Act requires us to request FHFA's approval before initially offering any new 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 engage in new products was 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.

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.

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. 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 December 2014, FHFA ended its temporary suspension of allocations to the Housing Trust Fund and the Capital Magnet Fund and directed Fannie Mae and Freddie Mac to begin making contributions to these funds pursuant to the GSE Act. FHFA's directive reinstating these contributions requires us to set aside amounts during each fiscal year beginning in fiscal year 2015, and to allocate or otherwise transfer the amounts set aside within 60 days after the end of each fiscal year, unless during such fiscal year we have made a draw from Treasury under the terms of the senior preferred stock purchase agreement or unless such allocation or transfer would cause us to have to make a draw from Treasury under the agreement, in which case we will make no allocation or transfer for that year and the amounts set aside for that year will be reversed. In connection with FHFA's directive, FHFA issued an interim final rule in December 2014 prohibiting Fannie Mae and Freddie Mac from redirecting or passing through the cost of these allocations to originators of mortgages that we purchase or securitize. The interim final rule became effective upon publication in the Federal Register on December 16, 2014.
Based on FHFA's directive, we expect to make our first allocation to the funds on or before February 29, 2016, based on the amount of our new business purchases in 2015. If this requirement had been in effect during fiscal year 2014, we estimate that we would have incurred approximately $172 million of additional expense in our consolidated statement of operations and comprehensive income related to the allocation of these funds.
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 became effective in February 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 became effective in February 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 2014

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 periodically reviews and comments on the underwriting and appraisal guidelines of each company to ensure consistency with the Fair Housing Act.

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 for 2012 to 2014

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

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equal to or less than 100% of area median income) in designated disaster areas. For 2014, FHFA set the overall low-income areas home purchase benchmark goal at 18%.

- 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 are not counted. Moreover, these modifications count only towards our single-family low-income families refinance goal, not any of the home purchase goals. Refinancings under HARP also count toward our single-family low-income families refinancing goal.

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

To meet FHFA's housing goals, our multifamily mortgage acquisitions must finance a certain number of units affordable to low-income families and a certain number of units affordable to very low-income families. The specific requirements for each year are set forth in Table 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 January 2015, FHFA determined that we met all of our single-family and multifamily housing goals for 2013, except for the single-family very low-income families home purchase goal. FHFA determined that our performance for this goal failed to meet both the applicable benchmark and the overall market level, and that our achievement of this goal was feasible. FHFA has notified us that it will not require us to submit a formal housing plan with respect to this goal.

Table 6 displays our performance for 2013 against our single-family housing benchmarks and market share measures, as well as our multifamily housing goals, as validated by FHFA.

Table 6: Housing Goals Performance

	2013 Result	Bench-mark	Single-Family Market Level
Single-family housing goals:[1]			
Low-income families home purchases	23.8 %	23 %	24.0 %
Very low-income families home purchases	6.0	7	6.3
Low-income areas home purchases	21.6	21	22.1
Low-income and high-minority areas home purchases	14.0	11	14.2
Low-income families refinancing	24.3	20	24.3

	2013 Result (in units)	Goal
Multifamily housing goals:		
Affordable to families with income no higher than 80% of area median income	326,597	265,000
Affordable to families with income no higher than 50% of area median income	78,071	70,000

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

We will report our performance with respect to the 2014 housing goals in March 2015. FHFA will issue a final determination on our performance after the release of data reported under HMDA later this year.

Proposed Housing Goals for 2015 to 2017

In August 2014, FHFA published a proposed rule that would establish single-family and multifamily housing goals for Fannie Mae and Freddie Mac for 2015 to 2017. Comments on the proposed rule were due in October 2014. FHFA will issue a final rule after considering the comments received on the proposed rule.

Proposed Single-Family Housing Goals

FHFA's proposed rule requests comment on three alternative approaches for measuring Fannie Mae and Freddie Mac's performance on the single-family housing goals for 2015 to 2017:

- Alternative 1 would use the current two-step process, which measures performance by comparing it to both (1) benchmark levels that are set prospectively and (2) actual market levels that are determined retrospectively based on HMDA data;
- Alternative 2 would measure performance against prospective benchmark levels only; and
- Alternative 3 would measure performance against retrospective market levels only.

FHFA has proposed the following single-family home purchase and refinance housing goal benchmarks for 2015 to 2017 under Alternative 1. 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). This is the same benchmark that applied for 2014.
- 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). This is the same benchmark that applied for 2014.
- Low-Income Areas Home Purchase Goal Benchmark: The benchmark level for our acquisitions of single-family owner-occupied purchase money mortgage loans for families in low-income areas is set annually by notice from FHFA, based on the benchmark level for the low-income areas home purchase subgoal (below), plus an adjustment

factor reflecting the additional incremental share of mortgages for moderate-income families (defined as income equal to or less than 100% of area median income) in designated disaster areas.

- Low-Income Areas Home Purchase Subgoal Benchmark: At least 14% 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. This is an increase from the benchmark of 11% that applied for 2014.
- Low-Income Families Refinancing Benchmark: At least 27% of our acquisitions of single-family owner-occupied refinance mortgage loans must be affordable to low-income families. This is an increase from the benchmark of 20% that applied for 2014.

Under Alternative 1, if we do not meet these benchmarks, we may still meet our goals. Our single-family housing goals performance would be measured against both these benchmarks and against goals-qualifying originations in the primary mortgage market after the release of HMDA data, which is typically released each year in the fall. We would be in compliance with the housing goals if we met either the benchmarks or market share measures.

FHFA’s proposed rule noted that, if it were to adopt Alternative 2, it would consider adopting single-family benchmark levels that are lower than the proposed levels for Alternative 1 described above. Alternative 3 would not involve setting prospective benchmark levels.

Proposed Multifamily Housing Goals

FHFA’s proposed rule also includes benchmark levels for a multifamily special affordable housing goal and subgoal, and establishes a new subgoal for small multifamily properties (defined as those with 5 to 50 units) affordable to low-income families. FHFA’s proposed multifamily benchmark levels for Fannie Mae for 2015 to 2017 would be the same levels that applied to Fannie Mae for 2014: 250,000 units per year must be affordable to low-income families and 60,000 units per year must be affordable to very low-income families. FHFA’s proposed new subgoal for Fannie Mae for small multifamily properties affordable to low-income families increases each year: 20,000 units in 2015; 25,000 units in 2016; and 30,000 units in 2017. There is no market-based alternative measurement for the multifamily goal or subgoals.

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. This proposed rule was not finalized. However, FHFA indicated in its proposed rule on housing goals for 2015 to 2017 that a separate proposed rulemaking on the duty to serve underserved markets was forthcoming. In addition, one of FHFA’s 2015 conservatorship scorecard objectives for us is to prepare to implement duty to serve requirements upon publication of a final rule.

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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. 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 a final rule implementing some of these enhanced prudential standards for large bank holding companies. 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, in September 2014, the Federal Reserve Board, the Federal Deposit Insurance Corporation (“FDIC”), FHFA, the Farm Credit Administration and the Office of the Comptroller of the Currency issued new 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 relative to our level of activity.

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 others 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% at origination. 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 October 2014, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, the SEC, FHFA and HUD issued a final rule implementing this credit risk retention requirement. The final rule generally requires securitizers to retain at least 5% of the credit risk of the assets they securitize. The 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 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 under Regulation Z discussed above. The final risk retention rule will become effective on December 24, 2015 for single-family mortgage loans and on December 24, 2016 for multifamily mortgage loans. We do not expect any significant changes in our current business practices as a result of the risk retention rule.

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 and published the stress test results for the severely adverse scenario on our Web Site on April 30, 2014. On February 5, 2015, we submitted our second stress test results under this rule based on scenarios and assumptions provided to us by FHFA in November 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. In September 2014, U.S. banking regulators also issued a final regulation setting minimum liquidity standards for large U.S. banks generally in accordance with Basel III standards. See "Risk Factors" for a discussion of this rule and how 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 consisted of: (1) eliminating the 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 in early 2014; however, in January 2014, FHFA directed us and Freddie Mac to delay implementation of these guaranty fee changes pending further review by FHFA.

FHFA subsequently announced on June 5, 2014 that it was requesting public input on the guaranty fees that Fannie Mae and Freddie Mac charge lenders. FHFA's request for input included questions related to guaranty fee policy and implementation, including what factors and goals should be considered in setting guaranty fees, target return on capital and amount of capital required. FHFA is currently reviewing and considering the public input that was received. See "Risk Factors" for a discussion of the potential risks to our business relating to an FHFA directive to change our guaranty fee pricing.

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"). The Advisory Bulletin provides, among other things, 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%). The Advisory Bulletin also provides that we charge off the portion of the loan classified as a "loss." We implemented the asset classification provisions of the Advisory Bulletin on January 1, 2014.

Our current analytics and historical data do not support charging off loans at 180 days delinquent. As a result, for the vast majority of our delinquent single-family loans, we expect to continue to charge off the loan at the date of foreclosure or other liquidation event (such as a deed-in-lieu of foreclosure or a short sale). For a small subset of delinquent loans deemed to be uncollectible prior to foreclosure by our historical data, we will classify them as "loss" and charge off the portion of the loan classified as "loss" prior to the date of foreclosure or other liquidation event, which given our current credit analytics and historical data, will be when the loans are excessively delinquent and the outstanding loan balance exceeds the fair value of the underlying property. We continue to enhance our data collection and analysis efforts to further refine our loss estimates as we obtain incremental information on the performance of our loans.

Our approach to adopting the charge-off provisions of the Advisory Bulletin on January 1, 2015 will result in a decrease in total loans held for investment of approximately $2 billion to reduce the recorded investment on the charged-off loans, and a corresponding decrease to our allowance for loan losses of approximately $2 billion to eliminate the allowance for loan losses associated with the charged-off loans. The adoption of the Advisory Bulletin is not expected to have a material impact on our consolidated results of operations for the first quarter of 2015.

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 Fannie Mae MBS or Fannie Mae 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 2014, 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 2014, our top five lender customers, in the aggregate, accounted for approximately 33% of our single-family business volume, down from approximately 42% in 2013. 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 2014, with approximately 12%.

A number of factors impacted our customers in 2014 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 the last three years than in prior years as a result of a reduction in the aggregation of third-party mortgage originations among large mortgage originators and other factors. 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

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

Competition to acquire mortgage assets is significantly affected by both our and our competitors' pricing and eligibility standards, as well as investor demand for our and our competitors' mortgage-related securities. Any future changes in our guaranty fees 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 potential future changes in our guaranty fees. 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 information on legislation and regulations that could affect our business and competitive environment.

Our competitors for the acquisition of single-family mortgage assets are financial institutions and government agencies that manage residential mortgage credit risk or invest in residential mortgage loans, including Freddie Mac, FHA, the VA, Ginnie Mae (which primarily guarantees securities backed by FHA-insured loans and VA-guaranteed loans), the twelve FHLBs, U.S. banks and thrifts, securities dealers, insurance companies, pension funds, investment funds and other mortgage investors. Our primary competitors for the issuance of single-family mortgage-related securities are Freddie Mac and Ginnie Mae, as many private market competitors dramatically reduced or ceased their activities in the single-family secondary mortgage market following the 2008 housing crisis. For the issuance of multifamily mortgage-related securities, we primarily compete with Freddie Mac, life insurers, U.S. banks and thrifts, other institutional investors, Ginnie Mae and private-label issuers of commercial mortgage-backed securities.

Although our market share of single-family mortgage acquisitions remained high in 2014 as we continued to meet the needs of the single-family mortgage market, our market share declined from 2013. We estimate that our single-family market share was 32% in 2014, compared with 39% in 2013. 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 2014 in the absence of substantial issuances of mortgage-related securities by private institutions during the year.

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

EMPLOYEES

As of January 31, 2015, we employed approximately 7,600 personnel, including full-time and part-time employees, term employees and employees on leave.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

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

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

FORWARD-LOOKING STATEMENTS

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

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

- Our expectation that we will remain profitable on an annual basis for the foreseeable future;
- Our expectation that our earnings in future years will be substantially lower than our earnings for 2014, primarily due to our expectation of substantially lower income from resolution agreements, continued declines in net interest income from our retained mortgage portfolio assets and lower credit-related income;
- Our expectation that certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year;
- Our expectation that our future financial results also will be affected by a number of other factors, including: our guaranty fee rates; the volume of single-family mortgage originations in the future; the size, composition and quality of our retained mortgage portfolio and guaranty book of business; and economic and housing market conditions;
- 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 2015 of $1.9 billion by March 31, 2015;
- Our expectation that we will retain only a limited amount of any future net worth because we are required by the dividend provisions of the senior preferred stock and quarterly directives from our conservator to pay Treasury each quarter 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 belief that our acquisition of single-family loans with 95.01% to 97% LTV ratios will not materially affect our overall credit risk due to our requirements for these loans and our expectation that they will constitute a small portion of our overall acquisition volumes;
- Our belief that our single-family acquisitions will continue to have a strong overall credit risk profile given our current underwriting and eligibility standards and product design;
- Our expectation that the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties will continue to account for an increasing portion of our net interest income;
- Our expectation that our guaranty fee revenues will increase over the long term, as loans with lower guaranty fees liquidate from our book of business and are replaced with new loans with higher guaranty fees;

- 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 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, including any directive we receive from FHFA to change our guaranty fee pricing; 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, including the pace at which we are required by our conservator to reduce the size of our portfolio; economic and housing market conditions, including changes in interest rates; our market share; and legislative and regulatory changes;
- Our belief that actions we have taken in recent years to improve our representation and warranty framework and help lenders reduce their repurchase risk relating to loans they deliver to us have significantly reduced uncertainty surrounding lenders' repurchase risk relating to loans they deliver to us, and our intention that these actions will encourage lenders to safely expand their lending to a wider range of qualified borrowers;
- Our intention to complete additional CAS transactions in 2015;
- Our expectation that we will continue engaging in economically sensible ways to expand our offerings of credit risk transfer transactions in the future;
- Our expectation that it will be a number of years before CSS will have sufficient operational capabilities to serve its intended purpose as a common securitization platform for us and Freddie Mac;
- Our expectation that the development of a single common security for Fannie Mae and Freddie Mac will be a multi-year initiative;
- Our belief that the development of a single common security for Fannie Mae and Freddie Mac would likely reduce, and could eliminate, the trading advantage Fannie Mae mortgage-backed securities have over Freddie Mac mortgage-backed securities and, if this were to occur, would negatively impact our ability to compete for mortgage assets in the secondary market, and therefore could adversely affect our results of operations;
- 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;
- The estimate that there will be approximately 340,000 new multifamily units completed in 2015;
- Our belief that the increase in the supply of multifamily units concentrated in a limited number of metropolitan areas in 2015 will result in a temporary slowdown in net absorption rates, occupancy levels and effective rents in those areas throughout 2015;
- 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, which is the primary age group that tends to rent multifamily housing;
- Our expectation that single-family mortgage loan serious delinquency and severity rates will continue their downward trend, but at a slower pace than in recent years;
- Our expectation that single-family serious delinquency and severity rates will remain high compared with pre-housing crisis levels because it will take some time for the remaining delinquent loans with high mark-to-market LTV ratios originated prior to 2009 to work their way through the foreclosure process;
- Our forecast that total originations in the U.S. single-family mortgage market in 2015 will increase from 2014 levels by approximately 7% from an estimated $1.19 trillion in 2014 to $1.28 trillion in 2015;
- Our forecast that the amount of originations in the U.S. single family mortgage market that are refinancings will increase from an estimated $516 billion in 2014 to $574 billion in 2015;
- Our expectation of a lower rate of home price appreciation in 2015 than in 2014;
- Our expectation of significant regional variation in the timing and rate of home price growth;

- Our expectation that our credit losses in 2015 will be higher than 2014 levels because we expect our approach to implementing the charge-off provisions of FHFA's Advisory Bulletin AB 2012-02 in 2015 will increase our credit losses for 2015 from what they otherwise would be;
- Our expectation that our credit losses will resume their downward trend beginning in 2016;
- Our expectation that, although our loss reserves have declined substantially from their peak and are expected to decline further, 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 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 expectation that, for the vast majority of our delinquent single-family loans, we will continue to charge off the loan at the date of foreclosure or other liquidation event (such as a deed-in-lieu of foreclosure or a short sale) and that, for a small subset of delinquent loans deemed to be uncollectible prior to foreclosure by our historical data, we will classify them as "loss" and charge off the portion of the loan classified as "loss" prior to the date of foreclosure or other liquidation event, which given our current credit analytics and historical data, will be when the loans are excessively delinquent and the outstanding loan balance exceeds the fair value of the underlying property;
- Our expectation that our approach to adopting the charge-off provisions of FHFA's Advisory Bulletin AB 2012-02 on January 1, 2015 will result in a decrease in total loans held for investment of approximately $2 billion to reduce the recorded investment on the charged-off loans, and a corresponding decrease to our allowance for loan losses of approximately $2 billion to eliminate the allowance for loan losses associated with the charged-off loans;
- Our expectation that the adoption of FHFA's Advisory Bulletin AB 2012-02 will not have a material impact on our consolidated results of operations for the first quarter of 2015;
- Our expectation, based on FHFA's directive, that we will make our first allocation to HUD's Housing Trust Fund and Treasury's Capital Magnet Fund on or before February 29, 2016, based on the amount of our new business purchases in 2015;
- Our expectation that the final risk retention rule under the Dodd-Frank Act will not significantly change our current business practices;
- Our expectation that our placement into receivership would likely have a material adverse effect on holders of our common stock, preferred stock, debt securities and Fannie Mae MBS;
- 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 expectation that if there were several high-level employee departures at approximately the same time, our ability to conduct our business and our results of operations would likely be materially adversely affected;
- Our expectation that we will continue to devote significant resources to meeting FHFA's goals for our conservatorship;
- Our expectation that the execution of our strategic goals will contribute to an increase in our administrative expenses in 2015;
- Our expectation that the guaranty fees we collect and the expenses we incur under the TCCA will continue to increase in the future;
- Our expectation that we will continue to purchase loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity and other factors including the limit on the amount of mortgage assets that we may own pursuant to the senior preferred stock purchase agreement with Treasury and FHFA's portfolio plan requirements;
- 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, 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 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 slow pace of single-family foreclosures in some states will continue to negatively affect our foreclosure timelines, credit-related income (expense) and single-family serious delinquency rates, and will continue to adversely affect our business, results of operations, financial condition and net worth;
- Our expectation that we will not remediate the material weakness in our disclosure controls and procedures while we are under conservatorship;
- 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 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, 2014 serious delinquency rates of loans acquired in 2005 through 2008;
- Our belief that we have limited exposure to credit losses on home equity conversion mortgages;
- Our expectation that loans we acquire under Refi Plus and HARP 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 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 expectation that the recent trend of a slower pace of declines in our single-family serious delinquency rates will continue;
- 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 we will enter into additional credit insurance risk transfer transactions in the future;
- Our expectation, given the stressed financial condition of some of our single-family lenders, that in some cases we will recover less than the amount the lender is obligated to provide us under our risk sharing arrangement with the lender;

- Our expectation that our institutional credit risk exposure to derivatives clearing organizations and certain of their members will increase substantially in the future as cleared derivative contracts comprise a larger percentage of our derivative instruments;
- Our expectation that the total amount we will receive under the terms of the Lehman Brothers Holdings, Inc. ("Lehman Brothers") Plan of Reorganization will constitute only a portion of the allowed amount;
- Our assumption that the guaranty fee income generated from our future business activity will largely replace the guaranty fee income lost due to mortgage prepayments;
- Our expectations regarding our role as HAMP program administrator, including how long we will continue in the role and amounts we will receive from Treasury pursuant to the role;
- Our plans and expectations relating to the distribution of benefits remaining under our terminated pension plans, including our expectations regarding the timing and financial impact of the distributions;
- Our belief that our valuation allowance related to our capital loss carryforwards will likely expire unused;
- Our expectation that we will conclude the audit of our federal income tax returns related to the 2009 and 2010 tax years with the IRS during 2015;
- Our expectation that we will receive full cash payment from only half of our non-governmental financial guarantor counterparties; and
- Our expectation that the reasonably possible loss or range of loss arising from the Comprehensive Investment Services vs. Mudd litigation will not have a material impact on our results of operations or financial condition.

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, including any directive from FHFA to change our guaranty fee pricing, and the impact of that pricing on our guaranty fee revenues and 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; our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers; a decrease in our credit ratings; limitations on our ability to access the debt capital markets; disruptions in the housing and credit markets; significant changes in modification and foreclosure activity; changes in borrower behavior; the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies; defaults by one or more institutional counterparties; resolution or settlement agreements we may enter into with our counterparties; our need to rely on third parties to fully achieve some of our corporate objectives; our reliance on mortgage servicers; changes in GAAP; guidance by the Financial Accounting Standards Board ("FASB"); future changes to our accounting policies; changes in the fair value of our assets and liabilities; 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 fiscal and monetary policies of the Federal Reserve; changes in the structure and regulation of the financial services industry; credit availability; global political risks; natural disasters, terrorist attacks, pandemics or other major disruptive events; information security breaches; and those factors described in "Risk Factors," as well as the factors described in "Executive Summary—Outlook—Factors that Could Cause Actual Results to be Materially Different from our Estimates and Expectations."

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

Item 1A. Risk Factors

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

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

RISKS RELATING TO OUR BUSINESS

The future of our company is uncertain.

There 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. The conservatorship is indefinite in duration and the timing, conditions and likelihood of our emerging from conservatorship are uncertain. Termination of the conservatorship, other than in connection with a receivership, requires Treasury’s consent under the senior preferred stock purchase agreement.

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 2015, the White House reaffirmed the Administration’s view that housing finance reform should include ending Fannie Mae and Freddie Mac’s business model.

In the last Congress, members of Congress considered 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 Fannie Mae’s liquidation or dissolution. Congress or FHFA may also consider legislation or regulation aimed at increasing the competition we face or reducing our market share. We cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation. See “Business—Housing Finance Reform” for more information about the Administration’s report and paper, and Congressional proposals regarding housing finance reform.

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

As a result of the dividend provisions of the senior preferred stock and quarterly directives from our conservator, we are 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 $1.8 billion for each quarterly dividend period in 2015 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 net worth each year until 2018. Beginning in 2018, we will no longer retain any of our net worth, 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. We have experienced and expect to continue to experience volatility in our financial results from period to period due to a number of factors, particularly changes in market conditions that result in fluctuations in the estimated fair value of the financial instruments, such as derivatives and certain securities, that we mark to market through our earnings. Our credit-related income or expense also can vary substantially from period to period primarily due to changes in home prices, borrower payment behavior and

economic conditions. In addition, as described in "Executive Summary—Outlook," we expect substantially lower earnings in future years than our earnings for 2014. Accordingly, although we expect to remain profitable on an annual basis for the foreseeable future, the expected volatility in our financial results, which may be significant from quarter to quarter, could result in a net worth deficit in a future quarter, particularly as our capital reserve approaches zero.
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. If we were to draw additional funds from Treasury under the agreement in a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement.
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 recruit well-qualified employees. The limitations on our employee compensation put us at a disadvantage compared to many other companies in attracting and retaining 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, have had, and may continue to 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. As a result, we have not been able to incent and reward excellent performance with compensation structures that provide upside potential to our executives, which places us at a disadvantage compared to many other companies in attracting and retaining executives.

In addition, the amount of 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," our named executives' total target direct compensation under the 2014 executive compensation program in aggregate was substantially below the market median for comparable firms. Our Chief Executive Officer's annual total direct compensation is $600,000, which was more than 90% below the market median in 2014. While many of our executives have accepted below market compensation for the past several years, our inability to increase executive compensation to market levels for the foreseeable future puts us at greater risk of attrition, and also hampers our ability to recruit new executives. Moreover, our inability to offer market-based compensation makes succession planning very difficult, particularly for our Chief Executive Officer role.

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. In addition, the uncertainty of potential Congressional action with respect to housing finance reform, which may result in the wind-down of the company, negatively affects 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 has put additional pressures on turnover, as attractive opportunities have 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. If there were several high-level departures at approximately the same time, 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.

We are subject to significant restrictions on our business activities during conservatorship. We may be prevented by our conservator from engaging in business activities or transactions that we believe would benefit our business and financial results. For example, we publish risk-based loan level price adjustment grids that specify the additional cash fees we charge at the time we initially acquire a loan based on the credit characteristics of the loan. These fees allow us to price appropriately for the credit risk we assume in providing our guaranty on the loans. We do not have the ability to implement changes to these pricing grids without the approval of FHFA. If the mix of our single-family loan acquisitions changes, and FHFA does not approve requested changes to our pricing grids in response to these changes, it could adversely affect our financial results and condition.

In addition, we may be required by our conservator to engage in activities that are operationally difficult, costly to implement or unprofitable, or that may adversely affect our financial results or the credit risk profile of our book of business. For example, in 2014, FHFA requested that we reduce our retained mortgage portfolio each year to 90% of the amount permitted under the senior preferred stock purchase agreement, which requires that we reduce our retained mortgage portfolio at a faster rate than previously required. This could result in the sale of assets at prices below the levels recorded in our financial statements or the sale of assets that may be more economical to hold, and will result in a faster decline in the revenues generated by our retained mortgage portfolio. In addition, as described in "Business—Our Charter and Regulation of Our

Activities—Potential Changes to Our Single-Family Guaranty Fee Pricing," FHFA announced in June 2014 that it was requesting public input on the guaranty fees that Fannie Mae and Freddie Mac charge lenders, and FHFA is currently reviewing and considering the public input that was received. Based on its review, FHFA may direct us to make changes to our guaranty fee pricing that could materially affect our financial results. If FHFA directs us to decrease our guaranty fee pricing, depending on the extent of the decrease, it could result in a significant decrease in our guaranty fee revenues in future periods. If FHFA directs us to increase our guaranty fee pricing, depending on the extent of the increase, it could result in some of our lender customers retaining lower credit risk loans for their portfolio instead of delivering the loans to us. This could lead to a decrease in our single-family business volume, negatively affect the credit risk profile of our new single-family acquisitions and adversely affect our financial results and condition.

Because we are under the control of our conservator, our business objectives may not be consistent with the investment objectives of our investors. FHFA has changed our business objectives significantly since we entered conservatorship, and could make additional changes at any time. In May 2014, FHFA released its 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac, which replaced FHFA's strategic goals identified in 2012. Actions we take to meet FHFA's goals and objectives could adversely affect our financial results. For example, FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to the development of a single common security for Fannie Mae and Freddie Mac. We believe the development of a single common security would likely reduce, and could eliminate, the trading advantage Fannie Mae mortgage-backed securities have over Freddie Mac mortgage-backed securities. If this occurs, we believe it would negatively impact our ability to compete for mortgage assets in the secondary market, and therefore could adversely affect our results of operations. Our objectives and business activities may continue to change, possibly significantly, including in pursuit of our public mission and other non-financial objectives. Significant changes in our business objectives could adversely affect our financial results. Moreover, we are devoting significant resources to meeting FHFA's goals for our conservatorship and expect to continue to do so.

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 under the agreement. 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 were permitted to own as of December 31, 2014 was $469.6 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. In addition, as described above, FHFA has requested that we further cap our mortgage assets each year at 90% of the annual limit under our senior preferred stock purchase agreement with Treasury.

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.

A number of lawsuits have been filed against the U.S. government relating to the senior preferred stock purchase agreement and the conservatorship. See "Note 19, Commitments and Contingencies" and "Legal Proceedings" for a description of these lawsuits. We cannot predict the course or the outcome of these lawsuits, or the actions the U.S. government (including Treasury or FHFA) may take in response to any ruling or finding in any of these lawsuits. 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. Our conservator announced in September 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, while we are in conservatorship. In addition, 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.

Our future profits will effectively be distributed to Treasury. 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. U.S. banking regulators have issued rules regarding new bank capital and liquidity requirements in accordance with Basel III that are expected to go into effect over the next few years. Although we are not subject to banking regulations, these new requirements could materially adversely affect demand by U.S. banks for our 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.

For example, in September 2014, U.S. banking regulators issued a final regulation setting minimum liquidity standards for large U.S. banks generally in accordance with Basel III standards. Under the final rule, U.S. banks subject to the standards are required to hold a minimum level of high-quality liquid assets based on projections of their short-term cash needs. The debt and mortgage-related securities of Fannie Mae and Freddie Mac are 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. The final rule became effective January 1, 2015 and provides for a transition period. Banks subject to the rule are required to maintain a minimum liquidity coverage ratio of 80% beginning on January 1, 2015, 90% beginning on January 1, 2016 and 100% beginning on January 1, 2017. U.S. banks currently hold large amounts of our outstanding debt and MBS securities, and prior U.S. banking regulations did not limit the amount of these securities that banks were permitted to count toward their liquidity requirements. Accordingly, the implementation of this rule could materially adversely affect demand by banks for Fannie Mae debt securities and MBS in the future.

In addition, in April 2014, U.S. banking regulators issued a final rule for enhanced supplementary leverage ratio requirements applicable to the largest U.S. banks. The rule requires bank holding companies to maintain a minimum enhanced supplementary leverage ratio of more than 5% in order to avoid restrictions on capital distributions and discretionary bonus payments. Covered companies are required to report their supplementary leverage ratio starting January 1, 2015 and to comply with the enhanced supplementary leverage ratio requirement beginning on January 1, 2018. These higher leverage requirements may require large U.S. banks to hold more capital against the securities they hold, including Fannie Mae debt and MBS securities, which could adversely affect demand by these banks for our debt and MBS securities in the future.

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 three 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—Single-Family Mortgage Credit Risk Management," and we present detailed information on our 2014 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 acquired prior to 2009, could deteriorate in the future, particularly if we experience national or regional declines in home prices, weakening economic conditions or high unemployment.

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 or sanctions, liability to customers, financial losses, business disruptions 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 adapt 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 or damaged as a result of a number of factors, including events that are wholly or partially beyond our control, 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.

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 have built an out-of-region data center for disaster recovery in order to increase the geographic diversity of our business continuity plans, most of our employees are 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 damage our reputation, increase our costs and cause losses.

Our operations rely on the secure receipt, 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 in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state-sponsored actors. From time to time we have been, and likely will continue to be, the target of attempted cyber attacks, computer viruses, malicious code, phishing 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. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our prominent size and scale and our role in the financial services industry, the outsourcing of some of our business operations, and the current global economic and political environment. As a result, we have increased our investments in the development and enhancement of controls, processes and practices designed to detect and prevent information security threats.

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. The occurrence of such an event could jeopardize or result in the unauthorized disclosure, gathering, monitoring, misuse, corruption, loss or destruction 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, damage to our computers or systems, or otherwise cause interruptions or malfunctions in our, our customers', our counterparties' or third parties' operations. This could result in significant losses, loss of customers and business opportunities, reputational damage, violation of applicable privacy laws and other laws, litigation, regulatory fines, penalties or intervention, reimbursement or other compensatory costs, 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 mitigate our exposure resulting from outsourcing, 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. 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. We are also currently working on implementing a number of other FHFA directives and initiatives that may increase our operational burdens and our costs.

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. In May 2014, FHFA released its 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac, which identifies three strategic goals that are described in "Business—Executive Summary—Helping to Build a Sustainable Housing Finance System." 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 modifying loans to defer principal, lower the interest rate or extend the maturity; engaging in principal reduction; expanding our underwriting and eligibility requirements to increase access to mortgage credit; or issuing a single common GSE security. 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 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.

We are also required by the GSE Act to undertake efforts in support of the housing market that could adversely affect our financial results and condition. For example, we are subject to housing goals under the GSE Act that require that 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. FHFA's proposed 2015 to 2017 housing goals include higher benchmarks for some of the goals than those that were applicable for 2014. In addition, the 2008 Reform Act created a new duty to serve underserved markets. We could be required to make changes to our business and our acquisitions in the future in response to this duty. Although FHFA has not yet published a final rule with respect to this requirement, FHFA has indicated that a proposed rulemaking on the duty to serve underserved markets is forthcoming and FHFA's 2015 conservatorship scorecard includes an objective for us to prepare to implement duty to serve requirements upon publication of a final rule. We may take actions to meet our housing goals and duty to serve obligations that could adversely affect our profitability. For example, we may acquire loans that offer lower expected returns on our investment than our other loan acquisitions and that may potentially increase our credit losses and credit-related expenses. If we do not meet our housing goals or duty to serve requirements, and FHFA finds that the goals or requirements 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. See "Business—Our Charter and Regulation of Our Activities—The GSE Act—Housing Goals and Duty to Serve Underserved Markets" for more information on our housing goals and duty to serve underserved markets.

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 our business. 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 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 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 12, 2015, 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”).

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, 2014 was $2.6 billion, for which we posted collateral of $2.4 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, 2014. If all of the credit-risk-related contingency features underlying these agreements had been triggered, an additional $269 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, 2014. 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 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 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, financial guarantors and reinsurers; issuers of investments 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, changes in its servicer 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 2014, 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.

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.

Our financial condition or results of operations may be adversely affected if mortgage servicers fail to perform their obligations to us.

We delegate the servicing of the mortgage loans in our guaranty book of business to mortgage servicers; we do not have our own servicing function. Functions performed by mortgage servicers on our behalf include collecting and delivering principal and interest payments, administering escrow accounts, monitoring and reporting delinquencies, performing default prevention activities and other functions. The inability of a mortgage servicer to perform these functions due to financial, operational, regulatory or other issues could negatively affect our ability to manage our book of business, delay or prevent our collection of amounts due to us or otherwise result in the failure to perform other servicing duties, resulting in financial losses. In addition, our servicers have an active role in our loss mitigation efforts, and a decline in their performance could affect our credit performance, including through missed opportunities for loan modifications.

In recent periods, non-depository servicers that specialize in servicing troubled loans have experienced rapid growth in their servicing portfolios, and now service a large portion of our loans. The rapid expansion of these servicers' servicing portfolios results in increased operational risk, which could negatively impact their ability to effectively manage their servicing portfolios. In addition, regulatory bodies have been reviewing the activities of some of our largest non-depository servicers.

If we replace a mortgage servicer, we likely would incur costs and potential increases in servicing fees and could also face operational risks. If a mortgage servicer counterparty fails, it could result in a temporary disruption in servicing and loss

mitigation activities relating to the loans serviced by that mortgage servicer, particularly if there is a loss of experienced servicing personnel. We may also face challenges in transferring a large servicing portfolio.
Multifamily mortgage servicing is typically performed by the lenders who sell the mortgages to us. We are exposed to the risk that multifamily servicers could come under financial pressure, which could potentially result in a decline in the quality of the servicing they provide us.

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"), Triad Guaranty Insurance Corporation ("Triad") and Republic Mortgage Insurance Company ("RMIC") 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 Triad have been paying only a portion of policyholder claims and deferring the remaining portion. PMI is currently paying 67% of claims under its mortgage insurance policies in cash and is deferring the remaining 33%, and Triad is currently paying 75% of claims in cash and deferring the remaining 25%. It is uncertain whether PMI or 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. RMIC is no longer deferring payments on policyholder claims and has paid us its previously outstanding deferred payment obligations; however, RMIC has not paid us interest on its deferred payment obligations and remains in run-off and under the supervisory control of its state regulator. PMI, Triad and RMIC provided a combined $12.3 billion, or 11%, of our risk in force mortgage insurance coverage of our single-family guaranty book of business as of December 31, 2014.

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 have been 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 33% of our single-family business acquisition volume in 2014, compared with approximately 42% in 2013. Our five largest single-family mortgage servicers, including their affiliates, serviced approximately 46% of our single-family guaranty book of business as of December 31, 2014, compared with approximately 49% as of December 31, 2013.

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 have been acquiring an increasing portion of our single-family business volume directly from smaller financial institutions, we have continued 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 33% of our single-family business acquisition volume in 2014. 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.

We expect the slow pace of single-family foreclosures in some states will continue to adversely affect our business, results of operations, financial condition and net worth.

The processing of foreclosures of single-family loans 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, and federal and state servicing requirements imposed by regulatory actions and legal settlements in recent years. The slow pace of foreclosures in some states 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 states is contributing to a slower recovery of those housing markets.

Challenges to the MERS® company, system and processes could pose operational, reputational and legal risks for us.

MERSCORP Holdings, Inc. (“MERSCORP”) is a privately held company that maintains an electronic registry (the “MERS System”) that tracks servicing rights and ownership of loans in the United States. Mortgage Electronic Registration Systems, Inc. (“MERS”), a wholly owned subsidiary of MERSCORP, can serve as a nominee for the owner of a mortgage loan and, in that role, become the mortgagee of record for the loan in local land records. Fannie Mae sellers and 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.

Numerous 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, fines and penalties 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 that result in 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 statements, as well as our estimates of our future results of operations, may be inaccurate, perhaps significantly.

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

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

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

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

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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.

We mark to market changes in the estimated fair value of our derivatives through our earnings on a quarterly basis, but we do not similarly mark to market changes in some of the financial instruments that generate our interest rate risk exposures. As a result, changes in interest rates, particularly significant changes, can have a significant adverse effect on our earnings and net worth for the quarter in which the changes occur, depending on the nature of the changes and the derivatives we hold at that time. We have experienced significant fair value losses in some periods due to changes in interest rates, and we expect to continue to experience volatility from period to period in our financial results as a result of fair value losses or gains on our derivatives.

Changes in interest rates also can affect our credit losses. When interest rates increase, our credit losses from loans with adjustable payment terms may increase as borrower payments increase at their reset dates, which increases the borrower's risk of default, particularly for adjustable-rate loans with interest-only features. Rising interest rates may also reduce the opportunity for these borrowers to refinance into a fixed-rate loan. Similarly, many borrowers may have additional debt obligations, such as home equity lines of credit and second liens, that also have adjustable payment terms. If a borrower's payment on his or her other debt obligations increases due to rising interest rates or a change in amortization, it increases the risk that the borrower may default on a loan we own or guarantee.

Changes in spreads could materially impact our results of operations, net worth and the fair value of our net assets.

Spread risk or basis risk is the resulting impact of changes in the spread between our mortgage assets and our debt and derivatives we use to hedge our position. Changes in market conditions, including changes in interest rates, liquidity, prepayment and default expectations, and the level of uncertainty in the market for a particular asset class may cause fluctuations in spreads. Changes in mortgage spreads have contributed to significant volatility in our financial results in certain periods, due to fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings, and this could occur again in a future period. A widening of mortgage spreads could cause significant fair value losses, and could adversely affect our near-term financial results and net worth. We do not actively manage or hedge our spread risk after we purchase mortgage assets, other than through asset monitoring and disposition.

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

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

The Charter Act defines our permissible business activities. For example, we may not originate mortgage loans or purchase single-family loans in excess of the conforming loan limits, and our business is limited to the U.S. housing finance sector. In addition, as described in a previous risk factor, our business activities are subject to significant restrictions as a result of the conservatorship and the senior preferred stock purchase agreement. 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.

Our business and financial results could be materially adversely affected by legal or regulatory proceedings.

We are a party to various claims and other legal proceedings. We also have been, and in the future may be, involved in government investigations. We may be required to establish reserves and to make substantial payments in the event of adverse judgments or settlements of any such claims, investigations or proceedings, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. Any legal proceeding or governmental investigation, even if resolved in our favor, could result in negative publicity or cause us to incur significant legal and other expenses. In addition, certain of our former officers are involved in legal proceedings for which they may be entitled to reimbursement by us for costs and expenses of the proceedings.

Developments in, outcomes of, impacts of, and costs, expenses, settlements and judgments related to these legal proceedings and governmental investigations may differ from our expectations and exceed any amounts for which we have reserved or require adjustments to such reserves. In addition, responding to these matters could divert significant internal resources away from managing our business.

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

Our business and financial results are affected by general economic conditions, particularly home prices and employment trends, and a deterioration of economic conditions or the financial markets may materially adversely affect our result of operations, net worth and financial condition.

Our business is significantly affected by the status of the U.S. economy, particularly home prices and employment trends. Although the U.S. economy has continued to gradually improve, economic growth and improvement in the housing market have been modest. A prolonged period of slow growth in the U.S. economy or any deterioration in general economic conditions or the financial markets could materially adversely affect our result of operations, net worth and financial condition. For example, if home prices decrease or the unemployment rate increases, it could result in significantly higher levels of credit losses and credit-related expense.

Global economic conditions can also adversely affect our business and financial results. Changes or volatility in market conditions resulting from deterioration in or uncertainty regarding global economic conditions can adversely affect the value of our assets, which could materially adversely affect our results of operations, net worth and financial condition. For example, weak economic conditions in Europe and concerns about the European banking system resulted in a significant decline in interest rates in the fourth quarter of 2014. This decline in interest rates contributed to the fair value losses on our derivatives in the fourth quarter of 2014. Volatility or uncertainty in global political conditions can also significantly affect economic conditions and the financial markets. We describe above the risks to our business posed by changes in interest rates and changes in spreads. In addition, as described above, 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.

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 2013 and in 2014. Interest rates subsequently declined in late 2014 and early 2015 to levels similar to mid-2013. If interest rates rise again, 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.

In recent years, the Federal Reserve has purchased a significant amount of mortgage-backed securities issued by us, Freddie Mac and Ginnie Mae. The Federal Reserve began to taper these purchases in January 2014 and concluded its asset purchase program in October 2014. In announcing the conclusion of its asset purchase program, the Federal Reserve stated that it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities; therefore, it has continued to purchase a significant amount of agency mortgage-backed securities. Any change in the Federal Reserve's policy towards the reinvestment of principal payments of mortgage-backed securities, or possible future sales of mortgage-backed securities by the Federal Reserve, could result in increases in mortgage interest rates and adversely affect our business volume, which could adversely affect our results of operations and financial condition.

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

The Dodd-Frank Act has significantly changed the regulation of the financial services industry. This legislation is affecting and will continue to affect many aspects of our business and could affect us in substantial and unforeseeable ways. 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. 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. The Dodd-Frank Act's impact on our customers' and counterparties' business practices could indirectly adversely affect our business. For example, if our customers reduce the amount of their mortgage originations, it would adversely affect the number of mortgages available for us to purchase or guarantee.

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 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 single-counterparty credit limit regulations, which could cause our customers to change their business practices. 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. We have not received any notification of possible designation as a systemically important financial institution.

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.

Legislative, regulatory or judicial actions could negatively impact our business, results of operations, financial condition or net worth.

Legislative, regulatory or judicial actions at the federal, state or local level could negatively impact our business, results of operations, financial condition or net worth. Legislative, regulatory or judicial actions could affect us in a number of ways, including by imposing significant additional costs on us and diverting management attention or other resources. For example, we could be affected by legislative or regulatory changes that expand the responsibilities and liabilities of servicers and assignees for maintaining vacant properties prior to foreclosure, which could increase our costs. We also could be affected by state laws and court decisions granting priority rights for homeowners associations in foreclosure proceedings, which could adversely affect our ability to recover our losses on affected loans. In addition, as described above, our business could be materially adversely affected by legislative and regulatory actions relating to housing finance reform or the financial services industry or by legal or regulatory proceedings.

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 or nationally.

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, cyber 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 or, depending on the nature of the event, nationally.

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.

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.

In January 2015, we entered into a lease for a future principal office to be built at 1150 15th Street, NW, Washington, DC. The lease provides that the building will be delivered in two phases in 2017 and 2018.

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. Fourteen of these lawsuits were resolved during 2013 and 2014, and two remain pending.

One of the remaining lawsuits is against Nomura Holding America Inc. and certain related entities and individuals, and is pending in the U.S. District Court for the Southern District of New York. The other remaining lawsuit is against The Royal

Bank of Scotland Group PLC and certain related entities and individuals, and is pending in the U.S. District Court for the District of Connecticut. Both lawsuits were filed on September 2, 2011. These two remaining lawsuits seek to recover losses we and Freddie Mac incurred on the private-label mortgage-related securities the defendants sold to us and Freddie Mac. The lawsuits allege that the defendants violated federal and state securities laws by making material misstatements and omissions regarding the characteristics of the loans underlying the securities in the offering documents for the securities that were sold to Fannie Mae and Freddie Mac. The complaints seek, among other things, rescission and recovery of consideration paid for the securities at issue in the lawsuits, monetary damages and interest.

Senior Preferred Stock Purchase Agreements Litigation

Between June 2013 and August 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. On September 30, 2014, the U.S. District Court for the District of Columbia dismissed all but one of the cases pending before that court. The plaintiffs in each of the dismissed cases have filed a notice of appeal. The plaintiffs in the case that was not dismissed by the court voluntarily dismissed their lawsuit on October 31, 2014. On February 3, 2015, the U.S. District Court for the Southern District of Iowa dismissed the single case pending before it. The matters where Fannie Mae is a named defendant are described below or in “Note 19, Commitments and Contingencies.”

Fannie Mae is a nominal defendant in two actions filed against the United States in the U.S. Court of Federal Claims: Fisher v. United States of America, filed on December 2, 2013, and Rafter v. United States of America, filed on August 14, 2014. Plaintiffs in these cases 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. The Fisher plaintiffs are pursuing this claim derivatively on behalf of Fannie Mae, while the Rafter plaintiffs are pursing the claim directly against the United States. Plaintiffs in Rafter also allege a derivative claim that the government breached an implied contract with Fannie Mae’s Board of Directors by implementing the net worth sweep dividend provisions. Plaintiffs in Fisher request just compensation to Fannie Mae in an unspecified amount. Plaintiffs in Rafter seek just compensation to themselves on their constitutional claim and payment of damages to Fannie Mae on their derivative claim for breach of an implied contract. The United States filed a motion to dismiss the Fisher case on January 23, 2014; however, the court has stayed proceedings in this case until discovery in a related case, Fairholme Funds v. United States, is complete and the court sets a date for the Fairholme plaintiffs to respond to the government’s motion to dismiss filed in that case. In the Rafter case, the court has ordered the government to file a response to the complaint within sixty days after discovery is complete in the Fairholme Funds case.

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 (“BBA”) and BBA LIBOR Ltd. alleging they manipulated LIBOR. On October 6, 2014, Fannie Mae filed an amended complaint alleging, among other things, that the banks submitted false borrowing costs to the BBA in order to suppress LIBOR. The amended complaint seeks compensatory and punitive damages based on claims for breach of contract, breach of the implied duty of good faith and fair dealing, unjust enrichment, fraud and conspiracy to commit fraud. The defendants filed motions to dismiss the lawsuit on November 5, 2014.

Item 4. Mine Safety Disclosures

None.

PART II

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

Our common stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board under the ticker symbol "FNMA." The transfer agent and registrar for our common stock is Computershare, P.O. Box 30170, College Station, TX 77845-3170.

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
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
2014		
First Quarter	$6.35	$2.76
Second Quarter	4.80	3.57
Third Quarter	4.64	2.54
Fourth Quarter	2.61	1.43

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.

Holders

As of January 31, 2015, we had approximately 13,000 registered holders of record of our common stock. In addition, as of January 31, 2015, 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, 2014, we did not issue any equity securities.

Information about Certain Securities Issuances by Fannie Mae

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

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

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

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

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

Our Purchases of Equity Securities

We did not repurchase any of our equity securities during the fourth quarter of 2014.

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, 2014, as well as selected consolidated balance sheet data as of the end of each year within this five-year period. 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.

	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Statement of operations data:					
Net revenues[1]	$25,855	$26,334	$22,988	$20,444	$17,493
Net income (loss) attributable to Fannie Mae	14,208	83,963	17,224	(16,855)	(14,014)
New business purchase data:					
New business purchases[2]	$409,834	$759,535	$867,387	$580,574	$625,282
Performance ratios:					
Net interest yield[3]	0.63 %	0.70 %	0.68 %	0.60 %	0.51 %
Credit loss ratio (in basis points)[4]	19.4 bps	14.7 bps	48.2 bps	61.3 bps	77.4 bps

	As of December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Balance sheet data:					
Investments in securities	$62,158	$68,939	$103,876	$151,780	$151,248
Mortgage loans, net of allowance[5]	3,019,494	3,026,240	2,949,406	2,898,621	2,923,720
Total assets	3,248,176	3,270,108	3,222,422	3,211,484	3,221,972
Short-term debt	106,572	74,449	108,716	151,725	157,243
Long-term debt	3,115,583	3,160,074	3,080,801	3,038,147	3,039,757
Total liabilities	3,244,456	3,260,517	3,215,198	3,216,055	3,224,489
Senior preferred stock	117,149	117,149	117,149	112,578	88,600
Preferred stock	19,130	19,130	19,130	19,130	20,204
Total Fannie Mae stockholders' equity (deficit)	3,680	9,541	7,183	(4,624)	(2,599)
Net worth surplus (deficit)	3,720	9,591	7,224	(4,571)	(2,517)

	As of December 31, 2014	2013	2012	2011	2010
	(Dollars in millions)				
Book of business data:					
Mortgage credit book of business[6]	$3,091,102	$3,136,765	$3,116,842	$3,127,634	$3,156,192
Guaranty book of business[7]	3,056,219	3,090,538	3,039,457	3,037,549	3,054,488
Credit quality:					
Total troubled debt restructurings on accrual status	$145,294	$141,227	$136,064	$108,797	$82,702
Total nonaccrual loans[8]	64,959	83,606	114,833	143,152	170,877
Total loss reserves	38,173	47,290	62,629	76,938	66,251
Total loss reserves as a percentage of total guaranty book of business	1.25 %	1.53 %	2.06 %	2.53 %	2.17 %
Total loss reserves as a percentage of total nonaccrual loans	58.76	56.56	54.54	53.75	38.77

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

(2) New business purchases consist of single-family and multifamily whole mortgage loans purchased during the period and single-family and multifamily mortgage loans underlying lender swaps issued during the period.

(3) 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.

(4) Consists of (a) charge-offs, net of recoveries and (b) foreclosed property expense (income) for the reporting period (adjusted to exclude the impact of fair value losses resulting from credit-impaired loans acquired from MBS trusts) 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—Credit Loss Performance Metrics" for a discussion of how our credit loss metrics are calculated.

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

(6) Refers to the sum of the unpaid principal balance of: (a) mortgage loans of Fannie Mae; (b) mortgage loans underlying Fannie Mae MBS; (c) non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio; and (d) other credit enhancements that we provide on mortgage assets.

(7) 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.

(8) 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.

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, 2014 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 three 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
- 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 continually monitor prepayment, delinquency, modification, default and loss severity trends and periodically make changes in

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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 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. 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 recent regional historical sales and appraisal information, including the sales of our own foreclosed properties, to develop our loss severity estimates for all loan categories. We then allocate a portion of the reserve to interest accrued on the loans as of the balance sheet date.

In the third quarter of 2014, we updated the model and the assumptions used to estimate cash flows for individually impaired single-family loans within our allowance for loan losses. In addition to incorporating recent loan performance, this update better captures regional variations in expected future cash flows, particularly with respect to expectations of future home prices. This update resulted in a decrease to our allowance for loan losses and an incremental benefit for credit losses of approximately $600 million.

Multifamily Loss Reserves

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

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

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.

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. We recognized a benefit for federal income taxes of $58.3 billion in our consolidated statement of operations and comprehensive income for the year ended December 31, 2013 related to the release of the valuation allowance against our deferred tax assets, partially offset by our 2013 provision for federal income taxes, resulting in a net tax benefit of $45.4 billion in 2013.

As of December 31, 2014, we continued to conclude that the positive evidence in favor of the recoverability of our deferred tax assets outweighed the negative evidence and that it was more likely than not that our deferred tax assets, except the deferred tax assets relating to capital loss carryforwards, will be realized. The balance of our net deferred tax assets was $42.2 billion as of December 31, 2014, compared with net deferred tax assets of $47.6 billion as of December 31, 2013.

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	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
	(Dollars in millions)				
Net interest income	$19,968	$22,404	$21,501	$(2,436)	$903
Fee and other income	5,887	3,930	1,487	1,957	2,443
Net revenues	25,855	26,334	22,988	(479)	3,346
Investment gains (losses), net	936	1,127	(226)	(191)	1,353
Fair value (losses) gains, net	(4,833)	2,959	(2,977)	(7,792)	5,936
Administrative expenses	(2,777)	(2,545)	(2,367)	(232)	(178)
Credit-related income					
Benefit for credit losses	3,964	8,949	852	(4,985)	8,097
Foreclosed property (expense) income	(142)	2,839	254	(2,981)	2,585
Total credit-related income	3,822	11,788	1,106	(7,966)	10,682
Other non-interest expenses[1]	(1,853)	(1,096)	(1,304)	(757)	208
Income before federal income taxes	21,150	38,567	17,220	(17,417)	21,347
(Provision) benefit for federal income taxes	(6,941)	45,415	—	(52,356)	45,415
Net income	14,209	83,982	17,220	(69,773)	66,762
Less: Net (income) loss attributable to noncontrolling interest	(1)	(19)	4	18	(23)

Net income attributable to Fannie Mae	$14,208	$83,963	$17,224	$(69,755)	$66,739
Total comprehensive income attributable to Fannie Mae	$14,738	$84,782	$18,843	$(70,044)	$65,939

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

We recognized income of $5.7 billion in both 2014 and 2013, and $1.9 billion in 2012, as a result of resolution agreements we reached relating to PLS sold to us, representation and warranty matters and compensatory fees. These amounts are included in net interest income, fee and other income, benefit for credit losses and foreclosed property (expense) income in our consolidated result of operations. We expect income from resolution agreements will be significantly lower in future years.

Net Interest Income

We currently have two primary sources of net interest income: (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, which we refer to as mortgage loans of consolidated trusts.

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,								
	2014			2013			2012		
	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	$286,042	$10,285	3.60 %	$326,399	$12,790	3.92 %	$370,455	$14,255	3.85 %
Mortgage loans of consolidated trusts	2,769,418	101,835	3.68	2,710,838	101,448	3.74	2,621,317	110,451	4.21
Total mortgage loans[1]	3,055,460	112,120	3.67	3,037,237	114,238	3.76	2,991,772	124,706	4.17
Mortgage-related securities	143,934	6,713	4.66	203,514	9,330	4.58	268,761	12,709	4.73
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(98,778)	(4,572)	4.63	(133,243)	(6,236)	4.68	(173,933)	(8,492)	4.88
Total mortgage-related securities, net	45,156	2,141	4.74	70,271	3,094	4.40	94,828	4,217	4.45
Non-mortgage securities[2]	35,184	34	0.10	41,484	42	0.10	50,282	71	0.14
Federal funds sold and securities purchased under agreements to resell or similar arrangements	33,631	32	0.10	61,644	68	0.11	38,708	73	0.19
Advances to lenders	3,454	78	2.26	5,115	107	2.09	6,220	123	1.98
Total interest-earning assets	$3,172,885	$114,405	3.61 %	$3,215,751	$117,549	3.66 %	$3,181,810	$129,190	4.06 %
Interest-bearing liabilities:									
Short-term debt	$86,866	$92	0.11 %	$95,098	$128	0.13 %	$102,877	$147	0.14 %
Long-term debt	398,876	8,508	2.13	498,735	10,263	2.06	561,280	11,925	2.12
Total short-term and long-term funding debt	485,742	8,600	1.77	593,833	10,391	1.75	664,157	12,072	1.82
Debt securities of consolidated trusts	2,824,638	90,409	3.20	2,783,622	90,990	3.27	2,697,592	104,109	3.86
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(98,778)	(4,572)	4.63	(133,243)	(6,236)	4.68	(173,933)	(8,492)	4.88

Total debt securities of consolidated trusts held by third parties	2,725,860	85,837	3.15	2,650,379	84,754	3.20	2,523,659	95,617	3.79
Total interest-bearing liabilities	$3,211,602	$94,437	2.94 %	$3,244,212	$95,145	2.93 %	$3,187,816	$107,689	3.38 %
Net interest income/net interest yield		$19,968	0.63 %		$22,404	0.70 %		$21,501	0.68 %

As