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FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE

Form 10-K

August 16, 2007

Table of Contents

**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, 2006

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:
None

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, without par value
(Title of class)

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

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements

incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the common stock held by non-affiliates of the registrant computed by reference to the price at which the common stock was last sold on June 29, 2007 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately \$63,724 million.

As of June 30, 2007, there were 973,451,598 shares of common stock of the registrant outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

None.

Table of Contents**TABLE OF CONTENTS**

<u>PART I</u>		1
<u>Item 1.</u>	<u>Business</u>	1
	<u>Explanatory Note About This Report</u>	1
	<u>Overview</u>	1
	<u>Residential Mortgage Market Overview</u>	2
	<u>Our Customers</u>	4
	<u>Business Segments</u>	4
	<u>Risk Management</u>	11
	<u>Competition</u>	11
	<u>Our Charter and Regulation of Our Activities</u>	12
	<u>Employees</u>	20
	<u>Where You Can Find Additional Information</u>	20
	<u>Forward-Looking Statements</u>	21
<u>Item 1A.</u>	<u>Risk Factors</u>	22
<u>Item 1B.</u>	<u>Unresolved Staff Comments</u>	33
<u>Item 2.</u>	<u>Properties</u>	33
<u>Item 3.</u>	<u>Legal Proceedings</u>	33
<u>Item 4.</u>	<u>Submission of Matters to a Vote of Security Holders</u>	39
		40
	<u>PART II</u>	
<u>Item 5.</u>	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	40
<u>Item 6.</u>	<u>Selected Financial Data</u>	43
<u>Item 7.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	46
	<u>Organization of MD&A</u>	46
	<u>Executive Summary</u>	46
	<u>Critical Accounting Policies and Estimates</u>	53
	<u>Consolidated Results of Operations</u>	59
	<u>Business Segment Results</u>	74
	<u>Consolidated Balance Sheet Analysis</u>	79
	<u>Supplemental Non-GAAP Information Fair Value Balance Sheet</u>	88
	<u>Liquidity and Capital Management</u>	95
	<u>Off-Balance Sheet Arrangements and Variable Interest Entities</u>	104
	<u>2006 Quarterly Review</u>	107
	<u>Risk Management</u>	117
	<u>Impact of Future Adoption of New Accounting Pronouncements</u>	150
	<u>Glossary of Terms Used in This Report</u>	152
<u>Item 7A.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	157
<u>Item 8.</u>	<u>Financial Statements and Supplementary Data</u>	157
<u>Item 9.</u>	<u>Changes in and Disagreements with Accountants on Accounting and Financial Disclosure</u>	157
<u>Item 9A.</u>	<u>Controls and Procedures</u>	158
<u>Item 9B.</u>	<u>Other Information</u>	169

Table of Contents

	<u>PART III</u>	170
<u>Item 10.</u>	<u>Directors, Executive Officers and Corporate Governance</u>	170
<u>Item 11.</u>	<u>Executive Compensation</u>	175
<u>Item 12.</u>	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	202
<u>Item 13.</u>	<u>Certain Relationships and Related Transactions, and Director Independence</u>	205
<u>Item 14.</u>	<u>Principal Accountant Fees and Services</u>	210
	<u>PART IV</u>	211
<u>Item 15.</u>	<u>Exhibits and Financial Statement Schedules</u>	211
	<u>INDEX TO EXHIBITS</u>	E-1
	<u>EX-12.1</u>	
	<u>EX-12.2</u>	
	<u>EX-31.1</u>	
	<u>EX-31.2</u>	
	<u>EX-32.1</u>	
	<u>EX-32.2</u>	
	<u>EX-99.2</u>	
	<u>EX-99.3</u>	
	<u>EX-99.4</u>	

Table of Contents**MD&A TABLE REFERENCE**

Table	Description	Page
	Selected Financial Data	43
<u>1</u>	<u>Derivative Assets and Liabilities at Estimated Fair Value</u>	55
<u>2</u>	<u>Amortization of Cost Basis Adjustments for Investments in Loans and Securities</u>	57
<u>3</u>	<u>Condensed Consolidated Results of Operations</u>	59
<u>4</u>	<u>Analysis of Net Interest Income and Yield</u>	61
<u>5</u>	<u>Rate/Volume Analysis of Net Interest Income</u>	62
<u>6</u>	<u>Analysis of Guaranty Fee Income and Average Effective Guaranty Fee Rate</u>	64
<u>7</u>	<u>Fee and Other Income</u>	65
<u>8</u>	<u>Investment Losses, Net</u>	66
<u>9</u>	<u>Derivatives Fair Value Gains (Losses), Net</u>	68
<u>10</u>	<u>Administrative Expenses</u>	71
<u>11</u>	<u>Business Segment Summary Financial Information</u>	74
<u>12</u>	<u>Mortgage Portfolio Composition</u>	79
<u>13</u>	<u>Mortgage Portfolio Activity</u>	81
<u>14</u>	<u>Non-Mortgage Investments</u>	82
<u>15</u>	<u>Amortized Cost, Maturity and Average Yield of Investments in Available-for-Sale Securities</u>	82
<u>16</u>	<u>Outstanding Debt</u>	83
<u>17</u>	<u>Outstanding Short-Term Borrowings</u>	84
<u>18</u>	<u>Notional and Fair Value of Derivatives</u>	86
<u>19</u>	<u>Changes in Risk Management Derivative Assets (Liabilities) at Fair Value, Net</u>	87
<u>20</u>	<u>Purchased Options Premiums</u>	88
<u>21</u>	<u>Non-GAAP Supplemental Consolidated Fair Value Balance Sheets</u>	90
<u>22</u>	<u>Selected Market Information</u>	93
<u>23</u>	<u>Non-GAAP Estimated Fair Value of Net Assets (Net of Tax Effect)</u>	94
<u>24</u>	<u>Debt Activity</u>	96
<u>25</u>	<u>Fannie Mae Debt Credit Ratings</u>	98
<u>26</u>	<u>Contractual Obligations</u>	99
<u>27</u>	<u>Regulatory Capital Surplus</u>	101
<u>28</u>	<u>On-and Off-Balance Sheet MBS and Other Guaranty Arrangements</u>	106
<u>29</u>	<u>LIHTC Partnership Investments</u>	107
<u>30</u>	<u>2006 Quarterly Consolidated Statements of Income</u>	108
<u>31</u>	<u>2005 Quarterly Consolidated Statements of Income</u>	109
<u>32</u>	<u>2006 Quarterly Condensed Consolidated Balance Sheets</u>	110
<u>33</u>	<u>2006 Quarterly Condensed Business Segment Results</u>	111
<u>34</u>	<u>Composition of Mortgage Credit Book of Business</u>	120
<u>35</u>	<u>Risk Characteristics of Conventional Single-Family Business Volume and Mortgage Credit Book of Business</u>	125
<u>36</u>	<u>Statistics on Conventional Single-Family Problem Loan Workouts</u>	129

Table of Contents

Table	Description	Page
<u>37</u>	<u>Serious Delinquency Rates</u>	131
<u>38</u>	<u>Nonperforming Single-Family and Multifamily Loans</u>	132
<u>39</u>	<u>Single-Family and Multifamily Foreclosed Properties</u>	133
<u>40</u>	<u>Single-Family and Multifamily Credit Loss Performance</u>	134
<u>41</u>	<u>Single-Family Credit Loss Sensitivity</u>	135
<u>42</u>	<u>Allowance for Loan Losses and Reserve for Guaranty Losses</u>	136
<u>43</u>	<u>Credit Loss Exposure of Risk Management Derivative Instruments</u>	139
<u>44</u>	<u>Activity and Maturity Data for Risk Management Derivatives</u>	144
<u>45</u>	<u>Interest Rate Sensitivity of Fair Value of Net Assets</u>	146

Table of Contents

PART I

Because of the complexity of our business and the financial services industry in which we operate, we have included in this Annual Report on Form 10-K a glossary under Item 7 MD&A Glossary of Terms Used in This Report beginning on page 152.

Item 1. Business

EXPLANATORY NOTE ABOUT THIS REPORT

We filed our Annual Report on Form 10-K for the year ended December 31, 2005 (2005 Form 10-K) on May 2, 2007, after filing our Annual Report on Form 10-K for the year ended December 31, 2004 (2004 Form 10-K) on December 6, 2006. The filing of these reports represented a significant step in our efforts to return to timely financial reporting. Our 2004 Form 10-K contained our consolidated financial statements and related notes for the year ended December 31, 2004, as well as a restatement of our previously issued consolidated financial statements and related notes for the years ended December 31, 2003 and 2002, and for the quarters ended June 30, 2004 and March 31, 2004. The filing of the 2004 Form 10-K, the 2005 Form 10-K and this Annual Report on Form 10-K for the year ended December 31, 2006 (2006 Form 10-K) were delayed significantly as a result of the substantial time and effort devoted to ongoing controls remediation, and systems reengineering and development in order to complete the restatement of our financial results for 2003 and 2002, as presented in our 2004 Form 10-K. Because of the delay in our periodic reporting, where appropriate, the information contained in this report reflects more current information about our business, including information of the type we have included in previous Forms 12b-25 that we have filed with the Securities and Exchange Commission (SEC) to report the late filing of prior periodic reports. All amounts in this 2006 Form 10-K affected by the restatement adjustments reported in our 2004 Form 10-K reflect those amounts as restated.

In lieu of filing quarterly reports for 2006, we have included in this report substantially all of the information required to be included in quarterly reports. We have made significant progress in our efforts to remediate material weaknesses that have prevented us from reporting our financial results on a timely basis. On June 8, 2007, we announced that we plan to become a current filer by the end of February 2008 with the filing of our Annual Report on Form 10-K for the year ended December 31, 2007 (2007 Form 10-K) with the SEC. At this time, we are confirming our expectation that we will file our 2007 Form 10-K on a timely basis. In addition, we expect to file our Forms 10-Q for the first, second, and third quarters of 2007 by December 31, 2007.

OVERVIEW

Fannie Mae's activities enhance the liquidity and stability of the mortgage market and contribute to making housing in the United States more affordable and more available to low-, moderate- and middle-income Americans. These activities include providing funds to mortgage lenders through our purchases of mortgage assets, and issuing and guaranteeing mortgage-related securities that facilitate the flow of additional funds into the mortgage market. We also make other investments that increase the supply of affordable housing.

We are a government-sponsored enterprise (GSE) chartered by the U.S. Congress under the name Federal National Mortgage Association and are aligned with national policies to support expanded access to housing and increased opportunities for homeownership. We are subject to government oversight and regulation. Our regulators include the Office of Federal Housing Enterprise Oversight (OFHEO), the Department of Housing and Urban Development (HUD), the SEC, and the Department of the Treasury.

Although we are a corporation chartered by the U.S. Congress, the U.S. government does not guarantee, directly or indirectly, our securities or other obligations. We are a stockholder-owned corporation, and our business is self-sustaining and funded exclusively with private capital. Our common stock is listed on the New York Stock Exchange (NYSE), and traded under the symbol FNM. Our debt securities are actively traded in the over-the-counter market.

Table of Contents**RESIDENTIAL MORTGAGE MARKET OVERVIEW**

We operate in the U.S. residential mortgage market, specifically in the secondary mortgage market where mortgages are bought and sold. We discuss below the dynamics of the residential mortgage market and our role in the secondary mortgage market.

Residential Mortgage Market

Our business operates within the U.S. residential mortgage market, and therefore, we consider the amount of U.S. residential mortgage debt outstanding to be the best measure of the size of our overall market. As of March 31, 2007, the latest date for which information was available, the amount of U.S. residential mortgage debt outstanding was estimated by the Federal Reserve to be approximately \$11.2 trillion (including \$10.4 trillion of single-family mortgages). Our mortgage credit book of business, which includes mortgage assets we hold in our investment portfolio, our Fannie Mae mortgage-backed securities held by third parties and credit enhancements that we provide on mortgage assets, was \$2.6 trillion as of March 31, 2007, or approximately 23% of total U.S. residential mortgage debt outstanding. Fannie Mae mortgage-backed securities or Fannie Mae MBS generally refers to those mortgage-related securities that we issue and with respect to which we guarantee to the related trusts that we will supplement amounts received by those MBS trusts as required to permit timely payment of principal and interest on the Fannie Mae MBS. We also issue some forms of mortgage-related securities for which we do not provide this guaranty.

The U.S. residential mortgage market has experienced strong long-term growth. According to Federal Reserve estimates, growth in U.S. residential mortgage debt outstanding averaged 10.6% per year from 1945 to 2006, which is faster than the 6.9% average growth in the overall U.S. economy over the same period, as measured by nominal gross domestic product. Growth in U.S. residential mortgage debt outstanding was particularly strong between 2001 and mid-2006 (with an average annualized growth rate of 12.8%). As indicated in the table below, which provides a comparison of overall housing and mortgage market statistics to our business activity, total U.S. residential mortgage debt outstanding grew at an even faster rate of approximately 14% in 2005. Growth in U.S. residential mortgage debt slowed to approximately 9% in 2006, and slowed further in early 2007, with an annualized first quarter growth rate of nearly 6%, the slowest rate of growth in almost 10 years.

Housing Market Data

	2006	2005	2004	% Change from Prior Year	
				2006	2005
Housing and mortgage market: ⁽¹⁾					
Home sales (units in thousands)	7,529	8,359	7,981	(10)%	5%
Home price appreciation ⁽²⁾	9.1%	13.1%	10.7%		
Single-family mortgage originations (in billions)	\$ 2,761	\$ 3,034	\$ 2,791	(9)	9
Purchase share	52.4%	49.8%	47.8%		
Refinance share	47.6%	50.2%	52.2%		
ARM share ⁽³⁾	27.6%	31.4%	32.0%		
Fixed-rate mortgage share	72.4%	68.6%	68.0%		

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Residential mortgage debt outstanding (in billions)	\$ 11,017	\$ 10,066	\$ 8,866	9	14
Fannie Mae:					
New business acquisitions ⁽⁴⁾ (in billions)	\$ 603	\$ 612	\$ 725	(2)	(16)
Mortgage credit book of business ⁽⁵⁾ (in billions)	\$ 2,526	\$ 2,356	\$ 2,340	7	1
Interest rate risk market share ⁽⁶⁾	6.6%	7.2%	10.2%		
Credit risk market share ⁽⁷⁾	21.4%	21.8%	24.2%		

2

Table of Contents

- (1) The sources of the housing and mortgage market data are the Federal Reserve Board, the Bureau of the Census, HUD, the National Association of Realtors, the Mortgage Bankers Association, and OFHEO. Mortgage originations, as well as the purchase and refinance shares, are based on July 2007 estimates from Fannie Mae's Economics & Mortgage Market Analysis Group. Certain previously reported data may have been changed to reflect revised historical data from any or all of these organizations.
- (2) OFHEO publishes a House Price Index (HPI) quarterly using data provided by Fannie Mae and Freddie Mac. The HPI is a truncated measure because it is based solely on loans from Fannie Mae and Freddie Mac. As a result, it excludes loans in excess of conventional loan amounts, or jumbo loans, and includes only a portion of total subprime and Alt-A loans outstanding in the overall market. The HPI is a weighted repeat transactions index, meaning that it measures average price changes in repeat sales or refinancings on the same properties. House price appreciation reported above reflects the annual average HPI of the reported year compared with the annual average HPI of the prior year.
- (3) The adjustable-rate mortgage share, or ARM share, is the ARM share of the number of mortgage applications reported in the Mortgage Bankers Association's Weekly Mortgage Applications Survey.
- (4) Represents the sum in any given period of the unpaid principal balance of: (1) the mortgage loans and mortgage-related securities we purchase for our investment portfolio; and (2) the mortgage loans we securitize into Fannie Mae MBS that are acquired by third parties. Excludes mortgage loans we securitize from our portfolio.
- (5) Represents the sum of the unpaid principal balance of: (1) the mortgage loans we hold in our investment portfolio; (2) the Fannie Mae MBS and non-Fannie Mae mortgage-related securities we hold in our investment portfolio; (3) Fannie Mae MBS held by third parties; and (4) credit enhancements that we provide on mortgage assets.
- (6) Represents the estimated share of total U.S. residential mortgage debt outstanding on which we bear the interest rate risk. Calculated based on the unpaid principal balance of mortgage loans and mortgage-related securities we hold in our mortgage portfolio as a percentage of total U.S. residential mortgage debt outstanding.
- (7) Represents the estimated share of total U.S. residential mortgage debt outstanding on which we bear the credit risk. Calculated based on the unpaid principal balance of mortgage loans we hold in our mortgage portfolio and Fannie Mae MBS outstanding as a percentage of total U.S. residential mortgage debt outstanding.

The unusually strong growth in U.S. residential mortgage debt outstanding between 2001 and mid-2006 was driven primarily by record home sales, strong home price appreciation and historically low interest rates. Also contributing to that growth was the increased use of mortgage debt financing by homeowners and demographic trends that contributed to increased household formation and higher homeownership rates. Growth in U.S. residential mortgage debt outstanding moderated in 2006 in response to slower home price growth, a sharp drop-off in home sales and declining refinance activity. With even less housing activity and slower home price growth through June 2007, growth in total U.S. residential mortgage debt outstanding likely has slowed further. We expect this slower growth trend in U.S. residential mortgage debt outstanding to continue throughout 2007, and we believe average home prices are likely to continue to decline in 2007.

The amount of residential mortgage debt available for us to purchase or securitize and the mix of available mortgage loan products are affected by several factors, including the volume of single-family mortgages within the loan limits imposed under our charter, consumer preferences for different types of mortgages, changes in depository institution

requirements relating to allowable mortgage products in the primary market, and the purchase and securitization activity of other financial institutions. See Item 1A Risk Factors for a description of the risks associated with the recent slowdown in home price appreciation, as well as competitive factors affecting our business.

Our Role in the Secondary Mortgage Market

The mortgage market comprises a major portion of the domestic capital markets and provides a vital source of financing for the large housing segment of the economy, as well as one of the most important means for Americans to achieve their homeownership objectives. The U.S. Congress chartered Fannie Mae and certain other GSEs to help ensure stability and liquidity within the secondary mortgage market. In addition, we believe our activities and those of other GSEs help lower the costs of borrowing in the mortgage market, which makes housing more affordable and increases homeownership, especially for low- to moderate-income families. We believe our activities also increase the supply of affordable rental housing.

Table of Contents

We operate in the secondary mortgage market where mortgages are bought and sold. We securitize mortgage loans originated by lenders in the primary mortgage market into Fannie Mae MBS, which can then be readily bought and sold in the secondary mortgage market. We also participate in the secondary mortgage market by purchasing mortgage loans (often referred to as whole loans) and mortgage-related securities, including Fannie Mae MBS, for our mortgage portfolio. By delivering loans to us in exchange for Fannie Mae MBS, lenders gain the advantage of holding a highly liquid instrument that offers them the flexibility to determine under what conditions they will hold or sell the MBS. By selling loans and mortgage-related securities to us, lenders replenish their funds and, consequently, are able to make additional loans. Under our charter, we may not lend money directly to consumers in the primary mortgage market.

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, investment banks, savings and loan associations, savings banks, commercial banks, credit unions, community banks, 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 loans or in the form of mortgage-related securities.

Our lender customers supply mortgage loans both for securitization into Fannie Mae MBS and for purchase for our mortgage portfolio. During 2006, over 1,000 lenders delivered 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 2006, our top five lender customers, in the aggregate, accounted for approximately 51% of our single-family business volume compared with 49% in 2005. Our top customer, Countrywide Financial Corporation (through its subsidiaries), accounted for approximately 26% of our single-family business volume in 2006 compared with 25% in 2005. Due to increasing consolidation within the mortgage industry, we, as well as our competitors, seek business from a decreasing number of large mortgage lenders. See Item 1A Risk Factors for a discussion of the risks that this customer concentration poses to our business.

BUSINESS SEGMENTS

We operate an integrated business that contributes to providing liquidity to the mortgage market and increasing the availability and affordability of housing in the U.S. We are organized in three complementary business segments:

Our **Single-Family Credit Guaranty** (Single-Family) business works with our lender customers to securitize single-family mortgage loans into Fannie Mae MBS and to facilitate the purchase of single-family mortgage loans for our mortgage portfolio. Our Single-Family business has responsibility for managing our credit risk exposure relating to the single-family Fannie Mae MBS held by third parties, as well as managing and pricing the credit risk of the single-family mortgage loans and single-family Fannie Mae MBS held in our own mortgage portfolio. Revenues in the segment are derived primarily from the guaranty fees the segment receives as compensation for assuming the credit risk on the mortgage loans underlying single-family Fannie Mae MBS and on the single-family mortgage loans held in our portfolio.

Our **Housing and Community Development** (HCD) business works with our lender customers to securitize multifamily mortgage loans into Fannie Mae MBS and to facilitate the purchase of multifamily mortgage loans for our mortgage portfolio. Our HCD business also helps to expand the supply of affordable housing by investing in rental and for-sale housing projects, including rental housing that is eligible for federal low-income housing tax credits. Our HCD business has responsibility for managing our credit risk exposure relating to the multifamily Fannie Mae MBS held by third parties, as well as managing and pricing the credit risk of the multifamily mortgage loans and multifamily Fannie Mae MBS held in our mortgage portfolio. Revenues in the segment are

derived from a variety of sources, including the guaranty fees the segment receives as compensation for assuming the credit risk on the mortgage

Table of Contents

loans underlying multifamily Fannie Mae MBS and on the multifamily mortgage loans held in our portfolio, transaction fees associated with the multifamily business and bond credit enhancement fees. In addition, HCD's investments in rental housing projects eligible for the federal low-income housing tax credit generate both tax credits and net operating losses that reduce our federal income tax liability. Other investments in rental and for-sale housing generate revenue from operations and the eventual sale of the assets.

Our **Capital Markets** group manages our investment activity in mortgage loans and mortgage-related securities, and has responsibility for managing our assets and liabilities and our liquidity and capital positions. Through the issuance of debt securities in the capital markets, our Capital Markets group attracts capital from investors globally to finance housing in the U.S. In addition, our Capital Markets group increases the liquidity of the mortgage market by maintaining a constant presence as an active investor in mortgage assets and in particular supports the liquidity and value of Fannie Mae MBS in a variety of market conditions. Our Capital Markets group has responsibility for managing the credit risk of the non-Fannie Mae mortgage-related securities in our portfolio and for managing our interest rate risk. Our Capital Markets group generates income primarily from the difference, or spread, between the yield on the mortgage assets we own and the cost of the debt we issue in the global capital markets to fund these assets.

The table below displays net revenues, net income and total assets for each of our business segments for each of the three years during the period ended December 31, 2006.

Business Segment Summary Financial Information

For the Year Ended December 31,
2006 2005 2004
(Dollars in millions)

Net revenues: ⁽¹⁾				
Single-Family Credit Guaranty	\$ 6,073	\$ 5,585	\$ 5,007	
Housing and Community Development	510	607	527	
Capital Markets	5,202	10,764	16,666	
Total	\$ 11,785	\$ 16,956	\$ 22,200	
Net income:				0 65,496,390
1/2023	0	0	63,016,022	
7/2023	0	0	60,565,929	
1/2024	0	0	58,055,045	
7/2024	0	0	55,530,463	
1/2025	0	0	52,935,209	
7/2025	0	0	50,324,845	
1/2026	0	0	47,642,371	
7/2026	0	0	44,943,325	
1/2027	0	0	42,170,684	
7/2027	0	0	39,379,960	
1/2028	0	0	36,514,105	
7/2028	0	0	33,628,605	
1/2029	0	0	30,666,385	
7/2029	0	0	27,682,907	
1/2030	0	0	24,621,067	
7/2030	0	0	21,536,299	
1/2031	0	0	18,371,473	
7/2031	0	0	15,181,994	

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1/2032	0	0	11,910,701
7/2032	0	0	8,612,971
1/2033	0	0	5,231,615
7/2033	0	0	1,821,977
1/2034	0	0	0
7/2034	0	0	0
1/2035	0	0	0
7/2035	0	0	0

⁵ Preliminary, subject to change. May not total due to rounding.

FIRSTENERGY OHIO PIRB SPECIAL

PRELIMINARY

June 10, 2013

PURPOSE TRUST 2013

TERM SHEET

OE Funding LLC

Semiannual

Payment Date	Tranche A-1 Balance	Tranche A-2 Balance	Tranche A-3 Balance
Tranche Size	\$ 36,249,000	\$ 10,465,000	\$ 123,263,000
Date			
Closing Date	\$ 36,249,000	\$ 10,465,000	\$ 123,263,000
1/2014	23,312,181	10,465,000	123,263,000
7/2014	8,505,743	10,465,000	123,263,000
1/2015	6,139,875	10,465,000	123,263,000
7/2015	4,393,781	10,465,000	123,263,000
1/2016	2,636,446	10,465,000	123,263,000
7/2016	877,293	10,465,000	123,263,000
1/2017	0	9,587,676	123,263,000
7/2017	0	7,835,974	123,263,000
1/2018	0	6,086,634	123,263,000
7/2018	0	4,337,841	123,263,000
1/2019	0	2,588,726	123,263,000
7/2019	0	853,828	123,263,000
1/2020	0	0	122,409,684
7/2020	0	0	120,725,306
1/2021	0	0	119,024,863
7/2021	0	0	117,240,251
1/2022	0	0	113,192,656
7/2022	0	0	109,122,852
1/2023	0	0	105,003,679
7/2023	0	0	100,872,884
1/2024	0	0	96,718,679
7/2024	0	0	92,465,244
1/2025	0	0	88,170,170
7/2025	0	0	83,773,505
1/2026	0	0	79,332,800
7/2026	0	0	74,788,065
1/2027	0	0	70,196,810
7/2027	0	0	65,499,001
1/2028	0	0	60,752,107
7/2028	0	0	55,896,053
1/2029	0	0	50,988,261
7/2029	0	0	45,968,613
1/2030	0	0	40,894,488
7/2030	0	0	35,705,719
1/2031	0	0	30,459,638
7/2031	0	0	25,096,034
1/2032	0	0	19,672,188
7/2032	0	0	14,127,839
1/2033	0	0	8,520,222
7/2033	0	0	2,789,022
1/2034	0	0	0
7/2034	0	0	0
1/2035	0	0	0
7/2035	0	0	0

FIRSTENERGY OHIO PIRB SPECIAL

PRELIMINARY

June 10, 2013

PURPOSE TRUST 2013

TERM SHEET

TE Funding LLC

Semiannual

Payment Date	Tranche A-1 Balance	Tranche A-2 Balance	Tranche A-3 Balance
Tranche Size	\$ 3,874,000	\$ 3,954,000	\$ 35,873,000
Date			
Closing Date	\$ 3,874,000	\$ 3,954,000	\$ 35,873,000
1/2014	3,461,387	3,954,000	35,873,000
7/2014	2,856,588	3,954,000	35,873,000
1/2015	2,217,911	3,954,000	35,873,000
7/2015	1,595,980	3,954,000	35,873,000
1/2016	949,953	3,954,000	35,873,000
7/2016	326,400	3,954,000	35,873,000
1/2017	0	3,627,530	35,873,000
7/2017	0	2,991,587	35,873,000
1/2018	0	2,326,983	35,873,000
7/2018	0	1,678,442	35,873,000
1/2019	0	997,852	35,873,000
7/2019	0	338,415	35,873,000
1/2020	0	0	35,535,337
7/2020	0	0	34,883,321
1/2021	0	0	34,195,959
7/2021	0	0	33,508,384
1/2022	0	0	32,363,005
7/2022	0	0	31,235,455
1/2023	0	0	30,057,005
7/2023	0	0	28,895,943
1/2024	0	0	27,694,062
7/2024	0	0	26,496,186
1/2025	0	0	25,254,097
7/2025	0	0	24,015,339
1/2026	0	0	22,731,683
7/2026	0	0	21,450,663
1/2027	0	0	20,124,036
7/2027	0	0	18,799,324
1/2028	0	0	17,428,274
7/2028	0	0	16,058,394
1/2029	0	0	14,641,420
7/2029	0	0	13,224,847
1/2030	0	0	11,760,397
7/2030	0	0	10,295,552
1/2031	0	0	8,782,021
7/2031	0	0	7,267,274
1/2032	0	0	5,703,004
7/2032	0	0	4,136,668
1/2033	0	0	2,519,945
7/2033	0	0	900,277
1/2034	0	0	0
7/2034	0	0	0
1/2035	0	0	0
7/2035	0	0	0

FIRSTENERGY OHIO PIRB SPECIAL

PRELIMINARY

June 10, 2013

PURPOSE TRUST 2013

TERM SHEET

Outstanding Certificate Balances

FirstEnergy Ohio PIRB Special Purpose Trust 2013

Semiannual			
Distribution Date	Tranche A-1 Balance	Tranche A-2 Balance	Tranche A-3 Balance
Tranche Size	\$ 112,909,000	\$ 70,695,000	\$ 262,221,000
Date			
Closing Date	\$ 112,909,000	\$ 70,695,000	\$ 262,221,000
1/2014	85,256,045	70,695,000	262,221,000
7/2014	53,909,401	70,695,000	262,221,000
1/2015	41,074,460	70,695,000	262,221,000
7/2015	29,424,942	70,695,000	262,221,000
1/2016	17,586,768	70,695,000	262,221,000
7/2016	5,919,335	70,695,000	262,221,000
1/2017	0	64,775,491	262,221,000
7/2017	0	53,113,841	262,221,000
1/2018	0	41,278,732	262,221,000
7/2018	0	29,589,115	262,221,000
1/2019	0	17,652,561	262,221,000
7/2019	0	5,906,111	262,221,000
1/2020	0	0	256,315,530
7/2020	0	0	244,721,499
1/2021	0	0	232,778,959
7/2021	0	0	221,139,618
1/2022	0	0	213,448,987
7/2022	0	0	205,854,698
1/2023	0	0	198,076,706
7/2023	0	0	190,334,756
1/2024	0	0	182,467,786
7/2024	0	0	174,491,894
1/2025	0	0	166,359,476
7/2025	0	0	158,113,689
1/2026	0	0	149,706,855
7/2026	0	0	141,182,053
1/2027	0	0	132,491,529
7/2027	0	0	123,678,285
1/2028	0	0	114,694,486
7/2028	0	0	105,583,052
1/2029	0	0	96,296,067
7/2029	0	0	86,876,367
1/2030	0	0	77,275,952
7/2030	0	0	67,537,570
1/2031	0	0	57,613,133
7/2031	0	0	47,545,301
1/2032	0	0	37,285,893
7/2032	0	0	26,877,478
1/2033	0	0	16,271,782
7/2033	0	0	5,511,275
1/2034	0	0	0
7/2034	0	0	0

1/2035	0	0	0
7/2035	0	0	0

FIRSTENERGY OHIO PIRB SPECIAL

PRELIMINARY

June 10, 2013

PURPOSE TRUST 2013

TERM SHEET

Semiannual True-up Adjustment Mechanism for Payment of Scheduled Principal and Interest

The initial adjustment to the phase-in-recovery charges will be completed within 12 months after the issuance date for the bonds. Thereafter, during the life of the bonds of a bond issuer, the related servicer will calculate and adjust the phase-in-recovery charges semiannually, with the exception of the last year that the last maturing tranche of the bonds is expected to be outstanding, in which case adjustments as frequently as monthly may be necessary. These adjustments to the phase-in-recovery charges will be set at levels estimated to generate revenues sufficient to pay, subject to the cap to the extent applicable, approved fees and expenses of servicing the bonds, to pay interest on, and principal of, the bonds and, thus, an allocable portion of the certificates, to fund and replenish the capital subaccount of the bond issuer as required for the upcoming semiannual period and other financing costs approved in the financing order.

The following describes the mechanics for implementing the semiannual true-up adjustment mechanism on retail electric customers based on their consumption of electricity. (See also Key Questions and Answers on Statutory True-up Adjustment Mechanism on page 13 above.)

SEMIANNUAL TRUE-UPS FOR PAYMENT OF SCHEDULED PRINCIPAL AND INTEREST

- STEP 1: Every six months, each Ohio Company, as servicer, computes the total dollar requirement for the applicable bonds for the coming six-month period, which includes scheduled principal and interest payments and all other financing costs of the transaction approved under the financing order, adjusted to correct any prior undercollection or overcollection.
- STEP 2: Each Ohio Company allocates this total dollar requirement among specific customer classes.
- STEP 3: Each Ohio Company forecasts consumption by each customer class.
- STEP 4: Each Ohio Company divides the total dollar requirement for each customer class by the forecasted consumption to determine the applicable phase-in-recovery charge for that customer class.
- STEP 5: Each Ohio Company must make a request to the PUCO, specifying such adjustments to the applicable phase-in-recovery charges as may be necessary, regardless of the reason for the difference between forecasted and required collections. The PUCO's review of these requests is limited to determining whether there is any mathematical error in the servicer's application of the adjustment mechanism to the phase-in-recovery charges, including the calculation of any proportionate charges allocated to governmental aggregation customers as directed in the financing order. Such adjustments will become automatically effective 60 days after the request is submitted unless otherwise ordered by the PUCO.

STABLE AVERAGE LIVES

Severe stress cases on electricity consumption result in no measurable changes in the weighted average lives of each tranche.

Weighted Average Life Sensitivity

Tranche ⁶	Expected Weighted Average Life (Years) ⁷	5% (1.64 Standard Deviations from Mean)		-15% (4.94 Standard Deviations from Mean)	
		WAL (yrs)	Change (days) ⁸	WAL (yrs)	Change (days) ⁸
A-1	1.60	1.61	0	1.65	16
A-2	5.07	5.07	0	5.12	18
A-3	13.69	13.69	0	13.71	9

- 6 Each tranche pays sequentially.
- 7 The weighted average lives assume a closing date of June 19, 2013.
- 8 Number is rounded to whole days.

FIRSTENERGY OHIO PIRB SPECIAL

PRELIMINARY

June 10, 2013

PURPOSE TRUST 2013

TERM SHEET

For the purposes of preparing the above chart, the following assumptions, among others, have been made: (i) the forecast error stays constant over the life of the certificates and is equal to an overestimate of electricity consumption of 5% (1.64 standard deviations from mean) or 15% (4.94 standard deviations from mean), (ii) each servicer makes timely and accurate filings to true-up the phase-in-recovery charges semiannually, (iii) customer charge-off rates are held constant at 0.89%, 0.69% and 0.97% for all classes of customers at CEI, OE, and TE, respectively, (iv) retail electric providers remit all phase-in-recovery charges one month after such charges are billed, (v) operating expenses are equal to projections, (vi) there is no acceleration of the final maturity date of any of the bonds, (vii) a permanent loss of all customers has not occurred with respect to any Ohio Company and (viii) the closing date for issuance of the certificates is June 19, 2013. There can be no assurance that the weighted average lives of the certificates will be as shown.

Page 20 of 24

FIRSTENERGY OHIO PIRB SPECIAL

PRELIMINARY

June 10, 2013

PURPOSE TRUST 2013

TERM SHEET

The bond issuers, CEI, OE and TE, on behalf of the issuing entity, have filed a registration statement (including a prospectus and prospectus supplement) (Registration Nos. 333-187692 and 333-187692-01 through -05) with the SEC for the offering to which this communication relates. Before you invest, you should read the prospectus and prospectus supplement in that registration statement and the most recent versions of other documents filed with the SEC by or on behalf of the issuing entity for more complete information about the issuing entity, the bond issuers and this offering. You may get these documents for free by visiting EDGAR on the SEC website at www.sec.gov. You can also obtain copies of the registration statement from the SEC upon payment of prescribed charges, or you can examine the registration statement free of charge at the SEC's offices at 100 F Street, N.E., Washington, D.C. 20549. Alternatively, we, any underwriter or any dealer participating in the offering will arrange to send you the prospectus if you request it by calling toll free at (1-866-718-1649).

This Preliminary Term Sheet is not required to contain all information that is required to be included in the prospectus supplement and prospectus that will be prepared for the securities offering to which this Preliminary Term Sheet relates. The prospectus supplement and prospectus contain material information not contained herein, and the prospective purchasers are referred to the prospectus supplement and prospectus, including the final prospectus supplement and prospectus. This Preliminary Term Sheet is not an offer to sell or a solicitation of an offer to buy these securities in any state where such offer, solicitation or sale is not permitted.

The information in this Preliminary Term Sheet is preliminary, and may be superseded by an additional term sheet provided to you prior to the time you enter into a contract of sale. This Preliminary Term Sheet is being delivered to you solely to provide you with information about the offering of the securities referred to herein. The securities are being offered when, as and if issued. In particular, you are advised that these securities, and the bonds securing them, are subject to modification or revision (including, among other things, the possibility that one or more tranches of securities may be split, combined or eliminated), at any time prior to issuance or availability of a final prospectus supplement and prospectus. As a result, you may commit to purchase securities that have characteristics that may change, and you are advised that all or a portion of the securities may not be issued that have the characteristics described in these materials. Our obligation to sell securities to you is conditioned on the securities and the underlying transaction having the characteristics described in these materials.

Neither the SEC nor any state securities commission has approved or disapproved of the certificates or determined if this Preliminary Term Sheet is truthful or complete. Any representation to the contrary is a criminal offense.

Price and availability of the certificates are subject to change without notice.

Neither the State of Ohio nor the PUCO is acting as an agent for the bond issuers, CEI, OE, TE or the issuing entity or any of their affiliates in connection with the sale of the certificates.

A contract of sale will come into being no sooner than the date on which the relevant tranche has been priced and we have confirmed the allocation of securities to be made to you; any indications of interest expressed by you, and any soft circles generated by us, will not create binding contractual obligations for you or us. You may withdraw your offer to purchase securities at any time prior to our acceptance of your offer.

Any legends, disclaimers or other notices that may appear at the bottom of the email communication to which this Preliminary Term Sheet is attached relating to (1) these materials not constituting an offer (or a solicitation of an offer), (2) no representation that these materials are accurate or complete and may not be updated or (3) these materials possibly being confidential are not applicable to these materials and should be disregarded. Such legends, disclaimers or other notices have been automatically generated as a result of these materials having been sent via Bloomberg or another system.

FIRSTENERGY OHIO PIRB SPECIAL

PRELIMINARY

June 10, 2013

PURPOSE TRUST 2013

TERM SHEET

OFFERING RESTRICTIONS IN CERTAIN JURISDICTIONS

NOTICE TO RESIDENTS OF SINGAPORE

EACH UNDERWRITER ACKNOWLEDGES THAT THIS PRELIMINARY TERM SHEET HAS NOT BEEN REGISTERED AS A PROSPECTUS WITH THE MONETARY AUTHORITY OF SINGAPORE. ACCORDINGLY, EACH UNDERWRITER REPRESENTS, WARRANTS AND AGREES THAT IT HAS NOT OFFERED OR SOLD ANY CERTIFICATES OR CAUSED THE CERTIFICATES TO BE MADE THE SUBJECT OF AN INVITATION FOR SUBSCRIPTION OR PURCHASE, AND WILL NOT OFFER OR SELL ANY CERTIFICATES OR CAUSE THE CERTIFICATES TO BE MADE THE SUBJECT OF AN INVITATION FOR SUBSCRIPTION OR PURCHASE, AND HAS NOT CIRCULATED OR DISTRIBUTED, NOR WILL IT CIRCULATE OR DISTRIBUTE THIS PRELIMINARY TERM SHEET OR ANY OTHER DOCUMENT OR MATERIAL IN CONNECTION WITH THE OFFER OR SALE, OR INVITATION FOR SUBSCRIPTION OR PURCHASE, OF CERTIFICATES, WHETHER DIRECTLY OR INDIRECTLY, TO PERSONS IN SINGAPORE OTHER THAN (I) TO AN INSTITUTIONAL INVESTOR UNDER SECTION 274 OF THE SECURITIES AND FUTURES ACT, CHAPTER 289 OF SINGAPORE (THE *SFA*), OR ANY PERSON PURSUANT TO SECTION 275(1A), AND IN ACCORDANCE WITH THE CONDITIONS SPECIFIED IN SECTION 275 OF THE SFA OR (II) TO A RELEVANT PERSON PURSUANT TO SECTION 275(1) OR ANY PERSON PURSUANT TO SECTION 275(1A) OF THE SFA, AND IN ACCORDANCE WITH THE CONDITIONS SPECIFIED IN SECTION 275 OF THE SFA OR (III) OTHERWISE PURSUANT TO, AND IN ACCORDANCE WITH THE CONDITIONS OF, ANY OTHER APPLICABLE PROVISION OF THE SFA.

WHERE THE CERTIFICATES ARE SUBSCRIBED OR PURCHASED UNDER SECTION 275 BY A RELEVANT PERSON WHICH IS:

(A) A CORPORATION (WHICH IS NOT AN ACCREDITED INVESTOR (AS DEFINED IN SECTION 4A OF THE SFA)) THE SOLE BUSINESS OF WHICH IS TO HOLD INVESTMENTS AND THE ENTIRE SHARE CAPITAL OF WHICH IS OWNED BY ONE OR MORE INDIVIDUALS, EACH OF WHOM IS AN ACCREDITED INVESTOR; OR

(B) A TRUST (WHERE THE TRUSTEE IS NOT AN ACCREDITED INVESTOR) WHOSE SOLE PURPOSE IS TO HOLD INVESTMENTS AND EACH BENEFICIARY OF THE TRUST IS AN INDIVIDUAL WHO IS AN ACCREDITED INVESTOR,

SHARES, DEBENTURES AND UNITS OF SHARES AND DEBENTURES OF THAT CORPORATION OR THE BENEFICIARIES RIGHTS AND INTEREST (HOWSOEVER DESCRIBED) IN THAT TRUST SHALL NOT BE TRANSFERRED WITHIN 6 MONTHS AFTER THAT CORPORATION OR THAT TRUST HAS ACQUIRED THE CERTIFICATES PURSUANT TO AN OFFER MADE UNDER SECTION 275 EXCEPT:

(1) TO AN INSTITUTIONAL INVESTOR (FOR CORPORATIONS, UNDER SECTION 274 OF THE SFA) OR TO A RELEVANT PERSON DEFINED IN SECTION 275(2) OF THE SFA, OR TO ANY PERSON PURSUANT TO AN OFFER THAT IS MADE ON TERMS THAT SUCH RIGHTS OR INTEREST ARE ACQUIRED AT A CONSIDERATION OF NOT LESS THAN \$200,000 (OR ITS EQUIVALENT IN A FOREIGN CURRENCY) FOR EACH TRANSACTION, WHETHER SUCH AMOUNT IS TO BE PAID FOR IN CASH OR BY EXCHANGE OF SECURITIES OR OTHER ASSETS, AND FURTHER FOR CORPORATIONS, IN ACCORDANCE WITH THE CONDITIONS SPECIFIED IN SECTION 275 OF THE SFA;

(2) WHERE NO CONSIDERATION IS OR WILL BE GIVEN FOR THE TRANSFER; OR

(3) WHERE THE TRANSFER IS BY OPERATION OF LAW. THE PROSPECTUS RELATING TO THE CERTIFICATES (*PROSPECTUS*) WILL, PRIOR TO ANY SALE OF SECURITIES PURSUANT TO THE PROVISIONS OF SECTION 106D OF THE COMPANIES ACT (CAP.50), BE LODGED, PURSUANT TO SAID SECTION 106D, WITH THE REGISTRAR OF COMPANIES IN SINGAPORE, WHICH WILL TAKE NO RESPONSIBILITY FOR ITS CONTENTS. HOWEVER, THIS PRELIMINARY TERM SHEET HAS BEEN AND NOR WILL THEY BE REGISTERED AS A PROSPECTUS WITH THE REGISTRAR OF COMPANIES IN SINGAPORE. ACCORDINGLY, THE CERTIFICATES MAY NOT BE OFFERED, AND NEITHER THIS PRELIMINARY TERM SHEET NOR ANY OTHER OFFERING DOCUMENT OR MATERIAL RELATING TO THE CERTIFICATES MAY BE CIRCULATED OR DISTRIBUTED, DIRECTLY OR INDIRECTLY, TO THE PUBLIC OR ANY MEMBER OF THE PUBLIC IN SINGAPORE OTHER THAN TO INSTITUTIONAL INVESTORS OR OTHER PERSONS OF THE KIND SPECIFIED IN SECTION 106C AND SECTION 106D OF

FIRSTENERGY OHIO PIRB SPECIAL

PRELIMINARY

June 10, 2013

PURPOSE TRUST 2013

TERM SHEET

THE COMPANIES ACT OR ANY OTHER APPLICABLE EXEMPTION INVOKED UNDER DIVISION 5A OF PART IV OF THE COMPANIES ACT. THE FIRST SALE OF SECURITIES ACQUIRED UNDER A SECTION 106C OR SECTION 106D EXEMPTION IS SUBJECT TO THE PROVISIONS OF SECTION 106E OF THE COMPANIES ACT.

NOTICE TO RESIDENTS OF THE PEOPLE'S REPUBLIC OF CHINA

THE CERTIFICATES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES LAW OF THE PEOPLE'S REPUBLIC OF CHINA (AS THE SAME MAY BE AMENDED FROM TIME TO TIME) AND ARE NOT TO BE OFFERED OR SOLD TO PERSONS WITHIN THE PEOPLE'S REPUBLIC OF CHINA (EXCLUDING THE HONG KONG AND MACAU SPECIAL ADMINISTRATIVE REGIONS).

NOTICE TO RESIDENTS OF JAPAN

THE CERTIFICATES HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES AND EXCHANGE LAW OF JAPAN (THE *SEL*), AND MAY NOT BE OFFERED OR SOLD IN JAPAN OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF JAPAN OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF JAPAN OR TO OTHERS FOR RE-OFFERING OR RESALE, DIRECTLY OR INDIRECTLY, IN JAPAN OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY RESIDENT OF JAPAN, EXCEPT PURSUANT TO AN EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF, AND OTHERWISE IN COMPLIANCE WITH, THE SEL, AND IN COMPLIANCE WITH THE OTHER RELEVANT LAWS AND REGULATIONS OF JAPAN. AS USED IN THIS PARAGRAPH, *RESIDENT OF JAPAN* MEANS ANY PERSON RESIDENT IN JAPAN, INCLUDING ANY CORPORATION OR OTHER ENTITY ORGANIZED UNDER THE LAWS OF JAPAN.

NOTICE TO RESIDENTS OF HONG KONG

EACH UNDERWRITER HAS REPRESENTED AND AGREED THAT:

IT HAS NOT OFFERED OR SOLD AND WILL NOT OFFER OR SELL IN HONG KONG, BY MEANS OF ANY DOCUMENT, ANY CERTIFICATES OTHER THAN (A) TO PERSONS WHOSE ORDINARY BUSINESS IS TO BUY OR SELL SHARES OR DEBENTURES (WHETHER AS PRINCIPAL OR AGENT); OR (B) TO PROFESSIONAL INVESTORS WITHIN THE MEANING OF THE SECURITIES AND FUTURES ORDINANCE (CAP. 571) OF THE LAWS OF HONG KONG AND ANY RULES MADE THEREUNDER; OR (C) IN CIRCUMSTANCES THAT DO NOT RESULT IN THE DOCUMENT BEING A PROSPECTUS AS DEFINED IN THE COMPANIES ORDINANCE (CAP. 32) OF THE LAWS OF HONG KONG OR THAT DO NOT CONSTITUTE AN OFFER TO THE PUBLIC WITHIN THE MEANING OF THAT ORDINANCE; AND IT HAS NOT ISSUED OR HAD IN ITS POSSESSION FOR THE PURPOSE OF ISSUE, AND WILL NOT ISSUE OR HAVE IN ITS POSSESSION FOR THE PURPOSE OF ISSUE, WHETHER IN HONG KONG OR ELSEWHERE ANY ADVERTISEMENT, INVITATION OR DOCUMENT RELATING TO THE CERTIFICATES, WHICH IS DIRECTED AT, OR THE CONTENTS OF WHICH ARE LIKELY TO BE ACCESSED OR READ BY, THE PUBLIC OF HONG KONG (EXCEPT IF PERMITTED TO DO SO UNDER THE SECURITIES LAWS OF HONG KONG) OTHER THAN WITH RESPECT TO CERTIFICATES THAT ARE INTENDED TO BE DISPOSED OF ONLY TO PERSONS OUTSIDE HONG KONG OR ONLY TO PROFESSIONAL INVESTORS AS DEFINED UNDER THE SECURITIES AND FUTURES ORDINANCE (CAP. 571) OF THE LAWS OF HONG KONG AND ANY RULES MADE UNDER THAT ORDINANCE.

NOTICE TO RESIDENTS OF THE EUROPEAN ECONOMIC AREA

IN RELATION TO EACH MEMBER STATE OF THE EUROPEAN ECONOMIC AREA WHICH HAS IMPLEMENTED THE PROSPECTUS DIRECTIVE, WHICH WE REFER TO HEREIN AS A RELEVANT MEMBER STATE, EACH UNDERWRITER HAS REPRESENTED AND AGREED THAT WITH EFFECT FROM AND INCLUDING THE DATE ON WHICH THE PROSPECTUS DIRECTIVE IS IMPLEMENTED IN THAT RELEVANT MEMBER STATE (THE *RELEVANT IMPLEMENTATION DATE*), IT HAS NOT MADE AND WILL NOT MAKE AN OFFER OF CERTIFICATES TO THE PUBLIC IN THAT RELEVANT MEMBER STATE PRIOR TO THE PUBLICATION OF A PROSPECTUS IN RELATION TO THE CERTIFICATES WHICH HAS BEEN APPROVED BY THE COMPETENT AUTHORITY IN THAT RELEVANT MEMBER STATE OR, WHERE APPROPRIATE, APPROVED IN ANOTHER RELEVANT MEMBER STATE AND NOTIFIED TO THE COMPETENT AUTHORITY IN THAT RELEVANT MEMBER STATE, ALL IN ACCORDANCE WITH THE PROSPECTUS DIRECTIVE, EXCEPT THAT IT MAY, WITH EFFECT FROM AND INCLUDING THE RELEVANT IMPLEMENTATION DATE, MAKE AN OFFER OF CERTIFICATES TO THE PUBLIC IN THAT RELEVANT MEMBER

STATE AT ANY TIME:

(A) TO QUALIFIED INVESTORS AS DEFINED IN THE PROSPECTUS DIRECTIVE;

FIRSTENERGY OHIO PIRB SPECIAL

PRELIMINARY

June 10, 2013

PURPOSE TRUST 2013

TERM SHEET

(B) TO FEWER THAN 100 (OR, IF THE RELEVANT MEMBER STATE HAS IMPLEMENTED THE RELEVANT PROVISION OF THE 2010 PD AMENDING DIRECTIVE, 150) NATURAL OR LEGAL PERSONS (OTHER THAN QUALIFIED INVESTORS AS DEFINED IN THE PROSPECTUS DIRECTIVE) SUBJECT TO OBTAINING THE PRIOR CONSENT OF THE REPRESENTATIVES FOR ANY SUCH OFFER; OR

(C) IN ANY OTHER CIRCUMSTANCES WHICH DO NOT REQUIRE THE PUBLICATION BY THE ISSUING ENTITY OF A PROSPECTUS PURSUANT TO ARTICLE 3 OF THE PROSPECTUS DIRECTIVE.

FOR THE PURPOSES OF THIS PROVISION, THE EXPRESSION AN **OFFER OF CERTIFICATES TO THE PUBLIC** IN RELATION TO ANY CERTIFICATES IN ANY RELEVANT MEMBER STATE MEANS THE COMMUNICATION IN ANY FORM AND BY ANY MEANS OF SUFFICIENT INFORMATION ON THE TERMS OF THE OFFER AND THE CERTIFICATES TO BE OFFERED SO AS TO ENABLE AN INVESTOR TO DECIDE TO PURCHASE OR SUBSCRIBE THE CERTIFICATES, AS THE SAME MAY BE VARIED IN THAT RELEVANT MEMBER STATE BY ANY MEASURE IMPLEMENTING THE PROSPECTUS DIRECTIVE IN THAT RELEVANT MEMBER STATE, THE EXPRESSION **PROSPECTUS DIRECTIVE** MEANS DIRECTIVE 2003/71/EC AND INCLUDES ANY RELEVANT IMPLEMENTING MEASURE IN EACH RELEVANT MEMBER STATE AND THE EXPRESSION **2010 PD AMENDING DIRECTIVE** MEANS DIRECTIVE 2010/73/EU.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

THE UNDERWRITER HAS REPRESENTED AND AGREED THAT:

(A) IT HAS ONLY COMMUNICATED OR CAUSED TO BE COMMUNICATED AND WILL ONLY COMMUNICATE OR CAUSE TO BE COMMUNICATED AN INVITATION OR INDUCEMENT TO ENGAGE IN INVESTMENT ACTIVITY (WITHIN THE MEANING OF SECTION 21 OF THE FINANCIAL SERVICES AND MARKETS ACT 2000, AS AMENDED (THE **FSMA**)) RECEIVED BY IT IN CONNECTION WITH THE ISSUE OR SALE OF THE CERTIFICATES IN CIRCUMSTANCES IN WHICH SECTION 21(1) OF THE FSMA DOES NOT APPLY TO THE ISSUING ENTITY; AND

(B) IT HAS COMPLIED AND WILL COMPLY WITH ALL APPLICABLE PROVISIONS OF THE FSMA WITH RESPECT TO ANYTHING DONE BY IT IN RELATION TO THE CERTIFICATES IN, FROM OR OTHERWISE INVOLVING THE UNITED KINGDOM.

THIS OFFERING DOCUMENT IS DIRECTED ONLY AT PERSONS WHO (I) ARE OUTSIDE THE UNITED KINGDOM OR (II) ARE INVESTMENT PROFESSIONALS FALLING WITHIN ARTICLE 19(5) OF THE FINANCIAL SERVICES AND MARKETS ACT 2000 (FINANCIAL PROMOTION) ORDER 2005 AS AMENDED (THE **ORDER**) OR (III) ARE HIGH NET WORTH ENTITIES FALLING WITHIN ARTICLE 49(2)(A) TO (D) OF THE ORDER OR (IV) SUCH OTHER PERSONS TO WHOM IT MAY LAWFULLY BE COMMUNICATED (ALL SUCH PERSONS TOGETHER BEING REFERRED TO AS **RELEVANT PERSONS**). THIS OFFERING DOCUMENT MUST NOT BE ACTED ON OR RELIED ON BY PERSONS WHO ARE NOT RELEVANT PERSONS. ANY INVESTMENT OR INVESTMENT ACTIVITY TO WHICH THIS OFFERING DOCUMENT RELATES IS AVAILABLE ONLY TO RELEVANT PERSONS AND WILL BE ENGAGED IN ONLY WITH RELEVANT PERSONS.