FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-Q
May 09, 2013

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

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No.: 0-50231
Federal National Mortgage Association
(Exact name of registrant as specified in its charter)
Fannie Mae

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

Registrant's telephone number, including area code:
(202) 752-7000

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

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

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

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

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

As of March 31, 2013, there were 1,158,077,970 shares of common stock of the registrant outstanding.

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PART I — FINANCIAL INFORMATION

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

We have been under conservatorship, with the Federal Housing Finance Agency ("FHFA") acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. Our directors do not have any fiduciary duties to any person or entity except to the conservator and, accordingly, are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator. We describe the rights and powers of the conservator, key provisions of our agreements with the U.S. Department of the Treasury ("Treasury"), and their impact on shareholders in our Annual Report on Form 10 K for the year ended December 31, 2012 ("2012 Form 10 K") in "Business—Conservatorship and Treasury Agreements."

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

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

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

INTRODUCTION

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

We have taken a number of actions in conservatorship to strengthen our financial performance, including reducing losses on our legacy book of business, building a profitable new book of business with responsible underwriting standards and pricing for risk. These actions are supporting the housing recovery and strengthening our financial performance. As a result of our actions and continued improvement in the housing market, our financial results for the first quarter of 2013 showed significant improvement compared with our results for the first quarter of 2012, and, although our earnings will vary from quarter to quarter, we expect our annual earnings to remain strong over the next few years. We recorded net income of $58.7 billion for the first quarter of 2013, which reflects a benefit for federal income taxes of $50.6 billion that resulted from our release of the substantial majority of our valuation allowance against our deferred tax assets. Our pre-tax income for the first quarter of 2013, which does not reflect the deferred tax valuation allowance release, was $8.1 billion. In the second quarter of 2013, we will pay Treasury a senior preferred stock dividend of $59.4 billion, which equals the excess of our net worth over a $3.0 billion capital reserve applicable in 2013 under the terms of our senior preferred stock purchase agreement with Treasury. With this dividend payment, we will have paid $95.0 billion in dividends to Treasury. We have received a total of $116.1 billion in funds from Treasury under the senior preferred stock purchase agreement since 2008.

Like the mortgage finance industry we serve, Fannie Mae is undergoing significant transformation. Since entering into conservatorship in September 2008, our senior management, constituencies and priorities have changed. More than 80% of our current senior management team, and every member of our management committee, has been hired or promoted into their current role since we entered into conservatorship. More than half of our employees were hired

after conservatorship began. Moreover, instead of being run for the benefit of shareholders, our company is managed in the overall interest of

taxpayers, which is consistent with the substantial public investment in us. Ultimately, we help fill the role of enabling families to buy, refinance or rent a home. We have provided approximately $3.5 trillion in liquidity to the housing market since the beginning of 2009. By keeping liquidity flowing, we support the housing recovery, which strengthens the U.S. economy.

Our conservatorship has no specified termination date, and we do not know when or how the conservatorship will be terminated, whether we will continue to exist following conservatorship, or what changes to our business structure will be made during or following the conservatorship. Our agreements with Treasury that provide for financial support also include covenants that significantly restrict our business activities. We provide additional information on the conservatorship, the provisions of our agreements with Treasury, and their impact on our business in our 2012 Form 10 K in "Business—Conservatorship and Treasury Agreements" and "Risk Factors." We discuss the uncertainty of our future and its impact on us in "Executive Summary—Outlook" in this report and in "Risk Factors" in our 2012 Form 10 K.

Although Treasury owns our senior preferred stock and a warrant to purchase 79.9% of our common stock and has made a commitment under a senior preferred stock purchase agreement to provide us with funds to maintain a positive net worth under specified conditions, the U.S. government does not guarantee our securities or other obligations.

Our common stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board under the symbol "FNMA." Our debt securities are actively traded in the over-the-counter market.

EXECUTIVE SUMMARY

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

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

- Financial Results and Treasury Dividend Payments. We experienced significant improvement in our financial results for the first quarter of 2013, as compared with the first quarter of 2012. Our pre-tax income of $8.1 billion for the first quarter of 2013 was the largest quarterly pre-tax income in our history. With our net income of $58.7 billion for the first quarter of 2013, which reflects the benefit for federal income taxes of $50.6 billion that resulted from the release of our deferred tax assets valuation allowance, we ended the quarter with a positive net worth of $62.4 billion as of March 31, 2013. We will pay $59.4 billion of that net worth as a dividend to Treasury in the second quarter of 2013. We expect to remain profitable for the foreseeable future.
- Providing Liquidity and Support to the Mortgage Market. We continued to be a leading provider of liquidity to the mortgage market in the first quarter of 2013. As described below under "Contributions to the Housing and Mortgage Markets Since Entering Conservatorship—2013 Acquisitions and Market Share," we remained the largest single issuer of mortgage-related securities in the secondary market during the quarter and remained a constant source of liquidity in the multifamily market.
- Strong New Book of Business. Single-family loans we have acquired since the beginning of 2009 constituted 69% of our single-family guaranty book of business as of March 31, 2013, while the single-family loans we acquired prior to 2009 constituted 31% of our single-family book of business. We refer to the single-family loans we have acquired since the beginning of 2009 as our "new single-family book of business" and the single-family loans we acquired prior to 2009 as our "legacy book of business." As described below in "Strengthening Our Book of Business—Credit Risk Profile," we expect that our new single-family book of business will be profitable over its lifetime.
- Expected Increases in Guaranty Fee Revenue. Because we increased our guaranty fees in 2012 on loans acquired after the increase, we expect to benefit from receiving significantly more revenue from guaranty fees in future periods than we have in prior periods, even after we remit some of this revenue to Treasury as we are required to do under the Temporary Payroll Tax Cut Continuation Act of 2011 (the "TCCA"). We expect the rising guaranty fee revenue we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties will in a number of years become the primary source of our revenues. This will particularly be the case as we reduce the size of our retained mortgage portfolio to comply with the terms of the senior preferred stock purchase agreement. Our "retained mortgage portfolio" refers to the mortgage-related assets we hold excluding those that are held by consolidated MBS trusts owned by third parties. If current housing market conditions continue and if we are not required to sell more of

our retained mortgage portfolio assets than we currently anticipate selling, we expect increases in revenue from guaranty fees will generally offset expected declines in the revenues we generate from the

difference between the interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt funding of those assets. We discuss expected changes in our guaranty fee revenue in "Strengthening Our Book of Business—Guaranty Fees on Recently Acquired Single-Family Loans," and in "Outlook—Future Revenues and Profitability."

- Credit Performance. Our single-family serious delinquency rate has declined from its peak of 5.59% as of February 28, 2010, and was 3.02% as of March 31, 2013, compared with 3.29% as of December 31, 2012. See "Credit Performance" below for additional information about the credit performance of the mortgage loans in our single-family guaranty book of business.
- Reducing Credit Losses and Helping Homeowners. We continued to execute on our strategies for reducing credit losses on our legacy book of business, which are addressed in "Business—Executive Summary—Reducing Credit Losses on Our Legacy Book of Business" in our 2012 Form 10– K As part of our strategy to reduce defaults, we provided more than 63,000 loan workouts in the first quarter of 2013 to help homeowners stay in their homes or otherwise avoid foreclosure.
- Helping to Build a New Housing Finance System. We continued our efforts to help build a new housing finance system, including pursuing the strategic goals identified by our conservator: build a new infrastructure for the secondary mortgage market; gradually contract our dominant presence in the marketplace while simplifying and shrinking our operations; and maintain foreclosure prevention activities and credit availability for new and refinanced mortgages. We discuss these goals in our 2012 Form 10-K in "Business—Executive Summary—Helping to Build a New Housing Finance System." In March 2013, the Acting Director of FHFA released 2013 corporate performance goals and related targets for Fannie Mae and Freddie Mac, referred to as the 2013 conservatorship scorecard, that build upon these strategic goals. See our Current Report on Form 8-K filed with the SEC on March 8, 2013 for a description of the 2013 conservatorship scorecard.

Summary of Our Financial Performance

We recognized comprehensive income of $59.3 billion in the first quarter of 2013, consisting of net income of $58.7 billion and other comprehensive income of $654 million. In comparison, we recognized comprehensive income of $3.1 billion in the first quarter of 2012, consisting of net income of $2.7 billion and other comprehensive income of $362 million.

Our net income in the first quarter of 2013 was driven primarily by the release of the substantial majority of our valuation allowance against our deferred tax assets, which resulted in a benefit for federal income taxes of $50.6 billion in our condensed consolidated statements of operations and comprehensive income. We discuss the factors that led to our conclusion to release the valuation allowance against our deferred tax assets in "Critical Accounting Policies and Estimates—Deferred Tax Assets" and "Note 10, Income Taxes."

Our pre-tax income, which excludes the benefit for federal income taxes, was $8.1 billion in the first quarter of 2013 compared with $2.7 billion in the first quarter of 2012. The increase in our pre-tax income for the first quarter of 2013 compared with the first quarter of 2012 was primarily due to the recognition of credit-related income of $1.2 billion in the first quarter of 2013 compared with credit-related expenses of $2.3 billion in the first quarter of 2012. This result was primarily driven by an increase in home prices, including higher average sales prices on our real estate owned ("REO") properties as the ratio of net proceeds to unpaid principal balance improved to 65% for the first quarter of 2013 compared with 56% for the first quarter of 2012. The improvement in our credit results was also due to a decline in the number of delinquent loans in our single family guaranty book of business. The number of seriously delinquent loans decreased 19% and the number of "early stage" delinquent loans (loans that are 30 to 89 days past due) decreased 7% compared with the first quarter of 2012.

In addition, net interest income increased $1.1 billion in the first quarter of 2013 compared with the first quarter of 2012. The increase in net interest income was driven, in large part, by a reduction in the amount of interest income not recognized for nonaccrual mortgage loans, which resulted from a 19% decline in the number of seriously delinquent loans and our resolution agreement with Bank of America in the first quarter of 2013. The resolution agreement resulted in the recognition of $518 million of unamortized cost basis adjustments on loans repurchased by Bank of America. See "Note 20, Subsequent Events" in our 2012 Form 10-K for additional information on this agreement.

We recognized other comprehensive income of $654 million in the first quarter of 2013 compared with other comprehensive income of $362 million in the first quarter of 2012. The other comprehensive income recognized in the first quarter of 2013 and 2012 was driven by a decrease in unrealized losses on non-agency available-for-sale securities primarily due to narrowing of credit spreads.

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

Net Worth

Our net worth increased to $62.4 billion as of March 31, 2013 from $7.2 billion as of December 31, 2012, primarily due to our comprehensive income of $59.3 billion, partially offset by our payment to Treasury of a $4.2 billion senior preferred stock dividend during the first quarter of 2013.

As a result of our positive net worth as of March 31, 2013, we are not requesting a draw from Treasury under the senior preferred stock purchase agreement. The aggregate liquidation preference on the senior preferred stock remains at $117.1 billion. Our dividend payment for the second quarter of 2013 will be $59.4 billion, which is calculated based on our net worth of $62.4 billion as of March 31, 2013 less the applicable capital reserve amount of $3.0 billion. As of June 30, 2013, we will have paid $95.0 billion in dividends to Treasury.

Table 1 below displays our Treasury draws and senior preferred stock dividend payments to Treasury since entering conservatorship on September 6, 2008.

Table 1: Treasury Draws and Senior Preferred Stock Dividend Payments

	2008	2009	2010	2011	2012	2013 (first quarter)	Cumulative Total
	(Dollars in billions)						
Treasury draws[1][2]	$(15.2)	$(60.0)	$(15.0)	$(25.9)	$—	$—	$(116.1)
Senior preferred stock dividends[3]	—	2.5	7.7	9.6	11.6	4.2	35.6

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(1) Represents the total draws received from Treasury based on our quarterly net worth deficits for the periods presented. Draw requests are funded in the quarter following each quarterly net worth deficit.

(2) Treasury draws do not include the initial $1.0 billion liquidation preference of the senior preferred stock, for which we did not receive any cash proceeds.

(3) Represents total quarterly cash dividends paid to Treasury during the periods presented.

The funding we have received under the senior preferred stock purchase agreement with Treasury provided us with the capital and liquidity needed to maintain our ability 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”). We have not received funds from Treasury since the first quarter of 2012. Through March 31, 2013, we have requested cumulative draws totaling $116.1 billion. Under the senior preferred stock purchase agreement, dividend payments cannot be used to offset prior Treasury draws. Accordingly, while we have paid Treasury $35.6 billion in dividends, Treasury still maintains a liquidation preference of $117.1 billion on the senior preferred stock.

Total Loss Reserves

Our total loss reserves consist of (1) our allowance for loan losses, (2) our allowance for accrued interest receivable, (3) our allowance for preforeclosure property taxes and insurance receivables, and (4) our reserve for guaranty losses. Our total loss reserves, which reflect our estimate of the probable losses we have incurred in our guaranty book of business, including concessions we granted borrowers upon modification of their loans, decreased to $60.2 billion as of March 31, 2013 from $62.6 billion as of December 31, 2012. Our total loss reserve coverage to total nonperforming loans was 25% as of March 31, 2013 and December 31, 2012.

Strengthening Our Book of Business

Credit Risk Profile

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

single-family loans we acquired from 2005 through 2008, in the aggregate, will not be profitable over their lifetime.

Our expectations regarding the ultimate performance of our loans are based on numerous expectations and assumptions, including those relating to expected changes in home prices, borrower behavior, public policy and other macroeconomic factors. If future conditions are more unfavorable than our expectations, our new single-family book of business could become unprofitable. See "Outlook—Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations" and "Risk Factors" for a discussion of factors that could cause our expectations regarding the performance of the loans in our new single-family book of business to change.

Table 2 below displays information regarding the credit characteristics of the loans in our single-family conventional guaranty book of business as of March 31, 2013 by acquisition period, which illustrates the improvement in the credit risk profile of loans we acquired beginning in 2009 compared with loans we acquired in 2005 through 2008.

Table 2: Selected Credit Characteristics of Single-Family Conventional Loans Held, by Acquisition Period

	As of March 31, 2013							
	% of Single-Family Conventional Guaranty Book of Business[1]		Current Estimated Mark-to-Market LTV Ratio		Current Mark-to-Market LTV Ratio >100%[2]		Serious Delinquency Rate[3]	
New Single-Family Book of Business	69	%	70	%	6	%	0.35	%
Legacy Book of Business:								
2005-2008	20		96		40		9.77	
2004 and prior	11		56		6		3.57	
Total Single-Family Book of Business	100	%	74	%	13	%	3.02	%

(1) Calculated based on the aggregate unpaid principal balance of single-family loans for each category divided by the aggregate unpaid principal balance of loans in our single-family conventional guaranty book of business as of March 31, 2013.

(2) The majority of loans in our new single-family book of business as of March 31, 2013 with mark-to-market LTV ratios over 100% were loans acquired under the Home Affordable Refinance Program. See "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—HARP and Refi Plus Loans" for more information on our recent acquisitions of loans with high LTV ratios.

(3) The serious delinquency rates for loans acquired in more recent years will be higher after the loans have aged, but we do not expect them to approach the levels of the March 31, 2013 serious delinquency rates of loans in our legacy book of business.

Whether the loans we acquire in the future will exhibit an overall credit profile and performance similar to our more recent acquisitions will depend on a number of factors, including our future pricing and eligibility standards and those of mortgage insurers and the Federal Housing Administration ("FHA"), the percentage of loan originations representing refinancings, our future objectives, government policy, market and competitive conditions, and the volume and characteristics of loans we acquire under the Home Affordable Refinance Program ("HARP").

More detailed information on the risk characteristics of loans in our single-family book of business appears in "Table 31: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business."

Information about the impact of HARP on the credit characteristics our new single-family book of business appears in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—HARP and Refi Plus Loans" and in "Table 32: Selected Credit Characteristics of Single-Family Conventional Loans Acquired under HARP and Refi Plus" in that section.

Guaranty Fees on Recently Acquired Single-Family Loans

Table 3 below displays information regarding our average charged guaranty fee on single-family loans we acquired in the first quarter of 2013 and 2012, as well as the volume of our single-family Fannie Mae MBS issuances, which is indicative of the volume of single-family loans we acquired.

Table 3: Single-Family Acquisitions Statistics

	For the Three Months Ended March 31,	
	2013	2012
Single-family average charged guaranty fee on new acquisitions (in basis points)(1)(2)	54.4	28.9
Single-family Fannie Mae MBS issuances (in millions)(3)	$221,865	$196,755

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

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

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

The revenue we receive from guaranty fees depends on the volume of our single-family acquisitions, the charged guaranty fee at acquisition and the life of the loans. Because we increased our guaranty fees in 2012 on loans acquired after the increase, we expect to benefit from receiving significantly more revenue from guaranty fees in future periods than we have in prior periods, even after we remit some of this revenue to Treasury as we are required to do under the TCCA. The increase in our average charged guaranty fee on newly acquired single-family loans from the first quarter of 2012 to the first quarter of 2013 was primarily attributable to the 10 basis point increase on April 1, 2012 mandated by the TCCA, from which the incremental revenue is remitted to Treasury, and an average additional increase of 10 basis points implemented during the fourth quarter of 2012. These changes to guaranty fee pricing may help to encourage greater investment by banks and other investors in mortgage loans and mortgage-related securities, which is one of the goals set forth in FHFA's strategic plan for Fannie Mae's and Freddie Mac's conservatorships. See "Business—Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue" in our 2012 Form 10 K for more information on changes to our guaranty fee pricing.

Credit Performance

Table 4 presents information for each of the last five quarters about the credit performance of mortgage loans in our single-family guaranty book of business and our workouts. The term "workouts" refers to home retention solutions and foreclosure alternatives. The workout information in Table 4 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 4: Credit Statistics, Single-Family Guaranty Book of Business[1]

	2013	2012				
	Q1	Full Year	Q4	Q3	Q2	Q1
	(Dollars in millions)					
As of the end of each period:						
Serious delinquency rate[2]	3.02 %	3.29 %	3.29 %	3.41 %	3.53 %	3.67 %
Seriously delinquent loan count	527,529	576,591	576,591	599,430	622,052	650,918
Nonperforming loans[3]	$236,988	$247,823	$247,823	$250,678	$240,472	$243,981
Foreclosed property inventory:						
Number of properties[4]	101,449	105,666	105,666	107,225	109,266	114,157
Carrying value	$9,263	$9,505	$9,505	$9,302	$9,421	$9,721
Combined loss reserves[5]	$56,626	$58,809	$58,809	$63,100	$63,365	$69,633
Total loss reserves[6]	$59,114	$61,396	$61,396	$65,685	$66,694	$73,119
During the period:						
Foreclosed property (number of properties):						
Acquisitions[4]	38,717	174,479	41,112	41,884	43,783	47,700
Dispositions	(42,934)	(187,341)	(42,671)	(43,925)	(48,674)	(52,071)
Credit-related income (expenses)[7]	$1,034	$919	$2,419	$(2,130)	$3,015	$(2,385)
Credit losses[8]	$1,503	$14,392	$2,174	$3,485	$3,778	$4,955
REO net sales prices to unpaid principal balance[9]	65 %	59 %	62 %	61 %	59 %	56 %
Short sales net sales price to unpaid principal balance[10]	64 %	61 %	63 %	61 %	60 %	58 %
Loan workout activity (number of loans):						
Home retention loan workouts[11]	47,635	186,741	44,044	45,936	41,226	55,535
Short sales and deeds-in-lieu of foreclosure	16,126	88,732	19,184	23,322	24,013	22,213
Total loan workouts	63,761	275,473	63,228	69,258	65,239	77,748
Loan workouts as a percentage of delinquent loans in our guaranty book of business[12]	27.53 %	26.38 %	24.22 %	25.18 %	24.14 %	28.85 %

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

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

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

(4)

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

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

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

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

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

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

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

(11) Consists of (a) modifications, which do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as TDRs, or repayment and forbearance plans that have been initiated but not completed and (b) repayment plans and forbearances completed. See "Table 36: Statistics on Single-Family Loan Workouts" in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Problem Loan Management—Loan Workout Metrics" for additional information on our various types of loan workouts.

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

We discuss our strategies and the actions we are taking to minimize our credit losses in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" in both this report and our 2012 Form 10-K.

Contributions to the Housing and Mortgage Markets Since Entering Conservatorship

Liquidity and Support Activities

We have provided approximately $3.5 trillion in liquidity to the housing market since 2009, enabling families to buy, refinance or rent a home. Since we entered into conservatorship in September 2008, we have provided critical liquidity and support to the U.S. mortgage market in a number of important ways:

- We serve as a stable source of liquidity for purchases of homes and financing of multifamily rental housing, as well as for refinancing existing mortgages. The approximately $3.5 trillion in liquidity we have provided to the mortgage market from 2009 through the first quarter of 2013 through our purchases and guarantees of loans enabled borrowers to complete 10.6 million mortgage refinancings and 2.9 million home purchases and provided financing for 1.8 million units of multifamily housing.
- We strengthened our underwriting and eligibility standards to support sustainable homeownership. As a result, our new single-family book of business has a strong credit risk profile. Our support enables borrowers to have access to a variety of mortgage products, including long-term, fixed-rate mortgages, such as the prepayable 30-year fixed-rate mortgage, which protects homeowners from interest rate swings.
- Through our loan workout efforts from 2009 through the first quarter of 2013, which included providing 921,986 loan modifications, we helped 1.3 million homeowners stay in their homes or otherwise avoid foreclosure. These efforts helped to support neighborhoods, home prices and the housing market.
- We helped borrowers refinance loans, including through our Refi Plus™ initiative, which offers refinancing flexibility to eligible Fannie Mae borrowers and includes HARP. From April 1, 2009, the date we began accepting delivery of Refi Plus loans, through March 31, 2013, we acquired approximately 3.2 million Refi Plus loans. Refinancings delivered to us through Refi Plus in the first quarter of 2013 reduced borrowers' monthly mortgage payments by an average of $246. Some borrowers' monthly payments increased as they took advantage of the ability to refinance through Refi Plus to reduce the term of their loan, to switch from an adjustable-rate mortgage to a fixed-rate mortgage or to switch from an interest-only mortgage to a fully amortizing mortgage.
- We support affordability in the multifamily rental market. Over 85% of the multifamily units we financed from 2009 through 2012 were affordable to families earning at or below the median income in their area.
- In addition to purchasing and guaranteeing loans, we provide funds to the mortgage market through short-term financing and other activities. These activities are described in more detail in our 2012 Form 10 K in "Business—Business Segments—Capital Markets."

2013 Acquisitions and Market Share

As the leading provider of residential mortgage credit, we enable families to buy, refinance or rent a home. In the first quarter of 2013, we purchased or guaranteed approximately $240 billion in single-family and multifamily loans, measured by unpaid principal balance, which includes $9.3 billion in delinquent loans we purchased from our single-family MBS trusts. Our activities enabled our lender customers to finance approximately 1.0 million single-family conventional loans and loans for approximately 143,000 units in multifamily properties during the first quarter of 2013.

One of FHFA's strategic goals for our conservatorship involves gradually contracting our dominant presence in the marketplace. Despite this goal, our market share remained large in the first quarter of 2013 as we have continued to meet the needs of the single-family mortgage market in the absence of substantial private capital. We remained the largest single issuer of mortgage-related securities in the secondary market during the first quarter of 2013, with an estimated market share of new single-family mortgage-related securities issuances of 48% in the first quarter of 2013 and the fourth quarter of 2012, compared with 51% in the first quarter of 2012.

We remain a constant source of liquidity in the multifamily market. We owned or guaranteed approximately 22% of the outstanding debt on multifamily properties as of December 31, 2012 (the latest date for which information is available).

Housing and Mortgage Market and Economic Conditions

Economic growth accelerated in the first quarter of 2013 compared with the fourth quarter of 2012. The inflation-adjusted U.S. gross domestic product, or GDP, rose by 2.5% on an annualized basis in the first quarter of 2013, according to the Bureau of Economic Analysis advance estimate, compared with an increase of 0.4% in the fourth quarter of 2012. While signs of a slowdown were clearly visible late in the first quarter of 2013, partly due to the impact of sequestration, we expect the slowdown to be temporary and are forecasting that growth will pick up modestly in the second half of 2013. The U.S. government may reach the limit on its borrowing authority later this year, but we do not yet know what the impact or timing of this will be, although the limit is not expected to be reached before the fall of 2013. The overall economy gained an estimated 618,000 jobs in the first quarter. According to the U.S. Bureau of Labor Statistics over the last 12 months ending in March 2013, the economy created 2.1 million non-farm jobs. The unemployment rate was 7.6% in March 2013, compared with 7.8% in December 2012. We expect that housing will continue to recover if the employment market continues to improve.

Housing activity showed improvement during the first quarter of 2013. Total existing home sales averaged 4.9 million units annualized in the first quarter of 2013, a 0.8% increase from the fourth quarter of 2012, according to data from the National Association of REALTORS®. Sales of foreclosed homes and preforeclosure, or "short," sales (together, "distressed sales") accounted for 21% of existing home sales in March 2013, compared with 24% in December 2012 and 29% in March 2012. New single-family home sales strengthened during the first quarter of 2013, averaging an annualized rate of 424,000 units, an 11% increase from the fourth quarter of 2012, according to the Bureau of the Census.

During first quarter of 2013, the number of months' supply, or the inventory/sales ratio, of available existing homes and of new homes each remained below its historical average, with existing homes declining to 4.5 months and new homes declining to 4.3 months, marking the lowest quarterly reading for each measure since the second quarter of 2005.

The overall mortgage market serious delinquency rate, which has trended down since peaking in the fourth quarter of 2009, remained historically high at 6.8% as of December 31, 2012, according to the Mortgage Bankers Association National Delinquency Survey. We provide information about Fannie Mae's serious delinquency rate, which also decreased, in "Credit Performance."

We estimate that home prices on a national basis declined by an estimated 19.3% from their peak in the third quarter of 2006 to the first quarter of 2013, based on our home price index, but increased by an estimated 5.9% from the first quarter of 2012 to the first quarter of 2013. Our home price estimates are based on preliminary data and are subject to change as additional data become available. The decline in home prices that began in 2006 left many homeowners with "negative equity" in their homes, which means their principal mortgage balance exceeds the current market value of their home. This increases the likelihood that borrowers will abandon their mortgage obligations and that the loans will become delinquent and proceed to foreclosure. According to CoreLogic, Inc. the number of residential properties with mortgages in a negative equity position in the fourth quarter of 2012 was approximately 10.4 million, down from 12.1 million in the fourth quarter of 2011. The percentage of properties with mortgages in a negative equity position in the fourth quarter of 2012 was 21.5%, down from 25.2% in the fourth quarter of 2011 and its peak of 25.7% reached in the fourth quarter of 2009.

During the first quarter of 2013, the national multifamily sector continued to benefit from rental demand despite a slowdown during the latter part of 2012. Underlying fundamentals, which include factors such as vacancy rates and

rents, remain stable and the estimated vacancy rate is at a historically low level. Preliminary third-party data for the first quarter of 2013 indicate that the national multifamily vacancy rate for institutional investment-type apartment properties decreased to an estimated 5.25% as of March 31, 2013, compared with an estimated 5.50% as of December 31, 2012 and an estimated 6.0% as of March 31, 2012.
In addition, preliminary third-party data indicate that asking rents increased in the first quarter of 2013 by an estimated 0.5% on a national basis. Ongoing multifamily rental demand is also reflected in an estimated positive net absorption (that is, the

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net change in the number of occupied rental units after deducting new supply added during the period) of approximately 36,000 units during the first quarter, according to preliminary data from Reis, Inc.
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 continued improvement in these fundamentals have helped boost property values; as a result, there has been an increase in new multifamily construction development in a number of metropolitan areas.
Over 180,000 new multifamily units are expected to be completed and become available this year, according to Axiometrics, Inc. Most of this new construction is concentrated in certain metropolitan areas, which could result in localized, short-term oversupply. In addition, if the employment market does not continue to improve, future rent growth is likely to slow and vacancy rates are likely to increase. Multifamily properties located in areas affected by federal government sequestration cuts may be particularly impacted by adverse conditions in the employment market.
Outlook
Financial Results and Dividend Payments to Treasury. We experienced significant improvement in our financial results for the first quarter of 2013, as compared with the first quarter of 2012. After paying Treasury a $4.2 billion quarterly dividend during the first quarter of 2013, we ended the quarter with a positive net worth of $62.4 billion as of March 31, 2013. Our pre-tax income for the first quarter of 2013, which does not reflect the deferred tax valuation allowance release, was $8.1 billion. While our earnings will vary from quarter to quarter, we expect to remain profitable for the foreseeable future. Because loans remain in our book of business for a number of years, the credit quality of and guaranty fees we charge on the loans we acquire in a particular year affects our results for a period of years after we acquire them. Accordingly, we expect the improvements in the credit quality of our loan acquisitions since 2009 and the increases in our charged guaranty fees on recently acquired loans to benefit our results for years to come, especially because these loans have relatively low interest rates, making them less likely to be refinanced than loans with higher interest rates.
In compliance with our dividend obligation to Treasury, we will retain only a limited amount of any future earnings because we must pay Treasury each quarter the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. This capital reserve amount is $3.0 billion for each quarter of 2013 and decreases annually until it reaches zero in 2018.
One of our objectives is to pay taxpayers for their investment in our company. Through March 31, 2013, we have received a total of $116.1 billion under the senior preferred stock purchase agreement. This funding has provided us with the capital and liquidity needed to fulfill our mission of providing liquidity and support to the nation’s housing finance markets and to avoid a trigger of mandatory receivership under the 2008 Reform Act. We have not received funds from Treasury under the agreement since the first quarter of 2012. Under the terms of the senior preferred stock purchase agreement, dividend payments cannot be used to offset prior Treasury draws, and we are not permitted to pay down draws we have made under the agreement except in limited circumstances. Accordingly, Treasury still maintains a liquidation preference of $117.1 billion on the senior preferred stock, even though we have paid $35.6 billion in dividends through March 31, 2013 and, with our dividend payment of $59.4 billion in the second quarter of 2013, we will have paid $95.0 billion in dividends. Because we expect our annual earnings to remain strong over the next few years, we expect that the amount of dividends we pay Treasury will ultimately exceed the amounts we have drawn.
Overall Market Conditions. We expect that single-family mortgage loan delinquency and severity rates will continue their downward trend, but that single-family delinquency, default and severity rates will remain high compared with pre-housing crisis levels. Despite multifamily sector improvement at the national level, we expect certain local markets and properties will continue to exhibit weak fundamentals. We expect the level of multifamily foreclosures for 2013 overall will generally remain commensurate with 2012 levels. Conditions may worsen if the unemployment rate increases on either a national or regional basis.
We forecast that total originations in the U.S. single-family mortgage market in 2013 will decrease from 2012 levels by approximately 15% from an estimated $1.92 trillion to $1.63 trillion and that the amount of originations in the U.S. single-family mortgage market that are refinancings will decrease from an estimated $1.40 trillion in 2012 to $1.01 trillion in 2013. Our forecast of a decrease in refinancings is based in part on our expectation that mortgage rates will

rise later this year. In the first quarter of 2013, refinancings comprised approximately 83% of our single-family business volume, compared with approximately 79% for all of 2012.

Home Prices. We estimate that home prices on a national basis declined by an estimated 19.3% from their peak in the third quarter of 2006 to the first quarter of 2013, based on our home price index, but increased by an estimated 5.9% from the first quarter of 2012 to the first quarter of 2013. The percentage of loans in our single-family conventional guaranty book of

business with an unpaid principal balance greater than the current estimated value of the underlying home decreased to 13% as of March 31, 2013 from 19% as of March 31, 2012. Although home price growth may not continue at 2012 levels, we expect that, if current market trends continue, home prices will increase on a national basis overall in 2013. Future home price changes may be very different from our expectations as a result of significant inherent uncertainty in the current market environment, including uncertainty about the effect of actions the federal government has taken and may take with respect to tax policies, spending cuts, mortgage finance programs and policies and housing finance reform; the management of the Federal Reserve's MBS holdings; the impact of those actions on and changes generally in unemployment and the general economic and interest rate environment; and the impact on the U.S. economy of global economic conditions. Because of these uncertainties, the actual home price changes we experience may differ significantly from our expectations. We also expect significant regional variation in the timing and rate of home price growth.

Credit Losses. Our credit losses, which include our charge-offs, net of recoveries, reflect our realization of losses on our loans. We realize losses on loans, through our charge-offs, when foreclosure sales are completed or when we accept short sales or deeds-in-lieu of foreclosure. We expect our credit losses to remain elevated in 2013 relative to pre-housing crisis levels. In addition, to the extent the slow pace of foreclosures continues in 2013, our realization of some credit losses will be delayed.

Loss Reserves. Our total loss reserves were $60.2 billion as of March 31, 2013, down from their peak of $76.9 billion as of December 31, 2011. We expect our loss reserves will remain significantly elevated relative to historical levels for an extended period because (1) we expect future defaults on loans that we acquired prior to 2009 and the resulting charge-offs will occur over a period of years and (2) a significant portion of our reserves represents concessions granted to borrowers upon modification of their loans and our reserves will continue to reflect these concessions until the loans are fully repaid or default.

Future Revenues and Profitability. Historically, we have generated the majority of our net revenues from the difference between the interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt funding of those assets. As we discuss in our 2012 Form 10 K in "Conservatorship and Treasury Agreements—Treasury Agreements—Covenants under Treasury Agreements," we are required to reduce the size of our retained mortgage portfolio each year until we hold no more than $250 billion in mortgage assets by the end of 2018. As we reduce the size of our retained mortgage portfolio, our revenues generated by our retained mortgage portfolio assets will also decrease. If current housing market conditions continue and if we are not required to sell more of our retained mortgage portfolio assets than we currently anticipate selling, we expect that these declines in our revenues will generally be offset by rising guaranty fee revenue received for managing the credit risk on loans underlying Fannie Mae MBS held by third parties. We recognize almost all of our guaranty fee revenue in net interest income in our condensed consolidated statements of operations and comprehensive income. We expect that, in a number of years, guaranty fees will become the primary source of our revenues as a result of both the shrinking of our retained mortgage portfolio and the impact of guaranty fee increases in 2011 and 2012. Any future increases in guaranty fees will likely further increase our guaranty fee revenue. The amount of our guaranty fee revenue in future periods will be impacted by many factors, including adjustments to guaranty fee pricing we may make in the future, which we discuss in our 2012 Form 10 K in "Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue."

In addition to our expectation that our guaranty fee revenue will increase in future periods, we also expect our credit losses will decrease as a result of the higher credit quality of our new book of business, the decrease in our legacy book and anticipated positive home price growth, which reduces the level of defaults we expect on our new book of business and our legacy book and lowers severity at the time of charge-off.

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

In 2011, Treasury and the Department of Housing and Urban Development ("HUD") released a report to Congress on reforming America's housing finance market. The report states that the Administration will work with FHFA to

determine the best way to responsibly wind down both Fannie Mae and Freddie Mac. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding long-term reform of the GSEs. See "Legislative and Regulatory Developments" in this report and "Business—Legislative and Regulatory Developments" in our 2012 Form 10 K for discussions of recent legislative reform of the financial services industry and proposals for GSE reform that could affect our business. See "Risk Factors" in our 2012 Form 10 K for a discussion of the risks to our business relating to the uncertain future of our company.

Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations. We present a number of estimates and expectations in this executive summary, including estimates and expectations regarding our future financial results and profitability, our future dividend payments to Treasury, our future revenues from guaranty fees, the profitability and performance of single-family loans we have acquired, our future acquisitions, our future REO inventory, our future delinquency, default and severity rates, our future credit losses and loss reserves, future housing market conditions, performance and volumes and future home prices. These estimates and expectations are forward-looking statements based on our current assumptions regarding numerous factors, especially future home prices and the future performance of our loans. Our future estimates of our performance, as well as the actual amounts, 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; our future serious delinquency rates; future legislative or regulatory requirements that have a significant impact on our business, such as a requirement that we implement a principal forgiveness program; future updates to our models relating to our loss reserves, including the assumptions used by these models; future changes to accounting policies relating to our loss reserves; significant changes in modification and foreclosure activity; changes in borrower behavior, such as an increasing number of underwater borrowers who strategically default on their mortgage loan; the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies; whether our counterparties meet their obligations in full; changes in the fair value of our assets and liabilities; impairments of our assets; changes in generally accepted accounting principles ("GAAP"); credit availability; natural and other disasters; and other factors, including those discussed in "Forward-Looking Statements," "Risk Factors" and elsewhere in this report. Due to the large size of our guaranty book of business, even small changes in these factors could have a significant impact on our financial results for a particular period.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

The information in this section updates and supplements information regarding legislative and regulatory developments set forth in "Business—Legislative and Regulatory Developments" and "Business—Our Charter and Regulation of Our Activities" in our 2012 Form 10-K. Also see "Risk Factors" in our 2012 Form 10-K for a discussion of risks relating to legislative and regulatory matters.

GSE Reform

Policymakers and others have focused significant attention in recent years on how to reform the nation's housing finance system, including what role, if any, the GSEs should play. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was signed into law in July 2010, calls for enactment of meaningful structural reforms of Fannie Mae and Freddie Mac. The Dodd-Frank Act also required the Treasury Secretary to submit a report to Congress with recommendations for ending the conservatorships of Fannie Mae and Freddie Mac. The Administration's February 2011 report on the future of housing finance reform identifies a number of policy steps that could be used to wind down Fannie Mae and Freddie Mac, reduce the government's role in housing finance and help bring private capital back to the mortgage market. These steps include (1) increasing guaranty fees, (2) gradually increasing the level of required down payments so that any mortgages insured by Fannie Mae or Freddie Mac eventually have at least a 10% down payment, (3) reducing conforming loan limits to those established in the 2008 Reform Act, (4) encouraging Fannie Mae and Freddie Mac to pursue additional credit loss protection and (5) reducing Fannie Mae's and Freddie Mac's retained mortgage portfolios, consistent with Treasury's senior preferred stock purchase agreements with the companies. In addition, the report outlines three potential options for a new long-term structure for the housing finance system following the wind-down of Fannie Mae and Freddie Mac. The first option would privatize housing finance almost entirely. The second option would add a government guaranty mechanism that could scale up during times of crisis. The third option would involve the government offering catastrophic reinsurance behind private mortgage guarantors.

In 2012, the Acting Director of FHFA provided a strategic plan for Fannie Mae and Freddie Mac's conservatorships. On March 4, 2013, the Acting Director of FHFA released the 2013 Conservatorship Scorecard for Fannie Mae and Freddie Mac, which details specific priorities that build upon the goals in the strategic plan. At that time, FHFA announced that, to further the goal of building a common securitization platform that would be able to function like a

market utility, a new business entity will be established by Fannie Mae and Freddie Mac that will be separate from the two companies. The new business entity will be designed to operate as a replacement for some of Fannie Mae and Freddie Mac's legacy infrastructure. The scorecard also established priorities relating to the goal that we contract our dominant presence in the marketplace. In support of this goal, FHFA set as goals that we (1) demonstrate the viability of multiple types of risk transfer transactions involving single-family mortgages with at least $30 billion of unpaid principal balances in 2013, (2) reduce the unpaid principal balance of new multifamily business relative to 2012 by at least 10% by tightening underwriting, adjusting pricing and

limiting product offerings, while not increasing the proportion of our retained risk and (3) sell 5% of the assets we held in our retained mortgage portfolio as of December 31, 2012 that are not agency securities.
During the last congressional session, several bills were introduced in the House of Representatives and the Senate to reform the housing finance system. These bills would have placed the GSEs into receivership after a period of time and either granted federal charters to new entities to engage in activities similar to those currently engaged in by the GSEs or left secondary mortgage market activities to entities in the private sector.
In addition, numerous bills were referred to the Committee on Financial Services of the House of Representatives on discrete topics related to the activities and operations of the enterprises. Of these bills, only legislation that would have placed GSE employees on a government pay scale was approved by the full Committee.
Congress passed two bills that were signed into law relating to GSE operations or activities. These bills increased the guaranty fees of the GSEs in order to offset the cost of a two month extension of the payroll tax cut in 2012 and prohibited the payment of bonuses to senior executives at the GSEs during conservatorship. In addition, the House, but not the Senate, passed legislation that would have placed GSE obligations on the federal budget and made them subject to the debt ceiling, as well as required receipts and disbursements of the GSEs to be counted in the federal budget. For legislation to be considered in the congressional session that convened in January 2013 and runs through 2014, any previously introduced legislation must be reintroduced and begin the legislative process again.
During the current congressional session, the Senate passed an amendment to its budget resolution that would make it more difficult for Congress to require an increase in our guaranty fees to offset government spending. In addition, legislation has been introduced in the Senate (the “Jumpstart GSE Reform Act”), but not yet acted upon, that would prohibit an increase in guaranty fees to offset spending unrelated to the business operations at the GSEs. That legislation would also prohibit Treasury from disposing of its senior preferred stock of the GSEs until legislation has been enacted that includes specific instruction for its disposition.
We expect Congress to continue consideration of housing finance reform in the current congressional session, including hearings on GSE reform and the consideration of legislation that may alter the housing finance reform system or the activities or operations of the GSEs.
In sum, there continues to be 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. See “Risk Factors” in our 2012 Form 10-K 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.
Dodd-Frank Act—Ability to Repay
The Dodd-Frank Act requires creditors to determine that borrowers have a “reasonable ability to repay” mortgage loans prior to making such loans. On January 10, 2013, the Consumer Financial Protection Bureau (the “CFPB”) issued a final rule pursuant to the Dodd-Frank Act that, among others things, requires creditors to determine a borrower’s “ability to repay” a mortgage loan under Regulation Z, which implements the Truth in Lending Act. If a creditor fails to comply, a borrower may be able to offset amounts 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 with special protection from liability. While Fannie Mae and Freddie Mac remain in conservatorship or, if earlier, until January 10, 2021, a loan will generally 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 loan conforms to the standards set forth in Fannie Mae’s or Freddie Mac’s single-family selling guides or is determined to be eligible for purchase by Fannie Mae’s or Freddie Mac’s automated underwriting system. There are comparable provisions for loans insured or guaranteed by FHA, the VA or the Department of Agriculture. A loan that is not eligible for sale to a GSE pursuant to its selling guide or automated underwriting system can still be a qualified mortgage if it meets the other criteria listed above, the debt-to-income ratio on the loan does not exceed 43% using the maximum interest rate applicable in the first five years of the loan, taking into account all-mortgage related obligations, and the borrower’s

income and assets are verified in accordance with the method prescribed in the rule. There is some uncertainty regarding the timing and final provisions of the rule as a result of legal challenges to the appointment of the CFPB's director.

In May 2013, FHFA directed Fannie Mae and Freddie Mac to limit our acquisition of single-family loans to loans that are qualified mortgages, or that are exempt from the ability-to-repay rule, such as loans made to investors. This prohibition will

be effective for loans with application dates on or after the effective date of the ability-to-repay rule, which is scheduled for January 10, 2014. We are currently evaluating the potential impact of the rule and the uncertainty surrounding its adoption on our business.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

Deferred Tax Assets

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

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

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

After weighing all of the evidence, we determined that the positive evidence in favor of releasing the valuation allowance, particularly the evidence that was objectively verifiable, outweighed the negative evidence against releasing the allowance as of March 31, 2013. Therefore, we concluded that it is more likely than not that our deferred tax assets, except the deferred tax assets relating to capital loss carryforwards, will be realized. As a result, we have released the valuation allowance on our deferred tax assets as of March 31, 2013, except for amounts that will be released against income before federal income taxes for the remainder of the year. However, we will retain $491 million of the valuation allowance that pertains to our capital loss carryforwards, which we believe will expire unused. The release of the valuation allowance resulted in the recognition of $50.6 billion as a benefit for federal income taxes

in our condensed consolidated statements of operations and comprehensive income in the first quarter of 2013.

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

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

As discussed in our 2012 Form 10-K in "MD&A—Critical Accounting Policies and Estimates—Deferred Tax Assets," releasing all or a portion of the valuation allowance in any period after December 31, 2012 will not reduce the funding available to us under the senior preferred stock purchase agreement and therefore would not result in regulatory actions that would limit our business operations to ensure our safety and soundness. In addition, we transitioned from a three-year cumulative loss position over the three years ended December 31, 2012 to a three-year cumulative income position over the three years ended March 31, 2013. The change in these conditions during the first quarter of 2013 removed negative evidence that supported maintaining the valuation allowance against our net deferred tax assets as of December 31, 2012. The balance of our net deferred tax assets was $49.7 billion as of March 31, 2013 compared with a net deferred tax liability of $509 million as of December 31, 2012.

We expect that the remaining valuation allowance not related to capital loss carryforwards will be reduced against income before federal income taxes throughout the remaining quarters of 2013 until that amount is reduced to zero as of December 31, 2013. The timing of the reduction of this remaining valuation allowance will be determined by the timing of our estimated income recognition for 2013.

Income before federal income taxes recorded in the remainder of 2013 may be greater or less than our current estimate. If income before federal income taxes recorded for the remainder of 2013 is greater than our current estimate, we will recognize a provision for federal income taxes in subsequent periods of 2013. Conversely, if income before federal income taxes recorded for the remainder of 2013 is lower than our current estimate, we will recognize an additional benefit for income taxes in subsequent periods of 2013. Starting in 2014, we expect that our effective tax rate will approach the statutory tax rate.

CONSOLIDATED RESULTS OF OPERATIONS

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

Table 5 displays a summary of our condensed consolidated results of operations for the periods indicated.

Table 5: Summary of Condensed Consolidated Results of Operations

	For the Three Months Ended March 31,		
	2013	2012	Variance
	(Dollars in millions)		
Net interest income	$6,304	$5,197	$1,107
Fee and other income	568	375	193
Net revenues	6,872	5,572	1,300
Investment gains, net	118	116	2
Fair value gains, net	834	283	551
Administrative expenses	(641)	(564)	(77)
Credit-related income (expenses)			
Benefit (provision) for credit losses	957	(2,000)	2,957
Foreclosed property income (expense)	260	(339)	599
Total credit-related income (expenses)	1,217	(2,339)	3,556
Other non-interest expenses[1]	(286)	(350)	64
Income before federal income taxes	8,114	2,718	5,396
Benefit for federal income taxes	50,571	—	50,571
Net income	58,685	2,718	55,967
Less: Net loss attributable to noncontrolling interest	—	1	(1)
Net income attributable to Fannie Mae	$58,685	$2,719	$55,966
Total comprehensive income attributable to Fannie Mae	$59,339	$3,081	$56,258

[1] Consists of net other-than-temporary impairments, debt extinguishment losses, net and other expenses.

Net Interest Income

Table 6 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 7 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 6: Analysis of Net Interest Income and Yield

	For the Three Months Ended March 31,					
	2013			2012		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans of Fannie Mae	$345,077	$3,830	4.44 %	$378,344	$3,569	3.77 %
Mortgage loans of consolidated trusts	2,669,149	25,394	3.81	2,600,221	29,001	4.46
Total mortgage loans[1]	3,014,226	29,224	3.88	2,978,565	32,570	4.37
Mortgage-related securities	236,309	2,683	4.54	288,449	3,458	4.80
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(152,986)	(1,797)	4.70	(186,214)	(2,305	