

Edgar Filing: FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE - Form 10-K

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%		

Edgar Filing: FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE - Form 10-K

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:			