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

Form 10-Q

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

For the quarterly period ended September 30, 2015

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  No

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

Indicate by check mark 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

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

As of September 30, 2015, there were 1,158,082,750 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, 2014 (“2014 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 2014 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 our 2014 Form 10-K.*

*You can find a “Glossary of Terms Used in This Report” in the “MD&A” of our 2014 Form 10-K.*

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## INTRODUCTION

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

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

Our conservatorship has no specified termination date, and we do not know when or how the conservatorship will terminate, whether we will continue to exist following conservatorship, what changes to our business structure will be made during or following the conservatorship, or what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated. In addition, our agreements with Treasury that provide for financial support include covenants that significantly restrict our business activities and provide for dividends to accrue at a rate equal to our net worth less a capital reserve amount, which continues to decrease annually until it reaches zero, allowing us to retain only a limited and decreasing amount of our net worth. We provide additional information on the conservatorship, the provisions of our agreements with Treasury, and their impact on our business in our 2014 Form 10-K in “Business—Conservatorship and Treasury Agreements” and “Risk Factors.” We discuss the uncertainty of our future in “Executive Summary—Outlook” and “Risk Factors” in this report. We discuss proposals for housing finance reform that could materially affect our business in “Legislative and Regulatory Developments—Housing Finance Reform” in this report and in our quarterly report on Form 10-Q for the quarter ended June 30, 2015 (“Second Quarter 2015 Form 10-Q”), as well as in “Business—Housing Finance Reform” in our 2014 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.

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## EXECUTIVE SUMMARY

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### Our Strategy

We are focused on:

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

### *Achieving strong financial and credit performance*

We continued to achieve strong financial and credit performance in the third quarter of 2015:

- *Financial Performance.* We reported net income of \$2.0 billion for the third quarter of 2015, compared with net income of \$3.9 billion for the third quarter of 2014. See “Summary of Our Financial Performance” below for an overview of our financial performance for the third quarter and first nine months of 2015, compared with the third quarter and first nine months of 2014. We expect to remain profitable on an annual basis for the foreseeable future; however, certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year. For more information regarding our expectations for our future financial performance, see “Outlook—Financial Results” and “Outlook—Revenues” below.
- *Dividend Payments to Treasury.* With our expected December 2015 dividend payment to Treasury, we will have paid a total of \$144.8 billion in dividends to Treasury on our senior preferred stock. The aggregate amount of draws we have received from Treasury to date under the senior preferred stock purchase agreement is \$116.1 billion. Under the terms of the senior preferred stock purchase agreement, dividend payments do not offset prior Treasury draws. See “Treasury Draws and Dividend Payments” and “Outlook—Dividend Obligations to Treasury” below for more information regarding our dividend payments to Treasury.
- *Book of Business and Credit Performance.* Beginning in 2008, we made changes to strengthen our underwriting and eligibility standards that have improved the credit quality of our single-family guaranty book of business and contributed to improvement in our credit performance. Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010, and was 1.59% as of September 30, 2015, compared with 1.89% as of December 31, 2014. Single-family seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. See “Single-Family Guaranty Book of Business” below for information on the credit performance of the mortgage loans in our single-family guaranty book of business and on our recent single-family acquisitions.

Our business model has changed significantly since we entered into conservatorship in 2008 and continues to evolve. To meet the requirements of our senior preferred stock purchase agreement with Treasury, our retained mortgage portfolio has declined substantially since entering conservatorship and will continue to decline until 2018. This has resulted in, and is expected to continue to result in, declines in our net revenues from our retained mortgage portfolio. Our “retained mortgage portfolio” refers to the mortgage-related assets we own (which excludes the portion of assets held by consolidated MBS trusts that back mortgage-related securities owned by third parties). In addition, the amount of guaranty fee income we receive for managing the credit risk of loans in our book of business has increased significantly since entering into conservatorship and we expect will continue to increase over the next several years. See “Outlook—Revenues” for more information on the shift in, and future expectations regarding, the sources of our revenue. Our business also continues to evolve as a result of our efforts to build a safer and sustainable housing finance system and to pursue the strategic goals identified by our conservator. For example, we have transferred a portion of the existing credit risk on our single-family guaranty book of business in order to reduce the risk to taxpayers of future borrower defaults, and we expect to continue engaging in economically sensible ways to expand our offerings of credit risk transfer transactions in the future. See “Helping to Build a Sustainable Housing Finance System” below and in our 2014 Form 10-K in “Business—Executive Summary” for a discussion of our credit risk transfer transactions and other efforts to build a safer and sustainable housing finance system.

We remain under conservatorship and subject to the restrictions of the senior preferred stock purchase agreement with Treasury. As a result of the senior preferred stock purchase agreement and directives from our conservator, we are not permitted to retain our net worth (other than a limited amount that will decrease to zero by 2018), rebuild our capital position or pay dividends or other distributions to stockholders other than Treasury. See “Business—Conservatorship and Treasury Agreements” in our 2014 Form 10-K for more information regarding our conservatorship and our senior preferred stock purchase agreement with Treasury. In addition, the future of our company remains uncertain. Congress continues to consider options for reform of the housing finance system, including the GSEs, and we cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation. See “Legislative and Regulatory Developments—Housing Finance Reform” in this report and in our Second Quarter 2015 Form 10-Q, as well as “Business—Housing Finance Reform” in our 2014 Form 10-K for information on recent proposals for housing finance reform.

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

We continued our efforts to support the housing recovery in the third quarter of 2015. We were one of the largest issuers of mortgage-related securities in the single-family secondary market during the third quarter of 2015 and a continuous source of liquidity in the multifamily market. We also continued to help struggling homeowners. In the third quarter of 2015, we provided approximately 29,000 loan workouts to help homeowners stay in their homes or otherwise avoid foreclosure. We discuss our activities to support the housing and mortgage markets in “Contributions to the Housing and Mortgage Markets” below.

***Serving customer needs and improving our business efficiency***

We continued to work on initiatives to better serve our customers’ needs and improve our business efficiency in the third quarter of 2015. These initiatives include revising and clarifying our representation and warranty framework to reduce lenders’ repurchase risk, simplifying our business processes, and updating our infrastructure. We discuss these initiatives in “Serving Customer Needs and Improving Our Business Efficiency” below and in our 2014 Form 10-K in “Business—Executive Summary.”

***Helping to build a sustainable housing finance system***

We continued to help lay the foundation for a safer and sustainable housing finance system in the third quarter of 2015. Our efforts included pursuing the strategic goals and objectives identified by our conservator, as well as investing in enhancements to our business and infrastructure. We discuss these efforts, as well as FHFA’s 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac and FHFA’s related 2015 conservatorship scorecard, in “Helping to Build a Sustainable Housing Finance System” below and in our 2014 Form 10-K in “Business—Executive Summary.”

**Summary of Our Financial Performance**

Our financial results for the third quarter and first nine months of 2015 were affected by significant fluctuations in interest rates and continued improvements in the housing and mortgage markets. The decrease in interest rates during the third quarter of 2015 resulted in declines in the fair value of financial instruments that we mark to market in our earnings, resulting in fair value losses primarily related to risk management derivatives. Although the decrease in interest rates had a negative impact on the fair value of our financial instruments, the decrease in interest rates had a positive impact on our provision for credit losses.

***Comprehensive Income***

***Quarterly Results***

We recognized comprehensive income of \$2.2 billion in the third quarter of 2015, consisting of net income of \$2.0 billion and other comprehensive income of \$253 million. In comparison, we recognized comprehensive income of \$4.0 billion in the third quarter of 2014, consisting of net income of \$3.9 billion and other comprehensive income of \$95 million. The decrease in comprehensive income was primarily due to an increase in fair value losses. Additionally, the decrease in comprehensive income was driven by revenue of \$538 million recognized in the third quarter of 2014 resulting from settlement agreements resolving certain lawsuits relating to private-label mortgage-related securities (“PLS”) sold to us. These decreases were partially offset by higher net interest income primarily due to an increase in amortization income as a result of higher prepayments in the third quarter of 2015.

Fair value losses increased to \$2.6 billion in the third quarter of 2015 compared with \$207 million in the third quarter of 2014. Fair value losses in the third quarter of 2015 were primarily driven by decreases in longer-term swap rates during the

period. Fair value losses in the third quarter of 2014 were primarily driven by increases in shorter-term swap rates during the period.

#### *Year-to-Date Results*

We recognized comprehensive income of \$8.4 billion in the first nine months of 2015, consisting of net income of \$8.5 billion and other comprehensive loss of \$120 million. In comparison, we recognized comprehensive income of \$13.4 billion in the first nine months of 2014, consisting of net income of \$12.9 billion and other comprehensive income of \$512 million. The decrease in comprehensive income was driven by revenue of \$4.8 billion recognized in the first nine months of 2014 resulting from settlement agreements resolving certain lawsuits relating to PLS sold to us and a shift to credit-related expense from credit-related income.

We recognized credit-related expense of \$102 million in the first nine months of 2015 comprised of foreclosed property expense partially offset by a benefit for credit losses. Foreclosed property expense was primarily driven by property preservation costs, which include property tax and insurance expenses relating to our single-family foreclosed properties. The benefit for credit losses was primarily driven by an increase in home prices. This was partially offset by the impact from the redesignation of certain nonperforming single-family loans from held for investment (“HFI”) to held for sale (“HFS”). These loans were adjusted to the lower of cost or fair value, which reduced our benefit for credit losses by approximately \$600 million. Additionally, mortgage interest rates increased during the first nine months of 2015, which also partially offset our benefit for credit losses. As interest rates increase, we expect a decline in future prepayments on individually impaired loans, including modified loans. Lower expected prepayments lengthen the expected lives of modified loans, which increases the impairment related to concessions provided on these loans and results in an increase in the provision for credit losses. We recognized credit-related income of \$3.7 billion in the first nine months of 2014 primarily due to an increase in home prices and income from the resolution of compensatory fees and representation and warranty matters.

We expect volatility from period to period in our financial results from a number of factors, particularly changes in market conditions that result in fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings. These instruments include derivatives and certain securities. The estimated fair value of our derivatives and securities may fluctuate substantially from period to period because of changes in interest rates, the yield curve, mortgage spreads and implied volatility, as well as activity related to these financial instruments. We use derivatives to manage the interest rate risk exposure of our net portfolio, which consists of our retained mortgage portfolio, cash and other investments portfolio, and outstanding debt of Fannie Mae. Some of these financial instruments in our net portfolio are not recorded at fair value in our condensed consolidated financial statements, and as a result we may experience accounting gains or losses due to changes in interest rates or other market conditions that may not be indicative of the economic interest rate risk exposure of our net portfolio. See “Risk Management—Market Risk Management, Including Interest Rate Risk Management” for more information. In addition, our credit-related income or expense can vary substantially from period to period primarily due to changes in home prices, borrower payment behavior and economic conditions.

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

#### ***Net Worth***

Our net worth increased to \$4.0 billion as of September 30, 2015 from \$3.7 billion as of December 31, 2014 primarily due to our comprehensive income of \$8.4 billion, partially offset by our payments to Treasury of \$8.1 billion in senior preferred stock dividends during the first nine months of 2015. Our expected dividend payment of \$2.2 billion for the fourth quarter of 2015 is calculated based on our net worth of \$4.0 billion as of September 30, 2015 less the applicable capital reserve amount of \$1.8 billion.

#### **Single-Family Guaranty Book of Business**

##### ***Credit Performance***

We continued to achieve strong credit performance in the third quarter of 2015. In addition to acquiring loans with strong credit profiles, we continued to execute on our strategies for reducing credit losses, such as helping eligible Fannie Mae borrowers with high loan-to-value (“LTV”) ratio loans refinance into more sustainable loans through the Administration’s Home Affordable Refinance Program® (“HARP®”), offering borrowers loan modifications that can significantly reduce their monthly payments, pursuing foreclosure alternatives and managing our real estate owned (“REO”) inventory to appropriately manage costs and maximize sales proceeds. As we work to reduce credit losses, we also seek to assist struggling homeowners, help stabilize communities and support the housing market.

Table 1 presents information about the credit performance of mortgage loans in our single-family guaranty book of business and our workouts. The term “workouts” refers to both home retention solutions (loan modifications and other solutions that enable a borrower to stay in his or her home) and foreclosure alternatives (short sales and deeds-in-lieu of foreclosure). The workout information in Table 1 does not reflect repayment plans and forbearances that have been initiated but not completed, nor does it reflect trial modifications that have not become permanent.

**Table 1: Credit Statistics, Single-Family Guaranty Book of Business<sup>(1)</sup>**

|   | 2015          |               |               |               | 2014           |               |               |               |               |
|---|---------------|---------------|---------------|---------------|----------------|---------------|---------------|---------------|---------------|
|   | Q3<br>YTD     | Q3            | Q2            | Q1            | Full<br>Year   | Q4            | Q3            | Q2            | Q1            |
| (Dollars in millions)   |               |               |               |               |                |               |               |               |               |
| <b>As of the end of each period:</b>  |               |               |               |               |                |               |               |               |               |
| Serious delinquency rate <sup>(2)</sup> ..  | 1.59 %        | 1.59 %        | 1.66 %        | 1.78 %        | 1.89 %         | 1.89 %        | 1.96 %        | 2.05 %        | 2.19 %        |
| Seriously delinquent loan<br>count .....  | 275,548       | 275,548       | 287,372       | 308,546       | 329,590        | 329,590       | 340,897       | 357,267       | 383,810       |
| Foreclosed property<br>inventory:   |               |               |               |               |                |               |               |               |               |
| Number of properties <sup>(3)</sup> ..  | 60,958        | 60,958        | 68,717        | 79,319        | 87,063         | 87,063        | 92,386        | 96,796        | 102,398       |
| Carrying value .....  | \$ 7,245      | \$ 7,245      | \$ 7,997      | \$ 8,915      | \$ 9,745       | \$ 9,745      | \$ 10,209     | \$ 10,347     | \$ 10,492     |
| Total loss reserves <sup>(4)</sup> .....  | 29,677        | 29,677        | 31,770        | 32,532        | 37,762         | 37,762        | 39,330        | 41,657        | 44,760        |
| <b>During the period:</b>   |               |               |               |               |                |               |               |               |               |
| Credit-related income<br>(expense) <sup>(5)</sup> .....   | \$ (216)      | \$ 1,029      | \$ (1,238)    | \$ (7)        | \$ 3,625       | \$ 94         | \$ 748        | \$ 1,781      | \$ 1,002      |
| Credit losses <sup>(6)</sup> .....  | 8,650         | 1,168         | 2,109         | 5,373         | 5,978          | 1,616         | 1,738         | 1,497         | 1,127         |
| REO net sales prices to<br>unpaid principal balance <sup>(7)</sup> ..   | 71 %          | 72 %          | 72 %          | 70 %          | 69 %           | 69 %          | 69 %          | 69 %          | 68 %          |
| Short sales net sales price to<br>unpaid principal balance <sup>(8)</sup> ..                                      | 73 %          | 74 %          | 74 %          | 73 %          | 72 %           | 72 %          | 72 %          | 72 %          | 71 %          |
| <b>Loan workout activity<br/>(number of loans):</b>   |               |               |               |               |                |               |               |               |               |
| Home retention loan<br>workouts <sup>(9)</sup> .....  | 79,908        | 23,571        | 27,769        | 28,568        | 130,132        | 27,610        | 30,584        | 33,639        | 38,299        |
| Short sales and deeds-in-lieu<br>of foreclosure .....   | 17,316        | 5,531         | 6,128         | 5,657         | 34,480         | 6,845         | 7,992         | 9,516         | 10,127        |
| Total loan workouts .....   | <u>97,224</u> | <u>29,102</u> | <u>33,897</u> | <u>34,225</u> | <u>164,612</u> | <u>34,455</u> | <u>38,576</u> | <u>43,155</u> | <u>48,426</u> |
| Loan workouts as a<br>percentage of delinquent<br>loans in our guaranty book<br>of business <sup>(10)</sup> ..... | 21.00 %       | 19.28 %       | 22.69 %       | 21.71 %       | 23.20 %        | 20.45 %       | 22.46 %       | 24.69 %       | 25.70 %       |

(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 or in the foreclosure process, divided by the number of loans in our single-family conventional guaranty book of business.

(3) Includes acquisitions through deeds-in-lieu of foreclosure. Also includes held for use properties, which are reported in our condensed consolidated balance sheets as a component of “Other assets.”

(4) Consists of (a) the combined loss reserves, (b) allowance for accrued interest receivable, and (c) allowance for preforeclosure property taxes and insurance receivable. Effective January 1, 2015, we charged off accrued interest receivable associated with loans on nonaccrual status and eliminated the related allowance in connection with our change in accounting policy related to the treatment of interest previously accrued, but not collected, at the date that loans are placed on nonaccrual status. See “Note 1, Summary of Significant Accounting Policies” for more information on this policy change.

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



- (6) Consists of (a) charge-offs, net of recoveries and (b) foreclosed property expense (income), adjusted to exclude the impact of fair value losses resulting from credit-impaired loans acquired from MBS trusts. As discussed in “Consolidated Results of Operations—Credit-Related Income (Expense)—Credit Loss Performance Metrics,” our credit losses in the first nine months of 2015 included charge-offs of (1) \$1.8 billion in loans held for investment and \$724 million in preforeclosure property taxes and insurance receivable that we recognized on January 1, 2015 upon our adoption of FHFA’s Advisory Bulletin AB 2012-02, “Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention” (the “Advisory Bulletin”) and (2) \$1.1 billion in accrued interest receivable that we recognized on January 1, 2015 upon our adoption of a change in accounting policy related to loans placed on nonaccrual. See “Note 1, Summary of Significant Accounting Policies” for additional information.
- (7) 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 sellers or servicers, divided by the aggregate unpaid principal balance of the related loans at the time of foreclosure. Net sales price represents the contract sales price less selling costs for the property and other charges paid by the seller at closing.
- (8) Calculated as the amount of sale proceeds received on properties sold in short sale transactions during the respective periods divided by the aggregate unpaid principal balance of the related loans. Net sales price represents the contract sales price less the selling costs for the property and other charges paid by the seller at the closing, including borrower relocation incentive payments and subordinate lien (s) negotiated payoffs.
- (9) Consists of (a) modifications, which do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as troubled debt restructurings (“TDRs”), or repayment plans or forbearances that have been initiated but not completed and (b) repayment plans and forbearances completed. See “Table 30: 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.
- (10) Calculated based on annualized problem loan workouts during the period as a percentage of the average balance of delinquent loans in our single-family guaranty book of business.

Beginning in 2008, we took actions to significantly strengthen our underwriting and eligibility standards to promote sustainable homeownership and stability in the housing market. These actions have improved the credit quality of our book of business and contributed to improvement in our credit performance. For information on the credit risk profile of our single-family guaranty book of business, see “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management,” including “Table 27: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business.”

We continue to experience disproportionately higher credit losses and serious delinquency rates from single-family loans originated in 2005 through 2008 than from loans originated in other years. Single-family loans originated in 2005 through 2008 constituted 11% of our single-family book of business as of September 30, 2015 but constituted 58% of our seriously delinquent single-family loans as of September 30, 2015 and drove 66% of our single-family credit losses in the third quarter of 2015. For information on the credit performance of our single-family book of business based on loan vintage, see “Table 11: Credit Loss Concentration Analysis” in “Consolidated Results of Operations—Credit-Related Income (Expense)—Credit Loss Performance Metrics” and “Table 29: Single-Family Conventional Seriously Delinquent Loan Concentration Analysis” in “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management.” For information on certain credit characteristics of our single-family book of business based on the period in which we acquired the loans, see “Table 24: Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period” in “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management.”

We provide additional information on our credit-related expense in “Consolidated Results of Operations—Credit-Related Income (Expense)” and on the credit performance of mortgage loans in our single-family book of business in “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management.”

We provide more information on our efforts to reduce our credit losses in “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management” and “Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management” in both this report and our 2014 Form 10-K. See also “Risk Factors” in our 2014 Form 10-K, where we describe factors that may adversely affect the success of our efforts, including our reliance on third parties to service our loans, conditions in the foreclosure environment, and risks relating to our mortgage insurer counterparties.

### ***Recently Acquired Single-Family Loans***

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

**Table 2: Single-Family Acquisitions Statistics**

|  | 2015                  |           |           | 2014      |           |           |          |
|--|-----------------------|-----------|-----------|-----------|-----------|-----------|----------|
|  | Q3                    | Q2        | Q1        | Q4        | Q3        | Q2        | Q1       |
|  | (Dollars in millions) |           |           |           |           |           |          |
| Single-family average charged guaranty fee on new acquisitions (in basis points) <sup>(1)(2)</sup> . . . . . | 60.6                  | 59.9      | 61.2      | 62.5      | 63.5      | 62.6      | 63.0     |
| Single-family Fannie Mae MBS issuances . . . . .   | \$126,144             | \$130,974 | \$110,994 | \$109,045 | \$105,563 | \$ 84,096 | \$76,972 |
| Select risk characteristics of single-family conventional acquisitions: <sup>(3)</sup>                       |                       |           |           |           |           |           |          |
| Weighted average FICO <sup>®</sup> credit score at origination . . . . .                                     | 747                   | 750       | 748       | 745       | 744       | 744       | 741      |
| FICO credit score at origination less than 660 . . . . .   | 6 %                   | 5 %       | 5 %       | 6 %       | 7 %       | 7 %       | 8 %      |
| Weighted average original LTV ratio <sup>(4)</sup> . . . . .   | 76 %                  | 74 %      | 74 %      | 76 %      | 77 %      | 77 %      | 77 %     |
| Original LTV ratio over 80% <sup>(4)(5)</sup> . . . . .  | 30 %                  | 27 %      | 26 %      | 30 %      | 32 %      | 32 %      | 31 %     |
| Original LTV ratio over 95% <sup>(4)</sup> . . . . .   | 3 %                   | 3 %       | 2 %       | 2 %       | 3 %       | 4 %       | 7 %      |
| Loan purpose:  |                       |           |           |           |           |           |          |
| Purchase . . . . .   | 54 %                  | 40 %      | 37 %      | 50 %      | 57 %      | 54 %      | 45 %     |
| Refinance . . . . .  | 46 %                  | 60 %      | 63 %      | 50 %      | 43 %      | 46 %      | 55 %     |

- (1) Reflects the impact of a 10 basis point guaranty fee increase implemented pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011 (the “TCCA”), the incremental revenue from which must be remitted to Treasury. The resulting revenue is included in guaranty fee income and the expense is recognized as “TCCA fees.”
- (2) Calculated based on the average contractual fee rate for our single-family guaranty arrangements entered into during the period plus the recognition of any upfront cash payments ratably over an estimated average life, expressed in basis points.
- (3) Calculated based on unpaid principal balance of single-family loans for each category at time of acquisition.
- (4) The original LTV ratio generally is based on the original unpaid principal balance of the loan divided by the appraised property value reported to us at the time of acquisition of the loan. Excludes loans for which this information is not readily available.
- (5) We purchase loans with original LTV ratios above 80% as part of our mission to serve the primary mortgage market and provide liquidity to the housing finance system. Except as permitted under HARP, our charter generally requires primary mortgage insurance or other credit enhancement for loans that we acquire that have an LTV ratio over 80%.

Our single-family acquisition volume and single-family Fannie Mae MBS issuances increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014, driven primarily by an increase in the amount of originations in the U.S. single-family mortgage market that were refinancings.

The average charged guaranty fee on newly-acquired single-family loans varies from period to period as a result of shifts in the loan level price adjustments we charge and changes we make to our contractual fee rates. Loan level price adjustments refer to one-time cash fees that we charge at the time we acquire a loan based on the credit characteristics of the loan. Loans with lower LTV ratios, which is typical of non-HARP refinance loans, or higher FICO credit scores generally result in lower loan level price adjustments. As a result, our average charged guaranty fee is lower than it would otherwise be in periods with high volumes of non-HARP refinance loans. The contractual fee rates we charge vary to the extent we make changes in our pricing strategy in response to the market and competitive environment. The decrease in our average charged guaranty fee on newly-acquired single-family loans in the third quarter of 2015 as compared with the third quarter of 2014 was driven by a

decrease in loan level price adjustments charged on our acquisitions in the third quarter of 2015 and by changes we made in our contractual fee rates.

For more information on the credit risk profile of our single-family conventional loan acquisitions in the third quarter of 2015, see “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management,” including “Table 27: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business” in that section.

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

In April 2015, FHFA directed us to implement guaranty fee changes that became effective for whole loans we purchase on or after September 1, 2015 and for loans we acquire in lender swap transactions for Fannie Mae MBS with issue dates on or after September 1, 2015. These fee changes included eliminating the 25 basis point adverse market delivery charge that had been assessed on all single-family mortgages purchased by us since 2008 and small, targeted increases in loan level price adjustments for loans with certain risk attributes. These fee changes and potential risks to our business resulting from these changes are described in “MD&A—Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing” in our quarterly report on Form 10-Q for the quarter ended March 31, 2015 (“First Quarter 2015 Form 10-Q”).

#### ***Providing Access to Credit Opportunities for Creditworthy Borrowers***

Pursuant to FHFA’s 2014 and 2015 conservatorship scorecards and our statutory mission, we are continuing to work to increase access to mortgage credit for creditworthy borrowers, consistent with the full extent of our applicable credit requirements and risk management practices. As part of this effort, we are encouraging lenders to originate loans across the full eligibility spectrum for those borrowers meeting our credit requirements. Some actions we are taking in this regard include: providing additional clarity regarding seller and servicer representations and warranties and remedies for poor servicing performance; making new quality control tools available to lenders; conducting increased outreach to lenders and other industry stakeholders to increase awareness of our available products and programs and to identify potential opportunities to enhance our products and programs to serve creditworthy borrowers; and conducting consumer research to provide industry partners with information to support their efforts to reach underserved market segments.

As part of meeting this scorecard objective, in 2014 we worked with FHFA to revise our eligibility criteria to address a targeted segment of creditworthy borrowers—those who can afford a mortgage but who lack resources for a substantial down payment—in a responsible manner by taking into account factors that would compensate for the high LTV ratios of their loans. Specifically, we changed our eligibility requirements to increase our maximum LTV ratio from 95% to 97% for loans meeting certain criteria. Our eligibility requirements for these loans include compensating factors and risk mitigants, which reduce the incidence of loans with multiple higher-risk characteristics, or “risk layering.” For purchase transactions, at least one borrower on the loan must be a first-time home buyer and occupy the property as his or her principal residence. In some cases, we also require the borrower to receive housing counseling before obtaining the loan. Eligibility for refinance transactions is limited to existing Fannie Mae loans to provide support for borrowers who may not otherwise be eligible for our Refi Plus™ initiative. For both purchase and refinance loans, the loans must have fixed-rate terms and must be underwritten through Desktop Underwriter®, our proprietary automated underwriting system. Desktop Underwriter provides a comprehensive credit risk assessment on loan applications submitted through the system, assessing risk layers and compensating factors, and identifying loan applications that do not meet our eligibility requirements.

More recently, in August 2015 we announced that we are introducing an improved affordable lending product, HomeReady™, which is designed for creditworthy borrowers with lower and moderate incomes and will provide expanded eligibility for financing homes in designated low-income, minority, and disaster-impacted communities. Under our HomeReady guidelines, evidence of income from a non-borrower household member can be considered as a factor to allow a borrower to qualify with a higher debt-to-income ratio for the loan, helping multi-generational and extended households obtain homeownership. Our research indicates that these extended households tend to have incomes that are as stable as or more stable than households without significant non-borrower income. Other HomeReady flexibilities include allowing income from non-occupant borrowers, such as parents, and rental payments, such as from a basement apartment, to augment

the borrower's qualifying income. HomeReady will be available to eligible first-time and repeat homebuyers whose loans have LTV ratios of up to 97%. HomeReady loans must be underwritten through Desktop Underwriter. In addition, HomeReady borrowers will be required to complete an online education course preparing them for the home buying process and providing post-purchase support for sustainable homeownership. We expect to begin acquiring loans under HomeReady in the fourth quarter of 2015.

Although a higher LTV ratio may indicate that a loan presents a higher credit risk than a loan with a lower LTV ratio, we expect our acquisition of these loans under our revised eligibility criteria and under HomeReady will not materially affect our overall credit risk because we expect that (1) these loans will constitute a small portion of our acquisitions overall and (2) the eligibility requirements these loans must meet, which are discussed above, will limit their effect on our overall credit risk. In addition, we have experience managing the credit risk associated with loans with LTV ratios in this range.

In the first nine months of 2015, pursuant to the revised eligibility criteria we introduced in 2014, we acquired approximately 17,000 single-family loans with 95.01% to 97% LTV ratios from approximately 700 lenders. These loans represented 1% of the single-family loans we acquired in the first nine months of 2015. While we expect the volume of loans we acquire under these criteria and HomeReady to increase, we expect they will continue to constitute only a small portion of our overall acquisitions. We require mortgage insurance or other appropriate credit enhancement for all acquisitions of non-HARP loans with LTV ratios greater than 80%.

To the extent we are able to encourage lenders to increase access to mortgage credit, we may acquire a greater number of single-family loans with higher risk characteristics than we acquired in recent periods; however, we expect our single-family acquisitions will continue to have a strong overall credit risk profile given our current underwriting and eligibility standards and product design. We actively monitor on an ongoing basis the credit risk profile and credit performance of our single-family loan acquisitions, in conjunction with housing market and economic conditions, to determine if our pricing, eligibility and underwriting criteria accurately reflect the risk associated with loans we acquire or guarantee.

## **Contributions to the Housing and Mortgage Markets**

### ***Liquidity and Support Activities***

As a leading provider of residential mortgage credit in the United States, we indirectly enable families to buy, refinance or rent homes. During the third quarter of 2015, we continued to provide critical liquidity and support to the U.S. mortgage market in a number of important ways:

- We serve as a stable source of liquidity for purchases of homes and financing of multifamily rental housing, as well as for refinancing existing mortgages. We provided approximately \$132 billion in liquidity to the mortgage market in the third quarter of 2015 through our purchases of loans and guarantees of loans and securities. This liquidity enabled borrowers to complete approximately 275,000 mortgage refinancings and approximately 297,000 home purchases, and provided financing for approximately 118,000 units of multifamily housing.
- Our role in the market enables qualified borrowers to have reliable access to affordable mortgage credit, including a variety of conforming mortgage products such as the prepayable 30-year fixed-rate mortgage that protects homeowners from fluctuations in interest rates.
- We provided approximately 29,000 loan workouts in the third quarter of 2015 to help homeowners stay in their homes or otherwise avoid foreclosure. Our loan workout efforts have helped to stabilize neighborhoods, home prices and the housing market.
- We helped borrowers refinance loans, including through our Refi Plus initiative, which offers additional refinancing flexibility to eligible borrowers who are current on their loans, whose loans are owned or guaranteed by us and who meet certain additional criteria. We acquired approximately 45,000 Refi Plus loans in the third quarter of 2015. Refinancings delivered to us through Refi Plus in the third quarter of 2015 reduced borrowers' monthly mortgage payments by an average of \$182.
- We support affordability in the multifamily rental market. Over 80% of the multifamily units we financed in the third quarter of 2015 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 our 2014 Form 10-K in "Business—Business Segments—Capital Markets."

## **2015 Market Share**

We were one of the largest issuers of mortgage-related securities in the secondary market during the third quarter of 2015, with an estimated market share of new single-family mortgage-related securities issuances of 36%, compared with 37% in the second quarter of 2015 and 38% in the third quarter of 2014. Our market share decreased in the third quarter of 2015 compared with the second quarter of 2015 primarily as a result of competition from Ginnie Mae.

We remained a continuous source of liquidity in the multifamily market in the third quarter and first nine months of 2015. We owned or guaranteed approximately 19% of the outstanding debt on multifamily properties as of June 30, 2015 (the latest date for which information is available). FHFA's 2015 conservatorship scorecard includes an objective to maintain the dollar volume of new multifamily business at or below \$30 billion, excluding certain targeted business segments.

## **Serving Customer Needs and Improving Our Business Efficiency**

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

As part of these initiatives, we have implemented or announced a number of changes in 2015 that are designed to help our customers originate mortgages with increased certainty, efficiency and lower costs, including the following:

- in January 2015, we made Collateral Underwriter<sup>®</sup> available to lenders at no cost, giving them access to the same appraisal review tool we use so that they can address potential appraisal issues prior to delivering a loan to us;
- in April 2015, we integrated Collateral Underwriter with our Desktop Underwriter underwriting system, which we believe will enhance our lenders' risk management and underwriting capabilities;
- in June 2015, we eliminated fees charged to customers for using Desktop Underwriter and Desktop Originator<sup>®</sup>, which we expect will allow more lenders to access these systems in their underwriting process;
- in October 2015, we made and announced a number of enhancements and innovations:
  - we enhanced our EarlyCheck<sup>™</sup> loan verification tool with additional loan-level data integrity capabilities, to give lenders confidence that the loans they deliver to us have accurate, complete data and meet our requirements;
  - we announced alternatives to repurchase that may be offered to lenders in the event of underwriting defects, and we provided specific guidance on what types of loan defects could lead to a repurchase request or an alternative remedy;
  - we announced that lenders would be required to use trended credit data for loans underwritten using Desktop Underwriter; among other benefits, this data will allow lenders to determine if a borrower tends to pay off revolving credit lines such as credit cards each month, or if the borrower tends to carry a balance from month-to-month; we expect Desktop Underwriter will be updated to use trended credit data by mid-2016;
  - we announced that we are building a new capability to help lenders more efficiently serve borrowers who do not have a traditional credit history by permitting lenders to underwrite loans to these borrowers through Desktop Underwriter; we expect this new functionality will be available in 2016;
  - we announced that in November 2015 we plan to introduce Fannie Mae Connect<sup>™</sup>, a new self-service portal for lenders to access the data and analytics they need through a one stop source that will replace multiple legacy systems;
  - we announced that we expect to offer data validation services through Desktop Underwriter in 2016 to help lenders originate loans with greater simplicity and certainty by enabling lenders to validate a borrower's income through Desktop Underwriter with data provided by Equifax's The Work Number<sup>®</sup>; and
- in the fourth quarter of 2015, we expect to make available a new loan delivery platform for lenders that is designed to help lenders deliver loans more efficiently and with greater transparency and certainty.

In addition, in July 2015, we completed an initiative to improve our business efficiency by implementing a new third-party mortgage securities trading system and a new third-party securities accounting system and data repository, which has simplified and integrated our processing of and accounting for mortgage securities transactions. For more information on this change, see "Controls and Procedures—Changes in Internal Control over Financial Reporting—Implementation of New Mortgage Securities Transaction Processing and Accounting Systems."

See “Business—Executive Summary—Serving Customer Needs and Improving Our Business Efficiency” in our 2014 Form 10-K for a discussion of other actions we have taken and are taking to better serve our customer needs and improve our business efficiency.

### **Helping to Build a Sustainable Housing Finance System**

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

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

In January 2015, FHFA released annual corporate performance objectives for Fannie Mae and Freddie Mac, referred to as the 2015 conservatorship scorecard, which details specific priorities for implementing FHFA’s strategic goals, including objectives designed to further the goal of reforming the housing finance system. We describe below some of the actions we have taken in 2015 pursuant to the mandates of the scorecard in order to build the policies and infrastructure for a sustainable housing finance system.

*Credit Risk Transfer Transactions: Connecticut Avenue Securities and Credit Insurance Risk Transfer.* FHFA’s 2015 conservatorship scorecard includes an objective that we transact credit risk transfers on reference pools of single-family mortgages with an unpaid principal balance of at least \$150 billion in 2015, utilizing at least two types of risk transfer structures. The goal of these transactions is, to the extent economically sensible, to transfer a portion of the existing credit risk on a portion of our single-family guaranty book of business in order to reduce the risk to taxpayers of future borrower defaults. Our primary method of achieving this objective has been through the issuance of our Connecticut Avenue Securities™ (“CAS”), which transfer a portion of the credit risk associated with losses on a reference pool of mortgage loans to investors in these securities. From January 2015 to September 2015, we issued \$4.5 billion in CAS, transferring a portion of the credit risk on single-family mortgages with an unpaid principal balance of \$143.5 billion. See “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards—Risk-Sharing Transactions” for more information on our CAS transactions, including information on the transaction we completed in October 2015. This October 2015 CAS transaction was the first that calculates losses based on the actual loss experience associated with the reference pool of mortgage loans, generally following the final disposition of the underlying properties. During the first nine months of 2015, we completed three credit insurance risk transfer™ (“CIRT™”) transactions, shifting to panels of reinsurers a portion of the credit risk on reference pools of single-family mortgage loans with an aggregate unpaid principal balance of approximately \$19.8 billion. See “Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Credit Guarantors—Reinsurers” for more information on our CIRT transactions.

Through October 2015, we transferred a significant portion of the mortgage credit risk on over 90% of the single-family loans we acquired during the twelve months ended September 30, 2014 that were eligible to be included in our credit risk transfer transactions. Generally, only fixed-rate 30-year single-family loans that meet certain credit performance characteristics, are non-Refi Plus and have LTV ratios between 60% and 97% have been eligible for our risk-sharing transactions. Based on their characteristics at the time we acquired them, approximately 50% of the single-family loans we acquired during the twelve months ended September 30, 2014 have been eligible for our credit risk transfer transactions.

*Nonperforming Loan Sales.* FHFA’s 2015 conservatorship scorecard includes an objective that we implement key loss mitigation activities, including those that enable borrowers to stay in their homes and avoid foreclosure where possible. These activities include developing and executing additional strategies to reduce the number of severely aged delinquent loans we hold, considering tools such as nonperforming loan sales. In March 2015, FHFA announced enhanced requirements for nonperforming loan sales by Fannie Mae and Freddie Mac. In the announcement, the Director of FHFA indicated FHFA’s expectation that, with these enhanced requirements, nonperforming loan sales will result in favorable outcomes for borrowers and local communities. We completed our first nonperforming loan sale in June 2015 and an additional sale in the third quarter of 2015. In these two sales, we sold approximately 5,600 nonperforming loans with an aggregate unpaid principal balance of \$1.2 billion. In October 2015, we announced our third nonperforming loan sale. We plan to complete additional nonperforming loan sales.

*Mortgage Insurance.* FHFA’s 2015 conservatorship scorecard includes an objective that we implement final private mortgage insurer eligibility requirements for our counterparties. These reforms are intended to strengthen our mortgage insurer

counterparties and reduce the risk to taxpayers of future defaults by mortgage insurers on their obligations to the GSEs. In April 2015, we announced and published updated eligibility standards for approved private mortgage insurers, which were further revised in June 2015. The new standards include enhanced financial requirements and are designed to ensure that mortgage insurers have sufficient liquid assets to pay all claims under a hypothetical future stress scenario. The new standards also set forth enhanced operational performance expectations and define remedial actions that may be imposed should an approved mortgage insurer fail to comply with the revised requirements. See “Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Mortgage Insurers” for additional information on these new standards.

*Eligibility Requirements for Seller-Servicers.* FHFA’s 2015 conservatorship scorecard includes an objective that we enhance servicer eligibility standards for our counterparties. In May 2015, we and Freddie Mac issued new operational and financial eligibility requirements for our single-family mortgage seller-servicer counterparties. The operational requirements became effective September 1, 2015 and the financial requirements become effective December 31, 2015. These updated eligibility requirements are designed to better address the unique risks associated with emerging servicer business models and include a new minimum liquidity requirement for non-depository servicers. See “Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Mortgage Sellers and Servicers” for a description of these new eligibility requirements.

*Single Security.* FHFA’s 2015 conservatorship scorecard includes objectives relating to the development of a single mortgage-backed security for Fannie Mae and Freddie Mac. Specifically, the 2015 scorecard requires that we finalize the single security structure (including security features, disclosure standards and related requirements) and develop a plan to implement the single security in the market. FHFA believes a single security would increase liquidity in the housing finance market. The development of the single security is expected to be a multi-year initiative. In the first nine months of 2015, we worked on a variety of issues relating to the implementation of the single security, including accounting matters, communication planning, industry outreach, risk assessments, legal and contractual issues, trust matters, disclosures, and system development and testing work with the common securitization platform. In May 2015, FHFA issued an update on the structure of the single security that outlined its determinations regarding the key features of the single security structure and requested feedback on its determinations. In addition, in July 2015, we, Freddie Mac and Common Securitization Solutions, LLC announced the creation of an industry advisory group to provide feedback and share information on efforts to build the common securitization platform and implement the single security. In September 2015, FHFA issued an Update on the Common Securitization Platform that provides details on the progress made by Fannie Mae and Freddie Mac in developing the platform. See “Legislative and Regulatory Developments—Housing Finance Reform—Conservator Developments” in our Second Quarter 2015 Form 10-Q, and “Housing Finance Reform—Conservator Developments” in our 2014 Form 10-K for additional information on FHFA’s single security proposal and the common securitization platform and “Risk Factors” in our 2014 Form 10-K for a discussion of the risks to our business associated with a single security for Fannie Mae and Freddie Mac, including the risks that implementation of a single security would likely reduce, and could eliminate, the trading advantage that Fannie Mae MBS have over Freddie Mac mortgage-backed securities and that, if this occurs, it would negatively affect our ability to compete for mortgage assets in the secondary market and could adversely affect our results of operations.

For more information on FHFA’s 2015 conservatorship scorecard objectives, see our Current Report on Form 8-K filed with the Securities and Exchange Commission (“SEC”) on January 20, 2015. For more information on our initiatives in pursuit of these objectives, see “Business—Executive Summary—Helping to Build a Sustainable Housing Finance System” in our 2014 Form 10-K.

### **Treasury Draws and Dividend Payments**

From 2009 through the first quarter of 2012, we received a total of \$116.1 billion from Treasury under the senior preferred stock purchase agreement. This funding provided us with the capital and liquidity needed to fulfill our mission of providing liquidity and support to the nation’s housing finance markets and to avoid a trigger of mandatory receivership under the Federal Housing Finance Regulatory Reform Act of 2008 (the “2008 Reform Act”). In addition, a portion of the \$116.1 billion we received from Treasury was drawn to pay dividends to Treasury because, prior to 2013, our dividend payments on the senior preferred stock accrued at an annual rate of 10%, and we were directed by our conservator to pay these dividends to Treasury each quarter even when we did not have sufficient income to pay the dividend. We have not received funds from Treasury under the agreement since the first quarter of 2012. As of the date of this filing, the maximum amount of remaining funding under the agreement is \$117.6 billion. From 2008 through the third quarter of 2015, we paid a total of \$142.5 billion in dividends to Treasury on the senior preferred stock. Under the terms of the senior preferred stock purchase agreement, dividend payments do not offset prior Treasury draws, and we are not permitted to pay down draws we have made under the agreement except in limited circumstances. Accordingly, the current aggregate liquidation preference of the senior preferred

stock is \$117.1 billion, due to the initial \$1.0 billion liquidation preference of the senior preferred stock (for which we did not receive cash proceeds) and the \$116.1 billion we have drawn from Treasury.

The Director of FHFA directs us to make dividend payments on the senior preferred stock on a quarterly basis. We expect to pay Treasury a senior preferred stock dividend of \$2.2 billion by December 31, 2015 for the fourth quarter of 2015.

### **Housing and Mortgage Market and Economic Conditions**

Economic growth moderated in the third quarter of 2015. According to the U.S. Bureau of Economic Analysis advance estimate, the inflation-adjusted U.S. gross domestic product, or GDP, rose by 1.5% on an annualized basis in the third quarter of 2015, compared with an increase of 3.9% in the second quarter of 2015. The overall economy gained an estimated 501,000 non-farm jobs in the third quarter of 2015. According to the U.S. Bureau of Labor Statistics, over the 12 months ending in September 2015, the economy created an estimated 2.7 million non-farm jobs. The unemployment rate was 5.1% in September 2015, compared with 5.3% in June 2015.

According to the Federal Reserve, total U.S. residential mortgage debt outstanding, which includes \$9.9 trillion of single-family debt outstanding, was estimated to be approximately \$10.9 trillion as of both June 30, 2015 (the latest date for which information is available) and March 31, 2015.

Housing sales increased in the third quarter of 2015 as compared with the second quarter of 2015. Total existing home sales averaged 5.5 million units annualized in the third quarter of 2015, a 3.4% increase from the second quarter of 2015, according to data from the National Association of REALTORS<sup>®</sup>. Sales of foreclosed homes and preforeclosure, or “short,” sales (together, “distressed sales”) accounted for 7% of existing home sales in September 2015, compared with 8% in June 2015 and 10% in September 2014. According to the U.S. Census Bureau, new single-family home sales increased during the third quarter of 2015, averaging an annualized rate of 500,000 units, a 0.7% gain from the second quarter of 2015.

The number of months’ supply, or the inventory/sales ratio, of available existing homes and of new homes was mixed in the third quarter of 2015. According to the U.S. Census Bureau, the months’ supply of new single-family unsold homes was 5.8 months as of September 30, 2015, compared with 5.6 months as of June 30, 2015. According to the National Association of REALTORS<sup>®</sup>, the months’ supply of existing unsold homes was 4.8 months as of September 30, 2015, compared with a 4.9 months’ supply as of June 30, 2015.

The overall mortgage market serious delinquency rate, which has trended down since peaking in the fourth quarter of 2009, remained above long-term averages at 4.0% as of June 30, 2015 (the latest date for which information is available), according to the Mortgage Bankers Association’s National Delinquency Survey, compared with 4.2% as of March 31, 2015. We provide information about Fannie Mae’s serious delinquency rate, which also decreased in the second quarter of 2015, in “Single-Family Guaranty Book of Business—Credit Performance.”

Based on our home price index, we estimate that home prices on a national basis increased by 1.3% in the third quarter of 2015 and by 5.4% in the first nine months of 2015, following increases of 4.4% in 2014 and 7.9% in 2013. Despite the recent increases in home prices, we estimate that, through September 30, 2015, home prices on a national basis remained 5.6% below their peak in the third quarter of 2006. Our home price estimates are based on preliminary data and are subject to change as additional data become available.

Despite the recent increases in home prices, many homeowners continue to have “negative equity” in their homes as a result of declines in home prices since 2006, which means their mortgage principal balance exceeds the current market value of their home. This increases the likelihood that borrowers will abandon their mortgage obligations and that the loans will become delinquent and proceed to foreclosure. According to CoreLogic, Inc. the number of residential properties with mortgages in a negative equity position in the second quarter of 2015 was approximately 4.4 million, down from 5.1 million in the first quarter of 2015 and from 5.4 million in the second quarter of 2014. The percentage of properties with mortgages in a negative equity position in the second quarter of 2015 was 8.7%, down from 10.2% in the first quarter of 2015 and from 10.9% in the second quarter of 2014.

Thirty-year fixed-rate mortgage rates ended the quarter at 3.85% for the week of October 1, 2015, down from 4.08% for the week of July 2, 2015, according to the Freddie Mac Primary Mortgage Market Survey<sup>®</sup>.

During the third quarter of 2015, the multifamily sector exhibited steady fundamentals, according to preliminary third-party data, with a stable national vacancy level and increasing rent growth. The estimated national multifamily vacancy rate for institutional investment-type apartment properties was 4.75% as of September 30, 2015, June 30, 2015 and September 30, 2014. National asking rents increased by an estimated 1.25% during the third quarter of 2015, compared with 1.0% during the second quarter of 2015. Because estimated multifamily rent growth has outpaced wage growth over the past few years, multifamily rental housing affordability has declined in recent years.



Continued demand for multifamily rental units was reflected in the estimated positive net absorption (that is, the net change in the number of occupied rental units during the time period) of approximately 34,000 units during the third quarter of 2015, according to preliminary data from Reis, Inc., compared with approximately 49,000 units during the second quarter of 2015. As a result of the continued demand for multifamily rental units over the past few years, there has been an increase in the amount of new multifamily construction development nationally. More than 300,000 new multifamily units are expected to be completed this year. The bulk of this new supply is concentrated in a limited number of metropolitan areas. We believe this increase in supply will result in a temporary slowdown in the growth of net absorption rates, occupancy levels and effective rents in those areas. We expect overall national rental market supply and demand to remain in balance over the longer term, based on expected construction completions, expected obsolescence, positive rental household formation trends and expected increases in the population of 25- to 34-year olds, which is the primary age group that tends to rent multifamily housing.

## **Outlook**

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

We cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation. See “Legislative and Regulatory Developments—Housing Finance Reform” in this report and in our Second Quarter 2015 Form 10-Q, as well as “Business—Housing Finance Reform” in our 2014 Form 10-K for discussion of proposals for reform of the housing finance system, including the GSEs, that could materially affect our business, including proposals to wind down Fannie Mae and Freddie Mac. See “Risk Factors” in this report for a discussion of the risks to our business relating to the uncertain future of our company.

*Financial Results.* Our financial results continued to be strong in the third quarter of 2015, with net income of \$2.0 billion. We expect to remain profitable on an annual basis for the foreseeable future; however, we expect our earnings in 2015 and future years will be substantially lower than our earnings for 2014, primarily due to our expectation of substantially lower income from resolution agreements, continued declines in net interest income from our retained mortgage portfolio assets and lower credit-related income or a shift to credit-related expense. In addition, certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year. Our future financial results also will be affected by a number of other factors, including: our guaranty fee rates; the volume of single-family mortgage originations in the future; the size, composition and quality of our retained mortgage portfolio and guaranty book of business; and economic and housing market conditions. Our expectations for our future financial results do not take into account the impact on our business of potential future legislative or regulatory changes, which could have a material impact on our financial results, particularly the enactment of housing finance reform legislation as noted in “Uncertainty Regarding our Future Status” above.

Under the terms of the senior preferred stock, our capital reserve will decline by \$600 million each year until it reaches zero in 2018. Although we expect to remain profitable on an annual basis for the foreseeable future, due to our declining capital reserve, our expectation of substantially lower earnings in future years than our earnings for 2014, and the potential for significant volatility in our financial results, we could experience a net worth deficit in a future quarter, particularly as our capital reserve approaches or reaches zero. If that were to occur, we would be required to draw additional funds from Treasury under the senior preferred stock purchase agreement in order to avoid being placed into receivership. See “Risk Factors” in our 2014 Form 10-K for a discussion of the risks associated with our declining capital reserves.

*Revenues.* We currently have two primary sources of revenues: (1) the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties; and (2) the difference between interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets. In recent years, an increasing portion of our net interest income has been derived from guaranty fees rather than from our retained mortgage portfolio assets, due to the impact of guaranty fee increases implemented in 2012 and the shrinking of our retained mortgage portfolio. We estimate that a majority of our net interest income for the first nine months of 2015 was derived from guaranty fees on loans underlying our Fannie Mae MBS. We expect that guaranty fees will continue to account for an increasing portion of our net interest income.

We expect continued decreases in the size of our retained mortgage portfolio, which will continue to negatively impact our net interest income and net revenues; however, we also expect increases in our guaranty fee revenues will partially offset the negative impact of the decline in our retained mortgage portfolio. We expect our guaranty fee revenues to increase over the next several years, as loans with lower guaranty fees liquidate from our book of business and are replaced with new loans with higher guaranty fees. The extent to which the positive impact of increased guaranty fee revenues will offset the negative

impact of the decline in the size of our retained mortgage portfolio will depend on many factors, including: changes to guaranty fee pricing we may make in the future and their impact on our competitive environment and guaranty fee revenues; the size, composition and quality of our guaranty book of business; the life of the loans in our guaranty book of business; the size, composition and quality of our retained mortgage portfolio, including the pace at which we are required by our conservator to reduce the size of our portfolio and the types of assets we are required to sell; economic and housing market conditions, including changes in interest rates; our market share; and legislative and regulatory changes.

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

As described in “Legal Proceedings” and “Note 16, Commitments and Contingencies,” several lawsuits have been filed by preferred and common stockholders of Fannie Mae and Freddie Mac against the United States, Treasury and/or FHFA challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac, including challenges to the net worth sweep dividend provisions of the senior preferred stock. We cannot predict the course or the outcome of these lawsuits, or the actions the U.S. government (including Treasury or FHFA) may take in response to any ruling or finding in any of these lawsuits.

*Overall Market Conditions.* We expect that single-family mortgage loan serious delinquency and severity rates will continue their downward trend, but at a slower pace than in recent years. We expect that single-family serious delinquency and severity rates will remain high compared with pre-housing crisis levels because it will take some time for the remaining delinquent loans with high mark-to-market LTV ratios originated prior to 2009 to work their way through the foreclosure process. Despite steady demand and stable fundamentals at the national level, the multifamily sector may continue to exhibit below average fundamentals in certain local markets and with certain properties.

We forecast that total originations in the U.S. single-family mortgage market in 2015 will increase from 2014 levels by approximately 30%, from an estimated \$1.3 trillion in 2014 to \$1.7 trillion in 2015, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will increase from an estimated \$518 billion in 2014 to \$779 billion in 2015.

*Home Prices.* Based on our home price index, we estimate that home prices on a national basis increased by 1.3% in the third quarter of 2015 and by 5.4% in the first nine months of 2015. We expect the rate of home price appreciation in 2015 to be similar to the rate in 2014. Future home price changes may be very different from our expectations as a result of significant inherent uncertainty in the current market environment, including uncertainty about the effect of recent and future changes in mortgage rates; actions the federal government has taken and may take with respect to fiscal policies, mortgage finance programs and policies, and housing finance reform; the Federal Reserve’s purchases and sales of mortgage-backed securities; the impact of those actions on and changes generally in unemployment and the general economic and interest rate environment; and the impact on the U.S. economy of global economic and political conditions. We also expect significant regional variation in the timing and rate of home price growth.

*Credit Losses.* Our credit losses, which include our charge-offs, net of recoveries, reflect our realization of losses on our loans. Our credit losses were \$8.7 billion for the first nine months of 2015, compared with \$4.3 billion in the first nine months of 2014. The increase in our credit losses in the first nine months of 2015 compared with the first nine months of 2014 was primarily due to our approach to adopting the charge-off provisions of FHFA’s Advisory Bulletin AB 2012-02, “Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention” (the “Advisory Bulletin”) on January 1, 2015, a change in accounting policy for nonaccrual loans, and the recognition of losses associated with the redesignation of certain nonperforming single-family loans with an aggregate unpaid principal balance of \$5.3 billion from HFI to HFS. Our credit losses for the first nine months of 2015 reflect \$2.5 billion in initial charge-offs associated with our approach to adopting the charge-off provisions of the Advisory Bulletin and \$1.1 billion in charge-offs relating to the change in accounting policy for nonaccrual loans. Our credit losses were \$1.2 billion in the third quarter of 2015, compared with \$2.1 billion in the second quarter of 2015 and \$1.7 billion in the third quarter of 2014. We expect our credit losses generally to continue to decline in future years, absent further redesignations or accounting policy changes. For further information about our implementation of the Advisory Bulletin and our change in accounting policy for nonaccrual loans, see “Note 1, Summary of Significant Accounting Policies.” For further information about our credit losses for the third quarter and first nine months of 2015 as compared with the third quarter and first nine months of 2014, see “Consolidated Results of Operations—Credit-Related Income (Expense)—Credit Loss Performance Metrics.”

*Loss Reserves.* Our total loss reserves consist of (1) our allowance for loan losses, (2) our allowance for preforeclosure property taxes and insurance receivable and (3) our reserve for guaranty losses. Our total loss reserves were \$30.0 billion as of September 30, 2015, down from \$38.2 billion as of December 31, 2014. Our loss reserves have declined substantially from their peak and are expected to decline further.

*Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations.* We present a number of estimates and expectations in this executive summary regarding our future performance, including estimates and expectations regarding our future financial results and profitability, the level and sources of our future revenues and net interest income, our future dividend payments to Treasury, the level and credit characteristics of, and the credit risk posed by, our future acquisitions, our future credit losses and our future loss reserves. We also present a number of estimates and expectations in this executive summary regarding future housing market conditions, including expectations regarding future single-family loan delinquency and severity rates, future mortgage originations, future refinancings, future home prices and future conditions in the multifamily market. These estimates and expectations are forward-looking statements based on our current assumptions regarding numerous factors. Our future estimates of our performance and housing market conditions, as well as the actual results, may differ materially from our current estimates and expectations as a result of: the timing and level of, as well as regional variation in, home price changes; changes in interest rates, unemployment rates and other macroeconomic and housing market variables; our future guaranty fee pricing and the impact of that pricing on our guaranty fee revenues and competitive environment; our future serious delinquency rates; our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers; future legislative or regulatory requirements or changes that have a significant impact on our business, such as a requirement that we implement a principal forgiveness program or the enactment of housing finance reform legislation; actions we may be required to take by FHFA, as our conservator or as our regulator, such as changes in the type of business we do or implementation of a single GSE security; future updates to our models relating to our loss reserves, including the assumptions used by these models; future changes to our accounting policies; significant changes in modification and foreclosure activity; the volume and pace of future nonperforming loan sales and their impact on our results and serious delinquency rates; changes in borrower behavior, such as an increasing number of underwater borrowers who strategically default on their mortgage loans; the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies; whether our counterparties meet their obligations in full; resolution or settlement agreements we may enter into with our counterparties; changes in the fiscal and monetary policies of the Federal Reserve, including any change in the Federal Reserve's policy towards the reinvestment of principal payments of mortgage-backed securities or any future sales of such securities; changes in the fair value of our assets and liabilities; changes in generally accepted accounting principles ("GAAP"); credit availability; global political risks; natural disasters, terrorist attacks, pandemics or other major disruptive events; information security breaches; and other factors, including those discussed in "Forward-Looking Statements," "Risk Factors" and elsewhere in this report and in our 2014 Form 10-K. 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.

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## LEGISLATIVE AND REGULATORY DEVELOPMENTS

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The information in this section updates and supplements information regarding legislative and regulatory developments set forth in "Business—Housing Finance Reform" and "Business—Our Charter and Regulation of Our Activities" in our 2014 Form 10-K and in "MD&A—Legislative and Regulatory Developments" in our First Quarter 2015 Form 10-Q and in our Second Quarter 2015 Form 10-Q. Also see "Risk Factors" in this report and in our 2014 Form 10-K for a discussion of risks relating to legislative and regulatory matters.

### **Housing Finance Reform**

Congress continues to consider housing finance reform that could result in significant changes in our structure and role in the future. In the first session of the 114th Congress, which convened in January 2015, a number of bills have been introduced and considered in the Senate and the House of Representatives relating to Fannie Mae, Freddie Mac and the housing finance system.

Since July 1, 2015, action was taken in Congress on the following bills relating to Fannie Mae:

- The Senate approved a surface transportation reauthorization bill that includes a provision to extend by an additional four years the 10 basis point guaranty fee increase implemented pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011 (the "TCCA"), which fees we are required to remit to Treasury.

- The Senate approved the Equity in Government Compensation Act of 2015. This bill directs the Director of the Federal Housing Finance Agency (“FHFA”) to suspend the current compensation packages of Fannie Mae’s and Freddie Mac’s chief executive officers and, in lieu of these packages, to establish the compensation and benefits that were in effect for these officers as of January 1, 2015. The bill also provides that these officers’ compensation and benefits may not thereafter be increased and these restrictions on chief executive officer compensation are applicable as long as Fannie Mae and Freddie Mac are in conservatorship or receivership.

As described in our 2014 Form 10-K, the total target direct compensation of our Chief Executive Officer in effect as of January 1, 2015 consisted solely of a base salary of \$600,000. As described in our current report on Form 8-K filed with the SEC on July 1, 2015, on June 29, 2015, FHFA approved an increase in our Chief Executive Officer’s compensation to an annual direct compensation target of \$4,000,000, which became effective on July 1, 2015. Accordingly, if this legislation becomes law, upon action by the Director of FHFA our Chief Executive Officer’s total annual target direct compensation would be reduced from \$4,000,000 to \$600,000 and frozen at this level as long as Fannie Mae remains in conservatorship or is in receivership. This cap on chief executive officer compensation would negatively affect our ability to retain our Chief Executive Officer and engage in effective succession planning for this critical role. For more information on our executive compensation program, see “Item 11. Executive Compensation” in our 2014 Form 10-K. For more information on the risks to our business if we are unable to retain and recruit well-qualified employees, see “Risk Factors.”

- The “Jumpstart GSE Reform Act,” was reintroduced in the Senate. This bill, which was initially introduced in the Senate in March 2013, would prohibit Congress from increasing the GSEs’ guaranty fees to offset spending unrelated to the business operations of the GSEs and also would prohibit Treasury from disposing of its GSE senior preferred stock until legislation has been enacted that includes specific instruction for its disposition.

We cannot predict the prospects for the enactment, timing or final content of these legislative proposals. We expect Congress to continue to consider housing finance reform and restrictions on our executive compensation in the current congressional session. There continues to be significant uncertainty regarding the future of our company. See “Risk Factors” for a discussion of the risks to our business relating to the uncertain future of our company, including how the uncertain future of our company and limitations on our employee compensation may adversely affect our ability to retain and recruit well-qualified employees, including senior management.

### **2014 Housing Goals Performance**

We are subject to housing goals, which establish specified requirements for our mortgage acquisitions relating to affordability or location. Our single-family performance is measured against the lower of benchmarks established by FHFA or goals-qualifying originations in the primary mortgage market. Multifamily goals are established as a number of units to be financed. In October 2015, after the release of data reported under the Home Mortgage Disclosure Act (“HMDA”), FHFA notified us that it had preliminarily determined that we met all of our single-family and multifamily housing goals for 2014. For the single-family very low-income families home purchase goal, FHFA preliminarily determined that our performance was 5.7% of our 2014 acquisitions of single-family owner-occupied purchase money mortgage loans, which failed to meet the FHFA-established benchmark of 7%, but met the overall market level for 2014 of 5.7%. See “Business—Our Charter and Regulation of Our Activities—The GSE Act—Housing Goals and Duty to Serve Underserved Markets—Housing Goals for 2012 to 2014” in our 2014 Form 10-K for a more detailed discussion of our housing goals.

### **Housing Goals for 2015 to 2017**

In September 2015, FHFA published a final rule establishing single-family and multifamily housing goals for Fannie Mae and Freddie Mac for 2015 to 2017.

The following single-family home purchase and refinance housing goal benchmarks were adopted for 2015 to 2017.

- *Low-Income Families Home Purchase Benchmark:* At least 24% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to low-income families (defined as income equal to or less than 80% of area median income). This is an increase from the 23% benchmark that applied for 2014.
- *Very Low-Income Families Home Purchase Benchmark:* At least 6% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to very low-income families (defined as income equal to or less than 50% of area median income). This is a decrease from the 7% benchmark that applied for 2014.
- *Low-Income Areas Home Purchase Goal Benchmark:* The benchmark level for our acquisitions of single-family owner-occupied purchase money mortgage loans for families in low-income areas is set annually by notice from FHFA, based on the benchmark level for the low-income areas home purchase subgoal (below), plus an adjustment

factor reflecting the additional incremental share of mortgages for moderate-income families (defined as income equal to or less than 100% of area median income) in designated disaster areas. For 2015, FHFA set the overall low-income areas home purchase benchmark goal at 19%. This is an increase from the 18% benchmark that applied for 2014.

- *Low-Income Areas Home Purchase Subgoal Benchmark:* At least 14% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to families in low-income census tracts or to moderate-income families in high-minority census tracts. This is an increase from the benchmark of 11% that applied for 2014.
- *Low-Income Families Refinancing Benchmark:* At least 21% of our acquisitions of single-family owner-occupied refinance mortgage loans must be affordable to low-income families. This is an increase from the benchmark of 20% that applied for 2014.

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

FHFA's final 2015 to 2017 housing goals rule also includes benchmarks for a multifamily special affordable housing goal and subgoal, and establishes a new subgoal for small multifamily properties (defined as those with 5 to 50 units) affordable to low-income families. FHFA's annual multifamily benchmark level for 2015 to 2017 for units affordable to low-income families is 300,000 units, an increase from 2014's benchmark level of 250,000 units. FHFA's annual multifamily benchmark level for 2015 to 2017 for units affordable to very low-income families is 60,000 units per year, consistent with 2014's annual level. FHFA's new annual subgoal for Fannie Mae for small multifamily properties affordable to low-income families increases each year: 6,000 units in 2015; 8,000 units in 2016; and 10,000 units in 2017. There is no market-based alternative measurement for the multifamily goal or subgoals.

#### **Dodd-Frank Act—Proposed Amendments to FHFA Rule Regarding Stress Testing**

In August 2015, FHFA published proposed amendments to its rule that requires us to conduct an annual stress test. If finalized, the amendments would change the timing of the testing, requiring us to base the tests on our data as of December 31 each year, rather than as of September 30, and requiring us to publicly disclose a summary of our stress test results for the severely adverse scenario by August 31 each year rather than April 30. These amendments would align FHFA's rule with rules adopted by other financial institution regulators that implement the Dodd-Frank stress testing requirements.

#### **Dodd-Frank Act—Swap Transactions; Minimum Capital and Margin Requirements**

The Dodd-Frank Act includes provisions requiring additional regulation of swap transactions. Because we are a user of interest rate swaps, the Dodd-Frank Act requires us, among other items, to submit new swap transactions for clearing to a derivatives clearing organization. Additionally, in October 2015, the Federal Reserve Board, the Federal Deposit Insurance Corporation ("FDIC"), FHFA, the Farm Credit Administration and the Office of the Comptroller of the Currency issued final rules under the Dodd-Frank Act governing margin and capital requirements applicable to entities that are subject to their oversight. These rules require that, for all trades that have not been submitted to a derivatives clearing organization, we collect from and provide to our counterparties collateral in excess of the amounts we have historically collected or provided relative to our level of activity.

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### **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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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 2014 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 2014 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 three of our accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. These critical accounting policies and estimates are as follows:

- Fair Value Measurement;
- Total Loss Reserves; and
- Deferred Tax Assets.

See “MD&A—Critical Accounting Policies and Estimates” in our 2014 Form 10-K for a discussion of these critical accounting policies and estimates.

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## CONSOLIDATED RESULTS OF OPERATIONS

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

**Table 3: Summary of Condensed Consolidated Results of Operations**

|   | For the Three Months<br>Ended September 30, |                 |                   | For the Nine Months<br>Ended September 30, |                  |                   |
|---|---|-----------------|-------------------|--|------------------|-------------------|
|   | 2015  | 2014            | Variance          | 2015                                       | 2014             | Variance          |
|   | (Dollars in millions)                       |                 |                   |  |                  |                   |
| Net interest income . . . . .   | \$ 5,588                                    | \$ 5,184        | \$ 404            | \$ 16,332                                  | \$ 14,826        | \$ 1,506          |
| Fee and other income . . . . .  | 259   | 826             | (567)             | 1,123                                      | 5,564            | (4,441)           |
| Net revenues . . . . .  | 5,847                                       | 6,010           | (163)             | 17,455                                     | 20,390           | (2,935)           |
| Investment gains, net . . . . .   | 299   | 171             | 128               | 1,155                                      | 749              | 406               |
| Fair value losses, net . . . . .  | (2,589)                                     | (207)           | (2,382)           | (1,902)                                    | (2,331)          | 429               |
| Administrative expenses . . . . .   | (952)                                       | (706)           | (246)             | (2,364)                                    | (2,075)          | (289)             |
| Credit-related income (expense)   |   |                 |                   |  |                  |                   |
| Benefit for credit losses . . . . .   | 1,550                                       | 1,085           | 465               | 1,050                                      | 3,498            | (2,448)           |
| Foreclosed property income (expense) . . . . .                                | (497)                                       | (249)           | (248)             | (1,152)                                    | 227              | (1,379)           |
| Total credit-related income (expense) . . . . .                               | 1,053                                       | 836             | 217               | (102)                                      | 3,725            | (3,827)           |
| Temporary Payroll Tax Cut Continuation Act of 2011<br>("TCCA") fees . . . . . | (413)                                       | (351)           | (62)              | (1,192)                                    | (1,008)          | (184)             |
| Other non-interest expenses <sup>(1)</sup> . . . . .                          | (215)                                       | (61)            | (154)             | (412)                                      | (430)            | 18                |
| Income before federal income taxes . . . . .                                  | 3,030                                       | 5,692           | (2,662)           | 12,638                                     | 19,020           | (6,382)           |
| Provision for federal income taxes . . . . .                                  | (1,070)                                     | (1,787)         | 717               | (4,150)                                    | (6,123)          | 1,973             |
| Net income . . . . .  | 1,960                                       | 3,905           | (1,945)           | 8,488                                      | 12,897           | (4,409)           |
| Less: Net income attributable to noncontrolling interest . . . .              | —   | —               | —                 | —  | (1)              | 1                 |
| Net income attributable to Fannie Mae . . . . .                               | <u>\$ 1,960</u>                             | <u>\$ 3,905</u> | <u>\$ (1,945)</u> | <u>\$ 8,488</u>                            | <u>\$ 12,896</u> | <u>\$ (4,408)</u> |
| Total comprehensive income attributable to Fannie Mae . . . .                 | \$ 2,213                                    | \$ 4,000        | \$ (1,787)        | \$ 8,368                                   | \$ 13,408        | \$ (5,040)        |

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

### Net Interest Income

We currently have two primary sources of net interest income: (1) the guaranty fees we receive for managing the credit risk on loans in consolidated trusts underlying Fannie Mae MBS held by third parties; and (2) the difference between interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets.

Table 4 displays an analysis of our net interest income, average balances, and related yields earned on assets and incurred on liabilities. 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 5 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 4: Analysis of Net Interest Income and Yield**

|  | For the Three Months Ended September 30, |                         |                           |                    |                         |                           |
|--|--|-------------------------|---------------------------|--------------------|-------------------------|---------------------------|
|  | 2015                                     |                         |                           | 2014               |                         |                           |
|  | 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   | \$ 252,272                               | \$ 2,443                | 3.87 %                    | \$ 282,019         | \$ 2,562                | 3.63 %                    |
| Mortgage loans of consolidated trusts  | 2,796,172                                | 24,537                  | 3.51                      | 2,762,984          | 25,217                  | 3.65                      |
| Total mortgage loans <sup>(1)</sup>  | 3,048,444                                | 26,980                  | 3.54                      | 3,045,003          | 27,779                  | 3.65                      |
| Mortgage-related securities  | 106,939                                  | 1,153                   | 4.31                      | 140,357            | 1,652                   | 4.71                      |
| Elimination of Fannie Mae MBS held in retained mortgage portfolio                              | (74,903)                                 | (810)                   | 4.33                      | (96,785)           | (1,113)                 | 4.60                      |
| Total mortgage-related securities, net   | 32,036                                   | 343                     | 4.28                      | 43,572             | 539                     | 4.95                      |
| Non-mortgage-related securities <sup>(2)</sup>   | 47,794                                   | 17                      | 0.14                      | 32,283             | 7                       | 0.08                      |
| Federal funds sold and securities purchased under agreements to resell or similar arrangements | 26,110                                   | 15                      | 0.23                      | 38,488             | 9                       | 0.09                      |
| Advances to lenders  | 4,354                                    | 22                      | 1.98                      | 3,794              | 20                      | 2.06                      |
| Total interest-earning assets  | <u>\$3,158,738</u>                       | <u>\$ 27,377</u>        | 3.47 %                    | <u>\$3,163,140</u> | <u>\$ 28,354</u>        | 3.59 %                    |
| Interest-bearing liabilities:  |  |                         |                           |                    |                         |                           |
| Short-term funding debt  | \$ 83,870                                | \$ 36                   | 0.17 %                    | \$ 101,497         | \$ 25                   | 0.10 %                    |
| Long-term funding debt   | 331,417                                  | 1,861                   | 2.25                      | 383,412            | 2,050                   | 2.14                      |
| Total short-term and long-term funding debt  | 415,287                                  | 1,897                   | 1.83                      | 484,909            | 2,075                   | 1.71                      |
| Debt securities of consolidated trusts   | 2,835,104                                | 20,702                  | 2.92                      | 2,820,711          | 22,208                  | 3.15                      |
| Elimination of Fannie Mae MBS held in retained mortgage portfolio                              | (74,903)                                 | (810)                   | 4.33                      | (96,785)           | (1,113)                 | 4.60                      |
| Total debt securities of consolidated trusts held by third parties                             | 2,760,201                                | 19,892                  | 2.88                      | 2,723,926          | 21,095                  | 3.10                      |
| Total interest-bearing liabilities   | <u>\$3,175,488</u>                       | <u>\$ 21,789</u>        | 2.74 %                    | <u>\$3,208,835</u> | <u>\$ 23,170</u>        | 2.89 %                    |
| Net interest income/net interest yield   |  | <u>\$ 5,588</u>         | 0.71 %                    |                    | <u>\$ 5,184</u>         | 0.66 %                    |

|  | For the Nine Months Ended September 30, |                         |                           |                    |                         |                           |
|--|---|-------------------------|---------------------------|--------------------|-------------------------|---------------------------|
|  | 2015                                    |                         |                           | 2014               |                         |                           |
|  | 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   | \$ 261,794                              | \$ 7,280                | 3.71 %                    | \$ 289,028         | \$ 7,828                | 3.61 %                    |
| Mortgage loans of consolidated trusts  | 2,789,593                               | 73,426                  | 3.51                      | 2,766,787          | 76,704                  | 3.70                      |
| Total mortgage loans <sup>(1)</sup>  | 3,051,387                               | 80,706                  | 3.53                      | 3,055,815          | 84,532                  | 3.69                      |
| Mortgage-related securities  | 114,732                                 | 3,869                   | 4.50                      | 148,195            | 5,190                   | 4.67                      |
| Elimination of Fannie Mae MBS held in retained mortgage portfolio                              | (79,914)                                | (2,650)                 | 4.42                      | (101,608)          | (3,542)                 | 4.65                      |
| Total mortgage-related securities, net   | 34,818                                  | 1,219                   | 4.67                      | 46,587             | 1,648                   | 4.72                      |
| Non-mortgage-related securities <sup>(2)</sup>   | 44,836                                  | 42                      | 0.12                      | 33,435             | 22                      | 0.09                      |
| Federal funds sold and securities purchased under agreements to resell or similar arrangements | 30,708                                  | 40                      | 0.17                      | 33,557             | 20                      | 0.08                      |
| Advances to lenders  | 4,166                                   | 64                      | 2.02                      | 3,303              | 57                      | 2.28                      |
| Total interest-earning assets  | <u>\$3,165,915</u>                      | <u>\$ 82,071</u>        | 3.46 %                    | <u>\$3,172,697</u> | <u>\$ 86,279</u>        | 3.63 %                    |
| Interest-bearing liabilities:  |   |                         |                           |                    |                         |                           |
| Short-term funding debt  | \$ 90,707                               | \$ 98                   | 0.14 %                    | \$ 81,844          | \$ 65                   | 0.10 %                    |
| Long-term funding debt   | 345,503                                 | 5,706                   | 2.20                      | 409,633            | 6,524                   | 2.12                      |
| Total short-term and long-term funding debt  | 436,210                                 | 5,804                   | 1.77                      | 491,477            | 6,589                   | 1.79                      |
| Debt securities of consolidated trusts   | 2,843,823                               | 62,585                  | 2.93                      | 2,820,774          | 68,406                  | 3.23                      |
| Elimination of Fannie Mae MBS held in retained mortgage portfolio                              | (79,914)                                | (2,650)                 | 4.42                      | (101,608)          | (3,542)                 | 4.65                      |
| Total debt securities of consolidated trusts held by third parties                             | 2,763,909                               | 59,935                  | 2.89                      | 2,719,166          | 64,864                  | 3.18                      |
| Total interest-bearing liabilities   | <u>\$3,200,119</u>                      | <u>\$ 65,739</u>        | 2.74 %                    | <u>\$3,210,643</u> | <u>\$ 71,453</u>        | 2.97 %                    |
| Net interest income/net interest yield   |   | <u>\$ 16,332</u>        | 0.69 %                    |                    | <u>\$ 14,826</u>        | 0.62 %                    |

| Selected benchmark interest rates      | As of September 30, |        |
|--|---------------------|--------|
|  | 2015                | 2014   |
| 3-month LIBOR                          | 0.33 %              | 0.24 % |
| 2-year swap rate                       | 0.75                | 0.82   |
| 5-year swap rate                       | 1.38                | 1.93   |
| 10-year swap rate                      | 2.00                | 2.64   |
| 30-year Fannie Mae MBS par coupon rate | 2.80                | 3.20   |

<sup>(1)</sup> Average balance includes mortgage loans on nonaccrual status. Interest income not recognized for loans on nonaccrual status was \$409 million and \$1.3 billion, respectively, for the third quarter and first nine months of 2015 compared with \$436 million and \$1.4 billion, respectively, for the third quarter and first nine months of 2014. Effective January 1, 2015, we changed our policy for the treatment of interest previously accrued, but not collected, at the date loans are placed on nonaccrual status. See "Note 1, Summary of Significant Accounting Policies" for information on this policy change.

<sup>(2)</sup> Includes cash equivalents.



**Table 5: Rate/Volume Analysis of Changes in Net Interest Income**

|  | For the Three Months Ended<br>September 30, 2015 vs. 2014 |                                 |                   | For the Nine Months Ended<br>September 30, 2015 vs. 2014 |                                 |                   |
|--|---|---------------------------------|-------------------|--|---------------------------------|-------------------|
|  | Total   | Variance Due to: <sup>(1)</sup> |                   | Total  | Variance Due to: <sup>(1)</sup> |                   |
|  | Variance  | Volume                          | Rate              | Variance   | Volume                          | Rate              |
| (Dollars in millions)  |   |                                 |                   |  |                                 |                   |
| Interest income:   |   |                                 |                   |  |                                 |                   |
| Mortgage loans of Fannie Mae   | \$ (119)  | \$ (281)                        | \$ 162            | \$ (548)   | \$ (753)                        | \$ 205            |
| Mortgage loans of consolidated trusts  | (680)   | 300                             | (980)             | (3,278)  | 628                             | (3,906)           |
| Total mortgage loans   | (799)   | 19                              | (818)             | (3,826)  | (125)                           | (3,701)           |
| Total mortgage-related securities, net   | (196)   | (129)                           | (67)              | (429)  | (409)                           | (20)              |
| Non-mortgage-related securities <sup>(2)</sup>   | 10  | 4                               | 6                 | 20   | 9                               | 11                |
| Federal funds sold and securities purchased under agreements to resell or similar arrangements | 6   | (4)                             | 10                | 20   | (2)                             | 22                |
| Advances to lenders  | 2   | 3                               | (1)               | 7  | 14                              | (7)               |
| Total interest income  | <u>\$ (977)</u>   | <u>\$ (107)</u>                 | <u>\$ (870)</u>   | <u>\$ (4,208)</u>  | <u>\$ (513)</u>                 | <u>\$ (3,695)</u> |
| Interest expense:  |   |                                 |                   |  |                                 |                   |
| Short-term funding debt  | 11  | (5)                             | 16                | 33   | 8                               | 25                |
| Long-term funding debt   | (189)   | (288)                           | 99                | (818)  | (1,052)                         | 234               |
| Total short-term and long-term funding debt  | (178)   | (293)                           | 115               | (785)  | (1,044)                         | 259               |
| Total debt securities of consolidated trusts held by third parties                             | (1,203)   | 353                             | (1,556)           | (4,929)  | 1,281                           | (6,210)           |
| Total interest expense   | <u>\$ (1,381)</u>   | <u>\$ 60</u>                    | <u>\$ (1,441)</u> | <u>\$ (5,714)</u>  | <u>\$ 237</u>                   | <u>\$ (5,951)</u> |
| Net interest income  | <u>\$ 404</u>   | <u>\$ (167)</u>                 | <u>\$ 571</u>     | <u>\$ 1,506</u>  | <u>\$ (750)</u>                 | <u>\$ 2,256</u>   |

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

<sup>(2)</sup> Includes cash equivalents.

Net interest income and net interest yield increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 primarily due to an increase in amortization income as increased prepayments on mortgage loans of consolidated trusts accelerated the amortization of cost basis adjustments. Higher guaranty fee income also contributed to an increase in net interest income as loans with higher guaranty fees have become a larger part of our guaranty book of business. We recognize almost all of our guaranty fee revenue in net interest income due to the consolidation of the substantial majority of loans underlying our MBS trusts on our balance sheet. The increase in net interest income was partially offset by a decline in the average balance of our retained mortgage portfolio, as we continued to reduce this portfolio pursuant to the requirements of our senior preferred stock purchase agreement with Treasury and FHFA's additional portfolio cap. The average balance of our retained mortgage portfolio was 15% lower in the third quarter of 2015 than in the third quarter of 2014 and 14% lower in the first nine months of 2015 than in the first nine months of 2014. See "Business Segment Results—The Capital Markets Group's Mortgage Portfolio" for more information about our retained mortgage portfolio.

### Fee and Other Income

Fee and other income includes transaction fees, multifamily fees, technology fees and other miscellaneous income. Fee and other income decreased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 due to revenue recognized in 2014 as a result of settlement agreements resolving certain lawsuits relating to PLS sold to us that we did not have in 2015.

Starting in June 2015, we eliminated fees charged to customers for using our proprietary Desktop Underwriter and Desktop Originator systems, which is expected to allow more lenders to access these systems in their underwriting process. The elimination of these fees resulted in lower technology fees in the third quarter of 2015 compared with the third quarter of 2014.

### Administrative Expenses

Administrative expenses increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 primarily due to the recognition of expenses related to the settlement of our defined benefit pension plan obligations in the third quarter of 2015. We transferred plan assets to an annuity provider and distributed lump sum payments

to participants based on their elections. The actuarial losses of \$305 million, previously recorded in “Accumulated other comprehensive income,” were recognized in “Administrative expenses” and the associated tax amounts were recognized in “Provision for federal income taxes” in our condensed consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2015.

## Fair Value Losses, Net

**Table 6: Fair Value Losses, Net**

|  | For the Three Months<br>Ended September 30, |                 | For the Nine Months<br>Ended September 30, |                   |
|--|---|-----------------|--|-------------------|
|  | 2015  | 2014            | 2015                                       | 2014              |
|  | (Dollars in millions)                       |                 |  |                   |
| Risk management derivatives fair value losses attributable to:             |   |                 |  |                   |
| Net contractual interest expense accruals on interest rate swaps . . . . . | \$ (266)                                    | \$ (314)        | \$ (694)                                   | \$ (770)          |
| Net change in fair value during the period . . . . .                       | (2,138)                                     | (93)            | (916)                                      | (1,513)           |
| Total risk management derivatives fair value losses, net. . . . .          | (2,404)                                     | (407)           | (1,610)                                    | (2,283)           |
| Mortgage commitment derivatives fair value losses, net. . . . .            | (361)                                       | (73)            | (427)                                      | (728)             |
| Total derivatives fair value losses, net. . . . .                          | (2,765)                                     | (480)           | (2,037)                                    | (3,011)           |
| Trading securities gains, net. . . . .                                     | 13  | 50              | 69   | 444               |
| Other, net <sup>(1)</sup> . . . . .  | 163   | 223             | 66   | 236               |
| Fair value losses, net . . . . .   | <u>\$ (2,589)</u>                           | <u>\$ (207)</u> | <u>\$ (1,902)</u>                          | <u>\$ (2,331)</u> |

<sup>(1)</sup> Consists of debt fair value gains (losses), net, which includes gains (losses) on CAS; debt foreign exchange gains (losses), net; and mortgage loans fair value gains (losses), net.

### ***Risk Management Derivatives Fair Value Losses, Net***

Risk management derivative instruments are an integral part of our interest rate risk management strategy. We supplement our issuance of debt securities with derivative instruments to further reduce interest rate risk. We recognized risk management derivative fair value losses in the third quarter and first nine months of 2015 primarily as a result of decreases in the fair value of our pay-fixed derivatives due to declines in longer-term swap rates during the respective periods. We recognized risk management derivative fair value losses in the third quarter of 2014 primarily due to increases in shorter-term swap rates. We recognized risk management derivative fair value losses in the first nine months of 2014 primarily as a result of decreases in the fair value of our pay-fixed derivatives due to declines in longer-term swap rates during the period.

We present, by derivative instrument type, the fair value gains and losses, net on our derivatives in “Note 9, Derivative Instruments.”

### ***Mortgage Commitment Derivatives Fair Value Losses, Net***

We recognized fair value losses on our mortgage commitments in the third quarter and first nine months of 2015 and 2014 primarily due to losses on commitments to sell mortgage-related securities driven by an increase in prices as interest rates decreased during the commitment periods.

### **Credit-Related Income (Expense)**

We refer to our benefit for loan losses and guaranty losses collectively as our “benefit for credit losses.” Credit-related income (expense) consists of our benefit for credit losses and foreclosed property income (expense).

### ***Benefit for Credit Losses***

Table 7 displays the components of our total loss reserves and our total fair value losses previously recognized on loans purchased out of unconsolidated MBS trusts reflected in our condensed consolidated balance sheets. Because these fair value losses lowered our recorded loan balances, we have fewer inherent losses in our guaranty book of business and consequently require lower total loss reserves. For these reasons, we consider these fair value losses as an “effective reserve,” apart from our total loss reserves, to the extent that we expect to realize these amounts as credit losses on the acquired loans in the future. The fair value losses shown in Table 7 represent credit losses we expect to realize in the future or that will eventually be recovered, either through net interest income for loans that cure or through foreclosed property income for loans where the

sale of the collateral exceeds our recorded investment in the loan. We exclude these fair value losses from our credit loss calculation as described in “Credit Loss Performance Metrics.”

**Table 7: Total Loss Reserves**

|   | As of                 |                      |
|---|-----------------------|----------------------|
|   | September 30,<br>2015 | December 31,<br>2014 |
|   | (Dollars in millions) |                      |
| Allowance for loan losses . . . . .   | \$29,135              | \$35,541             |
| Reserve for guaranty losses . . . . .   | 560                   | 1,246                |
| Combined loss reserves . . . . .  | 29,695                | 36,787               |
| Other <sup>(1)</sup> . . . . .  | 273                   | 1,386                |
| Total loss reserves . . . . .   | 29,968                | 38,173               |
| Fair value losses previously recognized on acquired credit-impaired loans <sup>(2)</sup> . . . . .          | 8,593                 | 9,864                |
| Total loss reserves and fair value losses previously recognized on acquired credit-impaired loans . . . . . | <u>\$38,561</u>       | <u>\$48,037</u>      |

<sup>(1)</sup> Includes allowances for accrued interest receivable and preforeclosure property taxes and insurance receivable. Effective January 1, 2015, we charged off accrued interest receivable associated with loans on nonaccrual status and eliminated the related allowance in connection with the our change in accounting policy related to the treatment of interest previously accrued, but not collected, at the date that loans are placed on nonaccrual status. See “Note 1, Summary of Significant Accounting Policies” for additional information.

<sup>(2)</sup> Represents the fair value losses on loans purchased out of unconsolidated MBS trusts reflected in our condensed consolidated balance sheets.

**Table 8: Changes in Combined Loss Reserves**

|   | For the Three Months<br>Ended September 30, |                  | For the Nine Months<br>Ended September 30, |                  |
|---|---|------------------|--|------------------|
|   | 2015  | 2014             | 2015                                       | 2014             |
|   | (Dollars in millions)                       |                  |  |                  |
| <b>Changes in combined loss reserves:</b> |   |                  |  |                  |
| Beginning balance . . . . .               | \$ 31,808                                   | \$ 40,451        | \$ 36,787                                  | \$ 45,295        |
| Benefit for credit losses . . . . .       | (1,550)                                     | (1,085)          | (1,050)                                    | (3,498)          |
| Charge-offs <sup>(1)</sup> . . . . .      | (801)                                       | (1,587)          | (8,287)                                    | (5,174)          |
| Recoveries . . . . .                      | 250   | 275              | 1,132                                      | 1,119            |
| Other <sup>(2)</sup> . . . . .            | (12)  | 201              | 1,113                                      | 513              |
| Ending balance . . . . .                  | <u>\$ 29,695</u>                            | <u>\$ 38,255</u> | <u>\$ 29,695</u>                           | <u>\$ 38,255</u> |

| As of                 |                      |
|-----------------------|----------------------|
| September 30,<br>2015 | December 31,<br>2014 |
| (Dollars in millions) |                      |

**Allocation of combined loss reserves:**

Balance at end of each period attributable to:

|                     |                  |                  |
|---------------------|------------------|------------------|
| Single-family ..... | \$ 29,404        | \$ 36,383        |
| Multifamily .....   | 291              | 404              |
| Total .....         | <u>\$ 29,695</u> | <u>\$ 36,787</u> |

**Single-family and multifamily combined loss reserves as a percentage of applicable guaranty book of business:**

|                     |       |       |
|---------------------|-------|-------|
| Single-family ..... | 1.04% | 1.28% |
| Multifamily .....   | 0.14  | 0.20  |

**Combined loss reserves as a percentage of:**

|   |       |       |
|---|-------|-------|
| Total guaranty book of business .....         | 0.97% | 1.20% |
| Recorded investment in nonaccrual loans ..... | 58.04 | 56.63 |

<sup>(1)</sup> Includes, for the nine months ended September 30, 2015, charge-offs of (1) \$1.8 billion in loans held for investment and \$724 million in preforeclosure property taxes and insurance receivable in connection with our adoption of the Advisory Bulletin on January 1, 2015 and (2) \$1.1 billion in accrued interest receivable in connection with our adoption of a change in accounting principle on January 1, 2015 related to the treatment of interest previously accrued, but not collected, at the date that loans are placed on nonaccrual status. See “Note 1, Summary of Significant Accounting Policies” for more information on these changes.

<sup>(2)</sup> Amounts represent changes in other loss reserves which are offset by amounts reflected in benefit for credit losses, charge-offs and recoveries.

Our provision or benefit for credit losses continues to be a key driver of our results. The amount of our provision or benefit for credit losses may vary from period to period based on factors such as changes in actual and expected home prices, borrower payment behavior, the types and volumes of loss mitigation activities, the volumes of foreclosures completed and fluctuations in mortgage interest rates. In addition, our provision or benefit for credit losses and our loss reserves can be impacted by updates to the models, assumptions and data used in determining our allowance for loan losses.

The following factors impacted our benefit for credit losses in the third quarter and first nine months of 2015:

- Home prices increased by 1.3% in the third quarter of 2015 and by 5.4% in the first nine months of 2015, which contributed to our benefit for credit losses in both the third quarter and first nine months of 2015. Higher home prices decrease the likelihood that loans will default and reduce the amount of credit loss on loans that do default, which impacts our estimate of losses and ultimately reduces our total loss reserves and provision for credit losses.
- Mortgage interest rates declined during the third quarter of 2015, which contributed to our benefit for credit losses in the third quarter of 2015. As interest rates decline, we expect an increase in future prepayments on individually impaired loans, including modified loans. Higher expected prepayments shorten the expected lives of modified loans, which decreases the impairment related to concessions provided on these loans and results in a decrease in the provision for credit losses. Mortgage interest rates increased during the first nine months of 2015, which partially offset our benefit for credit losses in the first nine months of 2015. As interest rates increase, we expect a decline in future prepayments on individually impaired loans, including modified loans. Lower expected prepayments lengthen the expected lives of modified loans, which increases the impairment related to concessions provided on these loans and results in an increase in the provision for credit losses.
- We redesignated certain nonperforming single-family loans with an aggregate unpaid principal balance of \$5.3 billion from HFI to HFS in the first nine months of 2015. These loans were adjusted to the lower of cost or fair value, which partially offset our benefit for credit losses by approximately \$600 million. These loans were redesignated to HFS as we intend to sell or have sold them. As described in “Executive Summary—Helping to Build a Sustainable Housing Finance System,” we plan to complete additional sales of nonperforming loans.

We recognized a benefit for credit losses in the third quarter and first nine months of 2014 primarily due to an increase in home prices. Home prices increased by 1.2% in the third quarter of 2014 and by 5.3% in the first nine months of 2014. In addition, in the third quarter of 2014, we updated the model and the assumptions used to estimate cash flows for individually

impaired single-family loans within our allowance for loan losses, which resulted in a decrease to our allowance for loan losses and an incremental benefit for credit losses of approximately \$600 million for the third quarter and first nine months of 2014. For additional information, see “MD&A—Critical Accounting Policies and Estimates—Total Loss Reserves—Single-Family Loss Reserves” in our 2014 Form 10-K.

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

#### Troubled Debt Restructurings and Nonaccrual Loans

Table 9 displays the composition of loans restructured in a troubled debt restructuring (“TDR”) that are on accrual status and loans on nonaccrual status. The table includes our recorded investment in HFI and HFS mortgage loans. For information on the impact of TDRs and other individually impaired loans on our allowance for loan losses, see “Note 3, Mortgage Loans.”

**Table 9: Troubled Debt Restructurings and Nonaccrual Loans**

|   | As of                                      |                      |
|---|--|----------------------|
|   | September 30,<br>2015                      | December 31,<br>2014 |
| (Dollars in millions)   |  |                      |
| TDRs on accrual status:   |  |                      |
| Single-family .....   | \$142,882                                  | \$144,649            |
| Multifamily .....   | 421  | 645                  |
| Total TDRs on accrual status .....  | <u>\$143,303</u>                           | <u>\$145,294</u>     |
| Nonaccrual loans:   |  |                      |
| Single-family .....   | \$ 50,488                                  | \$ 64,136            |
| Multifamily .....   | 679  | 823                  |
| Total nonaccrual loans .....  | <u>\$ 51,167</u>                           | <u>\$ 64,959</u>     |
| Accruing on-balance sheet loans past due 90 days or more <sup>(1)</sup> ..... | \$ 512                                     | \$ 585               |
|   |  |                      |
|   | For the Nine Months<br>Ended September 30, |                      |
|   | 2015                                       | 2014                 |
|   | (Dollars in millions)                      |                      |
| Interest related to on-balance sheet TDRs and nonaccrual loans:               |  |                      |
| Interest income forgone <sup>(2)</sup> .....                                  | \$ 4,146                                   | \$ 4,628             |
| Interest income recognized for the period <sup>(3)</sup> .....                | 4,393                                      | 4,628                |

<sup>(1)</sup> Includes loans that, as of the end of each period, are 90 days or more past due and continuing to accrue interest. The majority of these amounts consists of loans insured or guaranteed by the U.S. government and loans for which we have recourse against the seller in the event of a default.

<sup>(2)</sup> Represents the amount of interest income we did not recognize, but would have recognized during the period for nonaccrual loans and TDRs on accrual status as of the end of each period had the loans performed according to their original contractual terms.

<sup>(3)</sup> Represents interest income recognized during the period for loans classified as either nonaccrual loans or TDRs on accrual status as of the end of each period. Includes primarily amounts accrued while the loans were performing and cash payments received on nonaccrual loans.

#### **Foreclosed Property Income (Expense)**

Foreclosed property expense increased in the third quarter of 2015 compared with the third quarter of 2014 primarily due to increased operating expenses relating to our single-family foreclosed properties driven by an increase in property preservation costs, which include property tax and insurance expenses. We recognized foreclosed property expense in the first nine months of 2015 compared with foreclosed property income in the first nine months of 2014. This shift was primarily due to increased property preservation costs relating to our single-family foreclosed properties. Additionally, we recognized more income from the resolution of compensatory fees and representation and warranty matters in the first nine months of 2014 compared with the first nine months of 2015.

### Credit Loss Performance Metrics

Our credit-related income (expense) should be considered in conjunction with our credit loss performance metrics. Our credit loss performance metrics, however, are not defined terms within GAAP and may not be calculated in the same manner as similarly titled measures reported by other companies. Because management does not view changes in the fair value of our mortgage loans as credit losses, we adjust our credit loss performance metrics for the impact associated with our acquisition of credit-impaired loans from unconsolidated MBS trusts. We also exclude interest forgone on nonaccrual loans and TDRs, other-than-temporary impairment losses resulting from deterioration in the credit quality of our mortgage-related securities and accretion of interest income on acquired credit-impaired loans from credit losses. We believe that credit loss performance metrics may be useful to investors as the losses are presented as a percentage of our book of business and have historically been used by analysts, investors and other companies within the financial services industry. Moreover, by presenting credit losses with and without the effect of fair value losses associated with the acquisition of credit-impaired loans, investors are able to evaluate our credit performance on a more consistent basis among periods. Table 10 displays the components of our credit loss performance metrics as well as our single-family and multifamily initial charge-off severity rates.

**Table 10: Credit Loss Performance Metrics**

|   | For the Three Months Ended September 30, |                      |                 |                      | For the Nine Months Ended September 30, |                      |                 |                      |
|---|--|----------------------|-----------------|----------------------|---|----------------------|-----------------|----------------------|
|   | 2015                                     |                      | 2014            |                      | 2015                                    |                      | 2014            |                      |
|   | Amount                                   | Ratio <sup>(1)</sup> | Amount          | Ratio <sup>(1)</sup> | Amount                                  | Ratio <sup>(1)</sup> | Amount          | Ratio <sup>(1)</sup> |
|   | (Dollars in millions)                    |                      |                 |                      |   |                      |                 |                      |
| Charge-offs, net of recoveries . . . . .  | \$ 551                                   | 7.2 bps              | \$ 1,312        | 17.2 bps             | \$ 3,600                                | 15.8 bps             | \$ 4,055        | 17.6 bps             |
| Adoption of Advisory Bulletin and change in accounting principle <sup>(2)</sup> . . .   | —  | —                    | —               | —                    | 3,555                                   | 15.6                 | —               | —                    |
| Foreclosed property expense (income) . . . . .  | 497                                      | 6.5                  | 249             | 3.3                  | 1,152                                   | 5.0                  | (227)           | (1.0)                |
| Credit losses including the effect of fair value losses on acquired credit-impaired loans . . . . .                             | 1,048                                    | 13.7                 | 1,561           | 20.5                 | 8,307                                   | 36.4                 | 3,828           | 16.6                 |
| Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property expense (income) <sup>(3)</sup> . . . . . | 103                                      | 1.4                  | 158             | 2.1                  | 349                                     | 1.5                  | 493             | 2.1                  |
| Credit losses and credit loss ratio . . . . .   | <u>\$ 1,151</u>                          | <u>15.1 bps</u>      | <u>\$ 1,719</u> | <u>22.6 bps</u>      | <u>\$ 8,656</u>                         | <u>37.9 bps</u>      | <u>\$ 4,321</u> | <u>18.7 bps</u>      |
| Credit losses attributable to:  |  |                      |                 |                      |   |                      |                 |                      |
| Single-family . . . . .   | \$ 1,168                                 |                      | \$ 1,738        |                      | \$ 8,650                                |                      | \$ 4,362        |                      |
| Multifamily <sup>(4)</sup> . . . . .  | (17)                                     |                      | (19)            |                      | 6                                       |                      | (41)            |                      |
| Total . . . . .   | <u>\$ 1,151</u>                          |                      | <u>\$ 1,719</u> |                      | <u>\$ 8,656</u>                         |                      | <u>\$ 4,321</u> |                      |
| Single-family initial charge-off severity rate <sup>(5)</sup> . . . . .   |  | 13.93 %              |                 | 19.24 %              |   | 15.98 %              |                 | 19.50 %              |
| Multifamily initial charge-off severity rate <sup>(5)</sup> . . . . .   |  | 17.00 %              |                 | 28.21 %              |   | 23.43 %              |                 | 24.18 %              |

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

<sup>(2)</sup> Includes, for the nine months ended September 30, 2015, charge-offs of (1) \$1.8 billion in loans held for investment and \$724 million in preforeclosure property taxes and insurance receivable in connection with our adoption of the Advisory Bulletin on January 1, 2015 and (2) \$1.1 billion in accrued interest receivable in connection with our adoption of a change in accounting principle on January 1, 2015 related to the treatment of interest previously accrued, but not collected, at the date that loans are placed on nonaccrual status. See “Note 1, Summary of Significant Accounting Policies” for additional information.

<sup>(3)</sup> Includes fair value losses from acquired credit-impaired loans.

<sup>(4)</sup> Negative credit losses are the result of recoveries on previously charged-off amounts.

<sup>(5)</sup> Single-family and multifamily rates exclude fair value losses on credit-impaired loans acquired from MBS trusts and any costs, gains or losses associated with REO after initial acquisition through final disposition. Single-family rate excludes charge-offs prior to foreclosure and other liquidations, short sales and third-party sales. Multifamily rate is net of risk-sharing agreements.

Credit losses and our credit loss ratio decreased in the third quarter of 2015 compared with the third quarter of 2014 primarily due to the impact of lower charge-off losses on foreclosures as well as fewer foreclosures in the third quarter of 2015.

Credit losses and our credit loss ratio increased in the first nine months of 2015 compared with the first nine months of 2014 primarily due to our adoption of the charge-off provisions of the Advisory Bulletin on January 1, 2015, as well as a change in our accounting policy for nonaccrual loans. See “Note 1, Summary of Significant Accounting Policies” for additional information.

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

Table 11 displays concentrations of our single-family credit losses based on geography, credit characteristics and loan vintages.

**Table 11: Credit Loss Concentration Analysis**

|  | Percentage of Single-Family Conventional<br>Guaranty Book of Business <sup>(1)</sup> |                      |                       | Percentage of Single-Family Credit Losses <sup>(2)</sup> |      |  |      |
|--|--|----------------------|-----------------------|--|------|--|------|
|  | As of  |                      |                       | For the Three Months<br>Ended September 30,              |      | For the Nine Months<br>Ended September 30, |      |
|  | September 30,<br>2015  | December 31,<br>2014 | September 30,<br>2014 | 2015   | 2014 | 2015                                       | 2014 |
| Geographical Distribution:                         |  |                      |                       |  |      |  |      |
| California <sup>(3)</sup> .....                    | 20%  | 20%                  | 20%                   | 3%   | 5%   | 2%   | (1)% |
| Florida .....                                      | 6  | 6                    | 6                     | 10   | 29   | 23   | 34   |
| New Jersey .....                                   | 4  | 4                    | 4                     | 14   | 7    | 21   | 7    |
| New York .....                                     | 5  | 5                    | 5                     | 11   | 4    | 16   | 4    |
| All other states .....                             | 65   | 65                   | 65                    | 62   | 55   | 38   | 56   |
| Select higher-risk product features <sup>(4)</sup> | 22   | 22                   | 23                    | 60   | 58   | 61   | 47   |
| Vintages: <sup>(5)</sup>                           |  |                      |                       |  |      |  |      |
| 2004 and prior .....                               | 6  | 7                    | 7                     | 13   | 12   | 10   | 12   |
| 2005 - 2008 .....                                  | 11   | 12                   | 13                    | 66   | 77   | 80   | 75   |
| 2009 - 2015 .....                                  | 83   | 81                   | 80                    | 21   | 11   | 10   | 13   |

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

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

(3) Negative credit losses in 2014 are the result of recoveries on previously recognized credit losses.

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

(5) Credit losses on mortgage loans typically do not peak until the third through sixth years following origination; however, this range can vary based on many factors, including changes in macroeconomic conditions and foreclosure timelines.

As shown in Table 11, the majority of our credit losses for the third quarter and the first nine months of 2015 continued to be driven by loans originated in 2005 through 2008. We provide more detailed single-family credit performance information, including serious delinquency rates share and foreclosure activity, in “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management.”

#### Temporary Payroll Tax Cut Continuation Act of 2011 (“TCCA”) Fees

Pursuant to the TCCA, which was enacted by Congress in December 2011, FHFA directed us to increase our single-family guaranty fees by 10 basis points and remit this increase to Treasury. This TCCA-related revenue is included in “Net interest income” and the expense is recognized as “TCCA fees.” We recognized \$413 million and \$351 million in TCCA fees during the three months ended September 30, 2015 and 2014, respectively, and \$1.2 billion and \$1.0 billion for the nine months ended September 30, 2015 and 2014, respectively, of which \$413 million had not been remitted to Treasury as of September 30, 2015. We expect the guaranty fees collected and expenses incurred under the TCCA to continue to increase in the future.

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## **BUSINESS SEGMENT RESULTS**

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Results of our three business segments are intended to reflect each segment as if it were a stand-alone business. Under our segment reporting structure, the sum of the results for our three business segments does not equal our condensed consolidated results of operations as we separate the activity related to our consolidated trusts from the results generated by our three segments. In addition, because we apply accounting methods that differ from our condensed consolidated results for segment reporting purposes, we include an eliminations/adjustments category to reconcile our business segment results and the activity related to our consolidated trusts to our condensed consolidated results of operations. We describe the management reporting and allocation process used to generate our segment results in “Note 13, Segment Reporting” in our 2014 Form 10-K.

In this section, we summarize our segment results for the third quarter and first nine months of 2015 and 2014 in the tables below and provide a comparative discussion of these results. This section should be read together with our comparative discussion of our condensed consolidated results of operations in “Consolidated Results of Operations.” See “Note 11, Segment Reporting” for a reconciliation of our segment results to our condensed consolidated results.

### **Single-Family Business Results**

Table 12 displays the financial results of our Single-Family business. For a discussion of single-family credit risk management, including information on serious delinquency rates and loan workouts, see “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management.” The primary source of revenue for our Single-Family business is guaranty fee income. Other items that impact income or loss primarily include credit-related income (expense), TCCA fees and administrative expenses.



**Table 12: Single-Family Business Results**

|  | For the Three Months Ended September 30, |              |          | For the Nine Months Ended September 30, |              |            |
|--|--|--------------|----------|---|--------------|------------|
|  | 2015                                     | 2014         | Variance | 2015                                    | 2014         | Variance   |
|  | (Dollars in millions)                    |              |          |   |              |            |
| Guaranty fee income <sup>(1)</sup> . . . . .   | \$ 3,145                                 | \$ 2,945     | \$ 200   | \$ 9,277                                | \$ 8,708     | \$ 569     |
| Credit-related income (expense) <sup>(2)</sup> . . .   | 1,029                                    | 748          | 281      | (216)                                   | 3,531        | (3,747)    |
| TCCA fees <sup>(1)</sup> . . . . .   | (413)                                    | (351)        | (62)     | (1,192)                                 | (1,008)      | (184)      |
| Other expenses <sup>(3)</sup> . . . . .  | (682)                                    | (443)        | (239)    | (1,633)                                 | (1,469)      | (164)      |
| Income before federal income taxes . .   | 3,079                                    | 2,899        | 180      | 6,236                                   | 9,762        | (3,526)    |
| Provision for federal income taxes . .   | (1,040)                                  | (837)        | (203)    | (2,040)                                 | (2,897)      | 857        |
| Net income attributable to Fannie Mae . . . . .  | \$ 2,039                                 | \$ 2,062     | \$ (23)  | \$ 4,196                                | \$ 6,865     | \$ (2,669) |
| <b>Other key performance data:</b>   |  |              |          |   |              |            |
| <b>Securitization Activity/New Business</b>  |  |              |          |   |              |            |
| Single-family Fannie Mae MBS issuances . . . . .   | \$ 126,144                               | \$ 105,563   |          | \$ 368,112                              | \$ 266,631   |            |
| <b>Credit Guaranty Activity</b>  |  |              |          |   |              |            |
| Average single-family guaranty book of business <sup>(4)</sup> . . . . .                                     | \$ 2,831,133                             | \$ 2,858,362 |          | \$ 2,838,129                            | \$ 2,871,507 |            |
| Single-family effective guaranty fee rate (in basis points) <sup>(1)(5)</sup> . . . . .                      | 44.4                                     | 41.2         |          | 43.6                                    | 40.4         |            |
| Single-family average charged guaranty fee on new acquisitions (in basis points) <sup>(1)(6)</sup> . . . . . | 60.6                                     | 63.5         |          | 60.5                                    | 63.0         |            |
| Single-family serious delinquency rate, at end of period <sup>(7)</sup> . . . . .                            | 1.59 %                                   | 1.96 %       |          | 1.59 %                                  | 1.96 %       |            |
| <b>Market</b>  |  |              |          |   |              |            |
| Single-family mortgage debt outstanding, at end of period (total U.S. market) <sup>(8)</sup> . . . . .       | \$ 9,901,059                             | \$ 9,870,670 |          | \$ 9,901,059                            | \$ 9,870,670 |            |
| 30-year mortgage rate, at end of period <sup>(9)</sup> . . . . .   | 3.86 %                                   | 4.20 %       |          | 3.86 %                                  | 4.20 %       |            |

- (1) Reflects the impact of a 10 basis point guaranty fee increase implemented pursuant to the TCCA, the incremental revenue from which must be remitted to Treasury. The resulting revenue is included in guaranty fee income and the expense is recognized as "TCCA fees."
- (2) Consists of the benefit (provision) for credit losses and foreclosed property income (expense).
- (3) Consists of net interest income (loss), investment gains (losses), net, fair value gains (losses), net, gains (losses) from partnership investments, fee and other income (expense), administrative expenses and other expenses.
- (4) 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.
- (5) Calculated based on annualized Single-Family segment guaranty fee income divided by the average single-family guaranty book of business, expressed in basis points.
- (6) 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.
- (7) Calculated based on the number of single-family conventional loans that are 90 days or more past due or in the foreclosure process, divided by the number of loans in our single-family conventional guaranty book of business.
- (8) Information labeled as of September 30, 2015 is as of June 30, 2015 and is based on the Federal Reserve's September 2015 mortgage debt outstanding release, the latest date for which the Federal Reserve has estimated mortgage debt outstanding for single-family residences. Prior period amounts may have been changed to reflect revised historical data from the Federal Reserve.

<sup>(9)</sup> Based on Freddie Mac's Primary Mortgage Market Survey<sup>®</sup> rate for the last week in the period, which represents the national average mortgage commitment rate to a qualified borrower exclusive of any fees and points required by the lender.

Pre-tax income increased in the third quarter of 2015 compared with the third quarter of 2014 primarily due to higher credit-related income and higher guaranty fee income in the third quarter of 2015 compared with the third quarter of 2014. This was partially offset by higher other expenses in the third quarter of 2015 compared with the third quarter of 2014. Pre-tax income decreased in the first nine months of 2015 compared with the first nine months of 2014 primarily due to credit-related expense recognized in the first nine months of 2015 compared with credit-related income recognized in the first nine months of 2014. This was partially offset by higher guaranty fee income in the first nine months of 2015 compared with the first nine months of 2014.

We recognized higher single-family credit-related income in the third quarter of 2015 compared with the third quarter of 2014. This increase was primarily attributable to home prices increasing at a faster pace as well as lower mortgage interest rates in the third quarter of 2015 compared with the third quarter of 2014. This was partially offset by an increase in foreclosed property expense in the third quarter of 2015 compared with the third quarter of 2014 primarily due to increased property tax and insurance expenses relating to our single-family foreclosed properties.

We recognized credit-related expense in the first nine months of 2015 comprised of foreclosed property expense, partially offset by a benefit for credit losses. Foreclosed property expense was primarily driven by higher property preservation costs, which include property tax and insurance expenses relating to our single-family foreclosed properties. The benefit for credit losses was primarily driven by an increase in home prices. This was partially offset by the impact from the redesignation of certain nonperforming single-family loans from HFI to HFS. These loans were adjusted to the lower of cost or fair value, which reduced our benefit for credit losses. Additionally, mortgage interest rates increased during the first nine months of 2015, which also partially offset our benefit for credit losses. As interest rates increase, we expect a decline in future prepayments on individually impaired loans, including modified loans. Lower expected prepayments lengthen the expected lives of modified loans, which increases the impairment related to concessions provided on these loans and results in an increase in the provision for credit losses. We recognized credit-related income in the first nine months of 2014 primarily due to an increase in home prices and income from the resolution of compensatory fees and representation and warranty matters. See "Consolidated Results of Operations—Credit-Related Income (Expense)" for more information on the drivers of our credit-related income (expense).

Guaranty fee income and our effective guaranty fee rate increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 as loans with higher guaranty fees have become a larger part of our single-family guaranty book of business primarily due to the cumulative impact of guaranty fee price increases implemented in 2012.

TCCA fees increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014, as single-family loans acquired since the implementation of the TCCA-related guaranty fee increase constituted a larger portion of our single-family guaranty book of business in the third quarter and first nine months of 2015. We expect the guaranty fees collected and expenses incurred under the TCCA to continue to increase in the future.

Other expenses increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 primarily as a result of the recognition of administrative expenses related to the settlement of our defined benefit pension plan obligations in the third quarter of 2015. Upon settlement of these obligations, we recognized actuarial losses previously recorded in "Accumulated other comprehensive income" as "Administrative expenses" in our condensed consolidated statements of operations and comprehensive income.

Our single-family acquisition volume and single-family Fannie Mae MBS issuances increased in the first nine months of 2015 compared with the first nine months of 2014, driven primarily by an increase in refinance activity. Higher refinance activity also drove an increase in liquidations of loans from our single-family guaranty book of business in the first nine months of 2015 compared with the first nine months of 2014. Accordingly, the size of our single-family guaranty book of business remained relatively flat.

## **Multifamily Business Results**

Multifamily business results primarily reflect our multifamily guaranty business. Our Multifamily business results also include activity relating to our low-income housing tax credit (“LIHTC”) investments and equity investments. Although we are not currently making new LIHTC or equity investments, we continue to make contractually required contributions for our legacy investments. Activity from multifamily products is also reflected in the Capital Markets group results, which include net interest income related to multifamily loans and securities held in our retained mortgage portfolio, gains and losses from the sale of multifamily Fannie Mae MBS, mortgage loans and re-securitizations, and other miscellaneous income.

Table 13 displays the financial results of our Multifamily business. The primary sources of revenue for our Multifamily business are guaranty fee income and fee and other income, which includes yield maintenance income. Other items that affect income or loss primarily include credit-related income (expense) and administrative expenses.

**Table 13: Multifamily Business Results**

|   | For the Three Months Ended September 30, |               |                | For the Nine Months Ended September 30, |                 |              |
|---|--|---------------|----------------|---|-----------------|--------------|
|   | 2015                                     | 2014          | Variance       | 2015                                    | 2014            | Variance     |
|   | (Dollars in millions)                    |               |                |   |                 |              |
| Guaranty fee income . . . . .                               | \$ 367                                   | \$ 332        | \$ 35          | \$ 1,064                                | \$ 960          | \$ 104       |
| Fee and other income . . . . .                              | 58                                       | 32            | 26             | 193                                     | 87              | 106          |
| Gains from partnership investments <sup>(1)</sup> . . . . . | 7  | 52            | (45)           | 262                                     | 131             | 131          |
| Credit-related income <sup>(2)</sup> . . . . .              | 24                                       | 88            | (64)           | 114                                     | 194             | (80)         |
| Other expenses <sup>(3)</sup> . . . . .                     | (115)                                    | (83)          | (32)           | (332)                                   | (245)           | (87)         |
| Income before federal income taxes . . . . .                | 341                                      | 421           | (80)           | 1,301                                   | 1,127           | 174          |
| Provision for federal income taxes . . . . .                | (17)                                     | (37)          | 20             | (128)                                   | (37)            | (91)         |
| Net income attributable to Fannie Mae . . . . .             | <u>\$ 324</u>                            | <u>\$ 384</u> | <u>\$ (60)</u> | <u>\$ 1,173</u>                         | <u>\$ 1,090</u> | <u>\$ 83</u> |

**Other key performance data:****Securitization Activity/New Business**

|  |            |            |  |            |            |
|--|------------|------------|--|------------|------------|
| Multifamily new business volume <sup>(4)</sup> . . . . .   | \$ 7,295   | \$ 9,090   |  | \$ 32,291  | \$ 17,253  |
| Multifamily units financed from new business volume . . . . .                                      | 118,000    | 124,000    |  | 433,000    | 289,000    |
| Multifamily Fannie Mae MBS issuances <sup>(5)</sup> . . . . .                                      | \$ 7,484   | \$ 9,689   |  | \$ 33,881  | \$ 20,087  |
| Multifamily Fannie Mae structured securities issuances (issued by Capital Markets group) . . . . . | \$ 2,016   | \$ 3,074   |  | \$ 8,467   | \$ 9,497   |
| Multifamily Fannie Mae MBS outstanding, at end of period <sup>(6)</sup> . . . . .                  | \$ 184,028 | \$ 159,707 |  | \$ 184,028 | \$ 159,707 |

**Credit Guaranty Activity**

|  |            |            |  |            |            |
|--|------------|------------|--|------------|------------|
| Average multifamily guaranty book of business <sup>(7)</sup> . . . . .   | \$ 212,654 | \$ 198,888 |  | \$ 208,828 | \$ 199,358 |
| Multifamily effective guaranty fee rate (in basis points) <sup>(8)</sup> . . . . .                               | 69.0       | 66.8       |  | 67.9       | 64.2       |
| Multifamily credit loss ratio (in basis points) <sup>(9)</sup> . . . . .   | (3.2)      | (3.8)      |  | 0.4        | (2.7)      |
| Multifamily serious delinquency rate, at end of period . . . . .   | 0.05 %     | 0.09 %     |  | 0.05 %     | 0.09 %     |
| Percentage of multifamily guaranty book of business with credit enhancement, at end of period . . . . .          | 94 %       | 92 %       |  | 94 %       | 92 %       |
| Fannie Mae percentage of total multifamily mortgage debt outstanding, at end of period <sup>(10)</sup> . . . . . | 19 %       | 19 %       |  | 19 %       | 19 %       |

**Portfolio Data**

|   |           |           |  |           |           |
|---|-----------|-----------|--|-----------|-----------|
| Average Fannie Mae multifamily mortgage loans and Fannie Mae MBS in Capital Markets group's portfolio <sup>(11)</sup> . . . . .   | \$ 31,036 | \$ 46,930 |  | \$ 35,321 | \$ 51,578 |
| Additional net interest income and yield maintenance income earned on Fannie Mae multifamily mortgage loans and MBS (included in Capital Markets group's results) <sup>(12)</sup> . . . . . | \$ 181    | \$ 193    |  | \$ 573    | \$ 545    |

<sup>(1)</sup> Gains from partnership investments are included in other expenses in our condensed consolidated statements of operations and comprehensive income. Gains from partnership investments are reported using the equity method of accounting. As a result, net income attributable to noncontrolling interest from partnership investments is not included in income for the Multifamily segment.

<sup>(2)</sup> Consists of the benefit (provision) for credit losses and foreclosed property income (expense).

- (3) Consists of net interest income (loss), investment gains (losses), net, administrative expenses and other expenses.
- (4) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued (excluding portfolio securitizations), multifamily loans purchased, and credit enhancements provided during the period.
- (5) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued during the period. Includes (a) issuances of new MBS, (b) Fannie Mae portfolio securitization transactions of \$189 million and \$597 million for the three months ended September 30, 2015 and 2014, respectively, and \$1.6 billion and \$2.9 billion for the nine months ended September 30, 2015 and 2014, respectively, and (c) conversions of adjustable-rate loans to fixed-rate loans and MBS reissuances of \$3 million for the three months ended September 30, 2014, and \$60 million and \$3 million for the nine months ended September 30, 2015 and 2014, respectively. There were no conversions of adjustable-rate loans to fixed-rate loans or MBS reissuances for the three months ended September 30, 2015.
- (6) Includes \$13.8 billion and \$18.8 billion of Fannie Mae multifamily MBS held in the retained mortgage portfolio, the vast majority of which have been consolidated to loans in our condensed consolidated balance sheets, as of September 30, 2015 and 2014, respectively.
- (7) Our multifamily guaranty book of business consists of (a) multifamily mortgage loans of Fannie Mae, (b) multifamily mortgage loans underlying Fannie Mae MBS, and (c) other credit enhancements that we provide on multifamily mortgage assets. It excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.
- (8) Calculated based on annualized Multifamily segment guaranty fee income divided by the average multifamily guaranty book of business, expressed in basis points.
- (9) Calculated based on annualized Multifamily segment credit losses divided by the average multifamily guaranty book of business, expressed in basis points. Negative credit losses are the result of recoveries on previously charged-off amounts.
- (10) Includes mortgage loans and Fannie Mae MBS guaranteed by the Multifamily segment. Information labeled as of September 30, 2015 is as of June 30, 2015 and is based on the Federal Reserve's September 2015 mortgage debt outstanding release, the latest date for which the Federal Reserve has estimated mortgage debt outstanding for multifamily residences. Prior period amounts may have been changed to reflect revised historical data from the Federal Reserve.
- (11) Based on unpaid principal balance.
- (12) Interest expense estimate is based on allocated duration-matched funding costs. Net interest income was reduced by guaranty fees allocated to Multifamily from the Capital Markets group on multifamily loans in our retained mortgage portfolio. Yield maintenance income represents the investor portion of fees earned as a result of prepayments of multifamily loans and MBS in our retained mortgage portfolio. A portion of yield maintenance income is reported in Multifamily business results to the extent attributable to our multifamily guaranty business.

Pre-tax income decreased in the third quarter of 2015 compared with the third quarter of 2014 primarily as a result of decreases in credit-related income and gains from partnership investments, as well as an increase in other expenses, partially offset by increases in guaranty fee income and fee and other income. Pre-tax income increased in the first nine months of 2015 compared with the first nine months of 2014 primarily due to increases in gains from partnership investments, fee and other income and guaranty fee income, partially offset by a decrease in credit-related income and an increase in other expenses.

Guaranty fee income increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 as loans with higher guaranty fees have become a larger part of our multifamily guaranty book of business, while loans with lower guaranty fees continue to liquidate.

Fee and other income increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 as a result of an increase in yield maintenance income driven by higher prepayment volumes in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014.

Credit-related income decreased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 primarily driven by lower gains on the disposition of REO properties and smaller improvements in the valuation of our individually impaired loans in the third quarter and first nine months of 2015.

Gains from partnership investments decreased in the third quarter of 2015 compared with the third quarter of 2014 primarily as a result of lower sales activity. Gains from partnership investments increased in the first nine months of 2015 compared with the first nine months of 2014 as a result of sales of investments in markets with strong multifamily fundamentals.

Other expenses increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 primarily as a result of the recognition of administrative expenses related to the settlement of our defined benefit pension plan obligations in the third quarter of 2015. Upon settlement of these obligations, we recognized actuarial losses previously recorded in "Accumulated other comprehensive income" as "Administrative expenses" in our condensed consolidated statements of operations and comprehensive income.

Multifamily new business volume increased in the first nine months of 2015 compared with the first nine months of 2014 driven by substantial growth in the overall multifamily market. FHFA's 2015 conservatorship scorecard includes an objective to maintain the dollar volume of new multifamily business at or below \$30 billion, excluding certain targeted business

segments. Approximately 68% of Fannie Mae’s multifamily new business volume of \$32.3 billion for the first nine months of 2015 counted towards FHFA’s 2015 multifamily volume cap.

### Capital Markets Group Results

Table 14 displays the financial results of our Capital Markets group. Following the table we discuss the Capital Markets group’s financial results and describe the Capital Markets group’s retained mortgage portfolio. For a discussion of the debt issued by the Capital Markets group to fund its investment activities, see “Liquidity and Capital Management.” For a discussion of the derivative instruments that the Capital Markets group uses to manage interest rate risk, see “MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management—Measurement of Interest Rate Risk” in our 2014 Form 10-K and “Note 9, Derivative Instruments” in this report and our 2014 Form 10-K. The primary sources of revenue for our Capital Markets group are net interest income and fee and other income. Other items that impact income or loss primarily include fair value gains and losses, investment gains and losses, as well as allocated guaranty fee expense and administrative expenses.

**Table 14: Capital Markets Group Results**

|  | For the Three Months Ended September 30, |                 |                   | For the Nine Months Ended September 30, |                 |                   |
|--|--|-----------------|-------------------|---|-----------------|-------------------|
|  | 2015                                     | 2014            | Variance          | 2015                                    | 2014            | Variance          |
|  | (Dollars in millions)                    |                 |                   |   |                 |                   |
| Net interest income <sup>(1)</sup>           | \$ 1,401                                 | \$ 1,845        | \$ (444)          | \$ 4,516                                | \$ 5,592        | \$ (1,076)        |
| Investment gains, net <sup>(2)</sup>         | 1,608                                    | 1,510           | 98                | 4,679                                   | 4,420           | 259               |
| Fair value losses, net <sup>(3)</sup>        | (2,697)                                  | (335)           | (2,362)           | (2,112)                                 | (2,770)         | 658               |
| Fee and other income                         | 83                                       | 579             | (496)             | 288                                     | 4,848           | (4,560)           |
| Other expenses <sup>(4)</sup>                | (405)                                    | (404)           | (1)               | (1,163)                                 | (1,235)         | 72                |
| Income (loss) before federal income taxes    | (10)                                     | 3,195           | (3,205)           | 6,208                                   | 10,855          | (4,647)           |
| Provision for federal income taxes           | (13)                                     | (913)           | 900               | (1,982)                                 | (3,189)         | 1,207             |
| Net income (loss) attributable to Fannie Mae | <u>\$ (23)</u>                           | <u>\$ 2,282</u> | <u>\$ (2,305)</u> | <u>\$ 4,226</u>                         | <u>\$ 7,666</u> | <u>\$ (3,440)</u> |

<sup>(1)</sup> Includes contractual interest income, excluding recoveries, on nonaccrual loans received from the Single-Family segment of \$480 million and \$627 million for the three months ended September 30, 2015 and 2014, respectively, and \$1.6 billion and \$2.0 billion for the nine months ended September 30, 2015 and 2014, respectively. The Capital Markets group’s net interest income is reported based on the mortgage-related assets held in the segment’s retained mortgage portfolio and excludes interest income on mortgage-related assets held by consolidated MBS trusts that are owned by third parties and the interest expense on the corresponding debt of such trusts.

<sup>(2)</sup> We include the securities that we own regardless of whether the trust has been consolidated in reporting of gains and losses on securitizations and sales of available-for-sale securities.

<sup>(3)</sup> Includes fair value gains (losses) on derivatives and trading securities that we own regardless of whether the trust has been consolidated.

<sup>(4)</sup> Includes allocated guaranty fee expense, debt extinguishment gains (losses), net, administrative expenses, and other expenses. Gains or losses related to the extinguishment of debt issued by consolidated trusts are excluded from the Capital Markets group’s results because purchases of securities are recognized as such.

Pre-tax income decreased in the third quarter of 2015 compared with the third quarter of 2014 primarily due to an increase in fair value losses and decreases in fee and other income and net interest income recognized in the third quarter of 2015 compared with the third quarter of 2014. Pre-tax income decreased in the first nine months of 2015 compared with the first nine months of 2014 primarily due to lower fee and other income and lower net interest income in the first nine months of 2015, partially offset by lower fair value losses in the first nine months of 2015 compared with the first nine months of 2014.

Fair value losses in the third quarter and first nine months of 2015 were primarily due to fair value losses on our risk management derivatives. The derivatives fair value gains and losses that are reported for the Capital Markets group are consistent with the amounts reported in our condensed consolidated statements of operations and comprehensive income. We discuss our derivatives fair value gains and losses in “Consolidated Results of Operations—Fair Value Losses, Net.”

The decrease in net interest income in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 was primarily due to a decline in the average balance of our retained mortgage portfolio as we continued

to reduce this portfolio pursuant to the requirements of our senior preferred stock purchase agreement with Treasury and FHFA's additional portfolio cap.

Fee and other income decreased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 due to a decrease in revenue recognized as a result of settlement agreements resolving certain lawsuits relating to PLS sold to us.

We supplement our issuance of debt securities with derivative instruments to further reduce interest rate risk. The effect of these derivatives, in particular the periodic net interest expense accruals on interest rate swaps, is not reflected in the Capital Markets group's net interest income but is included in our results as a component of "Fair value losses, net" and is displayed in "Table 6: Fair Value Losses, Net."

### ***The Capital Markets Group's Mortgage Portfolio***

The Capital Markets group's mortgage portfolio, which we also refer to as our retained mortgage portfolio, consists of mortgage loans and mortgage-related securities that we own. Mortgage-related securities held by the Capital Markets group include Fannie Mae MBS and non-Fannie Mae mortgage-related securities. The Fannie Mae MBS that we own are maintained as securities on the Capital Markets group's balance sheets. The portion of assets held by consolidated MBS trusts that back mortgage-related securities owned by third parties are not included in the Capital Markets group's mortgage portfolio.

The amount of mortgage assets that we may own is restricted by our senior preferred stock purchase agreement with Treasury. By December 31 of each year, we are required to reduce our mortgage assets to 85% of the maximum allowable amount that we were permitted to own as of December 31 of the immediately preceding calendar year, until the amount of our mortgage assets reaches \$250 billion in 2018. Under the agreement, the maximum allowable amount of mortgage assets we are permitted to own as of December 31, 2015 is \$399.2 billion.

In 2014, FHFA requested that we submit a revised portfolio plan outlining how we will reduce the portfolio each year to 90% of the annual limit under our senior preferred stock purchase agreement with Treasury. FHFA's request noted that we may seek FHFA permission to increase this cap up to 95% of the annual limit under our senior preferred stock purchase agreement with Treasury upon written request and with a documented basis for exception, such as changed market conditions. Accordingly, under our revised portfolio plan, we plan to reduce our mortgage portfolio to no more than \$359.3 billion as of December 31, 2015, in compliance with both our senior preferred stock purchase agreement with Treasury and FHFA's request.

As we continue to reduce the size of our retained mortgage portfolio, our revenues generated by our retained mortgage portfolio will continue to decrease. As of September 30, 2015, we owned \$370.5 billion in mortgage assets, compared with \$413.3 billion as of December 31, 2014. For additional information on the terms of the senior preferred stock purchase agreement with Treasury, see "Business—Conservatorship and Treasury Agreements—Treasury Agreements" in our 2014 Form 10-K.

Table 15 displays our Capital Markets group's mortgage portfolio activity based on unpaid principal balance.

**Table 15: Capital Markets Group's Mortgage Portfolio Activity**

|  | For the Three Months<br>Ended September 30, |                   | For the Nine Months<br>Ended September 30, |                   |
|--|---|-------------------|--|-------------------|
|  | 2015  | 2014              | 2015                                       | 2014              |
|  | (Dollars in millions)                       |                   |  |                   |
| Mortgage loans:                                  |   |                   |  |                   |
| Beginning balance                                | \$ 270,809                                  | \$ 298,683        | \$ 285,610                                 | \$ 314,664        |
| Purchases  | 52,118                                      | 42,021            | 158,126                                    | 109,267           |
| Securitizations <sup>(1)</sup>                   | (50,357)                                    | (35,481)          | (148,743)                                  | (92,622)          |
| Sales  | (1,888)                                     | —                 | (2,521)                                    | (1,879)           |
| Liquidations <sup>(2)</sup>                      | (10,694)                                    | (12,680)          | (32,484)                                   | (36,887)          |
| Mortgage loans, ending balance                   | <u>259,988</u>                              | <u>292,543</u>    | <u>259,988</u>                             | <u>292,543</u>    |
| Mortgage securities:                             |   |                   |  |                   |
| Beginning balance                                | 119,498                                     | 154,089           | 127,703                                    | 176,037           |
| Purchases <sup>(3)</sup>                         | 15,588                                      | 8,818             | 36,786                                     | 16,864            |
| Securitizations <sup>(1)</sup>                   | 50,357                                      | 35,481            | 148,743                                    | 92,622            |
| Sales  | (69,466)                                    | (45,992)          | (186,498)                                  | (119,079)         |
| Liquidations <sup>(2)</sup>                      | (5,515)                                     | (6,839)           | (16,272)                                   | (20,887)          |
| Mortgage securities, ending balance              | <u>110,462</u>                              | <u>145,557</u>    | <u>110,462</u>                             | <u>145,557</u>    |
| Total Capital Markets group's mortgage portfolio | <u>\$ 370,450</u>                           | <u>\$ 438,100</u> | <u>\$ 370,450</u>                          | <u>\$ 438,100</u> |

<sup>(1)</sup> Includes portfolio securitization transactions that do not qualify for sale treatment under GAAP.

<sup>(2)</sup> Includes scheduled repayments, prepayments, foreclosures, and lender repurchases.

<sup>(3)</sup> Includes purchases of Fannie Mae MBS issued by consolidated trusts.



Table 16 displays the composition of the unpaid principal balance of the Capital Markets group’s mortgage portfolio and our assessment of the liquidity of these assets. Our assessment is based on the liquidity within the markets in which the assets are traded, the issuers of the assets and the nature of the collateral underlying the assets. Our unsecuritized mortgage loans, PLS and other non-agency securities are considered less liquid. Fannie Mae securities that are collateralized by non-agency mortgage-related securities are also considered to be less liquid.

**Table 16: Capital Markets Group’s Mortgage Portfolio Composition**

|  | As of                 |             |            |                   |             |            |
|--|-----------------------|-------------|------------|-------------------|-------------|------------|
|  | September 30, 2015    |             |            | December 31, 2014 |             |            |
|  | More Liquid           | Less Liquid | Total      | More Liquid       | Less Liquid | Total      |
|  | (Dollars in millions) |             |            |                   |             |            |
| Mortgage loans:  |                       |             |            |                   |             |            |
| Single-family loans:                                       |                       |             |            |                   |             |            |
| Government insured or guaranteed . . . . .                 | \$ —                  | \$ 34,252   | \$ 34,252  | \$ —              | \$ 36,442   | \$ 36,442  |
| Conventional . . . . .                                     | —                     | 210,318     | 210,318    | —                 | 225,800     | 225,800    |
| Total single-family loans . . . . .                        | —                     | 244,570     | 244,570    | —                 | 262,242     | 262,242    |
| Multifamily loans:   |                       |             |            |                   |             |            |
| Government insured or guaranteed . . . . .                 | —                     | 233         | 233        | —                 | 243         | 243        |
| Conventional . . . . .                                     | —                     | 15,185      | 15,185     | —                 | 23,125      | 23,125     |
| Total multifamily loans . . . . .                          | —                     | 15,418      | 15,418     | —                 | 23,368      | 23,368     |
| Total mortgage loans . . . . .                             | —                     | 259,988     | 259,988    | —                 | 285,610     | 285,610    |
| Mortgage-related securities:                               |                       |             |            |                   |             |            |
| Fannie Mae . . . . .                                       | 73,838                | 11,722      | 85,560     | 80,377            | 12,442      | 92,819     |
| Freddie Mac . . . . .                                      | 5,621                 | —           | 5,621      | 6,368             | —           | 6,368      |
| Ginnie Mae . . . . .                                       | 694                   | —           | 694        | 572               | —           | 572        |
| Alt-A private-label securities . . . . .                   | —                     | 4,225       | 4,225      | —                 | 7,745       | 7,745      |
| Subprime private-label securities . . . . .                | —                     | 5,844       | 5,844      | —                 | 8,913       | 8,913      |
| Commercial mortgage-backed securities (“CMBS”) . . . . .   | —                     | 3,565       | 3,565      | —                 | 3,686       | 3,686      |
| Mortgage revenue bonds . . . . .                           | —                     | 3,391       | 3,391      | —                 | 4,556       | 4,556      |
| Other mortgage-related securities . . . . .                | —                     | 1,562       | 1,562      | —                 | 3,044       | 3,044      |
| Total mortgage-related securities <sup>(1)</sup> . . . . . | 80,153                | 30,309      | 110,462    | 87,317            | 40,386      | 127,703    |
| Total Capital Markets group’s mortgage portfolio . . . . . | \$ 80,153             | \$ 290,297  | \$ 370,450 | \$ 87,317         | \$ 325,996  | \$ 413,313 |

<sup>(1)</sup> The fair value of these mortgage-related securities was \$116.7 billion and \$133.5 billion as of September 30, 2015 and December 31, 2014, respectively.

The Capital Markets group’s mortgage portfolio decreased as of September 30, 2015 compared with December 31, 2014, as we reduce the size of our retained mortgage portfolio to comply with the requirement of our senior preferred stock purchase agreement with Treasury and FHFA’s request to further cap our portfolio.

As described in “Executive Summary—Helping to Build a Sustainable Housing Finance System,” we completed our first nonperforming loan sale in June 2015. From June 2015 to September 2015, we completed two nonperforming loan sales with an aggregate unpaid principal balance of \$1.2 billion, which reduced our less liquid assets as of September 30, 2015.

The loans we purchased in the first nine months of 2015 included \$9.7 billion in delinquent loans we purchased from our single-family MBS trusts. We expect to continue purchasing loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity and other factors, including the limit on the amount of mortgage assets that we may own pursuant to the senior preferred stock purchase agreement and FHFA's portfolio plan requirements. Table 17 displays the composition of loans restructured in a TDR that were on accrual status, loans on nonaccrual status and all other mortgage-related assets in our Capital Markets group's mortgage portfolio.

**Table 17: Capital Markets Group's Mortgage Portfolio**

|  | As of                    |                  |                          |                  |
|--|--------------------------|------------------|--------------------------|------------------|
|  | September 30, 2015       |                  | December 31, 2014        |                  |
|  | Unpaid Principal Balance | Percent of Total | Unpaid Principal Balance | Percent of Total |
|  | (Dollars in millions)    |                  |                          |                  |
| TDRs on accrual status . . . . .                           | \$ 139,424               | 38%              | \$ 140,828               | 34%              |
| Nonaccrual loans . . . . .                                 | 48,736                   | 13               | 58,597                   | 14               |
| All other mortgage-related assets . . . . .                | 182,290                  | 49               | 213,888                  | 52               |
| Total Capital Markets group's mortgage portfolio . . . . . | <u>\$ 370,450</u>        | <u>100%</u>      | <u>\$ 413,313</u>        | <u>100%</u>      |

## CONSOLIDATED BALANCE SHEET ANALYSIS

This section provides a discussion of our condensed consolidated balance sheets and should be read together with our condensed consolidated financial statements, including the accompanying notes.

**Table 18: Summary of Condensed Consolidated Balance Sheets**

|  | As of                 |                     |                    |
|--|-----------------------|---------------------|--------------------|
|  | September 30, 2015    | December 31, 2014   | Variance           |
|  | (Dollars in millions) |                     |                    |
| <b>Assets</b>  |                       |                     |                    |
| Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements . . . . . | \$ 46,515             | \$ 52,973           | \$ (6,458)         |
| Restricted cash . . . . .  | 30,281                | 32,542              | (2,261)            |
| Investments in securities <sup>(1)</sup> . . . . .   | 60,016                | 62,158              | (2,142)            |
| Mortgage loans:  |                       |                     |                    |
| Of Fannie Mae . . . . .  | 244,978               | 272,666             | (27,688)           |
| Of consolidated trusts . . . . .   | 2,804,613             | 2,782,369           | 22,244             |
| Allowance for loan losses . . . . .  | (29,135)              | (35,541)            | 6,406              |
| Mortgage loans, net of allowance for loan losses . . . . .   | <u>3,020,456</u>      | <u>3,019,494</u>    | <u>962</u>         |
| Deferred tax assets, net . . . . .   | 39,012                | 42,206              | (3,194)            |
| Other assets . . . . .   | 34,502                | 38,803              | (4,301)            |
| Total assets . . . . .   | <u>\$ 3,230,782</u>   | <u>\$ 3,248,176</u> | <u>\$ (17,394)</u> |
| <b>Liabilities and equity</b>  |                       |                     |                    |
| Debt:  |                       |                     |                    |
| Of Fannie Mae . . . . .  | \$ 417,458            | \$ 460,443          | \$ (42,985)        |
| Of consolidated trusts . . . . .   | 2,788,787             | 2,761,712           | 27,075             |
| Other liabilities . . . . .  | 20,534                | 22,301              | (1,767)            |
| Total liabilities . . . . .  | <u>3,226,779</u>      | <u>3,244,456</u>    | <u>(17,677)</u>    |
| Total equity . . . . .   | 4,003                 | 3,720               | 283                |
| Total liabilities and equity . . . . .   | <u>\$ 3,230,782</u>   | <u>\$ 3,248,176</u> | <u>\$ (17,394)</u> |

<sup>(1)</sup> Includes \$27.0 billion as of September 30, 2015 and \$19.5 billion as of December 31, 2014 of U.S. Treasury securities that are included in our other investments portfolio, which we present in “Table 22: Cash and Other Investments Portfolio.”

### Cash and Other Investments Portfolio

Our cash and other investments portfolio consists of cash and cash equivalents, securities purchased under agreements to resell or similar arrangements, and investments in U.S. Treasury securities. See “Liquidity and Capital Management—Liquidity Management—Cash and Other Investments Portfolio” for additional information on our cash and other investments portfolio.

### Investments in Mortgage-Related Securities

Our investments in mortgage-related securities are classified in our condensed consolidated balance sheets as either trading or available-for-sale and are measured at fair value. Table 19 displays the fair value of our investments in mortgage-related securities, including trading and available-for-sale securities. We classify PLS as Alt-A, subprime or commercial mortgage-backed securities (“CMBS”) if the securities were labeled as such when issued. We have also invested in subprime private-label mortgage-related securities that we have resecuritized to include our guaranty (which we refer to as “wraps”).

**Table 19: Summary of Mortgage-Related Securities at Fair Value**

|   | As of                 |                      |
|---|-----------------------|----------------------|
|   | September 30,<br>2015 | December<br>31, 2014 |
| (Dollars in millions)                       |                       |                      |
| Mortgage-related securities:                |                       |                      |
| Fannie Mae . . . . .                        | \$ 9,379              | \$ 10,579            |
| Freddie Mac . . . . .                       | 6,073                 | 6,897                |
| Ginnie Mae . . . . .                        | 766                   | 642                  |
| Alt-A private-label securities . . . . .    | 3,800                 | 6,598                |
| Subprime private-label securities . . . . . | 4,373                 | 6,547                |
| CMBS . . . . .                              | 3,707                 | 3,912                |
| Mortgage revenue bonds . . . . .            | 3,512                 | 4,745                |
| Other mortgage-related securities . . . . . | 1,445                 | 2,772                |
| Total . . . . .                             | <u>\$ 33,055</u>      | <u>\$ 42,692</u>     |

The decrease in mortgage-related securities at fair value from December 31, 2014 to September 30, 2015 was primarily driven by sales of PLS and mortgage revenue bonds in the first nine months of 2015.

### Mortgage Loans

The decrease in mortgage loans from December 31, 2014 to September 30, 2015 was primarily due to liquidations outpacing acquisition volumes. For additional information on our mortgage loans, see “Note 3, Mortgage Loans.” For additional information on the mortgage loan purchase and sale activities reported by our Capital Markets group, see “Business Segment Results—Capital Markets Group Results.”

The decrease in our allowance for loan losses from December 31, 2014 to September 30, 2015 was primarily driven by our approach to adopting the charge-off provisions of the Advisory Bulletin on January 1, 2015, liquidations of mortgage loans and improvement in home prices, which was partially offset by an increase in mortgage interest rates. See “Note 1, Summary of Significant Accounting Policies” for additional information.

### Debt

Debt of Fannie Mae is the primary means of funding our mortgage investments. The decrease in debt of Fannie Mae from December 31, 2014 to September 30, 2015 was primarily driven by lower funding needs, as our retained mortgage portfolio decreased. We provide a summary of the activity of the debt of Fannie Mae and a comparison of the mix between our outstanding short-term and long-term debt in “Liquidity and Capital Management—Liquidity Management—Debt Funding.” Also see “Note 8, Short-Term Borrowings and Long-Term Debt” for additional information on our outstanding debt.

Debt of consolidated trusts represents the amount of Fannie Mae MBS issued from consolidated trusts and held by third-party certificateholders. The increase in debt of consolidated trusts from December 31, 2014 to September 30, 2015 was primarily driven by sales of Fannie Mae MBS, which are accounted for as reissuances of debt of consolidated trusts in our condensed consolidated balance sheets, since the MBS certificate ownership is transferred from us to a third party.

### **Total Equity**

Total equity increased as of September 30, 2015 compared with December 31, 2014 due to our comprehensive income recognized during the first nine months of 2015, partially offset by our payments of senior preferred stock dividends to Treasury during the first nine months of 2015.

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## **LIQUIDITY AND CAPITAL MANAGEMENT**

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### **Liquidity Management**

Our business activities require that we maintain adequate liquidity to fund our operations. Our liquidity risk management framework is designed to address our liquidity risk. Liquidity risk is the risk that we will not be able to meet our funding obligations in a timely manner. Liquidity risk management involves forecasting funding requirements, maintaining sufficient capacity to meet our needs based on our ongoing assessment of financial market liquidity and adhering to our regulatory requirements.

Our treasury function is responsible for implementing our liquidity and contingency planning strategies. We hold a portfolio of highly liquid investments and maintain access to alternative sources of liquidity which are designed to provide near term availability of cash in the event that our access to the debt markets becomes limited. While our liquidity contingency planning attempts to address stressed market conditions, we believe that our liquidity contingency plan may be difficult or impossible to execute for a company of our size and in our circumstances.

Our liquidity position could be adversely affected by many factors, both internal and external to our business, including: actions taken by our conservator, the Federal Reserve, U.S. Treasury or other government agencies; legislation relating to us or our business; a U.S. government payment default on its debt obligations; a downgrade in the credit ratings of our senior unsecured debt or the U.S. government's debt from the major ratings organizations; a systemic event leading to the withdrawal of liquidity from the market; an extreme market-wide widening of credit spreads; public statements by key policy makers; a significant decline in our net worth; potential investor concerns about the adequacy of funding available to us under the senior preferred stock purchase agreement; loss of demand for our debt, or certain types of our debt, from a major group of investors; a significant credit event involving one of our major institutional counterparties; a sudden catastrophic operational failure in the financial sector; or elimination of our GSE status.

This section supplements and updates information regarding liquidity risk management contained in our 2014 Form 10-K. See "MD&A—Liquidity and Capital Management—Liquidity Management" and "Risk Factors" in our 2014 Form 10-K for additional information, including discussions of our primary sources and uses of funds, our liquidity risk management practices and liquidity contingency planning, factors that influence our debt funding activity, factors that may impact our access to or the cost of our debt funding, and factors that could adversely affect our liquidity.

### ***Debt Funding***

We fund our business primarily through the issuance of short-term and long-term debt securities in the domestic and international capital markets. Because debt issuance is our primary funding source, we are subject to "roll over," or refinancing, risk on our outstanding debt.

Our debt funding needs and debt funding activity may vary from quarter to quarter depending on market conditions and are influenced by anticipated liquidity needs, the size of our retained mortgage portfolio and our dividend payment obligations to Treasury. See "Business Segment Results—Capital Markets Group Results—The Capital Markets Group's Mortgage Portfolio" for information about our retained mortgage portfolio, our requirement to reduce the size of our retained mortgage portfolio and our portfolio reduction plan.

### ***Fannie Mae Debt Funding Activity***

Table 20 displays the activity in debt of Fannie Mae. This activity excludes the debt of consolidated trusts and intraday loans. The reported amounts of debt issued and paid off during the period represent the face amount of the debt at issuance and redemption, respectively. Activity for short-term debt of Fannie Mae relates to borrowings with an original contractual

maturity of one year or less while activity for long-term debt of Fannie Mae relates to borrowings with an original contractual maturity of greater than one year.

**Table 20: Activity in Debt of Fannie Mae**

|  | For the Three Months<br>Ended September 30, |           | For the Nine Months<br>Ended September 30, |            |
|--|---|-----------|--|------------|
|  | 2015  | 2014      | 2015                                       | 2014       |
| (Dollars in millions)                      |   |           |  |            |
| Issued during the period:                  |   |           |  |            |
| Short-term:                                |   |           |  |            |
| Amount                                     | \$ 60,880                                   | \$ 66,584 | \$ 156,658                                 | \$ 161,296 |
| Weighted-average interest rate             | 0.19%                                       | 0.10%     | 0.14%                                      | 0.08%      |
| Long-term: <sup>(1)</sup>                  |   |           |  |            |
| Amount                                     | \$ 14,486                                   | \$ 18,821 | \$ 47,727                                  | \$ 31,981  |
| Weighted-average interest rate             | 1.24%                                       | 2.00%     | 1.50%                                      | 1.90%      |
| Total issued:                              |   |           |  |            |
| Amount                                     | \$ 75,366                                   | \$ 85,405 | \$ 204,385                                 | \$ 193,277 |
| Weighted-average interest rate             | 0.39%                                       | 0.52%     | 0.46%                                      | 0.38%      |
| Paid off during the period: <sup>(2)</sup> |   |           |  |            |
| Short-term:                                |   |           |  |            |
| Amount                                     | \$ 46,660                                   | \$ 60,098 | \$ 166,148                                 | \$ 136,196 |
| Weighted-average interest rate             | 0.11%                                       | 0.09%     | 0.09%                                      | 0.09%      |
| Long-term:                                 |   |           |  |            |
| Amount                                     | \$ 36,293                                   | \$ 27,793 | \$ 81,723                                  | \$ 112,192 |
| Weighted-average interest rate             | 1.25%                                       | 1.85%     | 1.29%                                      | 1.80%      |
| Total paid off:                            |   |           |  |            |
| Amount                                     | \$ 82,953                                   | \$ 87,891 | \$ 247,871                                 | \$ 248,388 |
| Weighted-average interest rate             | 0.61%                                       | 0.65%     | 0.48%                                      | 0.86%      |

<sup>(1)</sup> Includes credit risk-sharing securities issued under our CAS series. For additional information on our credit risk-sharing transactions, see “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards—Risk-Sharing Transactions.”

<sup>(2)</sup> Consists of all payments on debt, including regularly scheduled principal payments, payments at maturity, payments resulting from calls and payments for any other repurchases. Repurchases of debt and early retirements of zero-coupon debt are reported at original face value, which does not equal the amount of actual cash payment.

### Outstanding Debt

Total outstanding debt of Fannie Mae includes short-term and long-term debt, excluding debt of consolidated trusts. Short-term debt of Fannie Mae consists of borrowings with an original contractual maturity of one year or less and, therefore, does not include the current portion of long-term debt. Long-term debt of Fannie Mae consists of borrowings with an original contractual maturity of greater than one year.

Pursuant to the terms of the senior preferred stock purchase agreement, we are prohibited from issuing debt without the prior consent of Treasury if it would result in our aggregate indebtedness exceeding our outstanding debt limit, which is 120% of the amount of mortgage assets we were allowed to own under the senior preferred stock purchase agreement on December 31 of the immediately preceding calendar year. Our debt limit under the senior preferred stock purchase agreement was reduced to \$563.6 billion in 2015. As of September 30, 2015, our aggregate indebtedness totaled \$420.9 billion, which was \$142.7 billion below our debt limit. The calculation of our indebtedness for purposes of complying with our debt limit reflects the unpaid principal balance and excludes debt basis adjustments and debt of consolidated trusts. Because of our debt limit, we may be restricted in the amount of debt we issue to fund our operations.

Table 21 displays information on our outstanding short-term and long-term debt based on its original contractual terms.

**Table 21: Outstanding Short-Term Borrowings and Long-Term Debt<sup>(1)</sup>**

|   | As of              |              |                                |                   |              |                                |
|---|--------------------|--------------|--------------------------------|-------------------|--------------|--------------------------------|
|   | September 30, 2015 |              |                                | December 31, 2014 |              |                                |
|   | Maturities         | Outstanding  | Weighted-Average Interest Rate | Maturities        | Outstanding  | Weighted-Average Interest Rate |
|   |                    |              | (Dollars in millions)          |                   |              |                                |
| Federal funds purchased and securities sold under agreements to repurchase <sup>(2)</sup> | —                  | \$ 118       | —%                             | —                 | \$ 50        | —%                             |
| Short-term debt of Fannie Mae   | —                  | \$ 95,427    | 0.21%                          | —                 | \$ 105,012   | 0.11%                          |
| Debt of consolidated trusts   | —                  | 1,391        | 0.15                           | —                 | 1,560        | 0.09                           |
| Total short-term debt   |                    | \$ 96,818    | 0.20%                          |                   | \$ 106,572   | 0.11%                          |
| Long-term debt:   |                    |              |                                |                   |              |                                |
| Senior fixed:   |                    |              |                                |                   |              |                                |
| Benchmark notes and bonds   | 2015 - 2030        | \$ 159,550   | 2.51%                          | 2015 - 2030       | \$ 173,010   | 2.41%                          |
| Medium-term notes <sup>(3)</sup>  | 2015 - 2025        | 100,682      | 1.49                           | 2015 - 2024       | 114,556      | 1.42                           |
| Foreign exchange bonds  | 2021 - 2028        | 570          | 5.39                           | 2021 - 2028       | 619          | 5.44                           |
| Other   | 2015 - 2038        | 27,797       | 4.83                           | 2015 - 2038       | 32,322       | 4.63                           |
| Total senior fixed  |                    | 288,599      | 2.39                           |                   | 320,507      | 2.29                           |
| Senior floating:  |                    |              |                                |                   |              |                                |
| Medium-term notes <sup>(3)</sup>  | 2015 - 2019        | 19,164       | 0.22                           | 2015 - 2019       | 24,469       | 0.15                           |
| Connecticut Avenue Securities <sup>(4)</sup>  | 2023 - 2025        | 9,607        | 3.39                           | 2023 - 2024       | 6,041        | 2.97                           |
| Other <sup>(5)</sup>  | 2020 - 2037        | 369          | 8.25                           | 2020 - 2037       | 363          | 8.71                           |
| Total senior floating   |                    | 29,140       | 1.36                           |                   | 30,873       | 0.81                           |
| Subordinated debentures   | 2019               | 4,129        | 9.93                           | 2019              | 3,849        | 9.93                           |
| Secured borrowings <sup>(6)</sup>   | 2021 - 2022        | 163          | 1.35                           | 2021 - 2022       | 202          | 1.90                           |
| Total long-term debt of Fannie Mae  |                    | 322,031      | 2.39                           |                   | 355,431      | 2.24                           |
| Debt of consolidated trusts <sup>(5)</sup>  | 2015 - 2054        | 2,787,396    | 2.91                           | 2015 - 2054       | 2,760,152    | 3.02                           |
| Total long-term debt  |                    | \$ 3,109,427 | 2.85%                          |                   | \$ 3,115,583 | 2.93%                          |
| Outstanding callable debt of Fannie Mae <sup>(7)</sup>                                    |                    | \$ 97,544    | 1.85%                          |                   | \$ 114,990   | 1.79%                          |

(1) Outstanding debt amounts and weighted-average interest rates reported in this table include the effects of discounts, premiums and other cost basis adjustments. Reported outstanding amounts include fair value gains and losses associated with debt that we elected to carry at fair value. Reported amounts for total debt of Fannie Mae include unamortized discounts and premiums, other cost basis adjustments and fair value adjustments of \$3.5 billion and \$4.1 billion as of September 30, 2015 and December 31, 2014, respectively. The unpaid principal balance of outstanding debt of Fannie Mae, which excludes unamortized discounts, premiums and other cost basis adjustments, and debt of consolidated trusts, totaled \$421.0 billion and \$464.6 billion as of September 30, 2015 and December 31, 2014, respectively.

(2) Represents agreements to repurchase securities for a specified price, with repayment generally occurring on the following day.

(3) Includes long-term debt with an original contractual maturity of greater than 1 year and up to 10 years, excluding zero-coupon debt.

(4) Credit risk-sharing securities that transfer a portion of the credit risk on specified pools of mortgage loans in our single-family guaranty book of business to the investors in these securities. Connecticut Avenue Securities are reported at fair value. For additional information on our credit risk-sharing transactions, see “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards—Risk-Sharing Transactions.”

(5) Includes a portion of structured debt instruments that is reported at fair value.

(6) Represents remaining liability resulting from the transfer of financial assets from our condensed consolidated balance sheets that did not qualify as a sale.

(7) Consists of the unpaid principal balance of long-term callable debt of Fannie Mae that can be paid off in whole or in part at our option at any time on or after a specified date.

Maturity Profile of Outstanding Debt of Fannie Mae

Our outstanding short-term debt, as a percentage of our total outstanding debt, was 23% as of September 30, 2015 and December 31, 2014. The weighted-average interest rate on our long-term debt increased to 2.39% as of September 30, 2015 from 2.24% as of December 31, 2014.

Our outstanding debt maturing within one year, including the current portion of our long-term debt and amounts we have announced for early redemption, as a percentage of our total outstanding debt, excluding debt of consolidated trusts, was 37% as of September 30, 2015 and December 31, 2014. The weighted-average maturity of our outstanding debt that is maturing within one year was 126 days as of September 30, 2015, compared with 131 days as of December 31, 2014. The weighted-average maturity of our outstanding debt maturing in more than one year was approximately 58 months as of September 30, 2015, compared with approximately 61 months as of December 31, 2014. We intend to repay our short-term and long-term debt obligations as they become due primarily through proceeds from the issuance of additional debt securities. We also may use proceeds from our mortgage assets to pay our debt obligations.

**Cash and Other Investments Portfolio**

Table 22 displays information on the composition of our cash and other investments portfolio. The balance of our cash and other investments portfolio fluctuates based on changes in our cash flows, overall liquidity in the fixed income markets and our liquidity risk management policies and practices. See “Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Counterparty Credit Exposure of Investments Held in our Cash and Other Investments Portfolio” for additional information on the risks associated with the assets in our cash and other investments portfolio.

**Table 22: Cash and Other Investments Portfolio**

|  | As of                 |                      |
|--|-----------------------|----------------------|
|  | September 30,<br>2015 | December 31,<br>2014 |
|  | (Dollars in millions) |                      |
| Cash and cash equivalents . . . . .  | \$ 19,915             | \$ 22,023            |
| Federal funds sold and securities purchased under agreements to resell or similar arrangements . . . . . | 26,600                | 30,950               |
| U.S. Treasury securities . . . . .   | 26,961                | 19,466               |
| Total cash and other investments . . . . .   | <u>\$ 73,476</u>      | <u>\$ 72,439</u>     |

**Credit Ratings**

As of September 30, 2015, our credit ratings have not changed since we filed our 2014 Form 10-K. For additional information on our credit ratings, see “MD&A—Liquidity and Capital Management—Fannie Mae Credit Ratings” in our 2014 Form 10-K.

**Cash Flows**

Nine Months Ended September 30, 2015. Cash and cash equivalents decreased by \$2.1 billion from \$22.0 billion as of December 31, 2014 to \$19.9 billion as of September 30, 2015. The decrease was primarily driven by cash outflows from (1) the redemption of funding debt, which outpaced issuances, due to lower funding needs, (2) the acquisition of delinquent loans out of MBS trusts and (3) the payment of dividends to Treasury under our senior preferred stock purchase agreement.

Partially offsetting these cash outflows were cash inflows from (1) proceeds from repayment of loans of Fannie Mae, (2) the sale of Fannie Mae MBS to third parties, (3) the sale of our acquired property and (4) proceeds from the sale and liquidation of mortgage-related securities.

Nine Months Ended September 30, 2014. Cash and cash equivalents decreased by \$2.9 billion from \$19.2 billion as of December 31, 2013 to \$16.3 billion as of September 30, 2014. The decrease was primarily driven by cash outflows from (1) the redemption of funding debt, which outpaced issuances, due to lower funding needs, (2) the payment of dividends to Treasury under our senior preferred stock purchase agreement and (3) the acquisition of delinquent loans out of MBS trusts.

Partially offsetting these cash outflows were cash inflows from (1) the sale of Fannie Mae MBS to third parties, (2) proceeds from repayments of loans of Fannie Mae, (3) the sale of our acquired property, (4) proceeds from the sale and liquidation of mortgage-related securities and (5) proceeds from resolution and settlement agreements related to PLS matters.

## **Capital Management**

### ***Regulatory Capital***

FHFA has announced that, during the conservatorship, our existing statutory and FHFA-directed regulatory capital requirements will not be binding and that FHFA will not issue quarterly capital classifications. We submit capital reports to FHFA and FHFA monitors our capital levels. The deficit of our core capital over statutory minimum capital was \$140.6 billion as of September 30, 2015 and \$142.2 billion as of December 31, 2014.

Under the terms of the senior preferred stock, we are required to pay Treasury each quarter a dividend, when, as and if declared, equal to the excess of our net worth as of the end of the preceding quarter over an applicable capital reserve amount. Therefore, we do not expect to eliminate our deficit of core capital over statutory minimum capital. We expect to pay Treasury a dividend of \$2.2 billion by December 31, 2015.

### ***Senior Preferred Stock Purchase Agreement***

As a result of the covenants under the senior preferred stock purchase agreement, Treasury's ownership of the warrant to purchase up to 79.9% of the total shares of our common stock outstanding and the significant uncertainty regarding our future, we effectively no longer have access to equity funding except through draws under the senior preferred stock purchase agreement.

Under the senior preferred stock purchase agreement, Treasury made a commitment to provide funding, under certain conditions, to eliminate deficiencies in our net worth. We have received a total of \$116.1 billion from Treasury pursuant to the senior preferred stock purchase agreement as of September 30, 2015. The aggregate liquidation preference of the senior preferred stock, including the initial aggregate liquidation preference of \$1.0 billion, remains at \$117.1 billion.

While we had a positive net worth as of September 30, 2015 and have not received funds from Treasury under the agreement since the first quarter of 2012, we will be required to obtain additional funding from Treasury pursuant to the senior preferred stock purchase agreement if we have a net worth deficit in future periods. As of the date of this filing, the amount of remaining available funding under the senior preferred stock purchase agreement is \$117.6 billion. If we draw additional funds from Treasury under the agreement in a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement. For additional information, see "Business—Conservatorship and Treasury Agreements—Treasury Agreements—Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant—Senior Preferred Stock Purchase Agreement" in our 2014 Form 10-K.

Our third quarter 2015 dividend of \$4.4 billion was declared by FHFA and subsequently paid by us on September 30, 2015. For each dividend period from January 1, 2013 through and including December 31, 2017, when, as and if declared, the dividend amount will be the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. The capital reserve amount is \$1.8 billion for dividend periods in 2015 and will continue to be reduced by \$600 million each year until it reaches zero on January 1, 2018. For each dividend period beginning in 2018, the dividend amount will be the entire amount of our net worth, if any, as of the end of the immediately preceding fiscal quarter. Based on the terms of the senior preferred stock, we expect to pay Treasury a dividend for the fourth quarter of 2015 of \$2.2 billion by December 31, 2015. The Director of FHFA directs us to make dividend payments on the senior preferred stock on a quarterly basis.

See "Risk Factors" in our 2014 Form 10-K for a discussion of the risks relating to our dividend obligations to Treasury on the senior preferred stock. See "Business—Conservatorship and Treasury Agreements—Treasury Agreements" in our 2014 Form 10-K for more information on the terms of the senior preferred stock and our senior preferred stock purchase agreement with Treasury.

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## **OFF-BALANCE SHEET ARRANGEMENTS**

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Our maximum potential exposure to credit losses relating to our outstanding and unconsolidated Fannie Mae MBS and other financial guarantees is primarily represented by the unpaid principal balance of the mortgage loans underlying outstanding



and unconsolidated Fannie Mae MBS and other financial guarantees of \$28.3 billion as of September 30, 2015 and \$31.7 billion as of December 31, 2014.

For a description of our off-balance sheet arrangements, see “MD&A—Off-Balance Sheet Arrangements” in our 2014 Form 10-K.

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## **RISK MANAGEMENT**

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Our business activities expose us to the following three major categories of financial risk: credit risk, market risk (including interest rate and liquidity risk) and operational risk. We actively monitor and manage these risks by using an established risk management framework. In addition to our exposure to credit, market and operational risks, there is significant uncertainty regarding the future of our company, including how long we will continue to be in existence, which we discuss in more detail in “Risk Factors” and “Legislative and Regulatory Developments—Housing Finance Reform” in this report and in “Business—Housing Finance Reform” in our 2014 Form 10-K. This uncertainty, along with limitations on our employee compensation arising from our conservatorship, could affect our ability to retain and hire qualified employees.

We are also subject to a number of other risks that could adversely impact our business, financial condition, earnings and cash flow, including human capital, model, legal, regulatory and compliance, reputational, strategic and execution risks. These risks may arise due to a failure to comply with laws, regulations or ethical standards and codes of conduct applicable to our business activities and functions.

In this section we provide an update on our management of our major risk categories. For a more complete discussion of the primary risks we face and how we manage credit risk, market risk and operational risk, see “MD&A—Risk Management” in our 2014 Form 10-K and “Risk Factors” in this report and our 2014 Form 10-K.

### **Credit Risk Management**

We are generally subject to two types of credit risk: mortgage credit risk and institutional counterparty credit risk. Mortgage credit risk is the risk that a borrower will fail to make required mortgage payments. Institutional counterparty credit risk is the risk that our institutional counterparties may fail to fulfill their contractual obligations to us.

#### ***Mortgage Credit Risk Management***

We are exposed to credit risk on our mortgage credit book of business because we either hold mortgage assets, have issued a guaranty in connection with the creation of Fannie Mae MBS backed by mortgage assets or provided other credit enhancements on mortgage assets. While our mortgage credit book of business includes all of our mortgage-related assets, both on- and off-balance sheet, our guaranty book of business excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty. We provide information on the performance of non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio, including the impairment that we have recognized on these securities, in “Note 5, Investments in Securities.”

#### ***Mortgage Credit Book of Business***

Table 23 displays the composition of our mortgage credit book of business based on unpaid principal balance. Our single-family mortgage credit book of business accounted for 93% of our mortgage credit book of business as of September 30, 2015 and December 31, 2014.

**Table 23: Composition of Mortgage Credit Book of Business**

|   | As of                      |                          |                            |                            |                          |                            |
|---|----------------------------|--------------------------|----------------------------|----------------------------|--------------------------|----------------------------|
|   | September 30, 2015         |                          |                            | December 31, 2014          |                          |                            |
|   | Single-Family              | Multifamily              | Total                      | Single-Family              | Multifamily              | Total                      |
|   | (Dollars in millions)      |                          |                            |                            |                          |                            |
| Mortgage loans and Fannie Mae MBS <sup>(1)</sup>                    | \$ 2,820,782               | \$ 196,805               | \$ 3,017,587               | \$ 2,837,211               | \$ 187,300               | \$ 3,024,511               |
| Unconsolidated Fannie Mae MBS, held by third parties <sup>(2)</sup> | 10,266                     | 1,239                    | 11,505                     | 11,660                     | 1,267                    | 12,927                     |
| Other credit guarantees <sup>(3)</sup>                              | 2,764                      | 14,019                   | 16,783                     | 4,033                      | 14,748                   | 18,781                     |
| Guaranty book of business   | <u>\$ 2,833,812</u>        | <u>\$ 212,063</u>        | <u>\$ 3,045,875</u>        | <u>\$ 2,852,904</u>        | <u>\$ 203,315</u>        | <u>\$ 3,056,219</u>        |
| Agency mortgage-related securities <sup>(4)</sup>                   | 6,307                      | 8                        | 6,315                      | 6,932                      | 8                        | 6,940                      |
| Other mortgage-related securities <sup>(5)</sup>                    | 11,799                     | 6,788                    | 18,587                     | 19,973                     | 7,970                    | 27,943                     |
| Mortgage credit book of business                                    | <u><u>\$ 2,851,918</u></u> | <u><u>\$ 218,859</u></u> | <u><u>\$ 3,070,777</u></u> | <u><u>\$ 2,879,809</u></u> | <u><u>\$ 211,293</u></u> | <u><u>\$ 3,091,102</u></u> |

**Guaranty Book of Business Detail:**

|   |              |            |              |              |            |              |
|---|--------------|------------|--------------|--------------|------------|--------------|
| Conventional Guaranty Book of Business <sup>(6)</sup> | \$ 2,780,904 | \$ 210,601 | \$ 2,991,505 | \$ 2,795,666 | \$ 201,763 | \$ 2,997,429 |
| Government Guaranty Book of Business <sup>(7)</sup>   | \$ 52,908    | \$ 1,462   | \$ 54,370    | \$ 57,238    | \$ 1,552   | \$ 58,790    |

(1) Consists of mortgage loans and Fannie Mae MBS recognized in our condensed consolidated balance sheets. The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

(2) The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

(3) Consists of single-family and multifamily credit enhancements that we have provided and that are not otherwise reflected in the table.

(4) Consists of mortgage-related securities issued by Freddie Mac and Ginnie Mae.

(5) Primarily includes mortgage revenue bonds, Alt-A and subprime PLS and CMBS.

(6) Refers to mortgage loans and mortgage-related securities that are not guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies.

(7) Refers to mortgage loans and mortgage-related securities guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies.

The 2008 Reform Act requires us to set aside each year an amount equal to 4.2 basis points for each dollar of the unpaid principal balance of our total new business purchases to fund the U.S. Department of Housing and Urban Development's Housing Trust Fund and Treasury's Capital Magnet Fund. New business purchases consist of single-family and multifamily whole mortgage loans purchased during the period and single-family and multifamily mortgage loans underlying Fannie Mae MBS issued during the period pursuant to lender swaps. New business purchases were \$399.7 billion in the first nine months of 2015. We recognized an expense of \$168 million related to this obligation in the first nine months of 2015 and we expect to pay these funds, plus additional amounts to be accrued based on our new business purchases in the last three months of 2015, in February 2016. See "Business—Our Charter and Regulation of Our Activities—The GSE Act—Affordable Housing Allocations" in our 2014 Form 10-K for more information regarding this obligation.

In the following sections, we discuss the mortgage credit risk of the single-family and multifamily loans in our guaranty book of business. The credit statistics reported below, unless otherwise noted, pertain generally to the portion of our guaranty book of business for which we have access to detailed loan-level information, which constituted approximately 99% of each of our single-family conventional guaranty book of business and our multifamily guaranty book of business, excluding defeased loans, as of September 30, 2015 and December 31, 2014. We typically obtain this data from the sellers or servicers of the mortgage loans in our guaranty book of business and receive representations and warranties from them as to the accuracy of the information. While we perform various quality assurance checks by sampling loans to assess compliance with our underwriting and eligibility criteria, we do not independently verify all reported information and we rely on lender representations regarding the accuracy of the characteristics of loans in our guaranty book of business. See "Risk Factors" in our 2014 Form 10-K for a discussion of the risk that we could experience mortgage fraud as a result of this reliance on lender representations.

### ***Single-Family Mortgage Credit Risk Management***

Our strategy in managing single-family mortgage credit risk consists of four primary components: (1) our acquisition and servicing policies along with our underwriting and servicing standards, including the use of credit enhancements; (2) portfolio diversification and monitoring; (3) management of problem loans; and (4) REO management. These approaches may increase our expenses and may not be effective in reducing our credit-related expense or credit losses. We provide information on our credit-related income and credit losses in “Consolidated Results of Operations—Credit-Related Income (Expense).” For information on how we evaluate and factors that affect our single-family mortgage credit risk, see “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management” in our 2014 Form 10-K.

The single-family credit statistics we focus on and report in the sections below generally relate to our single-family conventional guaranty book of business, which represents the substantial majority of our total single-family guaranty book of business.

### ***Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards***

Our Single-Family business, with the oversight of our Enterprise Risk Management division, is responsible for pricing and managing credit risk relating to the portion of our single-family mortgage credit book of business consisting of single-family mortgage loans and Fannie Mae MBS backed by single-family mortgage loans (whether held in our portfolio or held by third parties). Desktop Underwriter, our proprietary automated underwriting system which measures credit risk by assessing the primary risk factors of a mortgage, is used to evaluate the majority of the loans we purchase or securitize.

We are undertaking various initiatives to better serve our customers’ needs and improve our business efficiency. As part of these initiatives, we have implemented or will be implementing a number of changes in 2015 that are designed to help our customers originate mortgages with increased certainty, efficiency and lower cost, including the following:

- in January 2015, we made Collateral Underwriter available at no cost to lenders, giving them access to the same appraisal review tool we use so that they can address potential appraisal issues prior to delivering a loan to us;
- in April 2015, we integrated Collateral Underwriter with Desktop Underwriter, which we believe will enhance our lenders’ risk management and underwriting capabilities;
- effective June 2015, we no longer charge customers for using our Desktop Underwriter and Desktop Originator systems, which we expect will allow more lenders to access these systems in their underwriting process;
- in October 2015, we enhanced our Early Check loan verification tool with additional loan-level data integrity capabilities, to give lenders confidence that the loans they deliver to us meet our requirements; and
- in the fourth quarter of 2015, we expect to make available a new loan delivery platform for lenders that is designed to help lenders deliver loans more efficiently and with greater transparency and certainty.

For information on our single-family acquisition and servicing policies and on our underwriting and servicing standards, see “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards” in our 2014 Form 10-K.

Table 24 below displays information regarding the credit characteristics of the loans in our single-family conventional guaranty book of business by acquisition period.

**Table 24: Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period**

|  | As of September 30, 2015   |   |  |   |
|--|--|---|--|---|
|  | % of Single-Family Conventional Guaranty Book of Business <sup>(1)</sup> | Current Estimated Mark-to-Market LTV Ratio <sup>(2)</sup> | Current Estimated Mark-to-Market LTV Ratio > 100% <sup>(3)</sup> | Serious Delinquency Rate <sup>(4)</sup> |
| 2009-2015 acquisitions, excluding HARP and other Refi Plus loans | 65 %   | 58 %  | * %  | 0.22 %                                  |
| HARP loans <sup>(5)</sup>  | 10   | 81  | 14   | 1.10                                    |
| Other Refi Plus loans <sup>(6)</sup>                             | 8  | 48  | *  | 0.39                                    |
| 2005-2008 acquisitions   | 11   | 77  | 17   | 7.43                                    |
| 2004 and prior acquisitions                                      | 6  | 45  | 1  | 3.10                                    |
| Total single-family book of business                             | <u>100 %</u>   | 61 %  | 3 %  | 1.59 %                                  |

\* Represents less than 0.5%

- (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 September 30, 2015.
- (2) The aggregate estimated mark-to-market LTV ratio is based on the unpaid principal balance of the loans as of the end of the period divided by the estimated current value of the properties, which we calculate using an internal valuation model that estimates periodic changes in home value. Excludes loans for which this information is not readily available.
- (3) The current estimated mark-to-market LTV ratio greater than 100% is based on the unpaid principal balance of the loans with mark-to-market LTV ratios greater than 100% for each category as of the end of the period divided by the aggregate unpaid principal balance of loans for each category in our single-family conventional guaranty book of business as of September 30, 2015.
- (4) 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 September 30, 2015 serious delinquency rates of loans acquired in 2005 through 2008.
- (5) HARP loans, which we began to acquire in 2009, have LTV ratios at origination in excess of 80%. In the fourth quarter of 2012, we revised our presentation of the data to reflect all loans under our Refi Plus program with LTV ratios at origination in excess of 80% as HARP loans. Previously we did not reflect loans that were backed by second homes or investor properties as HARP loans.
- (6) Other Refi Plus loans, which we began to acquire in 2009, includes all other Refi Plus loans that are not HARP loans.

Beginning with loans delivered in 2013, and in conjunction with our new representation and warranty framework, we have made changes in our quality control process that move the primary focus of our quality control review from the time a loan defaults to shortly after the loan is delivered to us. We have implemented new tools to help identify loans delivered to us that may not have met our underwriting or eligibility guidelines and use these tools to help select discretionary samples of performing loans for quality control review shortly after delivery. We also select random samples of performing loans for quality control review shortly after delivery. For a discussion of our new representation and warranty framework, see “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards” in our 2014 Form 10-K.

We derive an eligibility defect rate from our random reviews, which represents the proportion of loans in the sample population with underwriting defects that would make them potentially ineligible for delivery to us. The eligibility defect rate does not necessarily indicate how well the loans will ultimately perform. Instead, we use the eligibility defect rate to estimate the percentage of loans we acquired that potentially had a significant error in the underwriting process. As of September 30, 2015, the eligibility defect rate for our single-family non-Refi Plus loan acquisitions made during the twelve months ended October 31, 2014 was 1.18%. Because of enhancements to the sampling methodology of our random reviews that we implemented in 2013, the eligibility defect rate for our 2013 and 2014 loan acquisitions is not directly comparable to the “significant findings rate” we reported on our acquisitions in prior periods. We continue to work with lenders to reduce the number of defects.

If we determine that a mortgage loan did not meet our underwriting or eligibility requirements, loan representations or warranties were violated or a mortgage insurer rescinded coverage, then our mortgage sellers and/or servicers are obligated to either repurchase the loan or foreclosed property, reimburse us for our losses or provide other remedies, unless the loan is

eligible for representation and warranty relief under our new representation and warranty framework described below. We refer to our demands that mortgage sellers and servicers meet these obligations collectively as repurchase requests. See “MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Mortgage Sellers and Servicers” and “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards” in our 2014 Form 10-K for a discussion of our mortgage sellers and servicers’ repurchase obligations. As of September 30, 2015, we have issued repurchase requests on approximately 0.46% of the \$379.1 billion of unpaid principal balance of single-family loans delivered to us in 2014, for which reviews have been substantially completed.

The dollar amounts of our outstanding repurchase requests are based on the unpaid principal balance of the loans underlying the repurchase request, not the actual amount we have requested from the lenders. In some cases, we allow lenders to remit payment equal to our loss, including imputed interest, on the loan after we have disposed of the related REO, which is substantially less than the unpaid principal balance of the loan. As a result, we expect our actual cash receipts relating to these outstanding repurchase requests to be significantly lower than the unpaid principal balance of the loans. Amounts relating to repurchase requests originating from missing documentation or loan files where a full file review could not be completed are excluded from the total requests outstanding until we receive the missing documentation or loan files and a full underwriting review is completed. Total outstanding repurchase requests as of September 30, 2015 were \$812 million, compared with \$1.0 billion as of December 31, 2014.

#### *Representation and Warranty Framework*

Our representation and warranty framework for single-family mortgage loans delivered on or after January 1, 2013 seeks to provide lenders a higher degree of certainty and clarity regarding their repurchase exposure and liability on future deliveries, as well as consistency around repurchase timelines and remedies. Under the framework, lenders are relieved of repurchase liability for loans that meet specific payment history requirements and other eligibility requirements. For example, a lender would not be required to repurchase a mortgage loan in breach of certain underwriting and eligibility representations and warranties if the borrower has made timely payments for 36 months following the delivery date (or, for Refi Plus loans, including HARP loans, for 12 months following the delivery date), and the loan meets other specified eligibility requirements. For single-family loans delivered on or after July 1, 2014 the 36-month timely payment history requirement is relaxed to permit two instances of 30-day delinquency and adds an alternative path to relief if there is a satisfactory conclusion of a quality control review. For more information on our quality control process and our representation and warranty framework, see “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards” in our 2014 Form 10-K.

In October 2015, we announced alternatives to repurchase that may be offered to lenders in the event of underwriting defects, and we provided specific guidance on what types of loan defects could lead to a repurchase request or an alternative remedy. We continue to work with FHFA to identify opportunities to enhance our representation and warranty framework, providing the mortgage finance industry with more certainty and transparency regarding selling representation and warranty obligations.

As of September 30, 2015, approximately 36% of the outstanding loans in our single-family conventional guaranty book of business were acquired under the new representation and warranty framework. Table 25 below displays information regarding the relief status of single-family conventional loans, based on payment history, delivered to us beginning in 2013 under the new representation and warranty framework.

**Table 25: Representation and Warranty Status of Single-Family Conventional Loans Acquired in 2013-2015**

|  | As of September 30, 2015 |                  |                          |                  |                          |                  |
|--|--------------------------|------------------|--------------------------|------------------|--------------------------|------------------|
|  | Refi Plus                |                  | Non-Refi Plus            |                  | Total                    |                  |
|  | Unpaid Principal Balance | Number of Loans  | Unpaid Principal Balance | Number of Loans  | Unpaid Principal Balance | Number of Loans  |
|  | (Dollars in millions)    |                  |                          |                  |                          |                  |
| Single-family conventional loans that:   |                          |                  |                          |                  |                          |                  |
| Obtained relief . . . . .  | \$ 161,345               | 1,099,270        | \$ —                     | —                | \$ 161,345               | 1,099,270        |
| Remain eligible for relief . . . . .   | 36,286                   | 241,127          | 1,013,033                | 4,875,041        | 1,049,319                | 5,116,168        |
| Are not eligible for relief . . . . .  | 3,404                    | 21,949           | 5,711                    | 30,569           | 9,115                    | 52,518           |
| Total outstanding loans acquired under the new representation and warranty framework . . . . . | <u>\$ 201,035</u>        | <u>1,362,346</u> | <u>\$1,018,744</u>       | <u>4,905,610</u> | <u>\$1,219,779</u>       | <u>6,267,956</u> |

As of September 30, 2015, approximately 18% of loans acquired under the new representation and warranty framework had obtained relief. Providing lenders with relief from repurchasing loans for breaches of certain representations and warranties on loans acquired beginning in 2013 that meet specified eligibility requirements shifts some of the risk of non-compliance with our requirements back to us. However, we believe that we have taken appropriate steps to mitigate this risk, including moving the primary focus of our quality control reviews to shortly after the time the loans are delivered to us. We also retain the right to review any defaulted loans that were not previously reviewed and have not obtained relief, in addition to retaining the right to review all loans for any violations of life of loan representations and warranties.

#### *Risk-Sharing Transactions*

FHFA’s 2015 conservatorship scorecard includes an objective that we engage in credit risk transfers on reference pools of single-family mortgages with an unpaid principal balance of at least \$150 billion, with this unpaid principal balance requirement to be reviewed periodically and adjusted as necessary to reflect market conditions. In meeting this target, we must utilize at least two types of risk transfer structures. Our primary method of achieving this objective has been through the issuance of CAS, which transfers a portion of the credit risk associated with losses on the reference pool of mortgage loans to investors in these securities. We also engage in CIRT transactions, which we discuss in “Institutional Counterparty Credit Risk Management—Credit Guarantors—Reinsurers.”

Through October 2015, we transferred a significant portion of the mortgage credit risk on over 90% of the single-family loans we acquired during the twelve months ended September 30, 2014 that were eligible to be included in our credit risk transfer transactions. Generally, only fixed-rate 30-year single-family loans that meet certain credit performance characteristics, are non-Refi Plus and have LTV ratios between 60% and 97% have been eligible for our risk-sharing transactions. Based on their characteristics at the time we acquired them, approximately 50% of the single-family loans we acquired during the twelve months ended September 30, 2014 have been eligible for our credit risk transfer transactions.

During the first nine months of 2015, we issued \$4.5 billion in CAS, transferring a portion of the credit risk on single-family mortgages with an unpaid principal balance of \$143.5 billion. In a CAS transaction, we create a reference pool consisting of recently acquired single-family mortgage loans included in our guaranty book of business. We then create a hypothetical securitization structure with notional credit risk positions, or tranches (that is, first loss, mezzanine and senior). We issue CAS notes (to date, relating only to the mezzanine loss position) to investors, and we recognize the CAS notes as “Debt of Fannie Mae” in our condensed consolidated balance sheets.

We are obligated to make payments of principal and interest on the CAS notes we issue, and we recognize the interest paid as “Long-term debt interest expense” in our condensed consolidated statements of operations and comprehensive income. The principal balance of CAS notes is reduced as a result of principal liquidations of loans in the reference pool. The principal balance is also reduced when specified credit events occur on the loans in the reference pool. These reductions in the principal balance reduce the total amount of payments we are obligated to make to investors on the CAS notes. Principal reductions resulting from credit events will first occur on the first loss tranches, which are currently retained by us, until the first loss tranches are reduced to zero before the outstanding principal balance of CAS notes begin to be reduced. We have recognized minimal credit losses on the loans in reference pools underlying CAS issuances to date primarily because the loans were acquired in recent years, after we implemented improvements in our credit underwriting practices, and because recent macroeconomic factors such as unemployment rates and home prices have been favorable.

In our initial CAS transactions, the reduction in the principal balances of CAS notes as a result of credit events was based on a predefined formula. In October 2015, we completed our first CAS transaction that calculates credit event losses based on the actual loss experience associated with the reference pool of mortgage loans, generally following the final disposition of the underlying properties. In this transaction, we issued an additional \$1.4 billion in CAS, transferring a portion of the credit risk on single-family mortgages with an unpaid principal balance of approximately \$45.0 billion.

We have enhanced our CAS disclosure data for investors and made historical data available to support the transition to the new actual loss framework. We are also providing enhanced monthly disclosures to help investors monitor the ongoing performance of their investments in the CAS notes.

Table 26 displays the credit risk transferred to third parties and retained by Fannie Mae pursuant to our CAS transactions from 2013 through September 30, 2015.

**Table 26: Credit Risk Transferred Pursuant to CAS Issuances**

|  | At Issuance            |                         |                      |                              |                      | As of September 30, 2015                        |
|--|------------------------|-------------------------|----------------------|------------------------------|----------------------|---|
|  | Retained by Fannie Mae |                         |                      | Transferred to Third Parties | Total Reference Pool | Total Outstanding Reference Pool <sup>(1)</sup> |
|  | First Loss Position    | Mezzanine Loss Position | Senior Loss Position | Mezzanine Loss Position      |                      |   |
|  | (Dollars in millions)  |                         |                      |                              |                      |   |
| First nine months of 2015 CAS issuances:   |                        |                         |                      |                              |                      |   |
| CAS 2015 C01   | \$ 257                 | \$ 78                   | \$ 48,389            | \$ 1,469                     | \$ 50,193            | \$ 41,556                                       |
| CAS 2015 C02   | 248                    | 76                      | 43,236               | 1,449                        | 45,009               | 41,149  |
| CAS 2015 C03   | 273                    | 82                      | 46,414               | 1,557                        | 48,326               | 46,882  |
| Total first nine months of 2015 CAS issuances  | \$ 778                 | \$ 236                  | \$ 138,039           | \$ 4,475                     | \$ 143,528           | \$ 129,587                                      |
| Prior CAS issuances:   |                        |                         |                      |                              |                      |   |
| 2014 issuances   | \$ 845                 | \$ 355                  | \$ 215,175           | \$ 5,849                     | \$ 222,224           | \$ 195,153                                      |
| 2013 issuances   | 80                     | 47                      | 25,954               | 675                          | 26,756               | 22,287  |
| Total prior CAS issuances  | \$ 925                 | \$ 402                  | \$ 241,129           | \$ 6,524                     | \$ 248,980           | \$ 217,440                                      |
| Total CAS issuances  | \$ 1,703               | \$ 638                  | \$ 379,168           | \$ 10,999                    | \$ 392,508           | \$ 347,027                                      |
| Total outstanding reference pool as a percentage of single-family conventional guaranty book of business |                        |                         |                      |                              |                      | 12.48 %   |

<sup>(1)</sup> Includes \$9.8 billion outstanding for the mezzanine loss tranche transferred to third parties as of September 30, 2015.

*Single-Family Portfolio Diversification and Monitoring*

Diversification within our single-family mortgage credit book of business by product type, loan characteristics and geography is an important factor that influences credit quality and performance and may reduce our credit risk. We monitor various loan attributes, in conjunction with housing market and economic conditions, to determine if our pricing, eligibility and underwriting criteria accurately reflect the risk associated with loans we acquire or guarantee. For additional information on key loan attributes, see “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring” in our 2014 Form 10-K.

Table 27 displays our single-family conventional business volumes and our single-family conventional guaranty book of business, based on certain key risk characteristics that we use to evaluate the risk profile and credit quality of our single-family loans.

**Table 27: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business<sup>(1)</sup>**

|  | Percent of Single-Family Conventional Business Volume <sup>(2)</sup> |              |  |              | Percent of Single-Family Conventional Guaranty Book of Business <sup>(3)(4)</sup><br>As of |                   |
|--|--|--------------|--|--------------|--|-------------------|
|  | For the Three Months Ended<br>September 30,                          |              | For the Nine Months Ended<br>September 30, |              | September 30, 2015   | December 31, 2014 |
|  | 2015   | 2014         | 2015                                       | 2014         |  |                   |
| Original LTV ratio: <sup>(5)</sup>                 |  |              |  |              |  |                   |
| <= 60% . . . . .                                   | 17 %   | 15 %         | 18 %                                       | 16 %         | 21 %   | 21 %              |
| 60.01% to 70% . . . . .                            | 13   | 12           | 14   | 12           | 14   | 14                |
| 70.01% to 80% . . . . .                            | 40   | 41           | 40   | 40           | 38   | 38                |
| 80.01% to 90% <sup>(6)</sup> . . . . .             | 13   | 14           | 12   | 13           | 11   | 11                |
| 90.01% to 100% <sup>(6)</sup> . . . . .            | 16   | 17           | 15   | 16           | 12   | 11                |
| 100.01% to 125% <sup>(6)</sup> . . . . .           | 1  | 1            | 1  | 2            | 3  | 3                 |
| Greater than 125% <sup>(6)</sup> . . . . .         | *  | *            | *  | 1            | 1  | 2                 |
| Total . . . . .                                    | <u>100 %</u>   | <u>100 %</u> | <u>100 %</u>                               | <u>100 %</u> | <u>100 %</u>   | <u>100 %</u>      |
| Weighted-average . . . . .                         | 76 %   | 77 %         | 75 %                                       | 77 %         | 75 %   | 75 %              |
| Average loan amount . . . . .                      | \$ 217,604   | \$ 207,654   | \$ 220,840                                 | \$ 200,600   | \$ 160,585   | \$ 159,997        |
| Estimated mark-to-market LTV ratio: <sup>(7)</sup> |  |              |  |              |  |                   |
| <= 60% . . . . .                                   |  |              |  |              | 47 %   | 42 %              |
| 60.01% to 70% . . . . .                            |  |              |  |              | 19   | 19                |
| 70.01% to 80% . . . . .                            |  |              |  |              | 17   | 18                |
| 80.01% to 90% . . . . .                            |  |              |  |              | 9  | 10                |
| 90.01% to 100% . . . . .                           |  |              |  |              | 5  | 6                 |
| 100.01% to 125% . . . . .                          |  |              |  |              | 2  | 4                 |
| Greater than 125% . . . . .                        |  |              |  |              | 1  | 1                 |
| Total . . . . .                                    |  |              |  |              | <u>100 %</u>   | <u>100 %</u>      |
| Weighted-average . . . . .                         |  |              |  |              | 61 %   | 64 %              |
| Product type:                                      |  |              |  |              |  |                   |
| Fixed-rate: <sup>(8)</sup>                         |  |              |  |              |  |                   |
| Long-term . . . . .                                | 81 %   | 79 %         | 81 %                                       | 77 %         | 75 %   | 74 %              |
| Intermediate-term . . . . .                        | 16   | 16           | 17   | 18           | 17   | 17                |
| Interest-only . . . . .                            | —  | —            | —  | —            | 1  | 1                 |
| Total fixed-rate . . . . .                         | <u>97</u>  | <u>95</u>    | <u>98</u>                                  | <u>95</u>    | <u>93</u>  | <u>92</u>         |
| Adjustable-rate:                                   |  |              |  |              |  |                   |
| Interest-only . . . . .                            | —  | *            | —  | *            | 2  | 2                 |
| Other ARMs . . . . .                               | 3  | 5            | 2  | 5            | 5  | 6                 |
| Total adjustable-rate . . . . .                    | <u>3</u>   | <u>5</u>     | <u>2</u>                                   | <u>5</u>     | <u>7</u>   | <u>8</u>          |
| Total . . . . .                                    | <u>100 %</u>   | <u>100 %</u> | <u>100 %</u>                               | <u>100 %</u> | <u>100 %</u>   | <u>100 %</u>      |
| Number of property units:                          |  |              |  |              |  |                   |
| 1 unit . . . . .                                   | 97 %   | 97 %         | 97 %                                       | 97 %         | 97 %   | 97 %              |
| 2-4 units . . . . .                                | 3  | 3            | 3  | 3            | 3  | 3                 |
| Total . . . . .                                    | <u>100 %</u>   | <u>100 %</u> | <u>100 %</u>                               | <u>100 %</u> | <u>100 %</u>   | <u>100 %</u>      |
| Property type:                                     |  |              |  |              |  |                   |
| Single-family homes . . . . .                      | 90 %   | 90 %         | 90 %                                       | 90 %         | 91 %   | 91 %              |
| Condo/Co-op . . . . .                              | 10   | 10           | 10   | 10           | 9  | 9                 |
| Total . . . . .                                    | <u>100 %</u>   | <u>100 %</u> | <u>100 %</u>                               | <u>100 %</u> | <u>100 %</u>   | <u>100 %</u>      |



|   | Percent of Single-Family<br>Conventional Business Volume <sup>(2)</sup> |              |  |              | Percent of Single-Family<br>Conventional Guaranty<br>Book of Business <sup>(3)(4)</sup><br>As of |                   |
|---|---|--------------|--|--------------|--|-------------------|
|   | For the Three Months Ended<br>September 30,                             |              | For the Nine Months Ended<br>September 30, |              | September 30, 2015   | December 31, 2014 |
|   | 2015  | 2014         | 2015                                       | 2014         |  |                   |
| Occupancy type:                           |   |              |  |              |  |                   |
| Primary residence . . . . .               | 88 %  | 88 %         | 88 %                                       | 87 %         | 88 %   | 88 %              |
| Second/vacation home . . .                | 4   | 4            | 4  | 4            | 4  | 4                 |
| Investor . . . . .                        | 8   | 8            | 8  | 9            | 8  | 8                 |
| Total . . . . .                           | <u>100 %</u>  | <u>100 %</u> | <u>100 %</u>                               | <u>100 %</u> | <u>100 %</u>   | <u>100 %</u>      |
| FICO credit score at origination:         |   |              |  |              |  |                   |
| < 620 <sup>(9)</sup> . . . . .            | 1 %   | 1 %          | 1 %  | 1 %          | 2 %  | 3 %               |
| 620 to < 660 . . . . .                    | 5   | 6            | 4  | 5            | 6  | 5                 |
| 660 to < 700 . . . . .                    | 12  | 13           | 12   | 14           | 12   | 12                |
| 700 to < 740 . . . . .                    | 21  | 21           | 20   | 21           | 19   | 19                |
| >= 740 . . . . .                          | 61  | 59           | 63   | 59           | 61   | 61                |
| Total . . . . .                           | <u>100 %</u>  | <u>100 %</u> | <u>100 %</u>                               | <u>100 %</u> | <u>100 %</u>   | <u>100 %</u>      |
| Weighted-average . . . . .                | 747   | 744          | 749  | 743          | 744  | 744               |
| Loan purpose:                             |   |              |  |              |  |                   |
| Purchase . . . . .                        | 54 %  | 57 %         | 44 %                                       | 53 %         | 32 %   | 31 %              |
| Cash-out refinance . . . . .              | 18  | 15           | 18   | 15           | 20   | 20                |
| Other refinance . . . . .                 | 28  | 28           | 38   | 32           | 48   | 49                |
| Total . . . . .                           | <u>100 %</u>  | <u>100 %</u> | <u>100 %</u>                               | <u>100 %</u> | <u>100 %</u>   | <u>100 %</u>      |
| Geographic concentration: <sup>(10)</sup> |   |              |  |              |  |                   |
| Midwest . . . . .                         | 15 %  | 15 %         | 14 %                                       | 15 %         | 15 %   | 15 %              |
| Northeast . . . . .                       | 15  | 15           | 14   | 15           | 19   | 19                |
| Southeast . . . . .                       | 21  | 21           | 20   | 21           | 22   | 22                |
| Southwest . . . . .                       | 20  | 20           | 20   | 20           | 16   | 16                |
| West . . . . .                            | 29  | 29           | 32   | 29           | 28   | 28                |
| Total . . . . .                           | <u>100 %</u>  | <u>100 %</u> | <u>100 %</u>                               | <u>100 %</u> | <u>100 %</u>   | <u>100 %</u>      |
| Origination year:                         |   |              |  |              |  |                   |
| <= 2006 . . . . .                         |   |              |  |              | 11 %   | 13 %              |
| 2007 . . . . .                            |   |              |  |              | 4  | 4                 |
| 2008 . . . . .                            |   |              |  |              | 2  | 2                 |
| 2009 . . . . .                            |   |              |  |              | 5  | 6                 |
| 2010 . . . . .                            |   |              |  |              | 7  | 9                 |
| 2011 . . . . .                            |   |              |  |              | 9  | 10                |
| 2012 . . . . .                            |   |              |  |              | 21   | 24                |
| 2013 . . . . .                            |   |              |  |              | 19   | 21                |
| 2014 . . . . .                            |   |              |  |              | 11   | 11                |
| 2015 . . . . .                            |   |              |  |              | 11   | —                 |
| Total . . . . .                           |   |              |  |              | <u>100 %</u>   | <u>100 %</u>      |

\* Represents less than 0.5% of single-family conventional business volume or book of business.

(1) Second lien mortgage loans held by third parties are not reflected in the original LTV or mark-to-market LTV ratios in this table.

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

(3) 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 the end of each period.

(4) Our single-family conventional guaranty book of business includes jumbo-conforming and high-balance loans that represented approximately 5% of our single-family conventional guaranty book of business as of September 30, 2015 and December 31, 2014. See

“Business—Our Charter and Regulation of Our Activities—Charter Act—Loan Standards” and “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Credit Profile Summary—Jumbo Conforming and High-Balance Loans” in our 2014 Form 10-K for information on our loan limits.

- (5) The original LTV ratio generally is based on the original unpaid principal balance of the loan divided by the appraised property value reported to us at the time of acquisition of the loan. Excludes loans for which this information is not readily available.
- (6) We purchase loans with original LTV ratios above 80% as part of our mission to serve the primary mortgage market and provide liquidity to the housing finance system. Except as permitted under HARP, our charter generally requires primary mortgage insurance or other credit enhancement for loans that we acquire that have an LTV ratio over 80%.
- (7) The aggregate estimated mark-to-market LTV ratio is based on the unpaid principal balance of the loan as of the end of each reported period divided by the estimated current value of the property, which we calculate using an internal valuation model that estimates periodic changes in home value. Excludes loans for which this information is not readily available.
- (8) Long-term fixed-rate consists of mortgage loans with maturities greater than 15 years, while intermediate-term fixed-rate loans have maturities equal to or less than 15 years. Loans with interest-only terms are included in the interest-only category regardless of their maturities.
- (9) Loans acquired after 2009 with FICO credit scores below 620 consist primarily of the refinance of existing loans under our Refi Plus initiative.
- (10) Midwest consists of IL, IN, IA, MI, MN, NE, ND, OH, SD and WI. Northeast consists of CT, DE, ME, MA, NH, NJ, NY, PA, PR, RI, VT and VI. Southeast consists of AL, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA and WV. Southwest consists of AZ, AR, CO, KS, LA, MO, NM, OK, TX and UT. West consists of AK, CA, GU, HI, ID, MT, NV, OR, WA and WY.

### Credit Profile Summary

#### *Overview*

Our acquisitions in the first nine months of 2015 continued to have a strong credit profile with a weighted average original LTV of 75% compared with 77% in the first nine months of 2014. Our acquisition of loans with original LTV ratios over 80% decreased to 28% in the first nine months of 2015, compared with 32% in the first nine months of 2014. This decrease was primarily due to an increase in our acquisitions of refinance loans, which increased to 56% in the first nine months of 2015, compared with 47% in the first nine months of 2014, and a decline in our acquisitions of home purchase loans and HARP loans. Home purchase loans and HARP loans typically have higher LTV ratios than non-HARP refinance loans. The weighted average FICO credit score of our acquisitions increased to 749 in the first nine months of 2015, compared with 743 in the first nine months of 2014. Our acquisitions of loans with FICO credit scores at origination of 740 or above increased to 63% in the first nine months of 2015, compared with 59% in the first nine months of 2014. Our acquisition of loans with FICO credit scores at origination of less than 700 decreased to 17% in the first nine months of 2015, compared with 20% in the first nine months of 2014.

The credit profile of our future acquisitions will depend on many factors, including: our future guaranty fee pricing and any impact of that pricing on the volume and mix of loans we acquire; our future eligibility standards and those of mortgage insurers, FHA and VA; the percentage of loan originations representing refinancings; changes in interest rates; our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers; government policy; market and competitive conditions; and the volume and characteristics of HARP loans we acquire in the future. We expect the ultimate performance of all our loans will be affected by borrower behavior, public policy and macroeconomic trends, including unemployment, the economy and home prices. In addition, if lender customers retain more of the higher-quality loans they originate, it could negatively affect the credit profile of our new single-family acquisitions. We discuss our efforts to increase access to mortgage credit for creditworthy borrowers in “Executive Summary—Single-Family Guaranty Book of Business—Providing Access to Credit Opportunities for Creditworthy Borrowers.”

#### *HARP and Refi Plus Loans*

Since 2009, we have offered HARP under our Refi Plus initiative, which was designed to expand refinancing opportunities for borrowers who may otherwise be unable to refinance their mortgage loans due to a decline in home values. HARP offers refinancing flexibility to eligible borrowers who are current on their loans and whose loans are owned or guaranteed by us and meet certain additional criteria. Under HARP, we allow our borrowers who have mortgage loans that have note dates prior to June 2009 with current LTV ratios greater than 80% to refinance their mortgages without obtaining new mortgage insurance in excess of what is already in place. Accordingly, HARP loans have LTV ratios at origination in excess of 80%. HARP loans cannot (1) be an adjustable-rate mortgage loan, if the initial fixed period is less than five years; (2) have an interest only feature, which permits the payment of interest without a payment of principal; (3) be a balloon mortgage loan;

or (4) have the potential for negative amortization. In May 2015, FHFA announced the extension of the ending date for HARP to December 31, 2016. In addition, we have extended our Refi Plus initiative until December 31, 2016.

The loans we acquire under HARP have higher LTV ratios than we would otherwise permit, greater than 100% in some cases. Since 2012, we have acquired HARP loans with LTV ratios greater than 125% for fixed-rate loans of eligible borrowers. In addition to the high LTV ratios that characterize HARP loans, some borrowers for HARP and Refi Plus loans may also have lower FICO credit scores and may provide less documentation than we would otherwise require. As of September 30, 2015, HARP loans, which constituted 10% of our single-family book of business, had a weighted average FICO credit score at origination of 729 compared with 744 for loans in our single-family book of business overall.

Loans we acquire under Refi Plus and HARP represent refinancings of loans that are already in our guaranty book of business. The credit risk associated with the newly acquired loans essentially replaces the credit risk on the loans that we already held prior to the refinancing. These loans have higher risk profiles and higher serious delinquency rates than the other loans we have acquired since the beginning of 2009. However, we expect these loans will perform better than the loans they replace because HARP and Refi Plus loans should either reduce the borrowers' monthly payments or provide more stable terms than the borrowers' old loans (for example, by refinancing into a mortgage with a fixed interest rate instead of an adjustable rate). HARP loans constituted approximately 2% of our total single-family acquisitions in the first nine months of 2015, compared with approximately 7% of total single-family acquisitions in the first nine months of 2014. We expect the volume of refinancings under HARP to continue to decline, due to a decrease in the population of borrowers with loans that have high LTV ratios who are willing to refinance and would benefit from refinancing.

For information on the serious delinquency rates and current mark-to-market LTV ratios as of September 30, 2015 of single-family loans we acquired under HARP and Refi Plus, compared with other single-family loans we have acquired, see "Table 24: Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period."

#### *Alt-A Loans*

We classify certain loans as Alt-A so that we can discuss our exposure to Alt-A loans in this Form 10-Q and elsewhere. However, there is no universally accepted definition of Alt-A loans. Our single-family conventional guaranty book of business includes loans with some features that are similar to Alt-A loans that we have not classified as Alt-A because they do not meet our classification criteria.

We do not rely solely on our classifications of loans as Alt-A to evaluate the credit risk exposure relating to these loans in our single-family conventional guaranty book of business. For more information about the credit risk characteristics of loans in our single-family guaranty book of business, see "Table 27: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business," "Note 3, Mortgage Loans," and "Note 13, Concentrations of Credit Risk."

Our exposure to Alt-A loans included in our single-family conventional guaranty book of business, based on the classification criteria described in this section, does not include (1) our investments in private-label mortgage-related securities backed by Alt-A loans or (2) resecuritizations, or wraps, of private-label mortgage-related securities backed by Alt-A mortgage loans that we have guaranteed. See "Note 5, Investments in Securities" for more information on our exposure to private label mortgage-related securities backed by Alt-A loans.

We have classified a mortgage loan as Alt-A if and only if the lender that delivered the loan to us classified the loan as Alt-A, based on documentation or other features. The unpaid principal balance of Alt-A loans included in our single-family conventional guaranty book of business of \$105.9 billion as of September 30, 2015, represented approximately 4% of our single-family conventional guaranty book of business. Because we discontinued the purchase of newly originated Alt-A loans in 2009, except for those that represent the refinancing of a loan we acquired prior to 2009, we expect our acquisitions of Alt-A mortgage loans to continue to be minimal in future periods and the percentage of the book of business attributable to Alt-A to continue to decrease over time.

See "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring" in our 2014 Form 10-K for a discussion of other types of loans, including jumbo conforming loans, high balance loans, adjustable-rate mortgages and fixed-rate interest only mortgages.

#### *Problem Loan Management*

Our problem loan management strategies are primarily focused on reducing defaults to avoid losses that would otherwise occur and pursuing foreclosure alternatives to attempt to minimize the severity of the losses we incur. If a borrower does not make required payments, or is in jeopardy of not making payments, we work with the servicers of our loans to offer workout solutions to minimize the likelihood of foreclosure as well as the severity of loss. Our loan workouts reflect our various types of home retention solutions, including loan modifications, repayment plans and forbearances, and foreclosure alternatives,

including short sales and deeds-in-lieu of foreclosure. When appropriate, we seek to move to foreclosure expeditiously. See “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Problem Loan Management” in our 2014 Form 10-K for a discussion on our work with mortgage servicers to implement our foreclosure prevention initiatives.

In the following section, we present statistics on our problem loans, describe efforts undertaken to manage these loans and prevent foreclosures, and provide metrics regarding the performance of our loan workout activities. Unless otherwise noted, single-family delinquency data is calculated based on number of loans. We include single-family conventional loans that we own and those that back Fannie Mae MBS in the calculation of the single-family delinquency rate. Seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. Percentage of book outstanding calculations are based on the unpaid principal balance of loans for each category divided by the unpaid principal balance of our total single-family guaranty book of business for which we have detailed loan-level information.

*Problem Loan Statistics*

Table 28 displays the delinquency status of loans in our single-family conventional guaranty book of business (based on number of loans) and changes in the balance of seriously delinquent loans in our single-family conventional guaranty book of business.

**Table 28: Delinquency Status and Activity of Single-Family Conventional Loans**

|  | As of              |  |                    |
|--|--------------------|--|--------------------|
|  | September 30, 2015 | December 31, 2014                                  | September 30, 2014 |
| Delinquency status:  |                    |  |                    |
| 30 to 59 days delinquent . . . . .   | 1.48%              | 1.47%  | 1.48%              |
| 60 to 89 days delinquent . . . . .   | 0.40               | 0.43   | 0.44               |
| Seriously delinquent (“SDQ”) . . . . .                                     | 1.59               | 1.89   | 1.96               |
| Percentage of SDQ loans that have been delinquent for more than 180 days . | 69%                | 70%  | 71%                |
| Percentage of SDQ loans that have been delinquent for more than two years. | 32                 | 34   | 36                 |
|  |                    | <b>For the Nine Months Ended<br/>September 30,</b> |                    |
|  |                    | <b>2015</b>  | <b>2014</b>        |
| Single-family SDQ loans (number of loans):                                 |                    |  |                    |
| Beginning balance . . . . .  |                    | 329,590  | 418,837            |
| Additions . . . . .  |                    | 197,263  | 229,476            |
| Removals:  |                    |  |                    |
| Modifications and other loan workouts . . . . .                            |                    | (73,044)   | (93,733)           |
| Liquidations and sales . . . . .   |                    | (88,673)   | (118,151)          |
| Cured or less than 90 days delinquent . . . . .                            |                    | (89,588)   | (95,532)           |
| Total removals . . . . .   |                    | (251,305)  | (307,416)          |
| Ending balance . . . . .   |                    | 275,548  | 340,897            |

Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010 and is expected to continue to decrease. The decrease in our serious delinquency rate is primarily the result of home retention solutions, foreclosure alternatives and completed foreclosures, improved loan payment performance, as well as our acquisition of loans with stronger credit profiles since the beginning of 2009. Loans we acquired since 2009 comprised 83% of our single-family guaranty book of business and had a serious delinquency rate of 0.35% as of September 30, 2015.

Our single-family serious delinquency rate and the period of time that loans remain seriously delinquent continue to be negatively impacted by the length of time required to complete a foreclosure in some states. High levels of foreclosures, changes in state foreclosure laws, new federal and state servicing requirements imposed by regulatory actions and legal settlements, and the need for servicers to adapt to these changes have lengthened the time it takes to foreclose on a mortgage loan in a number of states, particularly in New York, Florida and New Jersey. Longer foreclosure timelines result in these

loans remaining in our book of business for a longer time, which has caused our serious delinquency rate to decrease more slowly in the last few years than it would have if the pace of foreclosures had been faster. We believe the slow pace of foreclosures in certain areas of the country will continue to negatively affect our single-family serious delinquency rates, foreclosure timelines and credit-related income (expense). Other factors such as the pace of loan modifications, the timing and volume of future nonperforming loan sales we make, changes in home prices, unemployment levels and other macroeconomic conditions also influence serious delinquency rates.

Certain higher-risk loan categories, such as Alt-A loans and loans with higher mark-to-market LTV ratios, and our 2005 through 2008 loan vintages continue to exhibit higher than average delinquency rates and/or account for a higher share of our credit losses. Our 2005 to 2008 loan vintages represented approximately 48% of the loans added to our seriously delinquent loan population during the first nine months of 2015. In addition, loans in certain states such as Florida, Illinois, New Jersey and New York have exhibited higher than average delinquency rates and/or account for a higher share of our credit losses.

Table 29 displays the serious delinquency rates for, and the percentage of our total seriously delinquent single-family conventional loans represented by, the specified loan categories. We also include information for our loans in California, as this state accounts for a large share of our single-family conventional guaranty book of business. The reported categories are not mutually exclusive.

**Table 29: Single-Family Conventional Seriously Delinquent Loan Concentration Analysis**

|                                     | As of                          |   |                          |                                |   |                          |                                |   |                          |
|-------------------------------------|--------------------------------|---|--------------------------|--------------------------------|---|--------------------------|--------------------------------|---|--------------------------|
|                                     | September 30, 2015             |   |                          | December 31, 2014              |   |                          | September 30, 2014             |   |                          |
|                                     | Percentage of Book Outstanding | Percentage of Seriously Delinquent Loans <sup>(1)</sup> | Serious Delinquency Rate | Percentage of Book Outstanding | Percentage of Seriously Delinquent Loans <sup>(1)</sup> | Serious Delinquency Rate | Percentage of Book Outstanding | Percentage of Seriously Delinquent Loans <sup>(1)</sup> | Serious Delinquency Rate |
| States:                             |                                |   |                          |                                |   |                          |                                |   |                          |
| California . . . . .                | 20%                            | 5%  | 0.60%                    | 20%                            | 5%  | 0.70%                    | 20%                            | 5%  | 0.73%                    |
| Florida . . . . .                   | 6                              | 13  | 3.11                     | 6                              | 15  | 4.42                     | 6                              | 16  | 4.87                     |
| Illinois . . . . .                  | 4                              | 5   | 1.95                     | 4                              | 6   | 2.36                     | 4                              | 6   | 2.46                     |
| New Jersey . . . . .                | 4                              | 10  | 5.01                     | 4                              | 10  | 5.78                     | 4                              | 10  | 5.83                     |
| New York . . . . .                  | 5                              | 11  | 3.67                     | 5                              | 10  | 4.17                     | 5                              | 10  | 4.20                     |
| All other states . .                | 61                             | 56  | 1.33                     | 61                             | 54  | 1.52                     | 61                             | 53  | 1.56                     |
| Product type:                       |                                |   |                          |                                |   |                          |                                |   |                          |
| Alt-A . . . . .                     | 4                              | 18  | 6.75                     | 4                              | 18  | 7.77                     | 4                              | 19  | 8.03                     |
| Vintages:                           |                                |   |                          |                                |   |                          |                                |   |                          |
| 2004 and prior . .                  | 6                              | 27  | 3.08                     | 7                              | 28  | 3.26                     | 8                              | 28  | 3.26                     |
| 2005 . . . . .                      | 2                              | 12  | 5.66                     | 3                              | 12  | 6.18                     | 3                              | 12  | 6.30                     |
| 2006 . . . . .                      | 3                              | 16  | 8.58                     | 3                              | 16  | 9.61                     | 3                              | 17  | 9.81                     |
| 2007 . . . . .                      | 4                              | 22  | 9.80                     | 4                              | 23  | 10.79                    | 4                              | 23  | 10.91                    |
| 2008 . . . . .                      | 2                              | 8   | 5.86                     | 2                              | 8   | 6.27                     | 3                              | 8   | 6.22                     |
| 2009 . . . . .                      | 5                              | 3   | 1.00                     | 6                              | 3   | 1.00                     | 6                              | 3   | 0.98                     |
| 2010 . . . . .                      | 7                              | 3   | 0.59                     | 9                              | 3   | 0.59                     | 9                              | 3   | 0.56                     |
| 2011 . . . . .                      | 9                              | 2   | 0.42                     | 10                             | 2   | 0.42                     | 10                             | 2   | 0.39                     |
| 2012 . . . . .                      | 21                             | 3   | 0.29                     | 24                             | 3   | 0.27                     | 24                             | 2   | 0.24                     |
| 2013 . . . . .                      | 19                             | 3   | 0.31                     | 21                             | 2   | 0.22                     | 22                             | 2   | 0.16                     |
| 2014 . . . . .                      | 11                             | 1   | 0.17                     | 11                             | *   | 0.04                     | 8                              | *   | 0.02                     |
| 2015 . . . . .                      | 11                             | *   | 0.01                     | —                              | —   | —                        | —                              | —   | —                        |
| Estimated mark-to-market LTV ratio: |                                |   |                          |                                |   |                          |                                |   |                          |
| <= 60%. . . . .                     | 47                             | 28  | 0.80                     | 42                             | 23  | 0.88                     | 43                             | 23  | 0.90                     |
| 60.01% to 70%. .                    | 19                             | 14  | 1.30                     | 19                             | 12  | 1.36                     | 20                             | 12  | 1.39                     |
| 70.01% to 80%. .                    | 17                             | 15  | 1.70                     | 18                             | 14  | 1.75                     | 17                             | 15  | 1.88                     |
| 80.01% to 90%. .                    | 9                              | 14  | 2.84                     | 10                             | 14  | 3.04                     | 10                             | 14  | 3.27                     |
| 90.01% to 100%. .                   | 5                              | 10  | 4.67                     | 6                              | 12  | 4.59                     | 5                              | 12  | 5.31                     |
| Greater than 100% . . . . .         | 3                              | 19  | 10.71                    | 5                              | 25  | 10.98                    | 5                              | 24  | 11.19                    |
| Credit enhancement: <sup>(2)</sup>  |                                |   |                          |                                |   |                          |                                |   |                          |
| Credit enhanced .                   | 18                             | 27  | 2.76                     | 16                             | 27  | 3.47                     | 16                             | 26  | 3.66                     |
| Non-credit enhanced . . . . .       | 82                             | 73  | 1.38                     | 84                             | 73  | 1.62                     | 84                             | 74  | 1.68                     |

\* Represents less than 0.5%

<sup>(1)</sup> Calculated based on the number of single-family loans that were seriously delinquent for each category divided by the total number of single-family conventional loans that were seriously delinquent.

<sup>(2)</sup> Refers to loans included in an agreement used to reduce credit risk by requiring collateral, letters of credit, mortgage insurance, corporate guarantees, or other agreements to provide an entity with some assurance that it will be compensated to some degree in the event of a financial loss.

See “Table 11: Credit Loss Concentration Analysis” in “Consolidated Results of Operations—Credit-Related Income (Expense)—Credit Loss Performance Metrics” for information on concentrations of our single-family credit losses in recent periods based on geography, credit characteristics and loan vintages.

#### Loan Workout Metrics

Table 30 displays statistics on our single-family loan workouts that were completed, by type. These statistics include loan modifications but do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as TDRs, or repayment or forbearance plans that have been initiated but not completed. As of September 30, 2015, there were approximately 29,500 loans in a trial modification period.

**Table 30: Statistics on Single-Family Loan Workouts**

|  | For the Nine Months Ended September 30, |                 |                          |                 |
|--|---|-----------------|--------------------------|-----------------|
|  | 2015                                    |                 | 2014                     |                 |
|  | Unpaid Principal Balance                | Number of Loans | Unpaid Principal Balance | Number of Loans |
|  | (Dollars in millions)                   |                 |                          |                 |
| Home retention solutions:  |   |                 |                          |                 |
| Modifications  | \$12,560                                | 75,113          | \$16,425                 | 96,915          |
| Repayment plans and forbearances completed <sup>(1)</sup>                | 667                                     | 4,795           | 752                      | 5,607           |
| Total home retention solutions   | <u>13,227</u>                           | <u>79,908</u>   | <u>17,177</u>            | <u>102,522</u>  |
| Foreclosure alternatives:  |   |                 |                          |                 |
| Short sales  | 2,396                                   | 11,593          | 3,866                    | 18,691          |
| Deeds-in-lieu of foreclosure   | 895                                     | 5,723           | 1,414                    | 8,944           |
| Total foreclosure alternatives   | <u>3,291</u>                            | <u>17,316</u>   | <u>5,280</u>             | <u>27,635</u>   |
| Total loan workouts  | <u>\$16,518</u>                         | <u>97,224</u>   | <u>\$22,457</u>          | <u>130,157</u>  |
| Loan workouts as a percentage of single-family guaranty book of business | <u>0.78 %</u>                           | <u>0.75 %</u>   | <u>1.05 %</u>            | <u>0.99 %</u>   |

<sup>(1)</sup> Repayment plans reflect only those plans associated with loans that were 60 days or more delinquent. Forbearances reflect loans that were 90 days or more delinquent.

The volume of home retention solutions completed in the first nine months of 2015 decreased compared with the first nine months of 2014, primarily due to a decline in the number of delinquent loans in the first nine months of 2015, compared with the first nine months of 2014.

We continue to work with our servicers to implement our home retention and foreclosure prevention initiatives. Our approach to workouts continues to focus on the large number of borrowers facing financial hardships. Accordingly, the vast majority of loan modifications we have completed since 2009 have been concentrated on deferring or lowering the borrowers’ monthly mortgage payments to allow borrowers to work through their hardships.

Our loan modifications can include a reduction in the borrower’s interest rate that is fixed for an initial period and may be followed by one or more annual interest rate increases. The majority of these rate reset modifications are performing loans that were modified under HAMP and have fixed interest rates for an initial five-year period followed by annual interest rate increases, of up to one percent per year, until the mortgage rate reaches the prevailing market rate at the time of modification. The outstanding unpaid principal balance of rate reset modifications in our guaranty book of business was \$81.6 billion as of September 30, 2015. During the first nine months of 2015, approximately 41% of these modified loans experienced an interest rate reset to a weighted average interest rate of 3.22%. In anticipation of potential financial hardship related to interest rate increases, we have directed servicers to evaluate rate reset modifications for a re-modification if the loan is at imminent risk of default and the borrower requests a loan modification or if the loan becomes 60 days delinquent within the first 12 months after an interest rate adjustment. Additionally, for borrowers with HAMP modifications we extended “pay for performance” incentives, in the form of principal curtailment, to encourage borrowers to stay current on their mortgages after the initial interest rate reset and to reduce their monthly payments in cases where the borrower chooses to re-amortize their unpaid principal balance following receipt of the incentive. In May 2015, FHFA announced the extension of the ending date for HAMP to December 31, 2016. See “MD&A—Risk Management—Credit Profile Summary—Mortgage Rate Resets” in our 2014 Form 10-K for information on the timing of these initial interest rate resets.

## REO Management

Foreclosure and REO activity affect the amount of credit losses we realize in a given period. Table 31 displays our foreclosure activity, by region. Regional REO acquisition and charge-off trends generally follow a pattern that is similar to, but lags, that of regional delinquency trends.

**Table 31: Single-Family Foreclosed Properties**

|   | <u>For the Nine Months<br/>Ended September 30,</u> |                  |
|---|--|------------------|
|   | <u>2015</u>  | <u>2014</u>      |
| Single-family foreclosed properties (number of properties):   |  |                  |
| Beginning of period inventory of single-family foreclosed properties (REO) <sup>(1)</sup> . . . . . | 87,063   | 103,229          |
| Acquisitions by geographic area: <sup>(2)</sup>   |  |                  |
| Midwest . . . . .   | 13,302   | 20,669           |
| Northeast . . . . .   | 11,854   | 11,438           |
| Southeast . . . . .   | 23,990   | 37,956           |
| Southwest . . . . .   | 6,478  | 10,880           |
| West . . . . .  | 6,262  | 10,429           |
| Total properties acquired through foreclosure <sup>(1)</sup> . . . . .                              | <u>61,886</u>                                      | <u>91,372</u>    |
| Dispositions of REO . . . . .   | <u>(87,991)</u>                                    | <u>(102,215)</u> |
| End of period inventory of single-family foreclosed properties (REO) <sup>(1)</sup> . . . . .       | <u>60,958</u>                                      | <u>92,386</u>    |
| Carrying value of single-family foreclosed properties (dollars in millions) . . . . .               | <u>\$ 7,245</u>                                    | <u>\$ 10,209</u> |
| Single-family foreclosure rate <sup>(3)</sup> . . . . .   | <u>0.48 %</u>                                      | <u>0.70 %</u>    |

<sup>(1)</sup> Includes acquisitions through deeds-in-lieu of foreclosure. Also includes held for use properties, which are reported in our condensed consolidated balance sheets as a component of “Other assets.”

<sup>(2)</sup> See footnote 10 to “Table 27: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business” for states included in each geographic region.

<sup>(3)</sup> Estimated based on the annualized total number of properties acquired through foreclosure or deeds-in-lieu of foreclosure as a percentage of the total number of loans in our single-family guaranty book of business as of the end of each respective period.

The continued decrease in the number of our seriously delinquent single-family loans has resulted in a reduction in the number of REO acquisitions in the first nine months of 2015 as compared with the first nine months of 2014.

We continue to manage our REO inventory to appropriately manage costs and maximize sales proceeds. However, we are unable to market and sell a large portion of our inventory, primarily due to occupancy and state or local redemption or confirmation periods, which extends the amount of time it takes to bring our properties to a marketable state and eventually dispose of them. This results in higher foreclosed property expenses, which include costs related to maintaining the property and ensuring that the property is vacant. Before we market our foreclosed properties, we may choose to repair them in order to maximize the sales price and increase the likelihood that an owner occupant will purchase. In some cases, we engage in third party sales at foreclosure, which allow us to avoid maintenance and other REO expenses we would have incurred had we acquired the property.

Table 32 displays the current status of our single-family foreclosed property inventory, including the percentage of our inventory that we are unable to market.



**Table 32: Single-Family Foreclosed Property Status**

|                                  | Percent of Single-Family Foreclosed Properties |                   |
|----------------------------------|--|-------------------|
|                                  | As of  |                   |
|                                  | September 30, 2015                             | December 31, 2014 |
| Available-for-sale               | 23 %   | 28 %              |
| Offer accepted <sup>(1)</sup>    | 18   | 17                |
| Appraisal stage <sup>(2)</sup>   | 19   | 13                |
| Unable to market:                |  |                   |
| Occupied status <sup>(3)</sup>   | 15   | 14                |
| Redemption status <sup>(4)</sup> | 8  | 7                 |
| Properties being repaired        | 8  | 13                |
| Other                            | 9  | 8                 |
| Total unable to market           | 40   | 42                |
| Total                            | 100 %  | 100 %             |

<sup>(1)</sup> Properties for which an offer has been accepted, but the property has not yet been sold.

<sup>(2)</sup> Properties that are pending appraisals and being prepared to be listed for sale.

<sup>(3)</sup> Properties that are still occupied, including those properties for which the eviction process is not yet complete and those with a tenant living in the home under our tenant in place or deed for lease programs.

<sup>(4)</sup> Properties that are within the period during which state laws allow the former mortgagor and second lien holders to redeem the property.

### ***Multifamily Mortgage Credit Risk Management***

The credit risk profile of our multifamily mortgage credit book of business is influenced by the structure of the financing, the type and location of the property, the condition and value of the property, the financial strength of the borrower, market and sub-market trends and growth, the current and anticipated cash flows from the property, as well as the financial strength of the lender. These and other factors affect both the amount of expected credit loss on a given loan and the sensitivity of that loss to changes in the economic environment. We provide information on our credit-related income and credit losses in “Business Segment Results—Multifamily Business Results.”

### ***Multifamily Acquisition Policy and Underwriting Standards***

Our Multifamily business is responsible for pricing and managing the credit risk on multifamily mortgage loans we purchase and on Fannie Mae MBS backed by multifamily loans (whether held in our retained mortgage portfolio or held by third parties), with oversight from our Enterprise Risk Management division. Our primary multifamily delivery channel is the Delegated Underwriting and Servicing, or DUS<sup>®</sup>, program, which consists of large financial institutions and independent mortgage lenders. Multifamily loans that we purchase or that back Fannie Mae MBS are either underwritten by a Fannie Mae-approved lender or subject to our underwriting review prior to closing, depending on the product type, loan size, market and/or other factors. Loans delivered to us by DUS lenders and their affiliates represented 96% of our multifamily guaranty book of business as of September 30, 2015, compared with 94% as of December 31, 2014.

We use various types of credit enhancement arrangements for our multifamily loans including lender risk-sharing, lender repurchase agreements, pool insurance, subordinated participations in mortgage loans or structured pools, cash and letter of credit collateral agreements, and cross-collateralization/cross-default provisions. The most prevalent form of credit enhancement on multifamily loans is lender risk-sharing. Lenders in the DUS program typically share in loan-level credit losses in one of two ways: (1) they bear losses up to the first 5% of the unpaid principal balance of the loan and share in remaining losses up to a prescribed limit; or (2) they share up to one-third of the credit losses on a pro rata basis with us. Non-DUS lenders typically share or absorb credit losses based on a negotiated percentage of the loan or the pool balance.

Table 33 displays the percentage of the unpaid principal balance of loans in our multifamily guaranty book of business with lender risk-sharing and with no recourse to the lender.

**Table 33: Multifamily Lender Risk-Sharing**

|                                 | As of              |                   |
|---------------------------------|--------------------|-------------------|
|                                 | September 30, 2015 | December 31, 2014 |
| Lender risk-sharing:            |                    |                   |
| DUS .....                       | 89%                | 85%               |
| Non-DUS negotiated .....        | 2                  | 3                 |
| No recourse to the lender ..... | 9                  | 12                |

Our maximum potential loss recovery from lenders under current risk-sharing agreements represents over 20% of the unpaid principal balance of our multifamily guaranty book of business as of September 30, 2015. These risk-sharing agreements not only transfer credit risk, but also better align our interest with that of the lender.

At the time of our purchase or guarantee of multifamily mortgage loans, we and our lenders rely on sound underwriting standards, which generally include third-party appraisals and cash flow analysis. Our standards for multifamily loans specify maximum original LTV ratio and minimum original debt service coverage ratio (“DSCR”) values that vary based on loan characteristics. Our experience has been that original LTV ratio and DSCR values have been reliable indicators of future credit performance.

Table 34 displays original LTV ratio and DSCR metrics for our multifamily guaranty book of business.

**Table 34: Multifamily Guaranty Book of Business Key Risk Characteristics**

|  | As of              |                   |                    |
|--|--------------------|-------------------|--------------------|
|  | September 30, 2015 | December 31, 2014 | September 30, 2014 |
| Weighted average original LTV ratio .....      | 66%                | 66%               | 66%                |
| Original LTV ratio greater than 80% .....      | 3                  | 3                 | 3                  |
| Original DSCR less than or equal to 1.10 ..... | 10                 | 8                 | 8                  |

*Multifamily Portfolio Diversification and Monitoring*

Diversification within our multifamily mortgage credit book of business by geographic concentration, term to maturity, interest rate structure, borrower concentration and loan size, as well as credit enhancement coverage, are important factors that influence credit performance and help reduce our credit risk.

We and our lenders monitor the performance and risk characteristics of our multifamily loans and the underlying properties on an ongoing basis throughout the life of the loan at the loan, property, and portfolio levels. We closely monitor loans with an estimated current DSCR below 1.0, as that is an indicator of heightened default risk. The percentage of loans in our multifamily guaranty book of business, calculated based on unpaid principal balance, with a current DSCR less than 1.0 was approximately 2% as of September 30, 2015 and 3% as of December 31, 2014. Our estimates of current DSCRs are based on the latest available income information for these properties. Although we use the most recently available results from our multifamily borrowers, there is a lag in reporting, which typically can range from 3 to 6 months but in some cases may be longer.

*Multifamily Problem Loan Management and Foreclosure Prevention*

We periodically refine our underwriting standards in response to market conditions and implement proactive portfolio management and monitoring which are each designed to keep credit losses and delinquencies to a low level relative to our multifamily guaranty book of business. The multifamily serious delinquency rate was 0.05% as of September 30, 2015 and December 31, 2014. We classify multifamily loans as seriously delinquent when payment is 60 days or more past due.

## REO Management

**Table 35: Multifamily Foreclosed Properties**

|   | <b>For the Nine<br/>Months Ended<br/>September 30,</b> |               |
|---|--|---------------|
|   | <b>2015</b>  | <b>2014</b>   |
| Multifamily foreclosed properties held for sale (number of properties):         |  |               |
| Beginning of period inventory of multifamily foreclosed properties (REO) .....  | 62   | 118           |
| Total properties acquired through foreclosure .....                             | 23   | 38            |
| Transfers from held for sale, net <sup>(1)</sup> .....                          | (4)  | (1)           |
| Dispositions of REO .....   | (36)   | (63)          |
| End of period inventory of multifamily foreclosed properties (REO) .....        | 45   | 92            |
| Carrying value of multifamily foreclosed properties (dollars in millions) ..... | <u>\$ 315</u>  | <u>\$ 430</u> |

<sup>(1)</sup> Represents the transfer of properties between held for use and held for sale. Held for use properties are reported in our condensed consolidated balance sheets as a component of “Other assets.”

### ***Institutional Counterparty Credit Risk Management***

Institutional counterparty credit risk is the risk that our institutional counterparties may fail to fulfill their contractual obligations to us. Defaults by a counterparty with significant obligations to us could result in significant financial losses to us.

See “MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management” and “Risk Factors” in our 2014 Form 10-K for additional information about institutional counterparty risk, including counterparty risk we face from mortgage originators, investors and dealers, from debt security dealers, from document custodians and from mortgage fraud.

### ***Mortgage Sellers and Servicers***

One of our primary exposures to institutional counterparty risk is with mortgage servicers that service the loans we hold in our retained mortgage portfolio or that back our Fannie Mae MBS, as well as mortgage sellers and servicers that are obligated to repurchase loans from us or reimburse us for losses in certain circumstances. We rely on mortgage servicers to meet our servicing standards and fulfill their servicing obligations. We also rely on mortgage sellers and servicers to fulfill their repurchase obligations.

Our five largest single-family mortgage servicers, including their affiliates, serviced approximately 44% of our single-family guaranty book of business as of September 30, 2015, compared with approximately 46% as of December 31, 2014. Our largest mortgage servicer is Wells Fargo Bank, N.A., which, together with its affiliates, serviced approximately 18% of our single-family guaranty book of business as of September 30, 2015 and December 31, 2014. As of September 30, 2015 and December 31, 2014, one additional mortgage servicer, JPMorgan Chase Bank, N.A., with its affiliates, serviced over 10% of our single-family guaranty book of business.

Our ten largest multifamily mortgage servicers, including their affiliates, serviced approximately 69% of our multifamily guaranty book of business as of September 30, 2015, compared with approximately 67% as of December 31, 2014. Wells Fargo Bank, N.A. and Walker & Dunlop, LLC each serviced over 10% of our multifamily guaranty book of business as of September 30, 2015 and December 31, 2014.

In recent years, we have seen a shift in some of our single-family servicing book from depository financial institution servicers to non-depository servicers. As of September 30, 2015, 18% of our total single-family guaranty book of business, including 57% of our delinquent single-family loans, were serviced by our five largest non-depository servicers, compared with 18% of our total single-family guaranty book of business, including 49% of our delinquent single-family loans, as of December 31, 2014. Certain of these servicers’ growth in recent years is due to acquisitions from both depository and other non-depository servicers. The shift from depository to non-depository servicers poses additional risks to us because non-depository servicers may have a greater reliance on third-party sources of liquidity than depository servicers and may, in the event of significant increases in delinquent loan volumes, have less financial capacity to advance funds on our behalf or satisfy repurchase requests or compensatory fee obligations. In addition, the rapid expansion of these servicers’ servicing portfolios results in increased operational risk, which could negatively impact their ability to effectively manage their

servicing portfolios. In addition, regulatory bodies have been reviewing the activities of some of our largest non-depository servicers. See “Risk Factors” in our 2014 Form 10-K for a discussion of the risk of our reliance on servicers.

Some of our loans are serviced by subsidiaries and/or affiliates of Ocwen Financial Corporation (“Ocwen”). Ocwen has been the subject of regulatory scrutiny and actions, as well as rating agency downgrades. We continue to work with Ocwen on the orderly transfer of a substantial portion of the servicing of our loans. As of September 30, 2015, approximately 1% of our total single-family guaranty book of business was serviced by Ocwen, compared with 3% as of December 31, 2014.

Our five largest single-family mortgage sellers, including their affiliates, accounted for approximately 29% of our single-family business acquisition volume in the first nine months of 2015, compared with approximately 33% in the first nine months of 2014. Our largest mortgage seller is Wells Fargo Bank, N.A., which, together with its affiliates, accounted for approximately 13% of our single-family business acquisition volume in the first nine months of 2015 and 2014. A number of our largest single-family mortgage seller counterparties have reduced or eliminated their purchases of mortgage loans from mortgage brokers and correspondent lenders in recent years, resulting in a decline in our single-family mortgage seller concentration. As a result, we are acquiring a greater portion of our business volume directly from non-depository and smaller depository financial institutions that may not have the same financial strength or operational capacity as our largest mortgage seller counterparties. We could be required to absorb losses on defaulted loans that a failed mortgage seller is obligated to repurchase from us if we determine there was an underwriting eligibility breach. See “Risk Factors” in our 2014 Form 10-K for a discussion of the risks to our business due to changes in the mortgage industry.

In May 2015, we and Freddie Mac issued new operational and financial eligibility requirements for single-family mortgage seller-servicers pursuant to FHFA’s 2015 conservatorship scorecard objective relating to enhancing servicer eligibility standards. The operational requirements became effective September 1, 2015 and the financial requirements become effective December 31, 2015. The updated eligibility requirements for servicers are designed to better address the unique risks associated with emerging servicer business models. Key changes to the eligibility requirements include updating the minimum net worth requirement for servicers so that it is based on all of the single-family mortgage loans serviced by the servicer, rather than only the loans it services for Fannie Mae, and a new minimum liquidity requirement for non-depository servicers.

#### *Repurchase Requests*

Mortgage sellers and servicers may not meet the terms of their repurchase obligations, and we may be unable to recover on all outstanding loan repurchase obligations resulting from their breaches of contractual obligations. Failure by a significant mortgage seller or servicer, or a number of mortgage sellers or servicers, to fulfill repurchase obligations to us could result in an increase in our credit losses and credit-related expense, and have an adverse effect on our results of operations and financial condition. In addition, actions we take to pursue our contractual remedies could increase our costs, reduce our revenues, or otherwise have an adverse effect on our results of operations or financial condition. See “Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards” for additional information regarding repurchase requests and the balance of our outstanding repurchase requests as of September 30, 2015.

#### Credit Guarantors

We use various types of credit guarantors to manage our mortgage credit risk, including mortgage insurers, financial guarantors, reinsurers and lenders with risk sharing.

#### *Mortgage Insurers*

We are generally required, pursuant to our charter, to obtain credit enhancements on single-family conventional mortgage loans that we purchase or securitize with LTV ratios over 80% at the time of purchase. We use several types of credit enhancements to manage our single-family mortgage credit risk, including primary and pool mortgage insurance coverage. Table 36 displays our risk in force for mortgage insurance coverage on single-family loans in our guaranty book of business and our insurance in force for our mortgage insurer counterparties. The table includes our top ten mortgage insurer counterparties, which provided over 99% of our total mortgage insurance coverage on single-family loans in our guaranty book of business as of September 30, 2015 and December 31, 2014. In addition, for our mortgage insurer counterparties not approved to write new business, we have provided the percentage of their claims payments that the counterparties are currently deferring based on the direction of their state regulators, referred to as their deferred payment obligation. As of September 30, 2015 and December 31, 2014, approximately 1% of our total risk in force mortgage insurance coverage and approximately 2% of our total insurance in force mortgage insurance coverage was pool insurance.

**Table 36: Mortgage Insurance Coverage**

|  | Risk in Force <sup>(1)</sup> |                   | Insurance in Force <sup>(2)</sup> |                   | Deferred Payment Obligation % <sup>(3)</sup> |
|--|------------------------------|-------------------|-----------------------------------|-------------------|--|
|  | As of                        |                   | As of                             |                   |  |
|  | September 30, 2015           | December 31, 2014 | September 30, 2015                | December 31, 2014 |  |
| (Dollars in millions)  |                              |                   |                                   |                   |  |
| <b>Counterparty:<sup>(4)</sup></b>                                     |                              |                   |                                   |                   |  |
| <u>Approved:<sup>(5)</sup></u>   |                              |                   |                                   |                   |  |
| United Guaranty Residential Insurance Co. ....                         | \$ 26,892                    | \$ 25,018         | \$ 103,848                        | \$ 96,906         |  |
| Radian Guaranty, Inc. ....   | 24,987                       | 24,284            | 97,733                            | 95,845            |  |
| Mortgage Guaranty Insurance Corp. ....                                 | 23,444                       | 22,184            | 90,477                            | 86,069            |  |
| Genworth Mortgage Insurance Corp. ....                                 | 16,305                       | 15,477            | 64,308                            | 61,408            |  |
| Essent Guaranty, Inc. ....   | 8,257                        | 6,637             | 33,728                            | 27,679            |  |
| Arch Mortgage Insurance Co. ....                                       | 3,541                        | 3,049             | 14,213                            | 12,267            |  |
| National Mortgage Insurance Corp. ....                                 | 1,426                        | 468               | 9,848                             | 6,286             |  |
| Others .....   | 224                          | 185               | 1,355                             | 1,092             |  |
| Total approved. ....   | <u>105,076</u>               | <u>97,302</u>     | <u>415,510</u>                    | <u>387,552</u>    |  |
| <u>Not approved:<sup>(5)</sup></u>                                     |                              |                   |                                   |                   |  |
| PMI Mortgage Insurance Co. <sup>(6)</sup> .....                        | 5,046                        | 5,895             | 20,178                            | 23,655            | 30% <sup>(7)</sup>                           |
| Republic Mortgage Insurance Co. <sup>(6)(8)</sup> .....                | 4,106                        | 4,796             | 16,418                            | 19,393            | — <sup>(8)</sup>                             |
| Triad Guaranty Insurance Corp. <sup>(6)</sup> .....                    | 1,407                        | 1,585             | 5,074                             | 5,858             | 25%  |
| Others .....   | 15                           | 12                | 49                                | 57                |  |
| Total not approved. ....   | <u>10,574</u>                | <u>12,288</u>     | <u>41,719</u>                     | <u>48,963</u>     |  |
| Total .....  | <u>\$ 115,650</u>            | <u>\$ 109,590</u> | <u>\$ 457,229</u>                 | <u>\$ 436,515</u> |  |
| Total as a percentage of single-family guaranty book of business. .... | <u>4 %</u>                   | <u>4 %</u>        | <u>16 %</u>                       | <u>15 %</u>       |  |

- (1) Risk in force is generally the maximum potential loss recovery under the applicable mortgage insurance policies in force and is based on the loan level insurance coverage percentage and, if applicable, any aggregate pool loss limit, as specified in the policy.
- (2) Insurance in force represents the unpaid principal balance of single-family loans in our guaranty book of business covered under the applicable mortgage insurance policies.
- (3) Deferred payment obligation represents the percentage of cash payments on policyholder claims being deferred as directed by the insurer's respective regulator in the state of domicile as of November 5, 2015.
- (4) Insurance coverage amounts provided for each counterparty may include coverage provided by consolidated affiliates and subsidiaries of the counterparty.
- (5) "Approved" mortgage insurers are counterparties approved to write new insurance with us. "Not approved" mortgage insurers are counterparties that are no longer approved to write new insurance with us.
- (6) These mortgage insurers are under various forms of supervised control by their state regulators and are in run-off.
- (7) In April 2015, PMI increased its cash payments on policyholder claims from 67% to 70%, and subsequently paid sufficient amounts of its outstanding deferred payment obligations to bring payment on those claims to 70%. It is uncertain whether PMI will be permitted in the future to pay any remaining deferred policyholder claims or increase or decrease the amount of cash they pay on claims.
- (8) Effective July 1, 2014, the terms of RMIC's order regarding its deferred payment arrangements changed to no longer defer payments on policyholder claims and to increase its cash payments to 100%. In addition, RMIC paid us amounts equivalent to its outstanding deferred payment obligations to bring payment on our claims to 100%.

In April 2015 (with a subsequent update in June 2015), Fannie Mae published revised eligibility standards for approved private mortgage insurers, pursuant to a directive issued by FHFA to both Fannie Mae and Freddie Mac. The new standards, effective immediately for new applicants and on December 31, 2015 for existing approved insurers, include enhanced financial requirements, including risk-based and minimum asset standards, and are designed to ensure that mortgage insurers have sufficient liquid assets to pay all claims under a hypothetical future stress scenario. The new standards also set forth enhanced operational performance expectations and define remedial actions that may be imposed should an approved mortgage insurer fail to comply with the revised requirements. In addition, Fannie Mae and Freddie Mac established a framework and timelines for existing approved mortgage insurers to come into compliance with the new standards while they continue to insure new business eligible for delivery to us.

Although the financial condition of our primary mortgage insurer counterparties currently approved to write new business has improved in recent years, there is still risk that these counterparties may fail to fulfill their obligations to pay our claims under insurance policies. In addition, as shown in “Table 36: Mortgage Insurance Coverage,” three of our top mortgage insurer counterparties—PMI, RMIC and Triad—are currently under various forms of supervised control by their state regulators and are in run-off, which increases the risk that these counterparties will pay claims only in part or fail to pay claims at all under existing insurance policies.

When we estimate the credit losses that are inherent in our mortgage loans and under the terms of our guaranty obligations we also consider the recoveries that we will receive on primary mortgage insurance, as mortgage insurance recoveries would reduce the severity of the loss associated with defaulted loans. We evaluate the financial condition of our mortgage insurer counterparties and adjust the contractually due recovery amounts to ensure that only probable losses as of the balance sheet date are included in our loss reserve estimate. As a result, if our assessment of one or more of our mortgage insurer counterparties’ ability to fulfill their respective obligations to us worsens, it could result in an increase in our loss reserves. The amount by which our estimated benefit from mortgage insurance reduced our total loss reserves was \$2.3 billion as of September 30, 2015 and \$4.1 billion as of December 31, 2014.

When an insured loan held in our retained mortgage portfolio subsequently goes into foreclosure, we charge off the loan, eliminating any previously-recorded loss reserves, and record REO and a mortgage insurance receivable for the claim proceeds deemed probable of recovery, as appropriate. However, if a mortgage insurer rescinds, cancels or denies insurance coverage, the initial receivable becomes due from the mortgage seller or servicer. We had outstanding receivables of \$1.2 billion recorded in “Other assets” in our condensed consolidated balance sheets as of September 30, 2015 and \$1.4 billion as of December 31, 2014 related to amounts claimed on insured, defaulted loans excluding government insured loans. Of this amount, \$280 million as of September 30, 2015 and \$269 million as of December 31, 2014 was due from our mortgage sellers or servicers. We assessed the total outstanding receivables for collectibility, and they are recorded net of a valuation allowance of \$795 million as of September 30, 2015 and \$799 million as of December 31, 2014. The valuation allowance reduces our claim receivable to the amount considered probable of collection as of September 30, 2015 and December 31, 2014.

#### *Financial Guarantors*

We are the beneficiary of non-governmental financial guarantees on non-agency securities held in our retained mortgage portfolio and on non-agency securities that have been resecuritized to include a Fannie Mae guaranty and sold to third parties. The total unpaid principal balance of guaranteed non-agency securities in our retained mortgage portfolio was \$3.5 billion as of September 30, 2015 and \$4.6 billion as of December 31, 2014. See “Note 16, Concentrations of Credit Risk” in our 2014 Form 10-K for a further discussion of our exposure to financial guarantors.

We are also the beneficiary of financial guarantees included in securities issued by Freddie Mac, the federal government and its agencies that totaled \$17.4 billion as of September 30, 2015 and \$19.2 billion as of December 31, 2014.

#### *Reinsurers*

In a credit insurance risk transfer transaction, we shift a portion of the credit risk on a reference pool of single-family mortgage loans to a panel of reinsurers. During the first nine months of 2015, we executed three credit insurance risk transfer transactions, shifting a portion of the credit risk on reference pools of single-family loans with an aggregate unpaid principal balance of approximately \$19.8 billion. Fannie Mae retained the risk on the initial \$99 million of losses on the loans and the reinsurers assumed the risk for any additional losses up to approximately \$496 million in excess of the initial losses retained by Fannie Mae. A portion of the reinsurers’ obligations are collateralized with highly-rated liquid assets held in a trust account. We expect these transactions will count towards FHFA’s 2015 conservatorship scorecard objective relating to credit risk sharing transactions. We expect to enter into additional credit insurance risk transfer transactions in the future.

#### *Lenders with Risk Sharing*

We enter into risk sharing agreements with lenders pursuant to which the lenders agree to bear all or some portion of the credit losses on the covered loans. Our maximum potential loss recovery from lenders under risk sharing agreements on DUS and non-DUS multifamily loans was \$45.2 billion as of September 30, 2015, compared with \$41.7 billion as of December 31, 2014. As of September 30, 2015 and December 31, 2014, 32% of our maximum potential loss recovery on multifamily loans was from three DUS lenders. As noted above in “Multifamily Mortgage Credit Risk Management—Multifamily Acquisition Policy and Underwriting Standards,” our primary multifamily delivery channel is our DUS program, which consists of lenders that range from large depositories to independent non-bank financial institutions. As of September 30, 2015, approximately 35% of the unpaid principal balance of loans in our multifamily guaranty book of business serviced by our DUS lenders was from institutions with an external investment grade credit rating or a guaranty from an affiliate with an

external investment grade credit rating, compared with approximately 36% as of December 31, 2014. Given the risk-sharing nature of the DUS program, the lenders are bound by eligibility standards that dictate, among other items, minimum capital and liquidity levels, and the posting of collateral at a highly rated custodian to secure a portion of the lenders' future obligations. We actively monitor the financial condition of these lenders to help ensure the level of risk remains within our standards and to ensure required capital levels are maintained and are in alignment with actual and modeled loss projections.

Our maximum potential loss recovery from lenders under risk sharing agreements on single-family loans was less than 0.5% of our single-family guaranty book of business as of September 30, 2015 and December 31, 2014. Given the stressed financial condition of some of our single-family lenders, we expect in some cases we will recover less than the amount the lender is obligated to provide us under our risk sharing arrangement with them. Depending on the financial strength of the counterparty, we may require a lender to pledge collateral to secure its recourse obligations.

#### Custodial Depository Institutions

A total of \$35.8 billion in deposits for single-family payments were received and held by 267 institutions during the month of September 2015 and a total of \$33.2 billion in deposits for single-family payments were received and held by 269 institutions during the month of December 2014. Of these total deposits, 91% as of September 30, 2015, compared with 93% as of December 31, 2014, were held by institutions rated as investment grade by S&P, Moody's and Fitch. Our transactions with custodial depository institutions are concentrated. Our six largest custodial depository institutions held 83% of these deposits as of September 30, 2015 and December 31, 2014.

We evaluate our custodial depository institutions to determine whether they are eligible to hold deposits on our behalf based on requirements specified in our Servicing Guide. If a custodial depository institution were to fail while holding remittances of borrower payments of principal and interest due to us in our custodial account, we would be an unsecured creditor of the depository for balances in excess of the deposit insurance protection and might not be able to recover all of the principal and interest payments being held by the depository on our behalf, or there might be a substantial delay in receiving these amounts. If this were to occur, we would be required to replace these amounts with our own funds to make payments that are due to Fannie Mae MBS certificateholders. Accordingly, the insolvency of one of our principal custodial depository counterparties could result in significant financial losses to us. During the month of September 2015, approximately \$2.2 billion, or 6%, of our total deposits for single-family payments received and held by these institutions was in excess of the deposit insurance protection limit compared with approximately \$2.4 billion, or 7%, during the month of December 2014. These amounts can vary as they are calculated based on individual payments of mortgage borrowers and we must estimate which borrowers are paying their regular principal and interest payments and other types of payments, such as prepayments from refinancing or sales.

#### Counterparty Credit Exposure of Investments Held in our Cash and Other Investments Portfolio

Our cash and other investments portfolio consists of cash and cash equivalents, securities purchased under agreements to resell or similar arrangements and U.S. Treasury securities. Our cash and other investment counterparties are primarily financial institutions and the Federal Reserve Bank. As of September 30, 2015 and December 31, 2014, we held \$2.0 billion in short-term unsecured deposits with two financial institutions that had short-term credit rating of A-1 from S&P (or its equivalent), based on the lowest credit rating issued by S&P, Moody's and Fitch, and no other unsecured positions other than U.S. Treasury securities. See "Liquidity and Capital Management—Liquidity Management—Cash and Other Investments Portfolio" for more detailed information on our cash and other investments portfolio.

#### Derivative Counterparty Credit Exposure

Our derivative counterparty credit exposure relates principally to interest rate derivative contracts. We are exposed to the risk that a counterparty in a derivative transaction will default on payments due to us, which may require us to seek a replacement derivative from a different counterparty. This replacement may be at a higher cost, or we may be unable to find a suitable replacement. Historically, our risk management derivative transactions have been made pursuant to bilateral contracts with a specific counterparty governed by the terms of an International Swaps and Derivatives Association Inc. master agreement. Pursuant to regulations implementing the Dodd-Frank Act that became effective in June 2013, we are required to submit certain categories of new interest rate swaps to a derivatives clearing organization. We refer to our derivative transactions made pursuant to bilateral contracts as our over-the-counter ("OTC") derivative transactions and our derivative transactions accepted for clearing by a derivatives clearing organization as our cleared derivative transactions.

We manage our derivative counterparty credit exposure relating to our OTC derivative transactions through enforceable master netting arrangements. These arrangements allow us to net derivative assets and liabilities with the same counterparty. We also manage our derivative counterparty exposure relating to our OTC derivative transactions by requiring counterparties to post collateral, which includes cash, U.S. Treasury securities, agency debt and agency mortgage-related securities.

Our cleared derivative transactions are submitted to a derivatives clearing organization on our behalf through a clearing member of the organization. A contract accepted by a derivatives clearing organization is governed by the terms of the clearing organization's rules and arrangements between us and the clearing member of the clearing organization. As a result, we are exposed to the institutional credit risk of both the derivatives clearing organization and the member who is acting on our behalf. We manage our credit exposure relating to our cleared derivative transactions through enforceable master netting arrangements. These arrangements allow us to net our exposure to cleared derivatives by clearing organization and by clearing member.

Our institutional credit risk exposure to derivatives clearing organizations and certain of their members will increase substantially in the future as cleared derivative contracts comprise a larger percentage of our derivative instruments. We estimate our exposure to credit loss on derivative instruments by calculating the replacement cost, on a present value basis, to settle at current market prices all outstanding derivative contracts in a net gain position at the counterparty level where the right of legal offset exists.

The fair value of derivatives in a gain position is included in our condensed consolidated balance sheets in "Other assets." Total exposure represents our exposure to credit loss on derivative instruments less the cash and non-cash collateral posted by our counterparties to us. This does not include collateral held in excess of exposure. Our total exposure was \$32 million as of September 30, 2015 and \$27 million as of December 31, 2014. The majority of our total exposure as of each date consisted of mortgage insurance contracts accounted for as derivatives.

As of September 30, 2015 and December 31, 2014, we had sixteen counterparties with which we may transact OTC derivative transactions, all of which were subject to enforceable master netting arrangements. We had outstanding notional amounts with all of these counterparties, and the highest concentration by our total outstanding notional amount was approximately 8% as of September 30, 2015 and 11% as of December 31, 2014.

See "Note 9, Derivative Instruments" and "Note 14, Netting Arrangements" for additional information on our derivative contracts as of September 30, 2015 and December 31, 2014.

### **Market Risk Management, Including Interest Rate Risk Management**

We are subject to market risk, which includes interest rate risk, spread risk and liquidity risk. These risks arise from our mortgage asset investments. Interest rate risk is the risk of loss in value or expected future earnings that may result from changes to interest rates. Spread risk or basis risk is the resulting impact of changes in the spread between our mortgage assets and our debt and derivatives we use to hedge our position. Liquidity risk is the risk that we will not be able to meet our funding obligations in a timely manner. We describe our sources of interest rate risk exposure, business risks posed by changes in interest rates, and our strategy for managing interest rate risk and spread risk in "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management" and "Risk Factors" in our 2014 Form 10-K.

#### ***Measurement of Interest Rate Risk***

Below we present two quantitative metrics that provide estimates of our interest rate risk exposure: (1) fair value sensitivity of our net portfolio to changes in interest rate levels and slope of yield curve; and (2) duration gap. Our net portfolio consists of our retained mortgage portfolio assets; cash and other investment portfolio; our outstanding debt of Fannie Mae that is used to fund the retained mortgage portfolio assets and cash and other investment portfolio; mortgage commitments and risk management derivatives. Risk management derivatives along with our debt instruments are used to manage interest rate risk.

The metrics presented are calculated using internal models that require standard assumptions regarding interest rates and future prepayments of principal over the remaining life of our securities. These assumptions are derived based on the characteristics of the underlying structure of the securities and historical prepayment rates experienced at specified interest rate levels, taking into account current market conditions, the current mortgage rates of our existing outstanding loans, loan age and other factors. On a continuous basis, management makes judgments about the appropriateness of the risk assessments and will make adjustments as necessary to properly assess our interest rate exposure and manage our interest rate risk. The methodologies used to calculate risk estimates are periodically changed on a prospective basis to reflect improvements in the underlying estimation process.

#### ***Interest Rate Sensitivity to Changes in Interest Rate Level and Slope of Yield Curve***

Pursuant to a disclosure commitment with FHFA, we disclose on a monthly basis the estimated adverse impact on the fair value of our net portfolio that would result from the following hypothetical situations:

- A 50 basis point shift in interest rates.
- A 25 basis point change in the slope of the yield curve.



In measuring the estimated impact of changes in the level of interest rates, we assume a parallel shift in all maturities of the U.S. LIBOR interest rate swap curve.

In measuring the estimated impact of changes in the slope of the yield curve, we assume a constant 7-year rate and a shift of 16.7 basis points for the 1-year rate and 8.3 basis points for the 30-year rate. We believe the aforementioned interest rate shocks for our monthly disclosures represent moderate movements in interest rates over a one-month period.

#### *Duration Gap*

Duration gap measures the price sensitivity of our assets and liabilities in our net portfolio to changes in interest rates by quantifying the difference between the estimated durations of our assets and liabilities. Our duration gap analysis reflects the extent to which the estimated maturity and repricing cash flows for our assets are matched, on average, over time and across interest rate scenarios to those of our liabilities. A positive duration gap indicates that the duration of our assets exceeds the duration of our liabilities. We disclose duration gap on a monthly basis under the caption "Interest Rate Risk Disclosures" in our Monthly Summary, which is available on our Web site and announced in a press release.

While our goal is to reduce the price sensitivity of our net portfolio to movements in interest rates, various factors can contribute to a duration gap that is either positive or negative. For example, changes in the market environment can increase or decrease the price sensitivity of our mortgage assets relative to the price sensitivity of our liabilities because of prepayment uncertainty associated with our assets. In a declining interest rate environment, prepayment rates tend to accelerate, thereby shortening the duration and average life of the fixed rate mortgage assets we hold in our net portfolio. Conversely, when interest rates increase, prepayment rates generally slow, which extends the duration and average life of our mortgage assets. Our debt and derivative instrument positions are used to manage the interest rate sensitivity of our retained mortgage portfolio and our investments in non-mortgage securities. As a result, the degree to which the interest rate sensitivity of our retained mortgage portfolio and our investments in non-mortgage securities is offset will be dependent upon, among other factors, the mix of funding and other risk management derivative instruments we use at any given point in time.

The market value sensitivities of our net portfolio are a function of both the duration and the convexity of our net portfolio. Duration provides a measure of the price sensitivity of a financial instrument to changes in interest rates while convexity reflects the degree to which the duration of the assets and liabilities in our net portfolio changes in response to a given change in interest rates. We use convexity measures to provide us with information about how quickly and by how much our net portfolio's duration may change in different interest rate environments. The market value sensitivity of our net portfolio will depend on a number of factors, including the interest rate environment, modeling assumptions and the composition of assets and liabilities in our net portfolio, which vary over time.

#### *Results of Interest Rate Sensitivity Measures*

The interest rate risk measures discussed below exclude the impact of changes in the fair value of our guaranty assets and liabilities resulting from changes in interest rates. We exclude our guaranty business from these sensitivity measures based on our current assumption that the guaranty fee income generated from future business activity will largely replace guaranty fee income lost due to mortgage prepayments.

Table 37 displays the pre-tax market value sensitivity of our net portfolio to changes in the level of interest rates and the slope of the yield curve as measured on the last day of each period presented. Table 37 also provides the daily average, minimum, maximum and standard deviation values for duration gap and for the most adverse market value impact on the net portfolio to changes in the level of interest rates and the slope of the yield curve for the three months ended September 30, 2015 and 2014.

The sensitivity measures displayed in Table 37, which we disclose on a quarterly basis pursuant to a disclosure commitment with FHFA, are an extension of our monthly sensitivity measures. There are three primary differences between our monthly sensitivity disclosure and the quarterly sensitivity disclosure presented below: (1) the quarterly disclosure is expanded to include the sensitivity results for larger rate level shocks of plus or minus 100 basis points; (2) the monthly disclosure reflects the estimated pre-tax impact on the market value of our net portfolio calculated based on a daily average, while the quarterly disclosure reflects the estimated pre-tax impact calculated based on the estimated financial position of our net portfolio and the market environment as of the last business day of the quarter; and (3) the monthly disclosure shows the most adverse pre-tax impact on the market value of our net portfolio from the hypothetical interest rate shocks, while the quarterly disclosure includes the estimated pre-tax impact of both up and down interest rate shocks.

**Table 37: Interest Rate Sensitivity of Net Portfolio to Changes in Interest Rate Level and Slope of Yield Curve<sup>(1)</sup>**

|                                     | As of                             |                                  |
|-------------------------------------|-----------------------------------|----------------------------------|
|                                     | September 30, 2015 <sup>(2)</sup> | December 31, 2014 <sup>(2)</sup> |
| (Dollars in billions)               |                                   |                                  |
| Rate level shock:                   |                                   |                                  |
| -100 basis points .....             | \$ 0.3                            | \$ 0.4                           |
| -50 basis points .....              | 0.0                               | 0.1                              |
| +50 basis points .....              | 0.0                               | (0.1)                            |
| +100 basis points .....             | (0.1)                             | (0.1)                            |
| Rate slope shock:                   |                                   |                                  |
| -25 basis points (flattening) ..... | 0.1                               | 0.0                              |
| +25 basis points (steepening) ..... | (0.1)                             | (0.0)                            |

|                          | For the Three Months Ended September 30, 2015 <sup>(3)</sup> |                            |                            |
|--------------------------|--|----------------------------|----------------------------|
|                          | Duration Gap   | Rate Slope Shock<br>25 Bps | Rate Level Shock<br>50 Bps |
|                          | Exposure   |                            |                            |
|                          | (In months)  | (Dollars in billions)      |                            |
| Average .....            | (0.2)  | \$ 0.0                     | \$ 0.0                     |
| Minimum .....            | (0.8)  | 0.0                        | —                          |
| Maximum .....            | 0.7  | 0.1                        | 0.1                        |
| Standard deviation ..... | 0.3  | 0.0                        | 0.0                        |

|                          | For the Three Months Ended September 30, 2014 <sup>(3)</sup> |                            |                            |
|--------------------------|--|----------------------------|----------------------------|
|                          | Duration Gap   | Rate Slope Shock<br>25 Bps | Rate Level Shock<br>50 Bps |
|                          | Exposure   |                            |                            |
|                          | (In months)  | (Dollars in billions)      |                            |
| Average .....            | 0.0  | \$ 0.0                     | \$ 0.1                     |
| Minimum .....            | (0.4)  | 0.0                        | 0.0                        |
| Maximum .....            | 0.3  | 0.1                        | 0.1                        |
| Standard deviation ..... | 0.2  | 0.0                        | 0.0                        |

<sup>(1)</sup> Computed based on changes in U.S. LIBOR interest rates swap curve.

<sup>(2)</sup> Measured on the last day of each period presented.

<sup>(3)</sup> Computed based on daily values during the period presented.

The market value sensitivity of our net portfolio varies across a range of interest rate shocks depending upon the duration and convexity profile of our net portfolio. Because the effective duration gap of our net portfolio was close to zero months in the periods presented, convexity risk was the primary driver of the market value sensitivity of our net portfolio in those periods.

A majority of the interest rate risk associated with our mortgage-related securities and loans is hedged with our debt issuances, which include callable debt. We use derivatives to help manage the residual interest rate risk exposure between our assets and liabilities. Derivatives have enabled us to keep our interest rate risk exposure at consistently low levels in a wide range of interest-rate environments. Table 38 displays an example of how derivatives impacted the net market value exposure for a 50 basis point parallel interest rate shock.

**Table 38: Derivative Impact on Interest Rate Risk (50 Basis Points)<sup>(1)</sup>**

|                             | As of                 |                   |
|-----------------------------|-----------------------|-------------------|
|                             | September 30, 2015    | December 31, 2014 |
|                             | (Dollars in billions) |                   |
| Before Derivatives .....    | \$ (2.1)              | \$ (1.9)          |
| After Derivatives .....     | 0.0                   | (0.1)             |
| Effect of Derivatives ..... | 2.1                   | 1.8               |

<sup>(1)</sup> Measured on the last day of each period presented.

### Liquidity Risk Management

See “MD&A—Liquidity and Capital Management—Liquidity Management” in our 2014 Form 10-K and in this report for a discussion of how we manage liquidity risk.

### Operational Risk Management

See “MD&A—Risk Management—Operational Risk Management” in our 2014 Form 10-K for information on operational risks that we face and our framework for managing operational risk.

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## IMPACT OF FUTURE ADOPTION OF NEW ACCOUNTING GUIDANCE

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We identify and discuss the expected impact on our condensed consolidated financial statements of recently issued accounting guidance in “Note 1, Summary of Significant Accounting Policies.”

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## FORWARD-LOOKING STATEMENTS

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This report includes statements that constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). In addition, our senior management may from time to time make forward-looking statements orally to analysts, investors, the news media and others. Forward-looking statements often include words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” “forecast,” “project,” “would,” “should,” “could,” “likely,” “may,” “will” or similar words.

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

- Our expectation that we will remain profitable on an annual basis for the foreseeable future;
- Our expectation that certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year;
- Our expectation that our earnings in 2015 and future years will be substantially lower than our earnings for 2014, primarily due to our expectation of substantially lower income from resolution agreements, continued declines in net interest income from our retained mortgage portfolio assets and lower credit-related income or a shift to credit-related expense;
- Our expectation that our future financial results also will be affected by a number of other factors, including: our guaranty fee rates; the volume of single-family mortgage originations in the future; the size, composition and quality of our retained mortgage portfolio and guaranty book of business; and economic and housing market conditions;
- Our expectation of volatility from period to period in our financial results from a number of factors, particularly changes in market conditions that result in fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings;
- Our expectation that we will continue engaging in economically sensible ways to expand our offerings of credit risk transfer transactions in the future;
- Our expectation that we will pay Treasury a senior preferred stock dividend of \$2.2 billion by December 31, 2015 for the fourth quarter of 2015;

- Our expectation that we will retain only a limited amount of any future net worth because we are required by the dividend provisions of the senior preferred stock and quarterly directives from our conservator to pay Treasury each quarter the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount;
- Our expectation that we will begin acquiring loans under HomeReady in the fourth quarter of 2015;
- Our expectation that our acquisition of single-family loans with 95.01% to 97% LTV ratios as a result of our efforts to provide access to credit will not materially affect our overall credit risk because of our expectations that (1) these loans will constitute a small portion of our acquisitions overall, and (2) our eligibility requirements for these loans will limit their effect on our overall credit risk;
- Our expectations that the volume of single-family loans we acquire with 95.01% to 97% LTV ratios as a result of our efforts to provide access to credit will increase, but that these loans will continue to constitute only a small portion of our overall acquisitions;
- Our expectation that our single-family acquisitions will continue to have a strong overall credit risk profile given our current underwriting and eligibility standards and product design;
- Our belief that Collateral Underwriter's integration with Desktop Underwriter will enhance our lenders' risk management and underwriting capabilities;
- Our expectation that our elimination of fees charged to customers for using Desktop Underwriter and Desktop Originator will allow more lenders to access these systems in their underwriting process;
- Our expectations regarding the use of trended credit data, and that Desktop Underwriter will be updated to use trended credit data by mid-2016;
- Our expectations regarding the availability in 2016 of a new capability to help lenders underwrite loans through Desktop Underwriter for borrowers who do not have a traditional credit history;
- Our plan to introduce Fannie Mae Connect, a new self-service portal for lenders to access the data and analytics they need through a one stop source that will replace multiple legacy systems;
- Our expectation that we will offer data validation services in 2016 that will enable lenders to validate a borrower's income through Desktop Underwriter with data provided by Equifax's The Work Number<sup>®</sup>;
- Our expectation that our new loan delivery platform will be available to lenders in the fourth quarter of 2015;
- Our expectation that the development of the single security will be a multi-year initiative;
- Our belief that implementation of a single security would likely reduce, and could eliminate, the trading advantage that Fannie Mae MBS have over Freddie Mac mortgage-backed securities and that, if this occurs, it would negatively affect our ability to compete for mortgage assets in the secondary market and could adversely affect our results of operations;
- The expectation that, with the enhanced requirements FHFA announced in March 2015, nonperforming loan sales will result in favorable outcomes for borrowers and local communities;
- Our plan to complete additional nonperforming loan sales;
- The expectation that there will be more than 300,000 new multifamily units completed in 2015;
- Our belief that the increase in the supply of multifamily units concentrated in a limited number of metropolitan areas in 2015 will result in a temporary slowdown in the growth of net absorption rates, occupancy levels and effective rents in those areas;
- Our expectation that overall national rental market supply and demand will remain in balance over the longer term, based on expected construction completions, expected obsolescence, positive rental household formation trends and expected increases in the population of 25- to 34-year olds, which is the primary age group that tends to rent multifamily housing;
- Our expectation that significant uncertainty regarding the future of our company and the housing finance system will continue;
- Our expectation that the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties will continue to account for an increasing portion of our net interest income;

- Our expectation that continued decreases in the size of our retained mortgage portfolio will continue to negatively impact our net interest income and net revenues;
- Our expectation that increases in our guaranty fee revenues will partially offset the negative impact of the decline in our retained mortgage portfolio;
- Our expectation that our guaranty fee revenues will increase over the next several years, as loans with lower guaranty fees liquidate from our book of business and are replaced with new loans with higher guaranty fees;
- Our expectation that the extent to which the positive impact of increased guaranty fee revenues will offset the negative impact of the decline in the size of our retained mortgage portfolio will depend on many factors, including: changes to guaranty fee pricing we may make in the future and their impact on our competitive environment and guaranty fee revenues; the size, composition and quality of our guaranty book of business; the life of the loans in our guaranty book of business; the size, composition and quality of our retained mortgage portfolio, including the pace at which we are required by our conservator to reduce the size of our portfolio and the types of assets we are required to sell; economic and housing market conditions, including changes in interest rates; our market share; and legislative and regulatory changes;
- Our expectation that single-family mortgage loan serious delinquency and severity rates will continue their downward trend, but at a slower pace than in recent years;
- Our expectation that single-family serious delinquency and severity rates will remain high compared with pre-housing crisis levels because it will take some time for the remaining delinquent loans with high mark-to-market LTV ratios originated prior to 2009 to work their way through the foreclosure process;
- Our expectation that, despite steady demand and stable fundamentals at the national level, the multifamily sector may continue to exhibit below average fundamentals in certain local markets and with certain properties;
- Our forecast that total originations in the U.S. single-family mortgage market in 2015 will increase from 2014 levels by approximately 30%, from an estimated \$1.3 trillion in 2014 to \$1.7 trillion in 2015;
- Our forecast that the amount of originations in the U.S. single-family mortgage market that are refinancings will increase from an estimated \$518 billion in 2014 to \$779 billion in 2015;
- Our expectation that the rate of home price appreciation in 2015 will be similar to the rate in 2014;
- Our expectation of significant regional variation in the timing and rate of home price growth;
- Our expectation that our credit losses generally will continue to decline in future years, absent further redesignations or accounting policy changes;
- Our expectation that our loss reserves will decline further;
- Our expectation that we will pay \$168 million that we accrued in the first nine months of 2015, plus additional amounts to be accrued based on our new business purchases in the last three months of 2015, in February 2016 to the U.S. Department of Housing and Urban Development's Housing Trust Fund and Treasury's Capital Magnet Fund;
- Our expectation that guaranty fees collected and expenses incurred under the TCCA will continue to increase in the future;
- Our plan to reduce our mortgage portfolio to no more than \$359.3 billion as of December 31, 2015, in compliance with both our senior preferred stock purchase agreement with Treasury and FHFA's request;
- Our expectation that we will continue purchasing loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity and other factors, including the limit on the amount of mortgage assets that we may own pursuant to the senior preferred stock purchase agreement and FHFA's portfolio plan requirements;
- Our belief that our liquidity contingency plan may be difficult or impossible to execute for a company of our size and in our circumstances;
- Our intention to repay our short-term and long-term debt obligations as they become due primarily through proceeds from the issuance of additional debt securities;
- Our expectation that we may also use proceeds from our mortgage assets to pay our debt obligations;
- Our expectation that we will not eliminate our deficit of core capital over statutory minimum capital;

- Our belief that we have taken appropriate steps to mitigate the risk associated with providing lenders with relief from repurchasing certain loans for breaches of certain representations and warranties;
- Our expectation that our acquisition of Alt-A mortgage loans will continue to be minimal in future periods and the percentage of the book of business attributable to Alt-A will continue to decrease over time;
- Our expectation that the serious delinquency rates for single-family loans acquired in more recent years will be higher after the loans have aged, but will not approach the September 30, 2015 serious delinquency rates of loans acquired in 2005 through 2008;
- Our expectation that the ultimate performance of all our loans will be affected by borrower behavior, public policy and macroeconomic trends, including unemployment, the economy and home prices;
- Our expectation that loans we acquire under Refi Plus and HARP will perform better than the loans they replace because they should either reduce the borrowers' monthly payments or provide more stable terms than the borrowers' old loans (for example, by refinancing into a mortgage with a fixed interest rate instead of an adjustable rate);
- Our expectation that the volume of refinancings under HARP will continue to decline, due to a decrease in the population of borrowers with loans that have high LTV ratios who are willing to refinance and would benefit from refinancing;
- Our belief that the slow pace of single-family foreclosures in certain areas of the country will continue to negatively affect our single-family serious delinquency rates, foreclosure timelines and credit-related income (expense), and that other factors such as the pace of loan modifications, the timing and volume of future nonperforming loan sales we make, changes in home prices, unemployment levels and other macroeconomic conditions also influence serious delinquency rates;
- Our expectation that, as a result of our various loss mitigation and foreclosure prevention efforts, a portion of the loans in the process of formal foreclosure proceedings will not ultimately foreclose;
- Our expectation that our single-family serious delinquency rate will continue to decrease;
- Our expectation that, as a result of allowing lenders to remit payment equal to our losses on loans after we have disposed of the related REO, our actual cash receipts relating to our outstanding repurchase requests will be significantly lower than the unpaid principal balance of the loans;
- Our expectation that we will enter into additional credit insurance risk transfer transactions in the future;
- Our expectation, given the stressed financial condition of some of our single-family lenders, that in some cases we will recover less than the amount the lender is obligated to provide us under our risk sharing arrangement with them;
- Our expectation that we will not remediate the material weakness relating to our disclosure controls and procedures while we are under conservatorship;
- Our belief that the changes to our mortgage securities transaction processing and accounting systems described in this report will allow us to be more efficient and further strengthen our internal control over financial reporting;
- Our expectation that Congress will continue to hold hearings and consider legislation on the future status of Fannie Mae and Freddie Mac, including proposals that would result in Fannie Mae's liquidation or dissolution;
- Our expectation that Congress will continue to consider housing finance reform in the current congressional session; and
- Our belief that continued federal government support of our business, as well as our status as a GSE, are essential to maintaining our access to debt funding and that changes or perceived changes in federal government support of our business or our status as a GSE could materially and adversely affect our liquidity, financial condition and results of operations.

Forward-looking statements reflect our management's or in some cases FHFA's expectations, forecasts or predictions of future conditions, events or results based on various assumptions and management's estimates of trends and economic factors in the markets in which we are active, as well as our business plans. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. There are a number of factors that could cause actual conditions, events or results to differ materially from those described in the forward-looking statements contained in this report, including, but not limited to, the following: the uncertainty of our future; legislative and regulatory changes affecting us; the timing and level of, as well as regional variation in, home price

changes; changes in interest rates, unemployment rates and other macroeconomic and housing market variables; our future guaranty fee pricing and the impact of that pricing on our competitive environment and guaranty fee revenues; challenges we face in retaining and hiring qualified employees; our future serious delinquency rates; the deteriorated credit performance of many loans in our guaranty book of business; the conservatorship and its effect on our business; the investment by Treasury and its effect on our business; adverse effects from activities we undertake to support the mortgage market and help borrowers; actions we may be required to take by FHFA, as our conservator or as our regulator, such as changes in the type of business we do or implementation of a single GSE security; our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers; a decrease in our credit ratings; limitations on our ability to access the debt capital markets; disruptions in the housing and credit markets; significant changes in modification and foreclosure activity; the volume and pace of future nonperforming loan sales and their impact on our results and serious delinquency rates; changes in borrower behavior; the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies; defaults by one or more institutional counterparties; resolution or settlement agreements we may enter into with our counterparties; our need to rely on third parties to fully achieve some of our corporate objectives; our reliance on mortgage servicers; changes in GAAP; guidance by the Financial Accounting Standards Board (“FASB”); future changes to our accounting policies; changes in the fair value of our assets and liabilities; operational control weaknesses; our reliance on models; future updates to our models, including the assumptions used by these models; the level and volatility of interest rates and credit spreads; changes in the fiscal and monetary policies of the Federal Reserve; changes in the structure and regulation of the financial services industry; credit availability; global political risks; natural disasters, terrorist attacks, pandemics or other major disruptive events; information security breaches; and those factors described in “Risk Factors” in this report and in our 2014 Form 10-K, as well as the factors described in “Executive Summary—Outlook—Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations” in this report.

Readers are cautioned to place forward-looking statements in this report or that we make from time to time into proper context by carefully considering the factors discussed in “Risk Factors” in our 2014 Form 10-K and in this report. These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under the federal securities laws.

## Item 1. Financial Statements

**FANNIE MAE**  
**(In conservatorship)**  
**Condensed Consolidated Balance Sheets — (Unaudited)**  
(Dollars in millions, except share amounts)

|  | As of                 |                      |
|--|-----------------------|----------------------|
|  | September 30,<br>2015 | December 31,<br>2014 |
| <b>ASSETS</b>  |                       |                      |
| Cash and cash equivalents .....  | \$ 19,915             | \$ 22,023            |
| Restricted cash (includes \$25,809 and \$27,515, respectively, related to consolidated trusts) .....                             | 30,281                | 32,542               |
| Federal funds sold and securities purchased under agreements to resell or similar arrangements .....                             | 26,600                | 30,950               |
| Investments in securities:   |                       |                      |
| Trading, at fair value .....   | 38,009                | 31,504               |
| Available-for-sale, at fair value (includes \$351 and \$596, respectively, related to consolidated trusts) .....                 | 22,007                | 30,654               |
| Total investments in securities .....  | 60,016                | 62,158               |
| Mortgage loans:  |                       |                      |
| Loans held for sale, at lower of cost or fair value .....  | 3,716                 | 331                  |
| Loans held for investment, at amortized cost:  |                       |                      |
| Of Fannie Mae .....  | 241,294               | 272,360              |
| Of consolidated trusts .....   | 2,804,581             | 2,782,344            |
| Total loans held for investment (includes \$14,605 and \$15,629, respectively, at fair value) .....                              | 3,045,875             | 3,054,704            |
| Allowance for loan losses .....  | (29,135)              | (35,541)             |
| Total loans held for investment, net of allowance .....  | 3,016,740             | 3,019,163            |
| Total mortgage loans .....   | 3,020,456             | 3,019,494            |
| Accrued interest receivable, net (includes \$7,371 and \$7,169, respectively, related to consolidated trusts) .....              | 8,137                 | 8,193                |
| Acquired property, net .....   | 7,691                 | 10,618               |
| Deferred tax assets, net .....   | 39,012                | 42,206               |
| Other assets .....   | 18,674                | 19,992               |
| Total assets .....   | \$ 3,230,782          | \$ 3,248,176         |
| <b>LIABILITIES AND EQUITY</b>  |                       |                      |
| Liabilities:   |                       |                      |
| Accrued interest payable (includes \$8,156 and \$8,282, respectively, related to consolidated trusts) .....                      | \$ 10,016             | \$ 10,232            |
| Federal funds purchased and securities sold under agreements to repurchase .....   | 118                   | 50                   |
| Debt:  |                       |                      |
| Of Fannie Mae (includes \$9,975 and \$6,403, respectively, at fair value) .....  | 417,458               | 460,443              |
| Of consolidated trusts (includes \$23,143 and \$19,483, respectively, at fair value) .....                                       | 2,788,787             | 2,761,712            |
| Other liabilities (includes \$426 and \$503, respectively, related to consolidated trusts) .....                                 | 10,400                | 12,019               |
| Total liabilities .....  | 3,226,779             | 3,244,456            |
| Commitments and contingencies (Note 16) .....  | —                     | —                    |
| Fannie Mae stockholders' equity:   |                       |                      |
| Senior preferred stock, 1,000,000 shares issued and outstanding .....  | 117,149               | 117,149              |
| Preferred stock, 700,000,000 shares are authorized—555,374,922 shares issued and outstanding .....                               | 19,130                | 19,130               |
| Common stock, no par value, no maximum authorization—1,308,762,703 shares issued and 1,158,082,750 shares outstanding .....      | 687                   | 687                  |
| Accumulated deficit .....  | (127,206)             | (127,618)            |
| Accumulated other comprehensive income .....   | 1,613                 | 1,733                |
| Treasury stock, at cost, 150,679,953 shares .....  | (7,401)               | (7,401)              |
| Total Fannie Mae stockholders' equity .....  | 3,972                 | 3,680                |
| Noncontrolling interest .....  | 31                    | 40                   |
| Total equity (See Note 1: <i>Impact of U.S. Government Support</i> for information on our dividend obligation to Treasury) ..... | 4,003                 | 3,720                |
| Total liabilities and equity .....   | \$ 3,230,782          | \$ 3,248,176         |

See Notes to Condensed Consolidated Financial Statements



**FANNIE MAE**  
**(In conservatorship)**  
**Condensed Consolidated Statements of Operations and Comprehensive Income — (Unaudited)**  
(Dollars and shares in millions, except per share amounts)

|   | <b>For the Three Months<br/>Ended September 30,</b> |                 | <b>For the Nine Months<br/>Ended September 30,</b> |                  |
|---|---|-----------------|--|------------------|
|   | <b>2015</b>   | <b>2014</b>     | <b>2015</b>  | <b>2014</b>      |
| Interest income:  |   |                 |  |                  |
| Trading securities  | \$ 99   | \$ 151          | \$ 330   | \$ 421           |
| Available-for-sale securities   | 261   | 395             | 931  | 1,249            |
| Mortgage loans (includes \$24,537 and \$25,217, respectively, for the three months ended and \$73,426 and \$76,704, respectively, for the nine months ended related to consolidated trusts) | 26,980  | 27,779          | 80,706   | 84,532           |
| Other   | 37  | 29              | 104  | 77               |
| Total interest income   | <u>27,377</u>                                       | <u>28,354</u>   | <u>82,071</u>                                      | <u>86,279</u>    |
| Interest expense:   |   |                 |  |                  |
| Short-term debt   | 37  | 26              | 99   | 67               |
| Long-term debt (includes \$19,891 and \$21,094, respectively, for the three months ended and \$59,934 and \$64,862, respectively, for the nine months ended related to consolidated trusts) | 21,752  | 23,144          | 65,640   | 71,386           |
| Total interest expense  | <u>21,789</u>                                       | <u>23,170</u>   | <u>65,739</u>                                      | <u>71,453</u>    |
| Net interest income   | 5,588   | 5,184           | 16,332   | 14,826           |
| Benefit for credit losses   | 1,550   | 1,085           | 1,050  | 3,498            |
| Net interest income after benefit for credit losses   | <u>7,138</u>  | <u>6,269</u>    | <u>17,382</u>                                      | <u>18,324</u>    |
| Investment gains, net   | 299   | 171             | 1,155  | 749              |
| Fair value losses, net  | (2,589)   | (207)           | (1,902)  | (2,331)          |
| Debt extinguishment gains (losses), net   | (11)  | 11              | —  | 49               |
| Fee and other income  | 259   | 826             | 1,123  | 5,564            |
| Non-interest income (loss)  | <u>(2,042)</u>                                      | <u>801</u>      | <u>376</u>   | <u>4,031</u>     |
| Administrative expenses:  |   |                 |  |                  |
| Salaries and employee benefits  | 317   | 337             | 999  | 981              |
| Professional services   | 219   | 263             | 741  | 780              |
| Occupancy expenses  | 43  | 47              | 129  | 144              |
| Other administrative expenses   | 373   | 59              | 495  | 170              |
| Total administrative expenses   | 952   | 706             | 2,364  | 2,075            |
| Foreclosed property expense (income)  | 497   | 249             | 1,152  | (227)            |
| Temporary Payroll Tax Cut Continuation Act of 2011 (“TCCA”) fees  | 413   | 351             | 1,192  | 1,008            |
| Other expenses, net   | 204   | 72              | 412  | 479              |
| Total expenses  | <u>2,066</u>  | <u>1,378</u>    | <u>5,120</u>                                       | <u>3,335</u>     |
| Income before federal income taxes  | 3,030   | 5,692           | 12,638   | 19,020           |
| Provision for federal income taxes  | <u>(1,070)</u>                                      | <u>(1,787)</u>  | <u>(4,150)</u>                                     | <u>(6,123)</u>   |
| Net income  | 1,960   | 3,905           | 8,488  | 12,897           |
| Other comprehensive income (loss):  |   |                 |  |                  |
| Changes in unrealized gains on available-for-sale securities, net of reclassification adjustments and taxes   | (177)   | 63              | (548)  | 480              |
| Other   | 430   | 32              | 428  | 32               |
| Total other comprehensive income (loss)   | <u>253</u>  | <u>95</u>       | <u>(120)</u>                                       | <u>512</u>       |
| Total comprehensive income  | 2,213   | 4,000           | 8,368  | 13,409           |
| Less: Comprehensive income attributable to noncontrolling interest  | —   | —               | —  | (1)              |
| Total comprehensive income attributable to Fannie Mae   | <u>\$ 2,213</u>                                     | <u>\$ 4,000</u> | <u>\$ 8,368</u>                                    | <u>\$ 13,408</u> |
| Net income  | \$ 1,960  | \$ 3,905        | \$ 8,488   | \$ 12,897        |
| Less: Net income attributable to noncontrolling interest  | —   | —               | —  | (1)              |
| Net income attributable to Fannie Mae   | 1,960   | 3,905           | 8,488  | 12,896           |
| Dividends distributed or available for distribution to senior preferred stockholder (Note 10)   | <u>(2,202)</u>                                      | <u>(3,999)</u>  | <u>(8,357)</u>                                     | <u>(13,403)</u>  |
| Net income (loss) attributable to common stockholders (Note 10)   | <u>\$ (242)</u>                                     | <u>\$ (94)</u>  | <u>\$ 131</u>                                      | <u>\$ (507)</u>  |
| Earnings (loss) per share:  |   |                 |  |                  |
| Basic   | \$ (0.04)   | \$ (0.02)       | \$ 0.02  | \$ (0.09)        |
| Diluted   | (0.04)  | (0.02)          | 0.02   | (0.09)           |
| Weighted-average common shares outstanding:   |   |                 |  |                  |
| Basic   | 5,762   | 5,762           | 5,762  | 5,762            |
| Diluted   | 5,762   | 5,762           | 5,893  | 5,762            |

See Notes to Condensed Consolidated Financial Statements

**FANNIE MAE**  
**(In conservatorship)**  
**Condensed Consolidated Statements of Cash Flows — (Unaudited)**  
(Dollars in millions)

|  | <b>For the Nine Months<br/>Ended September 30,</b> |             |
|--|--|-------------|
|  | <b>2015</b>  | <b>2014</b> |
| <b>Net cash provided by (used in) operating activities</b> .....   | \$ (6,375)   | \$ 960      |
| <b>Cash flows provided by investing activities:</b>  |  |             |
| Proceeds from maturities and paydowns of trading securities held for investment .....                              | 633  | 1,046       |
| Proceeds from sales of trading securities held for investment .....  | 1,028  | 1,241       |
| Proceeds from maturities and paydowns of available-for-sale securities .....                                       | 3,477  | 4,505       |
| Proceeds from sales of available-for-sale securities .....   | 6,919  | 2,461       |
| Purchases of loans held for investment .....   | (146,577)  | (93,029)    |
| Proceeds from repayments and sales of loans acquired as held for investment of Fannie Mae .....                    | 21,460   | 19,765      |
| Proceeds from repayments and sales of loans acquired as held for investment of consolidated trusts .....           | 376,169  | 281,787     |
| Net change in restricted cash .....  | 2,261  | 477         |
| Advances to lenders .....  | (92,345)   | (71,268)    |
| Proceeds from disposition of acquired property and preforeclosure sales .....                                      | 16,306   | 19,533      |
| Net change in federal funds sold and securities purchased under agreements to resell or similar arrangements ..... | 4,350  | 9,525       |
| Other, net .....   | 103  | (178)       |
| Net cash provided by investing activities .....  | 193,784  | 175,865     |
| <b>Cash flows used in financing activities:</b>  |  |             |
| Proceeds from issuance of debt of Fannie Mae .....   | 337,748  | 284,266     |
| Payments to redeem debt of Fannie Mae .....  | (381,487)  | (339,528)   |
| Proceeds from issuance of debt of consolidated trusts .....  | 259,254  | 188,719     |
| Payments to redeem debt of consolidated trusts .....   | (397,025)  | (296,612)   |
| Payments of cash dividends on senior preferred stock to Treasury .....   | (8,075)  | (16,594)    |
| Other, net .....   | 68   | 25          |
| Net cash used in financing activities .....  | (189,517)  | (179,724)   |
| <b>Net decrease in cash and cash equivalents</b> .....   | (2,108)  | (2,899)     |
| Cash and cash equivalents at beginning of period .....   | 22,023   | 19,228      |
| Cash and cash equivalents at end of period .....   | \$ 19,915  | \$ 16,329   |
| <b>Cash paid during the period for:</b>  |  |             |
| Interest .....   | \$ 78,584  | \$ 81,947   |
| Income taxes .....   | 470  | 2,475       |

See Notes to Condensed Consolidated Financial Statements

**FANNIE MAE**  
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**1. Summary of Significant Accounting Policies**

***Organization***

We are a stockholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act (the “Charter Act” or our “charter”). We are a government-sponsored enterprise (“GSE”) and we are subject to government oversight and regulation. Our regulators include the Federal Housing Finance Agency (“FHFA”), the U.S. Department of Housing and Urban Development (“HUD”), the U.S. Securities and Exchange Commission (“SEC”), and the U.S. Department of the Treasury (“Treasury”). The U.S. government does not guarantee our securities or other obligations.

***Conservatorship***

On September 7, 2008, the Secretary of the Treasury and the Director of FHFA announced several actions taken by Treasury and FHFA regarding Fannie Mae, which included: (1) placing us in conservatorship, and (2) the execution of a senior preferred stock purchase agreement by our conservator, on our behalf, and Treasury, pursuant to which we issued to Treasury both senior preferred stock and a warrant to purchase common stock.

Under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act of 2008 (together, the “GSE Act”), the conservator immediately succeeded to (1) all rights, titles, powers and privileges of Fannie Mae, and of any stockholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and (2) title to the books, records and assets of any other legal custodian of Fannie Mae. The conservator has since delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. The conservator retains the authority to withdraw its delegations at any time.

The conservatorship has no specified termination date and there continues to be significant uncertainty regarding our future, including how long we will continue to exist in our current form, the extent of our role in the market, what form we will have, what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated and whether we will continue to exist following conservatorship. Under the GSE Act, FHFA must place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations or if we have not been paying our debts, in either case, for a period of 60 days. In addition, the Director of FHFA may place us in receivership at his discretion at any time for other reasons set forth in the GSE Act, including if we are critically undercapitalized or if we are undercapitalized and have no reasonable prospect of becoming adequately capitalized. Should we be placed into receivership, different assumptions would be required to determine the carrying value of our assets, which could lead to substantially different financial results. We are not aware of any plans of FHFA to fundamentally change our business model or capital structure in the near term.

***Impact of U.S. Government Support***

We continue to rely on support from Treasury to eliminate any net worth deficits we may experience in the future, which would otherwise trigger our being placed into receivership. Based on consideration of all the relevant conditions and events affecting our operations, including our reliance on the U.S. government, we continue to operate as a going concern and in accordance with our delegation of authority from FHFA.

We believe that continued federal government support of our business, as well as our status as a GSE, are essential to maintaining our access to debt funding. Changes or perceived changes in federal government support of our business or our status as a GSE could materially and adversely affect our liquidity, financial condition and results of operations.

Pursuant to the senior preferred stock purchase agreement, Treasury has committed to provide us with funding to help us maintain a positive net worth thereby avoiding the mandatory receivership trigger described above. We have received a total of \$116.1 billion from Treasury pursuant to the senior preferred stock purchase agreement as of September 30, 2015. The aggregate liquidation preference of the senior preferred stock, including the initial aggregate liquidation preference of \$1.0 billion, was \$117.1 billion as of September 30, 2015. As of September 30, 2015, the amount of remaining funding available to us under the senior preferred stock purchase agreement was \$117.6 billion.

Based on the terms of the senior preferred stock, we paid Treasury a dividend of \$4.4 billion on September 30, 2015 based on our net worth of \$6.2 billion as of June 30, 2015 less the applicable capital reserve of \$1.8 billion. We expect to pay Treasury an additional dividend of \$2.2 billion by December 31, 2015 based on our net worth of \$4.0 billion as of September 30, 2015 less the applicable capital reserve amount of \$1.8 billion. The capital reserve amount was \$2.4 billion for dividend periods in

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2014. The capital reserve amount will continue to be reduced by \$600 million each year until it reaches zero on January 1, 2018.

***Basis of Presentation***

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) for interim financial information and with the SEC’s instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The accompanying condensed consolidated financial statements include our accounts as well as the accounts of other entities in which we have a controlling financial interest. All intercompany accounts and transactions have been eliminated. To conform to our current period presentation, we have reclassified certain amounts reported in our prior periods’ condensed consolidated financial statements. Results for the nine months ended September 30, 2015 may not necessarily be indicative of the results for the year ending December 31, 2015. The unaudited interim condensed consolidated financial statements as of and for the nine months ended September 30, 2015 should be read in conjunction with our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2014 (“2014 Form 10-K”), filed with the SEC on February 20, 2015.

**Changes in Accounting Principle—Nonaccrual Loans**

Effective January 1, 2015, we changed our policy for the treatment of interest previously accrued but not collected at the date both single-family and multifamily loans are placed on nonaccrual status. Specifically, interest previously accrued but not collected will be reversed through interest income at the date a loan is placed on nonaccrual status. Previously, when a loan was placed on nonaccrual status, interest previously accrued but not collected became part of each loan’s recorded investment and was reviewed either individually or collectively for impairment.

We also changed our policy for when a non-modified single-family loan is returned to accrual status. Effective January 1, 2015, a non-modified single-family loan will be returned to accrual status at the point that the borrower brings the loan current. Previously, a non-modified single-family loan was returned to accrual status at the point that the borrower had made sufficient payments to reduce the delinquency status below our nonaccrual threshold of 60 days past due.

We have concluded that these changes in accounting principle are preferable as we align our nonaccrual policy with industry practice. This alignment increases comparability of our financial statements to these entities, resulting in improved financial reporting.

As these changes to our nonaccrual policy were not material to our financial statements, we wrote off the accrued interest receivable balance on our nonaccrual loans, as well as the corresponding allowance that related to that interest, as an adjustment to the 2015 provision for loan losses and did not retrospectively adjust the condensed consolidated financial statements for this change.

**Change in Accounting Principle—Loans Held for Sale**

Effective January 1, 2015, we changed our policy for calculating the lower of cost or fair value adjustment on loans that have been designated as held for sale (“HFS”). Specifically, our lower of cost or fair value calculation will be performed at an individual loan level on the date of redesignation, if previously held for investment (“HFI”), and for all subsequent periods in which a loan is classified as HFS. Previously, the initial lower of cost or fair value adjustment on the date of re-designation was calculated at a loan level whereas the subsequent lower of cost or fair value adjustments were calculated at a pool level.

We have concluded that this change in accounting policy is preferable as it will align the unit of account that is used for both the initial and subsequent lower of cost or market measurements on our HFS portfolio. Additionally, by performing the lower of cost or fair value calculation at the loan level, the adjustment will be calculated on a more disaggregated basis.

As this change in accounting policy is not material to our financial statements, we recorded the impact of this change in accounting principle as an adjustment to 2015 fair value losses, net and did not retrospectively adjust the condensed consolidated financial statements for this change.

***Regulatory Capital***

FHFA has announced that, during the conservatorship, our existing statutory and FHFA-directed regulatory capital requirements will not be binding and that FHFA will not issue quarterly capital classifications. We submit capital reports to

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FHFA, and FHFA monitors our capital levels. The deficit of core capital over statutory minimum capital was \$140.6 billion as of September 30, 2015 and \$142.2 billion as of December 31, 2014.

Under the terms of the senior preferred stock, we are required to pay Treasury a dividend each quarter, when, as and if declared, equal to the excess of our net worth as of the end of the preceding quarter over an applicable capital reserve amount. The Director of FHFA directs us to make dividend payments on the senior preferred stock on a quarterly basis. Therefore, we do not expect to eliminate our deficit of core capital over statutory minimum capital.

***Related Parties***

As a result of our issuance to Treasury of the warrant to purchase shares of Fannie Mae common stock equal to 79.9% of the total number of shares of Fannie Mae common stock, we and Treasury are deemed related parties. As of September 30, 2015, Treasury held an investment in our senior preferred stock with an aggregate liquidation preference of \$117.1 billion. FHFA's control of Fannie Mae and Freddie Mac has caused us, FHFA and Freddie Mac to be deemed related parties.

Our administrative expenses were reduced by \$18 million for the three months ended September 30, 2015 and 2014 and \$50 million and \$55 million for the nine months ended September 30, 2015 and 2014, respectively, due to reimbursements from Treasury and Freddie Mac for expenses incurred as program administrator for Treasury's Home Affordable Modification Program ("HAMP") and other initiatives under Treasury's Making Home Affordable Program.

During the three and nine months ended September 30, 2015, we made tax payments of \$100 million and \$470 million, respectively, to the Internal Revenue Service ("IRS"), a bureau of Treasury. We did not make any tax payments during the three months ended September 30, 2014. We made tax payments of \$2.5 billion during the nine months ended September 30, 2014. We received a refund of \$277 million from the IRS during the nine months ended September 30, 2015 for income tax adjustments related to tax years 2004 through 2010.

Under the temporary credit and liquidity facilities ("TCLF") program, we had no outstanding standby credit and liquidity support as of September 30, 2015. We had \$390 million outstanding, which includes principal and interest, of standby credit and liquidity support as of December 31, 2014. Under the new issue bond ("NIB") program, we had \$3.9 billion and \$4.2 billion outstanding of pass-through securities backed by single-family and multifamily housing bonds issued by housing finance agencies ("HFAs") as of September 30, 2015 and December 31, 2014, respectively. Treasury will bear the initial losses of principal under the TCLF program and the NIB program up to 35% of the total original principal on a combined program-wide basis, and thereafter we will bear the losses of principal that are attributable to the TCLF and the securities we have issued. Treasury will also bear any losses of unpaid interest under the two programs. As of September 30, 2015, there had been no losses of principal or interest under the TCLF program or the NIB program.

The fee revenue and expense related to the Temporary Payroll Tax Cut Continuation Act of 2011 ("TCCA") are recorded in "Mortgage loans interest income" and "TCCA fees," respectively, in our condensed consolidated statements of operations and comprehensive income. We recognized \$413 million and \$351 million in TCCA fees during the three months ended September 30, 2015 and 2014, respectively, and \$1.2 billion and \$1.0 billion for the nine months ended September 30, 2015 and 2014, respectively, of which \$413 million had not been remitted to Treasury as of September 30, 2015.

For the three and nine months ended September 30, 2015, we accrued, but have not yet paid, \$56 million and \$168 million, respectively, in expenses in connection with certain funding obligations under the GSE Act, a portion of which is attributable to Treasury's Capital Magnet Fund. These expenses, recognized in "Other expenses, net" in our condensed consolidated statements of operations and comprehensive income, were measured as the product of 4.2 basis points and the unpaid principal balance of total new business purchases for the three and nine months ended September 30, 2015.

As of September 30, 2015 and December 31, 2014, we held Freddie Mac mortgage-related securities with a fair value of \$6.1 billion and \$6.9 billion, respectively. We recognized interest income on these securities held by us of \$55 million and \$68 million for the three months ended September 30, 2015 and 2014, respectively, and \$174 million and \$219 million for the nine months ended September 30, 2015 and 2014, respectively. In addition, Freddie Mac may be an investor in variable interest entities that we have consolidated, and we may be an investor in variable interest entities that Freddie Mac has consolidated.

The GSE Act authorizes FHFA to establish an annual assessment for regulated entities, including Fannie Mae, which is payable on a semi-annual basis (April and October), for FHFA's costs and expenses, as well as to maintain FHFA's working capital. We recognized FHFA assessment fees, which are recorded in "Administrative expenses" in our condensed consolidated statements of operations and comprehensive income, of \$28 million and \$26 million for the three months ended

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September 30, 2015 and 2014, respectively, and \$84 million and \$80 million for the nine months ended September 30, 2015 and 2014, respectively.

Fannie Mae and Freddie Mac established Common Securitization Solutions, LLC (“CSS”), a jointly owned limited liability company, to operate a common securitization platform. During the three and nine months ended September 30, 2015, we contributed \$17 million and \$47 million, respectively, of capital into CSS, and we made no contributions for the three and nine months ended September 30, 2014. No other transactions outside of normal business activities have occurred between us and Freddie Mac during the nine months ended September 30, 2015 or 2014.

***Use of Estimates***

Preparing condensed consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect our reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities as of the dates of our condensed consolidated financial statements, as well as our reported amounts of revenues and expenses during the reporting periods. Management has made significant estimates in a variety of areas including, but not limited to, valuation of certain financial instruments and other assets and liabilities, recoverability of our deferred tax assets and allowance for loan losses. Actual results could be different from these estimates.

In April 2012, FHFA issued Advisory Bulletin AB 2012-02, “Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention” (the “Advisory Bulletin”), which prescribes, among other things, classification of loans by risk category and provides guidance on when a loan should be charged off. The provisions of the Advisory Bulletin led us to re-evaluate our estimate of when a loan is deemed uncollectible. For the vast majority of our delinquent single-family loans, we will continue to charge off the loan at the date of foreclosure or other liquidation event (such as a deed-in-lieu of foreclosure or a short sale). For a relatively small subset of delinquent loans deemed to be uncollectible prior to foreclosure based upon our historical data, we charge off the portion of the loan (including preforeclosure property taxes and insurance receivable that pertain to such loans) deemed to be uncollectible prior to the date of foreclosure or other liquidation event, which given our current credit analytics and historical data, is when the loans are excessively delinquent and the outstanding loan balance exceeds the fair value of the underlying property. This change in estimate resulted in the recognition on January 1, 2015 of (1) \$1.8 billion in charge-offs of HFI loans, (2) \$724 million in charge-offs of preforeclosure property taxes and insurance receivable and (3) a reduction to our allowance for loan losses and our allowance for preforeclosure property taxes and insurance receivable in amounts equal to charge-offs recognized in connection with HFI loans and preforeclosure property taxes and insurance receivable. We continue to enhance our data collection and analysis efforts to further refine our loss estimates as we obtain incremental information on the performance of our loans.

***Fee and Other Income***

Fee and other income includes transaction fees, multifamily fees, technology fees and other miscellaneous income. During the three and nine months ended September 30, 2014, we recognized \$538 million and \$4.8 billion, respectively, in “Fee and other income” in our condensed consolidated statement of operations and comprehensive income resulting from settlement agreements resolving certain lawsuits relating to private-label mortgage-related securities (“PLS”) sold to us. There were no settlement agreements resolving PLS lawsuits during the three and nine months ended September 30, 2015.

***Employee Retirement Benefits***

In 2013, our defined benefit pension plans were amended to cease the accrual of benefits for all employees and the plans were subsequently terminated, effective December 31, 2013. The additional cost of the termination, including the estimated premium required to purchase annuity contracts, was recognized in “Other comprehensive income” in our condensed consolidated statement of operations and comprehensive income for the year ended December 31, 2013.

During the three months ended September 30, 2015, we settled our defined pension benefit obligations. We transferred plan assets to an annuity provider and distributed lump sum payments to participants based on their elections. We made a cash contribution of \$102 million to settle the plans. The actuarial losses of \$305 million, previously recorded in “Accumulated other comprehensive income,” were recognized in “Administrative expenses” and the associated tax amounts were recognized in “Provision for federal income taxes” in our condensed consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2015.

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***New Accounting Guidance***

Effective January 1, 2015, we prospectively adopted guidance issued by the Financial Accounting Standards Board (“FASB”) clarifying when a creditor is considered to have received physical possession of residential real estate property collateralized by a consumer mortgage loan. The adoption of this guidance resulted in a clarification to our policy to align our definition of when we have taken physical possession of real estate with the new guidance; however it did not impact the timing of derecognition of loan receivable and recognition of real estate property in our financial statements. The new guidance also requires us to disclose the recorded investment in consumer mortgage loans collateralized by residential real estate property that are in the process of foreclosure. See “Note 3, Mortgage Loans” for additional information regarding the disclosure required upon adoption of this guidance.

Effective January 1, 2015, we prospectively adopted guidance issued by the FASB related to the classification of government guaranteed mortgage loans upon foreclosure. The impact of the adoption was not material to the condensed consolidated balance sheets.

In February 2015, the FASB issued guidance regarding consolidation of legal entities such as limited partnerships, limited liability corporations and securitization structures. The guidance removes the specialized consolidation model surrounding limited partnerships and similar entities and amends the requirements that such entities must meet to qualify as voting interest entities. In addition, the guidance eliminates certain of the conditions for evaluating whether fees paid to a decision maker or service provider represent a variable interest. The new guidance is effective for us on January 1, 2016 with early adoption permitted. We are currently evaluating the potential impact of the new guidance on our consolidated financial statements.

**2. Consolidations and Transfers of Financial Assets**

We have interests in various entities that are considered to be variable interest entities (“VIEs”). The primary types of entities are securitization trusts guaranteed by us via lender swap and portfolio securitization transactions and mortgage-backed trusts that were not created by us, as well as housing partnerships that are established to finance the acquisition, construction, development or rehabilitation of affordable multifamily and single-family housing. These interests include investments in securities issued by VIEs, such as Fannie Mae MBS created pursuant to our securitization transactions and our guaranty to the entity. We consolidate the substantial majority of our single-class securitization trusts because our role as guarantor and master servicer provides us with the power to direct matters (primarily the servicing of mortgage loans) that impact the credit risk to which we are exposed. In contrast, we do not consolidate single-class securitization trusts when other organizations have the power to direct these activities.

***Unconsolidated VIEs***

We do not consolidate VIEs when we are not deemed to be the primary beneficiary. Our unconsolidated VIEs include securitization trusts and limited partnerships. The following table displays the carrying amount and classification of our assets and liabilities that relate to our involvement with unconsolidated mortgage-backed trusts, as well as our maximum exposure to loss and the total assets of these unconsolidated mortgage-backed trusts.

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|   | As of                 |                   |
|---|-----------------------|-------------------|
|   | September 30, 2015    | December 31, 2014 |
|   | (Dollars in millions) |                   |
| Assets and liabilities recorded in our condensed consolidated balance sheets related to mortgage-backed trusts: |                       |                   |
| Assets:   |                       |                   |
| Trading securities:   |                       |                   |
| Fannie Mae securities . . . . .   | \$ 4,977              | \$ 4,790          |
| Non-Fannie Mae securities . . . . .   | 5,933                 | 7,073             |
| Total trading securities . . . . .  | 10,910                | 11,863            |
| Available-for-sale securities:  |                       |                   |
| Fannie Mae securities . . . . .   | 3,931                 | 5,043             |
| Non-Fannie Mae securities . . . . .   | 16,259                | 22,776            |
| Total available-for-sale securities . . . . .   | 20,190                | 27,819            |
| Other assets . . . . .  | 102                   | 111               |
| Other liabilities . . . . .   | (755)                 | (1,440)           |
| Net carrying amount . . . . .   | \$ 30,447             | \$ 38,353         |
| Maximum exposure to loss . . . . .  | \$ 36,637             | \$ 45,311         |
| Total assets of unconsolidated mortgage-backed trusts . . . . .   | \$252,211             | \$253,554         |

Our maximum exposure to loss generally represents the greater of our recorded investment in the entity or the unpaid principal balance of the assets covered by our guaranty. However, our securities issued by Fannie Mae multi-class resecuritization trusts that are not consolidated do not give rise to any additional exposure to loss as we already consolidate the underlying collateral.

The total assets of our unconsolidated limited partnership investments were \$4.9 billion and \$5.8 billion as of September 30, 2015 and December 31, 2014, respectively.

***Transfers of Financial Assets***

We issue Fannie Mae MBS through portfolio securitization transactions by transferring pools of mortgage loans or mortgage-related securities to one or more trusts or special purpose entities. We are considered to be the transferor when we transfer assets from our own retained mortgage portfolio in a portfolio securitization transaction. For the three months ended September 30, 2015 and 2014, the unpaid principal balance of portfolio securitizations was \$55.4 billion and \$44.2 billion, respectively. For the nine months ended September 30, 2015 and 2014, the unpaid principal balance of portfolio securitizations was \$166.3 billion and \$113.1 billion, respectively.

We retain interests from the transfer and sale of mortgage-related securities to unconsolidated single-class and multi-class portfolio securitization trusts. As of September 30, 2015, the unpaid principal balance of retained interests was \$5.4 billion and its related fair value was \$6.7 billion. The unpaid principal balance of retained interests was \$6.3 billion and its related fair value was \$7.6 billion as of December 31, 2014. For the three months ended September 30, 2015 and 2014, the principal and interest received on retained interests was \$273 million and \$386 million, respectively. For the nine months ended September 30, 2015 and 2014, the principal and interest received on retained interests was \$919 million and \$1.1 billion, respectively.

***Managed Loans***

Managed loans are on-balance sheet mortgage loans, as well as mortgage loans that we have securitized in unconsolidated portfolio securitization trusts. The unpaid principal balance of securitized loans in unconsolidated portfolio securitization trusts, which are primarily loans that are guaranteed or insured, in whole or in part, by the U.S. government, was \$1.6 billion and \$1.8 billion as of September 30, 2015 and December 31, 2014, respectively. For information on our on-balance sheet mortgage loans, see “Note 3, Mortgage Loans.”



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**3. Mortgage Loans**

We own single-family mortgage loans, which are secured by four or fewer residential dwelling units, and multifamily mortgage loans, which are secured by five or more residential dwelling units. We classify these loans as either HFI or HFS. We report the carrying value of HFI loans at the unpaid principal balance, net of unamortized premiums and discounts, other cost basis adjustments, and an allowance for loan losses. We report the carrying value of HFS loans at the lower of cost or fair value and record valuation changes in our condensed consolidated statements of operations and comprehensive income. We report the recorded investment of HFI loans at the unpaid principal balance, net of unamortized premiums and discounts, other cost basis adjustments, and accrued interest receivable.

For purposes of the single-family mortgage loan disclosures below, we define “primary” class as mortgage loans that are not included in other loan classes; “government” class as mortgage loans guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies, that are not Alt-A; and “other” class as loans with higher-risk characteristics, such as interest-only loans and negative-amortizing loans, that are neither government nor Alt-A.

The following table displays the carrying value of our mortgage loans.

|   | As of                 |                        |                     |                   |                        |                     |
|---|-----------------------|------------------------|---------------------|-------------------|------------------------|---------------------|
|   | September 30, 2015    |                        |                     | December 31, 2014 |                        |                     |
|   | Of Fannie Mae         | Of Consolidated Trusts | Total               | Of Fannie Mae     | Of Consolidated Trusts | Total               |
|   | (Dollars in millions) |                        |                     |                   |                        |                     |
| Single-family . . . . .   | \$ 242,496            | \$ 2,573,388           | \$ 2,815,884        | \$ 262,116        | \$ 2,569,884           | \$ 2,832,000        |
| Multifamily . . . . .   | 15,272                | 181,533                | 196,805             | 23,255            | 164,045                | 187,300             |
| Total unpaid principal balance of mortgage loans . . . . .        | 257,768               | 2,754,921              | 3,012,689           | 285,371           | 2,733,929              | 3,019,300           |
| Cost basis and fair value adjustments, net . . . . .              | (12,789)              | 49,691                 | 36,902              | (12,705)          | 48,440                 | 35,735              |
| Allowance for loan losses for loans held for investment . . . . . | (27,655)              | (1,480)                | (29,135)            | (33,117)          | (2,424)                | (35,541)            |
| Total mortgage loans . . . . .                                    | <u>\$ 217,324</u>     | <u>\$ 2,803,132</u>    | <u>\$ 3,020,456</u> | <u>\$ 239,549</u> | <u>\$ 2,779,945</u>    | <u>\$ 3,019,494</u> |

During the three months ended September 30, 2015, we redesignated loans with a carrying value of \$1.3 billion from HFI to HFS. There were no redesignations from HFI to HFS during the three months ended September 30, 2014. During the nine months ended September 30, 2015 and 2014, we redesignated loans with a carrying value of \$5.9 billion and \$2.2 billion, respectively, from HFI to HFS. During the three and nine months ended September 30, 2014, we redesignated loans with a carrying value of \$240 million and \$241 million, respectively from HFS to HFI. We sold loans with an unpaid principal balance of \$1.9 billion and \$2.5 billion during the three and nine months ended September 30, 2015, respectively. We sold loans with an unpaid principal balance of \$1.9 billion during the nine months ended September 30, 2014. There were no sales of loans during the three months ended September 30, 2014.

The recorded investment of single-family mortgage loans for which formal foreclosure proceedings are in process was \$27.6 billion as of September 30, 2015. As a result of our various loss mitigation and foreclosure prevention efforts, we expect that a portion of the loans in the process of formal foreclosure proceedings will not ultimately foreclose.

**Nonaccrual Policy**

We discontinue accruing interest on loans when we believe collectability of principal or interest is not reasonably assured, which for a single-family loan we have determined, based on our historical experience, to be when the loan becomes two months or more past due according to its contractual terms. We generally place a multifamily loan on nonaccrual status when the loan is deemed to be individually impaired, unless the loan is well secured such that collectability of principal and accrued interest is reasonably assured.

Effective January 1, 2015, we changed our policy for the treatment of interest previously accrued but not collected at the date both single-family and multifamily loans are placed on nonaccrual status. Specifically, interest previously accrued but not collected will be reversed through interest income at the date a loan is placed on nonaccrual status. Previously, when a loan was placed on nonaccrual status, interest previously accrued but not collected became part of the loan’s recorded investment and was reviewed either individually or collectively for impairment.

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We also changed our policy for when a non-modified single-family loan is returned to accrual status. Effective January 1, 2015, a non-modified single-family loan will be returned to accrual status at the point that the borrower brings the loan current. Previously, a non-modified single-family loan was returned to accrual status at the point that the borrower had made sufficient payments to reduce their delinquency status below our nonaccrual threshold of 60 days past due. We did not change our policy for returning modified single-family loans to accrual status. We return modified single-family loans to accrual status at the point that the borrower successfully makes all required payments during the trial period (generally three to four months) and modification is made permanent. See “Note 1, Summary of Significant Accounting Policies” for additional information on such changes in accounting policy.

Changes to our nonaccrual policy were limited to those described above. For most single-family loans, we continue to recognize interest income for loans on nonaccrual status when cash is received. However, if a single-family loan was charged off prior to foreclosure, all payments received are applied on a cost recovery basis to reduce principal on the mortgage loan. We stop applying the cost recovery approach on those single-family loans when they are brought current either through borrower payments or modification and there has been a sufficient performance period to demonstrate that the borrower has the ability and intent to make the remaining payments on their mortgage loans.

For multifamily loans, we apply any payment received on a cost recovery basis to reduce principal on the mortgage loan unless the loan is determined to be well secured. We generally return a multifamily loan to accrual status and stop applying the cost recovery approach when the borrower cures the delinquency of the loan or we otherwise determine that the loan is well secured such that collectability is reasonably assured.

***Aging Analysis***

The following tables display an aging analysis of the total recorded investment in our HFI mortgage loans by portfolio segment and class, excluding loans for which we have elected the fair value option.

| As of September 30, 2015             |                               |                               |  |                     |                     |                     |   |   |
|--------------------------------------|-------------------------------|-------------------------------|--|---------------------|---------------------|---------------------|---|---|
|                                      | 30 - 59<br>Days<br>Delinquent | 60 - 89<br>Days<br>Delinquent | Seriously<br>Delinquent <sup>(1)</sup> | Total<br>Delinquent | Current             | Total               | Recorded<br>Investment<br>in Loans 90<br>Days or<br>More<br>Delinquent<br>and<br>Accruing<br>Interest | Recorded<br>Investment<br>in<br>Nonaccrual<br>Loans |
| (Dollars in millions)                |                               |                               |  |                     |                     |                     |   |   |
| Single-family:                       |                               |                               |  |                     |                     |                     |   |   |
| Primary . . . . .                    | \$ 29,574                     | \$ 7,766                      | \$ 28,417                              | \$ 65,757           | \$ 2,594,488        | \$ 2,660,245        | \$ 49   | \$ 36,108   |
| Government <sup>(2)</sup> . . . . .  | 57                            | 25                            | 295                                    | 377                 | 41,342              | 41,719              | 295   | —   |
| Alt-A . . . . .                      | 4,126                         | 1,291                         | 7,407                                  | 12,824              | 87,525              | 100,349             | 7   | 8,690   |
| Other . . . . .                      | 1,562                         | 489                           | 2,447                                  | 4,498               | 33,730              | 38,228              | 7   | 2,922   |
| Total single-family . . . . .        | <u>35,319</u>                 | <u>9,571</u>                  | <u>38,566</u>                          | <u>83,456</u>       | <u>2,757,085</u>    | <u>2,840,541</u>    | <u>358</u>  | <u>47,720</u>                                       |
| Multifamily <sup>(3)</sup> . . . . . | 37                            | N/A                           | 88                                     | 125                 | 198,574             | 198,699             | —   | 679   |
| Total . . . . .                      | <u>\$ 35,356</u>              | <u>\$ 9,571</u>               | <u>\$ 38,654</u>                       | <u>\$ 83,581</u>    | <u>\$ 2,955,659</u> | <u>\$ 3,039,240</u> | <u>\$ 358</u>   | <u>\$ 48,399</u>                                    |

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|                            | 30 - 59<br>Days<br>Delinquent | 60 - 89<br>Days<br>Delinquent | Seriously<br>Delinquent <sup>(1)</sup> | Total<br>Delinquent | Current             | Total               | Recorded<br>Investment<br>in Loans 90<br>Days or<br>More<br>Delinquent<br>and<br>Accruing<br>Interest | Recorded<br>Investment<br>in<br>Nonaccrual<br>Loans |
|----------------------------|-------------------------------|-------------------------------|--|---------------------|---------------------|---------------------|---|---|
| (Dollars in millions)      |                               |                               |  |                     |                     |                     |   |   |
| Single-family:             |                               |                               |  |                     |                     |                     |   |   |
| Primary                    | \$ 29,130                     | \$ 8,396                      | \$ 38,248                              | \$ 75,774           | \$ 2,580,446        | \$ 2,656,220        | \$ 55   | \$ 46,556   |
| Government <sup>(2)</sup>  | 63                            | 26                            | 305                                    | 394                 | 44,927              | 45,321              | 305   | —   |
| Alt-A                      | 4,094                         | 1,414                         | 11,603                                 | 17,111              | 95,650              | 112,761             | 8   | 13,007  |
| Other                      | 1,520                         | 516                           | 3,763                                  | 5,799               | 38,460              | 44,259              | 6   | 4,259   |
| Total single-family        | <u>34,807</u>                 | <u>10,352</u>                 | <u>53,919</u>                          | <u>99,078</u>       | <u>2,759,483</u>    | <u>2,858,561</u>    | <u>374</u>  | <u>63,822</u>                                       |
| Multifamily <sup>(3)</sup> | 60                            | N/A                           | 89                                     | 149                 | 189,084             | 189,233             | —   | 823   |
| Total                      | <u>\$ 34,867</u>              | <u>\$ 10,352</u>              | <u>\$ 54,008</u>                       | <u>\$ 99,227</u>    | <u>\$ 2,948,567</u> | <u>\$ 3,047,794</u> | <u>\$ 374</u>   | <u>\$ 64,645</u>                                    |

(1) Single-family seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. Multifamily seriously delinquent loans are loans that are 60 days or more past due.

(2) Primarily consists of reverse mortgages which, due to their nature, are not aged and are included in the current column.

(3) Multifamily loans 60-89 days delinquent are included in the seriously delinquent column.

**Credit Quality Indicators**

The following table displays the total recorded investment in our single-family HFI loans by class and credit quality indicator, excluding loans for which we have elected the fair value option.

|  | As of                             |                  |                 |                                  |                  |                 |
|--|-----------------------------------|------------------|-----------------|----------------------------------|------------------|-----------------|
|  | September 30, 2015 <sup>(1)</sup> |                  |                 | December 31, 2014 <sup>(1)</sup> |                  |                 |
|  | Primary                           | Alt-A            | Other           | Primary                          | Alt-A            | Other           |
| (Dollars in millions)  |                                   |                  |                 |                                  |                  |                 |
| Estimated mark-to-market loan-to-value ratio: <sup>(2)</sup> |                                   |                  |                 |                                  |                  |                 |
| Less than or equal to 80%                                    | \$2,248,367                       | \$ 61,367        | \$22,263        | \$2,156,165                      | \$ 60,851        | \$22,558        |
| Greater than 80% and less than or equal to 90%               | 240,860                           | 13,188           | 5,197           | 261,709                          | 15,151           | 6,046           |
| Greater than 90% and less than or equal to 100%              | 108,540                           | 9,758            | 4,020           | 140,778                          | 12,490           | 5,236           |
| Greater than 100% and less than or equal to 110%             | 28,684                            | 6,528            | 2,787           | 43,014                           | 8,998            | 3,900           |
| Greater than 110% and less than or equal to 120%             | 15,115                            | 4,018            | 1,699           | 23,439                           | 6,033            | 2,615           |
| Greater than 120% and less than or equal to 125%             | 4,706                             | 1,295            | 552             | 7,529                            | 2,114            | 904             |
| Greater than 125%  | 13,973                            | 4,195            | 1,710           | 23,586                           | 7,124            | 3,000           |
| Total  | <u>\$2,660,245</u>                | <u>\$100,349</u> | <u>\$38,228</u> | <u>\$2,656,220</u>               | <u>\$112,761</u> | <u>\$44,259</u> |

(1) Excludes \$41.7 billion and \$45.3 billion as of September 30, 2015 and December 31, 2014, respectively, of mortgage loans guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies, that are not Alt-A loans. The segment class is primarily reverse mortgages for which we do not calculate an estimated mark-to-market loan-to-value ("LTV") ratio.

(2) The aggregate estimated mark-to-market LTV ratio is based on the unpaid principal balance of the loan as of the end of each reported period divided by the estimated current value of the property, which we calculate using an internal valuation model that estimates periodic changes in home value.

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The following table displays the total recorded investment in our multifamily HFI loans by credit quality indicator, excluding loans for which we have elected the fair value option.

|  | As of                 |                      |
|--|-----------------------|----------------------|
|  | September 30,<br>2015 | December 31,<br>2014 |
|  | (Dollars in millions) |                      |
| Credit risk profile by internally assigned grade: <sup>(1)</sup> |                       |                      |
| Pass . . . . .   | \$ 192,767            | \$ 182,079           |
| Special Mention . . . . .  | 2,725                 | 3,070                |
| Substandard . . . . .  | 3,203                 | 3,842                |
| Doubtful . . . . .   | 4                     | 242                  |
| Total . . . . .  | \$ 198,699            | \$ 189,233           |

<sup>(1)</sup> Pass (loan is current and adequately protected by the current financial strength and debt service capacity of the borrower); special mention (loan with signs of potential weakness); substandard (loan with a well defined weakness that jeopardizes the timely full repayment); and doubtful (loan with a weakness that makes collection or liquidation in full highly questionable and improbable based on existing conditions and values).

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**Individually Impaired Loans**

Individually impaired loans include troubled debt restructurings (“TDRs”), acquired credit-impaired loans and multifamily loans that we have assessed as probable that we will not collect all contractual amounts due, regardless of whether we are currently accruing interest. The following tables display the total unpaid principal balance, recorded investment, related allowance, average recorded investment and interest income recognized for individually impaired loans.

|   | As of                          |                                 |  |                                |                                 |  |   |
|---|--------------------------------|---------------------------------|--|--------------------------------|---------------------------------|--|---|
|   | September 30, 2015             |                                 |  | December 31, 2014              |                                 |  |   |
|   | Unpaid<br>Principal<br>Balance | Total<br>Recorded<br>Investment | Related<br>Allowance<br>for Loan<br>Losses | Unpaid<br>Principal<br>Balance | Total<br>Recorded<br>Investment | Related<br>Allowance<br>for Loan<br>Losses | Related<br>Allowance<br>for Accrued<br>Interest<br>Receivable |
| (Dollars in millions)   |                                |                                 |  |                                |                                 |  |   |
| Individually impaired loans:  |                                |                                 |  |                                |                                 |  |   |
| With related allowance recorded:  |                                |                                 |  |                                |                                 |  |   |
| Single-family:  |                                |                                 |  |                                |                                 |  |   |
| Primary .....   | \$ 118,495                     | \$ 112,430                      | \$ 17,374                                  | \$ 125,960                     | \$ 120,221                      | \$ 20,327                                  | \$ 309  |
| Government .....  | 324                            | 329                             | 62   | 281                            | 285                             | 46   | 12  |
| Alt-A .....   | 32,593                         | 29,777                          | 6,454                                      | 35,492                         | 32,816                          | 7,778                                      | 136   |
| Other .....   | 13,217                         | 12,489                          | 2,514                                      | 14,667                         | 13,947                          | 3,049                                      | 38  |
| Total single-family .....   | <u>164,629</u>                 | <u>155,025</u>                  | <u>26,404</u>                              | <u>176,400</u>                 | <u>167,269</u>                  | <u>31,200</u>                              | <u>495</u>  |
| Multifamily .....   | 788                            | 793                             | 113  | 1,230                          | 1,241                           | 175  | 6   |
| Total individually impaired loans with<br>related allowance recorded .....    | <u>165,417</u>                 | <u>155,818</u>                  | <u>26,517</u>                              | <u>177,630</u>                 | <u>168,510</u>                  | <u>31,375</u>                              | <u>501</u>  |
| With no related allowance recorded: <sup>(1)</sup>                            |                                |                                 |  |                                |                                 |  |   |
| Single-family:  |                                |                                 |  |                                |                                 |  |   |
| Primary .....   | 16,930                         | 15,600                          | —  | 16,704                         | 14,876                          | —  | —   |
| Government .....  | 60                             | 56                              | —  | 61                             | 57                              | —  | —   |
| Alt-A .....   | 4,235                          | 3,580                           | —  | 3,993                          | 3,119                           | —  | —   |
| Other .....   | 1,356                          | 1,218                           | —  | 1,240                          | 1,056                           | —  | —   |
| Total single-family .....   | <u>22,581</u>                  | <u>20,454</u>                   | <u>—</u>                                   | <u>21,998</u>                  | <u>19,108</u>                   | <u>—</u>                                   | <u>—</u>  |
| Multifamily .....   | 364                            | 366                             | —  | 565                            | 568                             | —  | —   |
| Total individually impaired loans with no<br>related allowance recorded ..... | <u>22,945</u>                  | <u>20,820</u>                   | <u>—</u>                                   | <u>22,563</u>                  | <u>19,676</u>                   | <u>—</u>                                   | <u>—</u>  |
| Total individually impaired loans <sup>(2)</sup> .....                        | <u>\$ 188,362</u>              | <u>\$ 176,638</u>               | <u>\$ 26,517</u>                           | <u>\$ 200,193</u>              | <u>\$ 188,186</u>               | <u>\$ 31,375</u>                           | <u>\$ 501</u>   |

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|   | 2015                        |   |  | 2014                        |   |  |
|---|-----------------------------|---|--|-----------------------------|---|--|
|   | Average Recorded Investment | Total Interest Income Recognized <sup>(3)</sup> | Interest Income Recognized on a Cash Basis | Average Recorded Investment | Total Interest Income Recognized <sup>(3)</sup> | Interest Income Recognized on a Cash Basis |
|   | (Dollars in millions)       |   |  |                             |   |  |
| Individually impaired loans:  |                             |   |  |                             |   |  |
| With related allowance recorded:  |                             |   |  |                             |   |  |
| Single-family:  |                             |   |  |                             |   |  |
| Primary .....   | \$ 113,634                  | \$ 1,090  | \$ 71                                      | \$ 121,246                  | \$ 1,077  | \$ 111                                     |
| Government.....   | 299                         | 3   | —  | 285                         | 3   | —  |
| Alt-A.....  | 30,041                      | 272   | 14   | 33,458                      | 268   | 24   |
| Other .....   | 12,652                      | 95  | 6  | 14,346                      | 100   | 8  |
| Total single-family.....  | <u>156,626</u>              | <u>1,460</u>                                    | <u>91</u>                                  | <u>169,335</u>              | <u>1,448</u>                                    | <u>143</u>                                 |
| Multifamily .....   | <u>878</u>                  | <u>9</u>  | <u>—</u>                                   | <u>1,540</u>                | <u>17</u>                                       | <u>—</u>                                   |
| Total individually impaired loans with related allowance recorded.....    | <u>157,504</u>              | <u>1,469</u>                                    | <u>91</u>                                  | <u>170,875</u>              | <u>1,465</u>                                    | <u>143</u>                                 |
| With no related allowance recorded: <sup>(1)</sup>                        |                             |   |  |                             |   |  |
| Single-family:  |                             |   |  |                             |   |  |
| Primary .....   | 15,627                      | 279   | 16   | 14,442                      | 226   | 56   |
| Government.....   | 53                          | 1   | —  | 55                          | 1   | —  |
| Alt-A.....  | 3,674                       | 64  | 1  | 2,887                       | 51  | 14   |
| Other .....   | 1,259                       | 21  | —  | 1,008                       | 16  | 3  |
| Total single-family.....  | <u>20,613</u>               | <u>365</u>                                      | <u>17</u>                                  | <u>18,392</u>               | <u>294</u>                                      | <u>73</u>                                  |
| Multifamily .....   | <u>386</u>                  | <u>5</u>  | <u>—</u>                                   | <u>1,572</u>                | <u>18</u>                                       | <u>—</u>                                   |
| Total individually impaired loans with no related allowance recorded..... | <u>20,999</u>               | <u>370</u>                                      | <u>17</u>                                  | <u>19,964</u>               | <u>312</u>                                      | <u>73</u>                                  |
| Total individually impaired loans <sup>(2)</sup> .....                    | <u>\$ 178,503</u>           | <u>\$ 1,839</u>                                 | <u>\$ 108</u>                              | <u>\$ 190,839</u>           | <u>\$ 1,777</u>                                 | <u>\$ 216</u>                              |

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|   | 2015                        |   |  | 2014                        |   |  |
|---|-----------------------------|---|--|-----------------------------|---|--|
|   | Average Recorded Investment | Total Interest Income Recognized <sup>(3)</sup> | Interest Income Recognized on a Cash Basis | Average Recorded Investment | Total Interest Income Recognized <sup>(3)</sup> | Interest Income Recognized on a Cash Basis |
| (Dollars in millions)   |                             |   |  |                             |   |  |
| Individually impaired loans:  |                             |   |  |                             |   |  |
| With related allowance recorded:  |                             |   |  |                             |   |  |
| Single-family:  |                             |   |  |                             |   |  |
| Primary .....   | \$ 115,762                  | \$ 3,152  | \$ 248                                     | \$ 122,443                  | \$ 3,264  | \$ 372                                     |
| Government.....   | 290                         | 9   | —  | 266                         | 9   | —  |
| Alt-A .....   | 30,760                      | 774   | 41   | 33,926                      | 805   | 74   |
| Other .....   | 13,030                      | 282   | 15   | 14,635                      | 305   | 28   |
| Total single-family.....  | <u>159,842</u>              | <u>4,217</u>                                    | <u>304</u>                                 | <u>171,270</u>              | <u>4,383</u>                                    | <u>474</u>                                 |
| Multifamily .....   | <u>1,053</u>                | <u>15</u>                                       | <u>—</u>                                   | <u>1,813</u>                | <u>63</u>                                       | <u>—</u>                                   |
| Total individually impaired loans with related allowance recorded.....    | <u>160,895</u>              | <u>4,232</u>                                    | <u>304</u>                                 | <u>173,083</u>              | <u>4,446</u>                                    | <u>474</u>                                 |
| With no related allowance recorded: <sup>(1)</sup>                        |                             |   |  |                             |   |  |
| Single-family:  |                             |   |  |                             |   |  |
| Primary .....   | 15,967                      | 779   | 76   | 13,514                      | 616   | 157  |
| Government.....   | 55                          | 3   | —  | 70                          | 4   | —  |
| Alt-A .....   | 3,720                       | 158   | 8  | 2,687                       | 135   | 34   |
| Other .....   | 1,287                       | 56  | 2  | 945                         | 40  | 8  |
| Total single-family.....  | <u>21,029</u>               | <u>996</u>                                      | <u>86</u>                                  | <u>17,216</u>               | <u>795</u>                                      | <u>199</u>                                 |
| Multifamily .....   | <u>463</u>                  | <u>8</u>  | <u>—</u>                                   | <u>1,698</u>                | <u>58</u>                                       | <u>—</u>                                   |
| Total individually impaired loans with no related allowance recorded..... | <u>21,492</u>               | <u>1,004</u>                                    | <u>86</u>                                  | <u>18,914</u>               | <u>853</u>                                      | <u>199</u>                                 |
| Total individually impaired loans <sup>(2)</sup> .....                    | <u>\$ 182,387</u>           | <u>\$ 5,236</u>                                 | <u>\$ 390</u>                              | <u>\$ 191,997</u>           | <u>\$ 5,299</u>                                 | <u>\$ 673</u>                              |

- (1) The discounted cash flows or collateral value equals or exceeds the carrying value of the loan and, as such, no valuation allowance is required.
- (2) Includes single-family loans restructured in a TDR with a recorded investment of \$174.6 billion and \$185.2 billion as of September 30, 2015 and December 31, 2014 respectively. Includes multifamily loans restructured in a TDR with a recorded investment of \$490 million and \$716 million as of September 30, 2015 and December 31, 2014, respectively.
- (3) Total single-family interest income recognized of \$1.8 billion for the three months ended September 30, 2015 and 2014 consists of \$1.5 billion and \$1.4 billion of contractual interest, respectively, and \$327 million and \$297 million of effective yield adjustments, respectively. Total single-family interest income recognized of \$5.2 billion for the nine months ended September 30, 2015 and 2014 consists of \$4.3 billion of contractual interest for both periods and \$907 million and \$857 million of effective yield adjustments, respectively.

***Troubled Debt Restructurings***

A modification to the contractual terms of a loan that results in granting a concession to a borrower experiencing financial difficulties is considered a TDR. In addition to formal loan modifications, we also engage in other loss mitigation activities with troubled borrowers, which include repayment plans and forbearance arrangements, both of which represent informal agreements with the borrower that do not result in the legal modification of the loan's contractual terms. We account for these informal restructurings as a TDR if we defer more than three missed payments. We also classify loans to certain borrowers who have received bankruptcy relief as TDRs.

The substantial majority of the loan modifications we complete result in term extensions, interest rate reductions or a combination of both. During the three months ended September 30, 2015 and 2014, the average term extension of a single-family modified loan was 159 months and 162 months, respectively, and the average interest rate reduction was 0.69 and 0.89 percentage points, respectively. During the nine months ended September 30, 2015 and 2014, the average extension of a

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single-family modified loan was 161 months for both periods and the average interest rate reduction was 0.75 and 1.04 percentage points, respectively.

The following tables display the number of loans and recorded investment in loans restructured in a TDR.

|  | <b>For the Three Months Ended September 30,</b> |                                |                            |                                |
|--|---|--------------------------------|----------------------------|--------------------------------|
|  | <b>2015</b>                                     |                                | <b>2014</b>                |                                |
|  | <b>Number of<br/>Loans</b>                      | <b>Recorded<br/>Investment</b> | <b>Number of<br/>Loans</b> | <b>Recorded<br/>Investment</b> |
|  | (Dollars in millions)                           |                                |                            |                                |
| Single-family:                               |   |                                |                            |                                |
| Primary . . . . .                            | 14,926  | \$ 2,021                       | 23,057                     | \$ 3,270                       |
| Government . . . . .                         | 54  | 6                              | 91                         | 12                             |
| Alt-A . . . . .                              | 1,805   | 268                            | 3,175                      | 521                            |
| Other . . . . .                              | 324   | 57                             | 698                        | 142                            |
| Total single-family . . . . .                | <u>17,109</u>                                   | <u>2,352</u>                   | <u>27,021</u>              | <u>3,945</u>                   |
| Multifamily . . . . .                        | 3   | 10                             | 7                          | 811                            |
| Total troubled debt restructurings . . . . . | <u><u>17,112</u></u>                            | <u><u>\$ 2,362</u></u>         | <u><u>27,028</u></u>       | <u><u>\$ 4,756</u></u>         |

|  | <b>For the Nine Months Ended September 30,</b> |                                |                            |                                |
|--|--|--------------------------------|----------------------------|--------------------------------|
|  | <b>2015</b>                                    |                                | <b>2014</b>                |                                |
|  | <b>Number of<br/>Loans</b>                     | <b>Recorded<br/>Investment</b> | <b>Number of<br/>Loans</b> | <b>Recorded<br/>Investment</b> |
|  | (Dollars in millions)                          |                                |                            |                                |
| Single-family:                               |  |                                |                            |                                |
| Primary . . . . .                            | 54,284   | \$ 7,443                       | 76,831                     | \$ 10,944                      |
| Government . . . . .                         | 192  | 22                             | 264                        | 33                             |
| Alt-A . . . . .                              | 7,127  | 1,101                          | 11,231                     | 1,875                          |
| Other . . . . .                              | 1,453  | 265                            | 2,608                      | 540                            |
| Total single-family . . . . .                | <u>63,056</u>                                  | <u>8,831</u>                   | <u>90,934</u>              | <u>13,392</u>                  |
| Multifamily . . . . .                        | 7  | 16                             | 16                         | 849                            |
| Total troubled debt restructurings . . . . . | <u><u>63,063</u></u>                           | <u><u>\$ 8,847</u></u>         | <u><u>90,950</u></u>       | <u><u>\$ 14,241</u></u>        |

The following tables display the number of loans and our recorded investment in these loans at the time of payment default for loans that were restructured in a TDR in the twelve months prior to the payment default. For purposes of this disclosure, we define loans that had a payment default as: single-family and multifamily loans with completed TDRs that liquidated during the period, either through foreclosure, deed-in-lieu of foreclosure or a short sale; single-family loans with completed modifications that are two or more months delinquent during the period; or multifamily loans with completed modifications that are one or more months delinquent during the period.



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|  | <b>For the Three Months Ended September 30,</b> |                                |                            |                                |
|--|---|--------------------------------|----------------------------|--------------------------------|
|  | <b>2015</b>                                     |                                | <b>2014</b>                |                                |
|  | <b>Number of<br/>Loans</b>                      | <b>Recorded<br/>Investment</b> | <b>Number of<br/>Loans</b> | <b>Recorded<br/>Investment</b> |
|  | <b>(Dollars in millions)</b>                    |                                |                            |                                |
| Single-family:                               |   |                                |                            |                                |
| Primary .....                                | 6,847   | \$ 1,003                       | 8,798                      | \$ 1,312                       |
| Government .....                             | 31  | 3                              | 38                         | 6                              |
| Alt-A .....                                  | 1,052   | 183                            | 1,372                      | 241                            |
| Other .....                                  | 328   | 65                             | 438                        | 100                            |
| Total single-family .....                    | <u>8,258</u>                                    | <u>1,254</u>                   | <u>10,646</u>              | <u>1,659</u>                   |
| Multifamily .....                            | —   | —                              | 1                          | 5                              |
| Total TDRs that subsequently defaulted ..... | <u>8,258</u>                                    | <u>\$ 1,254</u>                | <u>10,647</u>              | <u>\$ 1,664</u>                |

|  | <b>For the Nine Months Ended September 30,</b> |                                |                            |                                |
|--|--|--------------------------------|----------------------------|--------------------------------|
|  | <b>2015</b>                                    |                                | <b>2014</b>                |                                |
|  | <b>Number of<br/>Loans</b>                     | <b>Recorded<br/>Investment</b> | <b>Number of<br/>Loans</b> | <b>Recorded<br/>Investment</b> |
|  | <b>(Dollars in millions)</b>                   |                                |                            |                                |
| Single-family:                               |  |                                |                            |                                |
| Primary .....                                | 19,726   | \$ 2,870                       | 25,586                     | \$ 3,873                       |
| Government .....                             | 88   | 12                             | 74                         | 9                              |
| Alt-A .....                                  | 3,168  | 537                            | 4,212                      | 753                            |
| Other .....                                  | 922  | 186                            | 1,362                      | 304                            |
| Total single-family .....                    | <u>23,904</u>                                  | <u>3,605</u>                   | <u>31,234</u>              | <u>4,939</u>                   |
| Multifamily .....                            | 3  | 6                              | 6                          | 22                             |
| Total TDRs that subsequently defaulted ..... | <u>23,907</u>                                  | <u>\$ 3,611</u>                | <u>31,240</u>              | <u>\$ 4,961</u>                |

#### **4. Allowance for Loan Losses**

Our allowance for loan losses is a valuation allowance that reflects an estimate of incurred credit losses related to our recorded investment in both single-family and multifamily HFI loans. This population includes both HFI loans held by Fannie Mae and by consolidated Fannie Mae MBS trusts. When calculating our allowance for loan losses, we consider only our net recorded investment in the loan at the balance sheet date, which includes the loan's unpaid principal balance and any applicable cost basis adjustments. We record charge-offs as a reduction to the allowance for loan losses when losses are confirmed through the receipt of assets in full satisfaction of a loan, such as the underlying collateral upon foreclosure or cash upon completion of a short sale. Additionally, we record charge-offs as a reduction to our allowance for loan losses when a loan is determined to be uncollectible and upon the redesignation of nonperforming loans from HFI to HFS.

We aggregate single-family HFI loans that are not individually impaired based on similar risk characteristics for purposes of estimating incurred credit losses and establishing a collective single-family loss reserve using an econometric model that derives an overall loss reserve estimate. We base our allowance methodology on historical events and trends, such as loss severity (in event of default), default rates, and recoveries from mortgage insurance contracts and other credit enhancements. In addition, management performs a review of the observable data used in its estimate to ensure it is representative of prevailing economic conditions and other events existing as of the balance sheet date.

Individually impaired single-family loans currently include those restructured in a TDR and acquired credit-impaired loans. When a loan has been restructured, we measure impairment using a cash flow analysis discounted at the loan's original effective interest rate. However, if we expect to recover our recorded investment in an individually impaired loan through probable foreclosure of the underlying collateral, we measure impairment based on the fair value of the collateral, reduced by estimated disposal costs and adjusted for estimated proceeds from mortgage, flood, or hazard insurance and other credit enhancements.

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We identify multifamily loans for evaluation for impairment through a credit risk assessment process. If we determine that a multifamily loan is individually impaired, we generally measure impairment on that loan based on the fair value of the underlying collateral less estimated costs to sell the property. We establish a collective loss reserve for all loans in our multifamily guaranty book of business that are not individually impaired using an internal model that applies loss factors to loans in similar risk categories. Our loss factors are developed based on our historical default and loss severity experience.

The following tables display changes in single-family, multifamily and total allowance for loan losses.

|  | For the Three Months Ended September 30, |                              |                  |                     |                              |                  |
|--|--|------------------------------|------------------|---------------------|------------------------------|------------------|
|  | 2015                                     |                              |                  | 2014                |                              |                  |
|  | Of<br>Fannie<br>Mae                      | Of<br>Consolidated<br>Trusts | Total            | Of<br>Fannie<br>Mae | Of<br>Consolidated<br>Trusts | Total            |
|  | (Dollars in millions)                    |                              |                  |                     |                              |                  |
| Single-family allowance for loan losses:           |  |                              |                  |                     |                              |                  |
| Beginning balance                                  | \$ 29,624                                | \$ 1,252                     | \$ 30,876        | \$ 36,400           | \$ 2,243                     | \$ 38,643        |
| Provision (benefit) for loan losses <sup>(1)</sup> | (1,722)                                  | 330                          | (1,392)          | (1,393)             | 394                          | (999)            |
| Charge-offs <sup>(2)</sup>                         | (748)                                    | (22)                         | (770)            | (1,439)             | (108)                        | (1,547)          |
| Recoveries   | 161                                      | 3                            | 164              | 271                 | 4                            | 275              |
| Transfers <sup>(3)</sup>                           | 262                                      | (262)                        | —                | 366                 | (366)                        | —                |
| Other <sup>(4)</sup>                               | (13)                                     | —                            | (13)             | 170                 | 28                           | 198              |
| Ending balance                                     | <u>\$ 27,564</u>                         | <u>\$ 1,301</u>              | <u>\$ 28,865</u> | <u>\$ 34,375</u>    | <u>\$ 2,195</u>              | <u>\$ 36,570</u> |
| Multifamily allowance for loan losses:             |  |                              |                  |                     |                              |                  |
| Beginning balance                                  | \$ 100                                   | \$ 174                       | \$ 274           | \$ 243              | \$ 181                       | \$ 424           |
| Provision (benefit) for loan losses <sup>(1)</sup> | (10)                                     | 8                            | (2)              | (46)                | (6)                          | (52)             |
| Charge-offs <sup>(2)</sup>                         | (5)                                      | (2)                          | (7)              | (14)                | —                            | (14)             |
| Recoveries   | 4  | —                            | 4                | —                   | —                            | —                |
| Transfers <sup>(3)</sup>                           | 1  | (1)                          | —                | 2                   | (2)                          | —                |
| Other <sup>(4)</sup>                               | 1  | —                            | 1                | 2                   | 1                            | 3                |
| Ending balance                                     | <u>\$ 91</u>                             | <u>\$ 179</u>                | <u>\$ 270</u>    | <u>\$ 187</u>       | <u>\$ 174</u>                | <u>\$ 361</u>    |
| Total allowance for loan losses:                   |  |                              |                  |                     |                              |                  |
| Beginning balance                                  | \$ 29,724                                | \$ 1,426                     | \$ 31,150        | \$ 36,643           | \$ 2,424                     | \$ 39,067        |
| Provision (benefit) for loan losses <sup>(1)</sup> | (1,732)                                  | 338                          | (1,394)          | (1,439)             | 388                          | (1,051)          |
| Charge-offs <sup>(2)</sup>                         | (753)                                    | (24)                         | (777)            | (1,453)             | (108)                        | (1,561)          |
| Recoveries   | 165                                      | 3                            | 168              | 271                 | 4                            | 275              |
| Transfers <sup>(3)</sup>                           | 263                                      | (263)                        | —                | 368                 | (368)                        | —                |
| Other <sup>(4)</sup>                               | (12)                                     | —                            | (12)             | 172                 | 29                           | 201              |
| Ending balance                                     | <u>\$ 27,655</u>                         | <u>\$ 1,480</u>              | <u>\$ 29,135</u> | <u>\$ 34,562</u>    | <u>\$ 2,369</u>              | <u>\$ 36,931</u> |

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|  | For the Nine Months Ended September 30, |                              |                  |                     |                              |                  |
|--|---|------------------------------|------------------|---------------------|------------------------------|------------------|
|  | 2015                                    |                              |                  | 2014                |                              |                  |
|  | Of<br>Fannie<br>Mae                     | Of<br>Consolidated<br>Trusts | Total            | Of<br>Fannie<br>Mae | Of<br>Consolidated<br>Trusts | Total            |
|  | (Dollars in millions)                   |                              |                  |                     |                              |                  |
| Single-family allowance for loan losses:           |   |                              |                  |                     |                              |                  |
| Beginning balance                                  | \$ 32,956                               | \$ 2,221                     | \$ 35,177        | \$ 40,202           | \$ 3,105                     | \$ 43,307        |
| Provision (benefit) for loan losses <sup>(1)</sup> | (249)                                   | (44)                         | (293)            | (3,563)             | 192                          | (3,371)          |
| Charge-offs <sup>(2)(5)</sup>                      | (8,108)                                 | (64)                         | (8,172)          | (4,747)             | (251)                        | (4,998)          |
| Recoveries   | 1,032                                   | 15                           | 1,047            | 902                 | 222                          | 1,124            |
| Transfers <sup>(3)</sup>                           | 877                                     | (877)                        | —                | 1,123               | (1,123)                      | —                |
| Other <sup>(4)</sup>                               | 1,056                                   | 50                           | 1,106            | 458                 | 50                           | 508              |
| Ending balance                                     | <u>\$ 27,564</u>                        | <u>\$ 1,301</u>              | <u>\$ 28,865</u> | <u>\$ 34,375</u>    | <u>\$ 2,195</u>              | <u>\$ 36,570</u> |
| Multifamily allowance for loan losses:             |   |                              |                  |                     |                              |                  |
| Beginning balance                                  | \$ 161                                  | \$ 203                       | \$ 364           | \$ 319              | \$ 220                       | \$ 539           |
| Benefit for loan losses <sup>(1)</sup>             | (41)                                    | (23)                         | (64)             | (66)                | (44)                         | (110)            |
| Charge-offs <sup>(2)(5)</sup>                      | (39)                                    | (2)                          | (41)             | (73)                | —                            | (73)             |
| Recoveries   | 4                                       | —                            | 4                | —                   | —                            | —                |
| Transfers <sup>(3)</sup>                           | 1                                       | (1)                          | —                | 4                   | (4)                          | —                |
| Other <sup>(4)</sup>                               | 5                                       | 2                            | 7                | 3                   | 2                            | 5                |
| Ending balance                                     | <u>\$ 91</u>                            | <u>\$ 179</u>                | <u>\$ 270</u>    | <u>\$ 187</u>       | <u>\$ 174</u>                | <u>\$ 361</u>    |
| Total allowance for loan losses:                   |   |                              |                  |                     |                              |                  |
| Beginning balance                                  | \$ 33,117                               | \$ 2,424                     | \$ 35,541        | \$ 40,521           | \$ 3,325                     | \$ 43,846        |
| Provision (benefit) for loan losses <sup>(1)</sup> | (290)                                   | (67)                         | (357)            | (3,629)             | 148                          | (3,481)          |
| Charge-offs <sup>(2)(5)</sup>                      | (8,147)                                 | (66)                         | (8,213)          | (4,820)             | (251)                        | (5,071)          |
| Recoveries   | 1,036                                   | 15                           | 1,051            | 902                 | 222                          | 1,124            |
| Transfers <sup>(3)</sup>                           | 878                                     | (878)                        | —                | 1,127               | (1,127)                      | —                |
| Other <sup>(4)</sup>                               | 1,061                                   | 52                           | 1,113            | 461                 | 52                           | 513              |
| Ending balance                                     | <u>\$ 27,655</u>                        | <u>\$ 1,480</u>              | <u>\$ 29,135</u> | <u>\$ 34,562</u>    | <u>\$ 2,369</u>              | <u>\$ 36,931</u> |

<sup>(1)</sup> Provision (benefit) for loan losses is included in “Benefit for credit losses” in our condensed consolidated statements of operations and comprehensive income.

<sup>(2)</sup> While we purchase the substantial majority of loans that are four or more months delinquent from our MBS trusts, we do not exercise this option to purchase loans during a forbearance period. Charge-offs of consolidated trusts generally represent loans that remained in our consolidated trusts at the time of default.

<sup>(3)</sup> Includes transfers from trusts for delinquent loan purchases.

<sup>(4)</sup> Amounts represent changes in other loss reserves which are offset by amounts reflected in provision (benefit) for credit losses, charge-offs and recoveries.

<sup>(5)</sup> Includes for the nine months ended September 30, 2015 charge-offs of (1) \$1.8 billion in HFI loans and \$724 million in preforeclosure property taxes and insurance receivable in connection with our adoption of the Advisory Bulletin on January 1, 2015 and (2) \$1.1 billion in accrued interest receivable that were charged-off in connection with the our adoption of a change in accounting principle on January 1, 2015 related to the treatment of interest previously accrued, but not collected, at the date that loans are placed on nonaccrual status.

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The following table displays the allowance for loan losses and total recorded investment in our HFI loans, excluding loans for which we have elected the fair value option, by impairment or reserve methodology and portfolio segment.

|  | As of                 |                   |                     |                     |                   |                     |
|--|-----------------------|-------------------|---------------------|---------------------|-------------------|---------------------|
|  | September 30, 2015    |                   |                     | December 31, 2014   |                   |                     |
|  | Single-Family         | Multifamily       | Total               | Single-Family       | Multifamily       | Total               |
|  | (Dollars in millions) |                   |                     |                     |                   |                     |
| Allowance for loan losses by segment:                |                       |                   |                     |                     |                   |                     |
| Individually impaired loans <sup>(1)</sup> . . . . . | \$ 26,404             | \$ 113            | \$ 26,517           | \$ 31,200           | \$ 175            | \$ 31,375           |
| Collectively reserved loans . . . . .                | 2,461                 | 157               | 2,618               | 3,977               | 189               | 4,166               |
| Total allowance for loan losses . . . . .            | <u>\$ 28,865</u>      | <u>\$ 270</u>     | <u>\$ 29,135</u>    | <u>\$ 35,177</u>    | <u>\$ 364</u>     | <u>\$ 35,541</u>    |
| Recorded investment in loans by segment:             |                       |                   |                     |                     |                   |                     |
| Individually impaired loans <sup>(1)</sup> . . . . . | \$ 175,479            | \$ 1,159          | \$ 176,638          | \$ 186,377          | \$ 1,809          | \$ 188,186          |
| Collectively reserved loans . . . . .                | 2,665,062             | 197,540           | 2,862,602           | 2,672,184           | 187,424           | 2,859,608           |
| Total recorded investment in loans . . . . .         | <u>\$ 2,840,541</u>   | <u>\$ 198,699</u> | <u>\$ 3,039,240</u> | <u>\$ 2,858,561</u> | <u>\$ 189,233</u> | <u>\$ 3,047,794</u> |

<sup>(1)</sup> Includes acquired credit-impaired loans.

**5. Investments in Securities**

***Trading Securities***

Trading securities are recorded at fair value with subsequent changes in fair value recorded as “Fair value gains (losses), net” in our condensed consolidated statements of operations and comprehensive income. The following table displays our investments in trading securities.

|   | As of                 |                   |
|---|-----------------------|-------------------|
|   | September 30, 2015    | December 31, 2014 |
|   | (Dollars in millions) |                   |
| Mortgage-related securities:                |                       |                   |
| Fannie Mae . . . . .                        | \$ 5,097              | \$ 4,940          |
| Freddie Mac . . . . .                       | 1,474                 | 1,369             |
| Ginnie Mae . . . . .                        | 353                   | 166               |
| Alt-A private-label securities . . . . .    | 451                   | 920               |
| Subprime private-label securities . . . . . | 696                   | 1,307             |
| CMBS . . . . .                              | 2,398                 | 2,515             |
| Mortgage revenue bonds . . . . .            | 579                   | 722               |
| Other mortgage-related securities . . . . . | —                     | 99                |
| Total mortgage-related securities . . . . . | <u>11,048</u>         | <u>12,038</u>     |
| U.S. Treasury securities . . . . .          | 26,961                | 19,466            |
| Total trading securities . . . . .          | <u>\$38,009</u>       | <u>\$31,504</u>   |

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The following table displays information about our net trading gains and losses.

|  | For the Three<br>Months Ended<br>September 30, |       | For the Nine<br>Months Ended<br>September 30, |        |
|--|--|-------|---|--------|
|  | 2015   | 2014  | 2015  | 2014   |
|  | (Dollars in millions)                          |       |   |        |
| Net trading gains  | \$ 13  | \$ 50 | \$ 69   | \$ 444 |
| Net trading gains (losses) recognized in the period related to securities still held at period end | (15)   | 56    | (29)  | 409    |

**Available-for-Sale Securities**

We measure available-for-sale (“AFS”) securities at fair value with unrealized gains and losses, recorded net of tax, as a component of “Other comprehensive income (loss)” and we recognize realized gains and losses from the sale of AFS securities in “Investment gains, net” in our condensed consolidated statements of operations and comprehensive income.

The following table displays the gross realized gains, losses and proceeds on sales of AFS securities.

|                               | For the Three<br>Months Ended<br>September 30, |       | For the Nine<br>Months Ended<br>September 30, |        |
|-------------------------------|--|-------|---|--------|
|                               | 2015   | 2014  | 2015  | 2014   |
|                               | (Dollars in millions)                          |       |   |        |
| Gross realized gains          | \$ 94  | \$ 96 | \$ 907  | \$ 495 |
| Gross realized losses         | 9  | 4     | 66  | 5      |
| Total proceeds <sup>(1)</sup> | 1,556  | 722   | 6,764   | 2,461  |

<sup>(1)</sup> Excludes proceeds from the initial sale of securities from new portfolio securitizations.

The following tables display the amortized cost, gross unrealized gains and losses, and fair value by major security type for AFS securities.

|                                   | As of September 30, 2015                  |                              |  |   |                        |
|-----------------------------------|---|------------------------------|--|---|------------------------|
|                                   | Total<br>Amortized<br>Cost <sup>(1)</sup> | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses -<br>OTTI <sup>(2)</sup> | Gross<br>Unrealized<br>Losses -<br>Other <sup>(3)</sup> | Total<br>Fair<br>Value |
|                                   | (Dollars in millions)                     |                              |  |   |                        |
| Fannie Mae                        | \$ 4,026                                  | \$ 275                       | \$ —   | \$ (19)   | \$ 4,282               |
| Freddie Mac                       | 4,252                                     | 347                          | —  | —   | 4,599                  |
| Ginnie Mae                        | 361                                       | 52                           | —  | —   | 413                    |
| Alt-A private-label securities    | 2,626                                     | 727                          | (4)  | —   | 3,349                  |
| Subprime private-label securities | 2,817                                     | 865                          | —  | (5)   | 3,677                  |
| CMBS                              | 1,273                                     | 36                           | —  | —   | 1,309                  |
| Mortgage revenue bonds            | 2,824                                     | 129                          | (17)   | (3)   | 2,933                  |
| Other mortgage-related securities | 1,408                                     | 40                           | (3)  | —   | 1,445                  |
| Total                             | <u>\$19,587</u>                           | <u>\$ 2,471</u>              | <u>\$ (24)</u>   | <u>\$ (27)</u>  | <u>\$22,007</u>        |

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|   | Total<br>Amortized<br>Cost <sup>(1)</sup> | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses -<br>OTTI <sup>(2)</sup> | Gross<br>Unrealized<br>Losses -<br>Other <sup>(3)</sup> | Total<br>Fair<br>Value |
|---|---|------------------------------|--|---|------------------------|
| (Dollars in millions)                       |   |                              |  |   |                        |
| Fannie Mae . . . . .                        | \$ 5,330                                  | \$ 328                       | \$ —   | \$ (19)   | \$ 5,639               |
| Freddie Mac . . . . .                       | 5,100                                     | 428                          | —  | —   | 5,528                  |
| Ginnie Mae . . . . .                        | 416                                       | 60                           | —  | —   | 476                    |
| Alt-A private-label securities . . . . .    | 4,638                                     | 1,055                        | (15)   | —   | 5,678                  |
| Subprime private-label securities . . . . . | 4,103                                     | 1,161                        | (9)  | (15)  | 5,240                  |
| CMBS . . . . .                              | 1,341                                     | 56                           | —  | —   | 1,397                  |
| Mortgage revenue bonds . . . . .            | 3,859                                     | 177                          | (8)  | (5)   | 4,023                  |
| Other mortgage-related securities . . . . . | 2,626                                     | 183                          | (23)   | (113)   | 2,673                  |
| Total . . . . .                             | <u>\$ 27,413</u>                          | <u>\$ 3,448</u>              | <u>\$ (55)</u>   | <u>\$ (152)</u>   | <u>\$ 30,654</u>       |

<sup>(1)</sup> Amortized cost consists of unpaid principal balance, unamortized premiums, discounts and other cost basis adjustments as well as net other-than-temporary impairments (“OTTI”) recognized in “Investment gains, net” in our condensed consolidated statements of operations and comprehensive income.

<sup>(2)</sup> Represents the noncredit component of OTTI losses recorded in “Accumulated other comprehensive income” in our condensed consolidated balance sheets, as well as cumulative changes in fair value of securities for which we previously recognized the credit component of OTTI.

<sup>(3)</sup> Represents the gross unrealized losses on securities for which we have not recognized OTTI.

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The following tables display additional information regarding gross unrealized losses and fair value by major security type for AFS securities in an unrealized loss position.

|                                   | As of September 30, 2015           |                 |                                    |               |
|-----------------------------------|------------------------------------|-----------------|------------------------------------|---------------|
|                                   | Less Than 12<br>Consecutive Months |                 | 12 Consecutive Months<br>or Longer |               |
|                                   | Gross<br>Unrealized<br>Losses      | Fair<br>Value   | Gross<br>Unrealized<br>Losses      | Fair<br>Value |
|                                   | (Dollars in millions)              |                 |                                    |               |
| Fannie Mae                        | \$ (3)                             | \$ 116          | \$ (16)                            | \$ 511        |
| Alt-A private-label securities    | (1)                                | 132             | (3)                                | 28            |
| Subprime private-label securities | —                                  | 38              | (5)                                | 96            |
| Mortgage revenue bonds            | (16)                               | 584             | (4)                                | 20            |
| Other mortgage-related securities | (3)                                | 255             | —                                  | —             |
| Total                             | <u>\$ (23)</u>                     | <u>\$ 1,125</u> | <u>\$ (28)</u>                     | <u>\$ 655</u> |

|                                   | As of December 31, 2014            |               |                                    |                 |
|-----------------------------------|------------------------------------|---------------|------------------------------------|-----------------|
|                                   | Less Than 12<br>Consecutive Months |               | 12 Consecutive Months<br>or Longer |                 |
|                                   | Gross<br>Unrealized<br>Losses      | Fair<br>Value | Gross<br>Unrealized<br>Losses      | Fair<br>Value   |
|                                   | (Dollars in millions)              |               |                                    |                 |
| Fannie Mae                        | \$ —                               | \$ 113        | \$ (19)                            | \$ 627          |
| Alt-A private-label securities    | (2)                                | 171           | (13)                               | 112             |
| Subprime private-label securities | —                                  | —             | (24)                               | 460             |
| Mortgage revenue bonds            | (2)                                | 47            | (11)                               | 155             |
| Other mortgage-related securities | —                                  | 8             | (136)                              | 1,021           |
| Total                             | <u>\$ (4)</u>                      | <u>\$ 339</u> | <u>\$ (203)</u>                    | <u>\$ 2,375</u> |

**Other-Than-Temporary Impairments**

We recognized \$5 million and \$6 million of OTTI for the three months ended September 30, 2015 and 2014, respectively, and \$187 million and \$80 million of OTTI for the nine months ended September 30, 2015 and 2014, respectively, which are included in “Investment gains, net” in our condensed consolidated statements of operations and comprehensive income. During the nine months ended September 30, 2015, OTTI was primarily driven by a change in our intent to sell certain securities. As a result, we recognized the entire difference between the amortized cost basis of these securities and their fair value as OTTI.

The following table displays the modeled attributes, including default rates and severities, which were used to determine as of September 30, 2015 whether our senior interests in certain non-agency mortgage-related securities (including those we intend to sell) will experience a cash shortfall. An estimate of voluntary prepayment rates is also an input to the present value of expected losses.

|  | As of September 30, 2015 |            |            |               |             |
|--|--------------------------|------------|------------|---------------|-------------|
|  | Subprime                 | Alt-A      |            |               |             |
|  |                          | Option ARM | Fixed Rate | Variable Rate | Hybrid Rate |
|  | (Dollars in millions)    |            |            |               |             |
| Total unpaid principal balance                             | \$ 4,917                 | \$ 494     | \$ 1,205   | \$ 838        | \$ 1,237    |
| Weighted average collateral default <sup>(1)</sup>         | 42.4%                    | 29.4%      | 11.9%      | 21.4%         | 10.0%       |
| Weighted average collateral severities <sup>(2)</sup>      | 60.0                     | 38.5       | 46.9       | 37.9          | 34.2        |
| Weighted average voluntary prepayment rates <sup>(3)</sup> | 2.7                      | 7.4        | 12.2       | 8.4           | 12.0        |
| Average credit enhancement <sup>(4)</sup>                  | 17.4                     | 3.6        | 5.6        | 8.6           | 4.4         |

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- (1) The expected remaining cumulative default rate of the collateral pool backing the securities, as a percentage of the current collateral unpaid principal balance, weighted by security unpaid principal balance.
- (2) The expected remaining loss given default of the collateral pool backing the securities, calculated as the ratio of remaining cumulative loss divided by cumulative defaults, weighted by security unpaid principal balance.
- (3) The average monthly voluntary prepayment rate, weighted by security unpaid principal balance.
- (4) The average percent current credit enhancement provided by subordination of other securities. Excludes excess interest projections and monoline bond insurance.

The following table displays activity related to the unrealized credit loss component on debt securities held by us and recognized in our condensed consolidated statements of operations and comprehensive income.

|  | For the Three<br>Months Ended<br>September 30, |                 | For the Nine<br>Months Ended<br>September 30, |                 |
|--|--|-----------------|---|-----------------|
|  | 2015   | 2014            | 2015  | 2014            |
|  | (Dollars in millions)                          |                 |   |                 |
| Balance, beginning of period . . . . .   | \$ 2,557                                       | \$ 5,871        | \$ 5,260                                      | \$ 7,904        |
| Additions for the credit component on debt securities for which OTTI was not previously recognized . . . . .   | —  | —               | —   | 1               |
| Additions for the credit component on debt securities for which OTTI was previously recognized . . . . .   | 1  | 3               | 5   | 50              |
| Reductions for securities no longer in portfolio at period end . . . . .   | (2)  | (355)           | (1,167)                                       | (792)           |
| Reductions for securities which we intend to sell or it is more likely than not that we will be required to sell before recovery of amortized cost basis . . . . . | —  | —               | (1,439)                                       | (1,453)         |
| Reductions for amortization resulting from changes in cash flows expected to be collected over the remaining life of the securities . . . . .                      | (43)   | (73)            | (146)   | (264)           |
| Balance, end of period . . . . .   | <u>\$ 2,513</u>                                | <u>\$ 5,446</u> | <u>\$ 2,513</u>                               | <u>\$ 5,446</u> |

**Maturity Information**

The following table displays the amortized cost and fair value of our AFS securities by major security type and remaining contractual maturity, assuming no principal prepayments. The contractual maturity of mortgage-backed securities is not a reliable indicator of their expected life because borrowers generally have the right to prepay their obligations at any time.

|   | As of September 30, 2015   |                        |                   |               |                                      |                 |                                       |               |                   |                  |
|---|----------------------------|------------------------|-------------------|---------------|--------------------------------------|-----------------|---------------------------------------|---------------|-------------------|------------------|
|   | Total<br>Amortized<br>Cost | Total<br>Fair<br>Value | One Year or Less  |               | After One Year Through<br>Five Years |                 | After Five Years<br>Through Ten Years |               | After Ten Years   |                  |
|   |                            |                        | Amortized<br>Cost | Fair<br>Value | Amortized<br>Cost                    | Fair<br>Value   | Amortized<br>Cost                     | Fair<br>Value | Amortized<br>Cost | Fair<br>Value    |
|   | (Dollars in millions)      |                        |                   |               |                                      |                 |                                       |               |                   |                  |
| Fannie Mae . . . . .                        | \$ 4,026                   | \$ 4,282               | \$ —              | \$ —          | \$ 189                               | \$ 194          | \$ 165                                | \$ 178        | \$ 3,672          | \$ 3,910         |
| Freddie Mac . . . . .                       | 4,252                      | 4,599                  | 1                 | 1             | 221                                  | 231             | 332                                   | 363           | 3,698             | 4,004            |
| Ginnie Mae . . . . .                        | 361                        | 413                    | —                 | —             | 1                                    | 1               | 57                                    | 64            | 303               | 348              |
| Alt-A private-label securities . . . . .    | 2,626                      | 3,349                  | —                 | —             | —                                    | —               | —                                     | —             | 2,626             | 3,349            |
| Subprime private-label securities . . . . . | 2,817                      | 3,677                  | —                 | —             | —                                    | —               | —                                     | —             | 2,817             | 3,677            |
| CMBS . . . . .                              | 1,273                      | 1,309                  | 171               | 173           | 1,037                                | 1,071           | —                                     | —             | 65                | 65               |
| Mortgage revenue bonds . . . . .            | 2,824                      | 2,933                  | 11                | 11            | 106                                  | 108             | 219                                   | 221           | 2,488             | 2,593            |
| Other mortgage-related securities . . . . . | 1,408                      | 1,445                  | —                 | —             | —                                    | —               | 31                                    | 33            | 1,377             | 1,412            |
| Total . . . . .                             | <u>\$ 19,587</u>           | <u>\$ 22,007</u>       | <u>\$ 183</u>     | <u>\$ 185</u> | <u>\$ 1,554</u>                      | <u>\$ 1,605</u> | <u>\$ 804</u>                         | <u>\$ 859</u> | <u>\$ 17,046</u>  | <u>\$ 19,358</u> |

**6. Financial Guarantees**

We recognize a guaranty obligation for our obligation to stand ready to perform on our guarantees to unconsolidated trusts and other guaranty arrangements. These guarantees expose us to credit losses on the mortgage loans or, in the case of



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mortgage-related securities, the underlying mortgage loans of the related securities. The remaining contractual terms of our guarantees range from 1 day to 37 years; however, the actual term of each guaranty may be significantly less than the contractual term based on the prepayment characteristics of the related mortgage loans.

The following table displays our maximum exposure, guaranty obligation recognized in our condensed consolidated balance sheets and the maximum potential recovery from third parties through available credit enhancements and recourse related to our financial guarantees.

|  | As of                           |                     |                                 |                                 |                     |                                 |
|--|---------------------------------|---------------------|---------------------------------|---------------------------------|---------------------|---------------------------------|
|  | September 30, 2015              |                     |                                 | December 31, 2014               |                     |                                 |
|  | Maximum Exposure <sup>(1)</sup> | Guaranty Obligation | Maximum Recovery <sup>(2)</sup> | Maximum Exposure <sup>(1)</sup> | Guaranty Obligation | Maximum Recovery <sup>(2)</sup> |
| (Dollars in millions)                                |                                 |                     |                                 |                                 |                     |                                 |
| Unconsolidated Fannie Mae MBS . . . . .              | \$ 15,556                       | \$ 198              | \$ 9,077                        | \$ 17,184                       | \$ 214              | \$ 9,775                        |
| Other guaranty arrangements <sup>(3)</sup> . . . . . | 16,783                          | 140                 | 2,971                           | 18,781                          | 168                 | 4,447                           |
| Total . . . . .                                      | <u>\$ 32,339</u>                | <u>\$ 338</u>       | <u>\$ 12,048</u>                | <u>\$ 35,965</u>                | <u>\$ 382</u>       | <u>\$ 14,222</u>                |

<sup>(1)</sup> Primarily consists of the unpaid principal balance of the underlying mortgage loans.

<sup>(2)</sup> Recoverability of such credit enhancements and recourse is subject to, among other factors, our mortgage insurers' and financial guarantors' ability to meet their obligations to us. For information on our mortgage insurers, see "Note 13, Concentrations of Credit Risk."

<sup>(3)</sup> Primarily consists of credit enhancements, long-term standby commitments, and our commitment under the TCLF program.

The fair value of our guaranty obligations associated with the Fannie Mae MBS included in "Investments in securities" in our condensed consolidated balance sheets was \$729 million and \$797 million as of September 30, 2015 and December 31, 2014, respectively. These Fannie Mae MBS consist primarily of private-label wraps where our guaranty arrangement is with an unconsolidated MBS trust.

**7. Acquired Property, Net**

Acquired property, net consists of held-for-sale foreclosed property received in satisfaction of a loan, net of a valuation allowance for declines in the fair value of the properties after initial acquisition. We classify properties as held for sale when we intend to sell the property and are actively marketing it for sale. The following table displays the activity in acquired property, and the related valuation allowance.

|  | For the Three Months Ended September 30, |                  | For the Nine Months Ended September 30, |                  |
|--|--|------------------|---|------------------|
|  | 2015                                     | 2014             | 2015                                    | 2014             |
| (Dollars in millions)                                |  |                  |   |                  |
| Beginning balance — Acquired property . . . . .      | \$ 9,199                                 | \$ 12,296        | \$ 11,442                               | \$ 12,307        |
| Additions . . . . .                                  | 2,236                                    | 3,240            | 7,602                                   | 10,437           |
| Disposals . . . . .                                  | <u>(3,125)</u>                           | <u>(3,412)</u>   | <u>(10,734)</u>                         | <u>(10,620)</u>  |
| Ending balance — Acquired property . . . . .         | 8,310                                    | 12,124           | 8,310                                   | 12,124           |
| Beginning balance — Valuation allowance . . . . .    | (693)                                    | (736)            | (824)                                   | (686)            |
| Decrease (increase) in valuation allowance . . . . . | 74                                       | (49)             | 205                                     | (99)             |
| Ending balance — Valuation allowance . . . . .       | <u>(619)</u>                             | <u>(785)</u>     | <u>(619)</u>                            | <u>(785)</u>     |
| Ending balance — Acquired property, net . . . . .    | <u>\$ 7,691</u>                          | <u>\$ 11,339</u> | <u>\$ 7,691</u>                         | <u>\$ 11,339</u> |

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**8. Short-Term Borrowings and Long-Term Debt**

***Short-Term Borrowings***

The following table displays our outstanding short-term borrowings (borrowings with an original contractual maturity of one year or less) and weighted-average interest rates of these borrowings.

|   | As of                 |   |                   |   |
|---|-----------------------|---|-------------------|---|
|   | September 30, 2015    |   | December 31, 2014 |   |
|   | Outstanding           | Weighted-Average Interest Rate <sup>(1)</sup> | Outstanding       | Weighted-Average Interest Rate <sup>(1)</sup> |
|   | (Dollars in millions) |   |                   |   |
| Federal funds purchased and securities sold under agreements to repurchase <sup>(2)</sup> ..... | \$ 118                | —%  | \$ 50             | —%  |
| Short-term debt of Fannie Mae .....   | \$ 95,427             | 0.21%   | \$105,012         | 0.11%   |
| Debt of consolidated trusts. ....   | 1,391                 | 0.15  | 1,560             | 0.09  |
| Total short-term debt .....   | <u>\$ 96,818</u>      | 0.20%   | <u>\$106,572</u>  | 0.11%   |

<sup>(1)</sup> Includes the effects of discounts, premiums and other cost basis adjustments.

<sup>(2)</sup> Represents agreements to repurchase securities for a specified price, with repayment generally occurring on the following day.

***Intraday Line of Credit***

We periodically use a secured intraday funding line of credit provided by a large financial institution. We post collateral which, in some circumstances, the secured party has the right to repledge to third parties. As this line of credit is an uncommitted intraday loan facility, we may be unable to draw on it if and when needed. The line of credit under this facility was \$15.0 billion as of September 30, 2015 and December 31, 2014. We had no borrowings outstanding from this line of credit as of September 30, 2015.

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**Long-Term Debt**

Long-term debt represents borrowings with an original contractual maturity of greater than one year. The following table displays our outstanding long-term debt.

|   | As of              |                    |   |                   |                    |   |
|---|--------------------|--------------------|---|-------------------|--------------------|---|
|   | September 30, 2015 |                    |   | December 31, 2014 |                    |   |
|   | Maturities         | Outstanding        | Weighted-Average Interest Rate <sup>(1)</sup> | Maturities        | Outstanding        | Weighted-Average Interest Rate <sup>(1)</sup> |
| (Dollars in millions)                                       |                    |                    |   |                   |                    |   |
| Senior fixed:   |                    |                    |   |                   |                    |   |
| Benchmark notes and bonds . . . . .                         | 2015 - 2030        | \$ 159,550         | 2.51%   | 2015 - 2030       | \$ 173,010         | 2.41%   |
| Medium-term notes <sup>(2)</sup> . . . . .                  | 2015 - 2025        | 100,682            | 1.49  | 2015 - 2024       | 114,556            | 1.42  |
| Foreign exchange bonds . . . . .                            | 2021 - 2028        | 570                | 5.39  | 2021 - 2028       | 619                | 5.44  |
| Other . . . . .   | 2015 - 2038        | 27,797             | 4.83  | 2015 - 2038       | 32,322             | 4.63  |
| Total senior fixed . . . . .                                |                    | <u>288,599</u>     | 2.39  |                   | <u>320,507</u>     | 2.29  |
| Senior floating:  |                    |                    |   |                   |                    |   |
| Medium-term notes <sup>(2)</sup> . . . . .                  | 2015 - 2019        | 19,164             | 0.22  | 2015 - 2019       | 24,469             | 0.15  |
| Connecticut Avenue Securities <sup>(3)</sup> . . . . .      | 2023 - 2025        | 9,607              | 3.39  | 2023 - 2024       | 6,041              | 2.97  |
| Other <sup>(4)</sup> . . . . .                              | 2020 - 2037        | 369                | 8.25  | 2020 - 2037       | 363                | 8.71  |
| Total senior floating . . . . .                             |                    | <u>29,140</u>      | 1.36  |                   | <u>30,873</u>      | 0.81  |
| Subordinated debentures . . . . .                           | 2019               | 4,129              | 9.93  | 2019              | 3,849              | 9.93  |
| Secured borrowings <sup>(5)</sup> . . . . .                 | 2021 - 2022        | 163                | 1.35  | 2021 - 2022       | 202                | 1.90  |
| Total long-term debt of Fannie Mae <sup>(6)</sup> . . . . . |                    | <u>322,031</u>     | 2.39  |                   | <u>355,431</u>     | 2.24  |
| Debt of consolidated trusts <sup>(4)</sup> . . . . .        | 2015 - 2054        | 2,787,396          | 2.91  | 2015 - 2054       | 2,760,152          | 3.02  |
| Total long-term debt . . . . .                              |                    | <u>\$3,109,427</u> | 2.85%   |                   | <u>\$3,115,583</u> | 2.93%   |

<sup>(1)</sup> Includes the effects of discounts, premiums and other cost basis adjustments.

<sup>(2)</sup> Includes long-term debt with an original contractual maturity of greater than 1 year and up to 10 years, excluding zero-coupon debt.

<sup>(3)</sup> Credit risk-sharing securities that transfer a portion of the credit risk on specified pools of mortgage loans to the investors in these securities. Connecticut Avenue Securities are reported at fair value.

<sup>(4)</sup> Includes structured debt instruments that are reported at fair value.

<sup>(5)</sup> Represents our remaining liability resulting from the transfer of financial assets from our condensed consolidated balance sheets that did not qualify as a sale under the accounting guidance for the transfer of financial instruments.

<sup>(6)</sup> Includes unamortized discounts and premiums, other cost basis adjustments and fair value adjustments of \$3.4 billion and \$4.1 billion as of September 30, 2015 and December 31, 2014, respectively.

**9. Derivative Instruments**

Derivative instruments are an integral part of our strategy in managing interest rate risk. Derivative instruments may be privately-negotiated, bilateral contracts, or they may be listed and traded on an exchange. We refer to our derivative transactions made pursuant to bilateral contracts as our over-the-counter (“OTC”) derivative transactions and our derivative transactions accepted for clearing by a derivatives clearing organization as our cleared derivative transactions. We typically do not settle the notional amount of our risk management derivatives; rather, notional amounts provide the basis for calculating actual payments or settlement amounts. The derivatives we use for interest rate risk management purposes consist primarily of interest rate swaps and interest rate options.

We enter into forward purchase and sale commitments that lock in the future delivery of mortgage loans and mortgage-related securities at a fixed price or yield. Certain commitments to purchase mortgage loans and purchase or sell mortgage-related securities meet the criteria of a derivative. We typically settle the notional amount of our mortgage commitments that are accounted for as derivatives.

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We recognize all derivatives as either assets or liabilities in our condensed consolidated balance sheets at their fair value on a trade date basis. Fair value amounts, which are netted to the extent a legal right of offset exists and is enforceable by law at the counterparty level and are inclusive of the right or obligation associated with the cash collateral posted or received, are recorded in “Other assets” or “Other liabilities” in our condensed consolidated balance sheets. See “Note 15, Fair Value” for additional information on derivatives recorded at fair value. We present cash flows from derivatives as operating activities in our condensed consolidated statements of cash flows.

***Notional and Fair Value Position of our Derivatives***

The following table displays the notional amount and estimated fair value of our asset and liability derivative instruments.

|   | As of September 30, 2015 |                         |                       |                         | As of December 31, 2014 |                         |                       |                         |
|---|--------------------------|-------------------------|-----------------------|-------------------------|-------------------------|-------------------------|-----------------------|-------------------------|
|   | Asset Derivatives        |                         | Liability Derivatives |                         | Asset Derivatives       |                         | Liability Derivatives |                         |
|   | Notional<br>Amount       | Estimated<br>Fair Value | Notional<br>Amount    | Estimated<br>Fair Value | Notional<br>Amount      | Estimated<br>Fair Value | Notional<br>Amount    | Estimated<br>Fair Value |
|   | (Dollars in millions)    |                         |                       |                         |                         |                         |                       |                         |
| Risk management derivatives:  |                          |                         |                       |                         |                         |                         |                       |                         |
| Swaps:  |                          |                         |                       |                         |                         |                         |                       |                         |
| Pay-fixed . . . . .   | \$ 7,557                 | \$ 42                   | \$ 151,810            | \$ (9,251)              | \$ 41,965               | \$ 733                  | \$ 123,557            | \$ (7,125)              |
| Receive-fixed . . . . .   | 157,472                  | 4,434                   | 44,981                | (145)                   | 67,629                  | 4,486                   | 157,272               | (1,302)                 |
| Basis . . . . .   | 764                      | 148                     | 10,600                | (2)                     | 5,769                   | 123                     | 7,100                 | (2)                     |
| Foreign currency . . . . .  | 302                      | 116                     | 265                   | (46)                    | 344                     | 144                     | 273                   | (30)                    |
| Swaptions:  |                          |                         |                       |                         |                         |                         |                       |                         |
| Pay-fixed . . . . .   | 6,300                    | 43                      | 13,950                | (24)                    | 11,100                  | 57                      | 26,525                | (175)                   |
| Receive-fixed . . . . .   | —                        | —                       | 14,200                | (283)                   | 750                     | 96                      | 29,525                | (816)                   |
| Other <sup>(1)</sup> . . . . .                                      | 3,956                    | 25                      | 1,993                 | (1)                     | 1,071                   | 28                      | 12                    | (1)                     |
| Total gross risk management derivatives . . . . .                   | 176,351                  | 4,808                   | 237,799               | (9,752)                 | 128,628                 | 5,667                   | 344,264               | (9,451)                 |
| Accrued interest receivable (payable) . . . . .                     | —                        | 835                     | —                     | (1,220)                 | —                       | 749                     | —                     | (1,013)                 |
| Netting adjustment <sup>(2)</sup> . . . . .                         | —                        | (4,417)                 | —                     | 10,635                  | —                       | (5,186)                 | —                     | 10,194                  |
| Total net risk management derivatives . . . . .                     | <u>\$ 176,351</u>        | <u>\$ 1,226</u>         | <u>\$ 237,799</u>     | <u>\$ (337)</u>         | <u>\$ 128,628</u>       | <u>\$ 1,230</u>         | <u>\$ 344,264</u>     | <u>\$ (270)</u>         |
| Mortgage commitment derivatives:                                    |                          |                         |                       |                         |                         |                         |                       |                         |
| Mortgage commitments to purchase whole loans . . . . .              | \$ 9,595                 | \$ 57                   | \$ 28                 | \$ —                    | \$ 6,157                | \$ 28                   | \$ 428                | \$ —                    |
| Forward contracts to purchase mortgage-related securities . . . . . | 57,746                   | 326                     | 2,245                 | (4)                     | 43,533                  | 223                     | 6,112                 | (8)                     |
| Forward contracts to sell mortgage-related securities . . . . .     | 1,623                    | 1                       | 87,416                | (563)                   | 4,886                   | 4                       | 57,910                | (336)                   |
| Total mortgage commitment derivatives . . . . .                     | <u>\$ 68,964</u>         | <u>\$ 384</u>           | <u>\$ 89,689</u>      | <u>\$ (567)</u>         | <u>\$ 54,576</u>        | <u>\$ 255</u>           | <u>\$ 64,450</u>      | <u>\$ (344)</u>         |
| Derivatives at fair value . . . . .                                 | <u>\$ 245,315</u>        | <u>\$ 1,610</u>         | <u>\$ 327,488</u>     | <u>\$ (904)</u>         | <u>\$ 183,204</u>       | <u>\$ 1,485</u>         | <u>\$ 408,714</u>     | <u>\$ (614)</u>         |

<sup>(1)</sup> Includes futures and swap credit enhancements, as well as credit risk transfer transactions and mortgage insurance contracts that we account for as derivatives.

<sup>(2)</sup> The netting adjustment represents the effect of the legal right to offset under legally enforceable master netting arrangements to settle with the same counterparty on a net basis, including cash collateral posted and received. Cash collateral posted was \$6.5 billion and \$5.3 billion as of September 30, 2015 and December 31, 2014, respectively. Cash collateral received was \$256 million and \$245 million as of September 30, 2015 and December 31, 2014, respectively.

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A majority of our OTC derivative contracts contain provisions that require our senior unsecured debt to maintain a minimum credit rating from S&P and Moody's. If our senior unsecured debt credit ratings were downgraded to established thresholds in these derivative contracts, which range from A+ to BBB+, we could be required to provide additional collateral to or terminate transactions with certain counterparties. The aggregate fair value of all OTC derivatives with credit-risk-related contingent features that were in a net liability position was \$3.2 billion and \$2.6 billion as of September 30, 2015 and December 31, 2014, respectively, for which we posted collateral of \$2.8 billion and \$2.4 billion in the normal course of business as of September 30, 2015 and December 31, 2014, respectively. Had all of the credit-risk-related contingency features underlying these agreements been triggered, an additional \$303 million and \$269 million would have been required to be posted as collateral or to immediately settle our positions based on the individual agreements and our fair value position as of September 30, 2015 and December 31, 2014, respectively. A reduction in our credit ratings may also cause derivatives clearing organizations or their members to demand that we post additional collateral for our cleared derivative contracts.

We record all derivative gains and losses, including accrued interest, in "Fair value losses, net" in our condensed consolidated statements of operations and comprehensive income. The following table displays, by type of derivative instrument, the fair value gains and losses, net on our derivatives.

|  | <u>For the Three Months</u>  |                 | <u>For the Nine Months</u> |                   |
|--|------------------------------|-----------------|----------------------------|-------------------|
|  | <u>Ended September 30,</u>   |                 | <u>Ended September 30,</u> |                   |
|  | <u>2015</u>                  | <u>2014</u>     | <u>2015</u>                | <u>2014</u>       |
|  | <u>(Dollars in millions)</u> |                 |                            |                   |
| Risk management derivatives:                                   |                              |                 |                            |                   |
| Swaps:   |                              |                 |                            |                   |
| Pay-fixed .....  | \$ (4,402)                   | \$ 712          | \$ (3,120)                 | \$ (3,755)        |
| Receive-fixed .....  | 2,295                        | (822)           | 2,236                      | 2,282             |
| Basis .....  | 37                           | 6               | 25                         | 49                |
| Foreign currency .....   | (20)                         | (17)            | (33)                       | 21                |
| Swaptions:   |                              |                 |                            |                   |
| Pay-fixed .....  | 32                           | (53)            | 137                        | (90)              |
| Receive-fixed .....  | (102)                        | 82              | (181)                      | (19)              |
| Other .....  | 22                           | (1)             | 20                         | (1)               |
| Accrual of periodic settlements:                               |                              |                 |                            |                   |
| Pay-fixed interest-rate swaps .....                            | (895)                        | (939)           | (2,730)                    | (2,755)           |
| Receive-fixed interest-rate swaps .....                        | 620                          | 613             | 2,007                      | 1,946             |
| Other .....  | 9                            | 12              | 29                         | 39                |
| Total risk management derivatives fair value losses, net ..... | <u>\$ (2,404)</u>            | <u>\$ (407)</u> | <u>\$ (1,610)</u>          | <u>\$ (2,283)</u> |
| Mortgage commitment derivatives fair value losses, net .....   | <u>(361)</u>                 | <u>(73)</u>     | <u>(427)</u>               | <u>(728)</u>      |
| Total derivatives fair value losses, net .....                 | <u>\$ (2,765)</u>            | <u>\$ (480)</u> | <u>\$ (2,037)</u>          | <u>\$ (3,011)</u> |

***Derivative Counterparty Credit Exposure***

Our derivative counterparty credit exposure relates principally to interest rate derivative contracts. We are exposed to the risk that a counterparty in a derivative transaction will default on payments due to us, which may require us to seek a replacement derivative from a different counterparty. This replacement may be at a higher cost, or we may be unable to find a suitable replacement. We manage our derivative counterparty credit exposure relating to our risk management derivative transactions mainly through enforceable master netting arrangements, which allow us to net derivative assets and liabilities with the same counterparty or clearing organization and clearing member. For our OTC derivative transactions, we require counterparties to post collateral, which may include cash, U.S. Treasury securities, agency debt and agency mortgage-related securities.

See "Note 14, Netting Arrangements" for information on our rights to offset assets and liabilities.

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**10. Earnings (Loss) Per Share**

The calculation of income available to common stockholders and earnings per share is based on the underlying premise that all income after payment of dividends on preferred shares is available to and will be distributed to common stockholders. However, as a result of our conservatorship status and the terms of the senior preferred stock, no amounts are available to distribute as dividends to common or preferred stockholders (other than to Treasury as holder of the senior preferred stock).

The following table displays the computation of basic and diluted earnings (loss) per share of common stock.

|  | For the Three Months<br>Ended September 30,                |           | For the Nine Months<br>Ended September 30, |           |
|--|--|-----------|--|-----------|
|  | 2015   | 2014      | 2015                                       | 2014      |
|  | (Dollars and shares in millions, except per share amounts) |           |  |           |
| Net income. . . . .  | \$ 1,960   | \$ 3,905  | \$ 8,488                                   | \$ 12,897 |
| Less: Net income attributable to noncontrolling interest . . . . .   | —  | —         | —  | (1)       |
| Net income attributable to Fannie Mae . . . . .  | 1,960  | 3,905     | 8,488                                      | 12,896    |
| Dividends distributed or available for distribution to senior preferred stockholder <sup>(1)</sup> . . . . . | (2,202)  | (3,999)   | (8,357)                                    | (13,403)  |
| Net income (loss) attributable to common stockholders . . . . .  | \$ (242)   | \$ (94)   | \$ 131                                     | \$ (507)  |
| Weighted-average common shares outstanding—Basic <sup>(2)</sup> . . . . .                                    | 5,762  | 5,762     | 5,762                                      | 5,762     |
| Convertible preferred stock . . . . .  | —  | —         | 131  | —         |
| Weighted-average common shares outstanding—Diluted <sup>(2)</sup> . . . . .                                  | 5,762  | 5,762     | 5,893                                      | 5,762     |
| Earnings (loss) per share:   |  |           |  |           |
| Basic . . . . .  | \$ (0.04)  | \$ (0.02) | \$ 0.02                                    | \$ (0.09) |
| Diluted . . . . .  | (0.04)   | (0.02)    | 0.02                                       | (0.09)    |

<sup>(1)</sup> Dividends distributed or available for distribution for the three months ended September 30, 2015 and 2014 (relating to the dividend periods for the three months ended December 31, 2015 and 2014) were calculated based on our net worth as of September 30, 2015 and 2014, respectively, less the applicable capital reserve. For the nine months ended September 30, 2015, we add dividends paid related to the dividend periods for the three months ended September 30, 2015 and June 30, 2015. For the nine months ended September 30, 2014, we add dividends paid related to the dividend periods for the three months ended September 30, 2014 and June 30, 2014.

<sup>(2)</sup> Includes 4.6 billion of weighted average shares of common stock that would be issued upon the full exercise of the warrant issued to Treasury from the date the warrant was issued through September 30, 2015 and 2014.

**11. Segment Reporting**

Our three reportable segments are: Single-Family, Multifamily and Capital Markets. We use these three segments to generate revenue and manage business risk, and each segment is based on the type of business activities it performs. Under our segment reporting, the sum of the results for our three business segments does not equal our condensed consolidated statements of operations and comprehensive income, as we separate the activity related to our consolidated trusts from the results generated by our three segments. Our business segment financial results include directly attributable revenues and expenses. Additionally, we allocate to each of our segments: (1) capital using FHFA minimum capital requirements adjusted for over- or under-capitalization; (2) indirect administrative costs; and (3) a provision or benefit for federal income taxes. In addition, we allocate intracompany guaranty fee income as a charge from the Single-Family and Multifamily segments to Capital Markets for managing the credit risk on mortgage loans held by the Capital Markets group. We also include an eliminations/adjustments category to reconcile our business segment financial results and the activity related to our consolidated trusts to net income in our condensed consolidated statements of operations and comprehensive income.

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|  | Business Segments     |               |                 | Other Activity/Reconciling Items   |   | Total Results     |
|--|-----------------------|---------------|-----------------|------------------------------------|---|-------------------|
|  | Single-Family         | Multifamily   | Capital Markets | Consolidated Trusts <sup>(1)</sup> | Eliminations/Adjustments <sup>(2)</sup> |                   |
|  | (Dollars in millions) |               |                 |                                    |   |                   |
| Net interest income (loss) . . . . .                                 | \$ 66                 | \$ (16)       | \$ 1,401        | \$ 3,901                           | \$ 236 <sup>(3)</sup>                   | \$ 5,588          |
| Benefit for credit losses . . . . .                                  | 1,545                 | 5             | —               | —                                  | —                                       | 1,550             |
| Net interest income (loss) after benefit for credit losses . . . . . | 1,611                 | (11)          | 1,401           | 3,901                              | 236                                     | 7,138             |
| Guaranty fee income (expense) <sup>(4)</sup> . . . . .               | 3,145                 | 367           | (210)           | (2,024) <sup>(5)</sup>             | (1,247) <sup>(5)</sup>                  | 31 <sup>(5)</sup> |
| Investment gains (losses), net . . . . .                             | (1)                   | 5             | 1,608           | (187)                              | (1,126) <sup>(6)</sup>                  | 299               |
| Fair value gains (losses), net . . . . .                             | (4)                   | —             | (2,697)         | 32                                 | 80 <sup>(7)</sup>                       | (2,589)           |
| Debt extinguishment gains (losses), net . . . . .                    | —                     | —             | (25)            | 14                                 | —                                       | (11)              |
| Gains (losses) from partnership investments <sup>(8)</sup> . . . . . | (12)                  | 7             | —               | —                                  | —                                       | (5)               |
| Fee and other income (expense) . . . . .                             | 98                    | 58            | 83              | (80)                               | 69                                      | 228               |
| Administrative expenses . . . . .                                    | (649)                 | (109)         | (194)           | —                                  | —                                       | (952)             |
| Foreclosed property income (expense) . . . . .                       | (516)                 | 19            | —               | —                                  | —                                       | (497)             |
| TCCA fees <sup>(4)</sup> . . . . .                                   | (413)                 | —             | —               | —                                  | —                                       | (413)             |
| Other income (expenses) . . . . .                                    | (180)                 | 5             | 24              | (93)                               | 45                                      | (199)             |
| Income (loss) before federal income taxes . . . . .                  | 3,079                 | 341           | (10)            | 1,563                              | (1,943)                                 | 3,030             |
| Provision for federal income taxes . . . . .                         | (1,040)               | (17)          | (13)            | —                                  | —                                       | (1,070)           |
| Net income (loss) attributable to Fannie Mae . . . . .               | <u>\$ 2,039</u>       | <u>\$ 324</u> | <u>\$ (23)</u>  | <u>\$ 1,563</u>                    | <u>\$ (1,943)</u>                       | <u>\$ 1,960</u>   |

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|  | Business Segments     |                 |                 | Other Activity/Reconciling Items   |   | Total Results     |
|--|-----------------------|-----------------|-----------------|------------------------------------|---|-------------------|
|  | Single-Family         | Multifamily     | Capital Markets | Consolidated Trusts <sup>(1)</sup> | Eliminations/Adjustments <sup>(2)</sup> |                   |
|  | (Dollars in millions) |                 |                 |                                    |   |                   |
| Net interest income (loss) . . . . .                                 | \$ 93                 | \$ (73)         | \$ 4,516        | \$ 11,039                          | \$ 757 <sup>(3)</sup>                   | \$ 16,332         |
| Benefit for credit losses . . . . .                                  | 967                   | 83              | —               | —                                  | —                                       | 1,050             |
| Net interest income after benefit for credit losses . . . . .        | 1,060                 | 10              | 4,516           | 11,039                             | 757                                     | 17,382            |
| Guaranty fee income (expense) <sup>(4)</sup> . . . . .               | 9,277                 | 1,064           | (658)           | (5,929) <sup>(5)</sup>             | (3,655) <sup>(5)</sup>                  | 99 <sup>(5)</sup> |
| Investment gains (losses), net . . . . .                             | (2)                   | 29              | 4,679           | (664)                              | (2,887) <sup>(6)</sup>                  | 1,155             |
| Fair value gains (losses), net . . . . .                             | (8)                   | —               | (2,112)         | 37                                 | 181 <sup>(7)</sup>                      | (1,902)           |
| Debt extinguishment gains (losses), net . . . . .                    | —                     | —               | (30)            | 30                                 | —                                       | —                 |
| Gains (losses) from partnership investments <sup>(8)</sup> . . . . . | (27)                  | 262             | —               | —                                  | —                                       | 235               |
| Fee and other income (expense) . . . . .                             | 571                   | 193             | 288             | (249)                              | 221                                     | 1,024             |
| Administrative expenses . . . . .                                    | (1,591)               | (280)           | (493)           | —                                  | —                                       | (2,364)           |
| Foreclosed property income (expense) . . . . .                       | (1,183)               | 31              | —               | —                                  | —                                       | (1,152)           |
| TCCA fees <sup>(4)</sup> . . . . .                                   | (1,192)               | —               | —               | —                                  | —                                       | (1,192)           |
| Other income (expenses) . . . . .                                    | (669)                 | (8)             | 18              | (93)                               | 105                                     | (647)             |
| Income before federal income taxes . . . . .                         | 6,236                 | 1,301           | 6,208           | 4,171                              | (5,278)                                 | 12,638            |
| Provision for federal income taxes . . . . .                         | (2,040)               | (128)           | (1,982)         | —                                  | —                                       | (4,150)           |
| Net income attributable to Fannie Mae . . . . .                      | <u>\$ 4,196</u>       | <u>\$ 1,173</u> | <u>\$ 4,226</u> | <u>\$ 4,171</u>                    | <u>\$ (5,278)</u>                       | <u>\$ 8,488</u>   |



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For the Three Months Ended September 30, 2014

|   | Business Segments     |               |                 | Other Activity/Reconciling Items   |   | Total Results     |
|---|-----------------------|---------------|-----------------|------------------------------------|---|-------------------|
|   | Single-Family         | Multifamily   | Capital Markets | Consolidated Trusts <sup>(1)</sup> | Eliminations/Adjustments <sup>(2)</sup> |                   |
|   | (Dollars in millions) |               |                 |                                    |   |                   |
| Net interest income (loss) . . . . .                          | \$ 19                 | \$ (22)       | \$ 1,845        | \$ 3,088                           | \$ 254 <sup>(3)</sup>                   | \$ 5,184          |
| Benefit for credit losses . . . . .                           | 1,029                 | 56            | —               | —                                  | —                                       | 1,085             |
| Net interest income after benefit for credit losses . . . . . | 1,048                 | 34            | 1,845           | 3,088                              | 254                                     | 6,269             |
| Guaranty fee income (expense) <sup>(4)</sup> . . . . .        | 2,945                 | 332           | (235)           | (1,488) <sup>(5)</sup>             | (1,502) <sup>(5)</sup>                  | 52 <sup>(5)</sup> |
| Investment gains, net . . . . .                               | —                     | 8             | 1,510           | 21                                 | (1,368) <sup>(6)</sup>                  | 171               |
| Fair value gains (losses), net . . . . .                      | (4)                   | —             | (335)           | 13                                 | 119 <sup>(7)</sup>                      | (207)             |
| Debt extinguishment gains (losses), net . . . . .             | —                     | —             | (3)             | 14                                 | —                                       | 11                |
| Gains from partnership investments <sup>(8)</sup> . . . . .   | —                     | 52            | —               | —                                  | —                                       | 52                |
| Fee and other income (expense) . . . . .                      | 146                   | 32            | 579             | (71)                               | 88                                      | 774               |
| Administrative expenses . . . . .                             | (468)                 | (77)          | (161)           | —                                  | —                                       | (706)             |
| Foreclosed property income (expense) . . . . .                | (281)                 | 32            | —               | —                                  | —                                       | (249)             |
| TCCA fees <sup>(4)</sup> . . . . .                            | (351)                 | —             | —               | —                                  | —                                       | (351)             |
| Other income (expenses) . . . . .                             | (136)                 | 8             | (5)             | —                                  | 9                                       | (124)             |
| Income before federal income taxes . . . . .                  | 2,899                 | 421           | 3,195           | 1,577                              | (2,400)                                 | 5,692             |
| Provision for federal income taxes . . . . .                  | (837)                 | (37)          | (913)           | —                                  | —                                       | (1,787)           |
| Net income attributable to Fannie Mae . . . . .               | <u>\$ 2,062</u>       | <u>\$ 384</u> | <u>\$ 2,282</u> | <u>\$ 1,577</u>                    | <u>\$ (2,400)</u>                       | <u>\$ 3,905</u>   |

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For the Nine Months Ended September 30, 2014

|  | Business Segments     |                 |                 | Other Activity/Reconciling Items   |   | Total Results      |
|--|-----------------------|-----------------|-----------------|------------------------------------|---|--------------------|
|  | Single-Family         | Multifamily     | Capital Markets | Consolidated Trusts <sup>(1)</sup> | Eliminations/Adjustments <sup>(2)</sup> |                    |
|  | (Dollars in millions) |                 |                 |                                    |   |                    |
| Net interest income (loss) . . . . .                               | \$ (24)               | \$ (65)         | \$ 5,592        | \$ 8,525                           | \$ 798 <sup>(3)</sup>                   | \$ 14,826          |
| Benefit for credit losses . . . . .                                | 3,377                 | 121             | —               | —                                  | —                                       | 3,498              |
| Net interest income after benefit for credit losses . . . . .      | 3,353                 | 56              | 5,592           | 8,525                              | 798                                     | 18,324             |
| Guaranty fee income (expense) <sup>(4)</sup> . . . . .             | 8,708                 | 960             | (722)           | (4,367) <sup>(5)</sup>             | (4,441) <sup>(5)</sup>                  | 138 <sup>(5)</sup> |
| Investment gains (losses), net . . . . .                           | (1)                   | 50              | 4,420           | (141)                              | (3,579) <sup>(6)</sup>                  | 749                |
| Fair value gains (losses), net . . . . .                           | (11)                  | —               | (2,770)         | 232                                | 218 <sup>(7)</sup>                      | (2,331)            |
| Debt extinguishment gains, net . . . . .                           | —                     | —               | 31              | 18                                 | —                                       | 49                 |
| Gains from partnership investments <sup>(8)</sup> . . . . .        | —                     | 131             | —               | —                                  | 1                                       | 132                |
| Fee and other income (expense) . . . . .                           | 471                   | 87              | 4,848           | (242)                              | 262                                     | 5,426              |
| Administrative expenses . . . . .                                  | (1,376)               | (225)           | (474)           | —                                  | —                                       | (2,075)            |
| Foreclosed property income . . . . .                               | 154                   | 73              | —               | —                                  | —                                       | 227                |
| TCCA fees <sup>(4)</sup> . . . . .                                 | (1,008)               | —               | —               | —                                  | —                                       | (1,008)            |
| Other expenses . . . . .   | (528)                 | (5)             | (70)            | —                                  | (8)                                     | (611)              |
| Income before federal income taxes . . . . .                       | 9,762                 | 1,127           | 10,855          | 4,025                              | (6,749)                                 | 19,020             |
| Provision for federal income taxes . . . . .                       | (2,897)               | (37)            | (3,189)         | —                                  | —                                       | (6,123)            |
| Net income . . . . .   | 6,865                 | 1,090           | 7,666           | 4,025                              | (6,749)                                 | 12,897             |
| Less: Net income attributable to noncontrolling interest . . . . . | —                     | —               | —               | —                                  | (1)                                     | (1)                |
| Net income attributable to Fannie Mae . . . . .                    | <u>\$ 6,865</u>       | <u>\$ 1,090</u> | <u>\$ 7,666</u> | <u>\$ 4,025</u>                    | <u>\$ (6,750)</u>                       | <u>\$ 12,896</u>   |

- <sup>(1)</sup> Represents activity related to the assets and liabilities of consolidated trusts in our condensed consolidated balance sheets.
- <sup>(2)</sup> Represents the elimination of intercompany transactions occurring between the three business segments and our consolidated trusts, as well as other adjustments to reconcile to our consolidated results.
- <sup>(3)</sup> Represents the amortization expense of cost basis adjustments on securities in the Capital Markets group's retained mortgage portfolio that on a GAAP basis are eliminated.
- <sup>(4)</sup> Reflects the impact of a 10 basis point guaranty fee increase implemented pursuant to the TCCA, the incremental revenue from which must be remitted to Treasury. The resulting revenue is included in guaranty fee income and the expense is recognized as "TCCA fees."
- <sup>(5)</sup> Represents the guaranty fees paid from consolidated trusts to the Single-Family and Multifamily segments. The adjustment to guaranty fee income in the Eliminations/Adjustments column represents the elimination of the amortization of deferred cash fees related to consolidated trusts that were re-established for segment reporting. Total guaranty fee income related to unconsolidated Fannie Mae MBS trusts and other credit enhancement arrangements is included in fee and other income in our condensed consolidated statements of operations and comprehensive income.
- <sup>(6)</sup> Primarily represents the removal of realized gains and losses on sales of Fannie Mae MBS classified as available-for-sale securities that are issued by consolidated trusts and in the Capital Markets group's retained mortgage portfolio. The adjustment also includes the removal of securitization gains (losses) recognized in the Capital Markets segment relating to portfolio securitization transactions that do not qualify for sale accounting under GAAP.
- <sup>(7)</sup> Represents the removal of fair value adjustments on consolidated Fannie Mae MBS classified as trading that are in the Capital Markets group's retained mortgage portfolio.
- <sup>(8)</sup> Gains (losses) from partnership investments are included in other expenses in our condensed consolidated statements of operations and comprehensive income.

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**12. Equity**

The following table displays the activity in other comprehensive income (“OCI”), net of tax, by major categories.

|  | <u>For the Three Months</u><br><u>Ended September 30,</u> |                 | <u>For the Nine Months</u><br><u>Ended September 30,</u> |                  |
|--|---|-----------------|--|------------------|
|  | <u>2015</u>   | <u>2014</u>     | <u>2015</u>  | <u>2014</u>      |
|  | (Dollars in millions)                                     |                 |  |                  |
| Net income . . . . .   | \$ 1,960  | \$ 3,905        | \$ 8,488   | \$ 12,897        |
| Other comprehensive income (loss), net of tax effect:  |   |                 |  |                  |
| Changes in net unrealized gains on AFS securities (net of tax of \$58 and \$61, respectively, for the three months ended and net of tax of \$89 and \$364, respectively, for the nine months ended) . . . . .                              | (107)   | 113             | (164)  | 675              |
| Reclassification adjustment for OTTI recognized in net income (net of tax of \$2 for the three months ended and net of tax of \$66 and \$28, respectively, for the nine months ended) . . . . .  | 3   | 4               | 121  | 52               |
| Reclassification adjustment for gains on AFS securities included in net income (net of tax of \$32 and \$29, respectively, for the three months ended and net of tax of \$265 and \$133, respectively for the nine months ended) . . . . . | (73)  | (54)            | (505)  | (247)            |
| Other <sup>(1)</sup> . . . . .   | 430   | 32              | 428  | 32               |
| Total other comprehensive income (loss) . . . . .  | <u>253</u>  | <u>95</u>       | <u>(120)</u>   | <u>512</u>       |
| Total comprehensive income . . . . .   | <u>\$ 2,213</u>   | <u>\$ 4,000</u> | <u>\$ 8,368</u>  | <u>\$ 13,409</u> |

<sup>(1)</sup> For the three and nine months ended September 30, 2015, includes reclassification adjustment related to the termination of the defined benefit pension plan recognized in “Administrative expenses” and “Provision for federal income taxes” in our condensed consolidated statements of operations and comprehensive income.

The following table displays our accumulated other comprehensive income (“AOCI”) by major categories.

|   | <u>As of</u>                        |                                    |
|---|-------------------------------------|------------------------------------|
|   | <u>September 30,</u><br><u>2015</u> | <u>December 31,</u><br><u>2014</u> |
|   | (Dollars in millions)               |                                    |
| Net unrealized gains on AFS securities for which we have not recorded OTTI, net of tax . . . . .    | \$ 551                              | \$ 592                             |
| Net unrealized gains on AFS securities for which we have recorded OTTI, net of tax . . . . .        | 1,022                               | 1,529                              |
| Prior service credit (cost) and actuarial gains (losses), net of amortization, net of tax . . . . . | 39                                  | (358)                              |
| Other gains (losses) . . . . .  | 1                                   | (30)                               |
| Accumulated other comprehensive income . . . . .  | <u>\$ 1,613</u>                     | <u>\$ 1,733</u>                    |

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The table below displays changes in AOCI, net of tax.

|                               | For the Three Months Ended September 30, |                      |          |                    |          |          | For the Nine Months Ended September 30, |                      |          |                    |          |          |
|-------------------------------|--|----------------------|----------|--------------------|----------|----------|---|----------------------|----------|--------------------|----------|----------|
|                               | 2015                                     |                      |          | 2014               |          |          | 2015                                    |                      |          | 2014               |          |          |
|                               | AFS <sup>(1)</sup>                       | Other <sup>(2)</sup> | Total    | AFS <sup>(1)</sup> | Other    | Total    | AFS <sup>(1)</sup>                      | Other <sup>(2)</sup> | Total    | AFS <sup>(1)</sup> | Other    | Total    |
|                               | (Dollars in millions)                    |                      |          |                    |          |          |   |                      |          |                    |          |          |
| Beginning balance             | \$ 1,750                                 | \$ (390)             | \$ 1,360 | \$ 2,044           | \$ (424) | \$ 1,620 | \$ 2,121                                | \$ (388)             | \$ 1,733 | \$ 1,627           | \$ (424) | \$ 1,203 |
| OCI before reclassifications  | (107)                                    | 6                    | (101)    | 113                | 32       | 145      | (164)                                   | 6                    | (158)    | 675                | 32       | 707      |
| Amounts reclassified from OCI | (70)                                     | 424                  | 354      | (50)               | —        | (50)     | (384)                                   | 422                  | 38       | (195)              | —        | (195)    |
| Net OCI                       | (177)                                    | 430                  | 253      | 63                 | 32       | 95       | (548)                                   | 428                  | (120)    | 480                | 32       | 512      |
| Ending balance                | \$ 1,573                                 | \$ 40                | \$ 1,613 | \$ 2,107           | \$ (392) | \$ 1,715 | \$ 1,573                                | \$ 40                | \$ 1,613 | \$ 2,107           | \$ (392) | \$ 1,715 |

- (1) The amounts reclassified from AOCI represent the gain or loss recognized in earnings due to a sale of an AFS security or the recognition of a net impairment recognized in earnings, which are recorded in “Investments gains, net” in our condensed consolidated statements of operations and comprehensive income.
- (2) The amounts reclassified from AOCI represent activity from our defined benefit pension plans, which is recorded in “Administrative expenses” and “Provision for federal income taxes,” in our condensed consolidated statements of operations and comprehensive income.

### 13. Concentrations of Credit Risk

#### *Risk Characteristics of our Book of Business*

We gauge our performance risk under our guaranty based on the delinquency status of the mortgage loans we hold in our retained mortgage portfolio, or in the case of mortgage-backed securities, the mortgage loans underlying the related securities.

For single-family loans, management monitors the serious delinquency rate, which is the percentage of single-family loans 90 days or more past due or in the foreclosure process, and loans that have higher risk characteristics, such as high mark-to-market loan-to-value (“LTV”) ratios.

For multifamily loans, management monitors the serious delinquency rate, which is the percentage of loans, based on unpaid principal balance, that are 60 days or more past due, and other loans that have higher risk characteristics, to determine our overall credit quality indicator. Higher risk characteristics include, but are not limited to, current debt service coverage ratio (“DSCR”) below 1.0 and high original and current estimated LTV ratios. We stratify multifamily loans into different internal risk categories based on the credit risk inherent in each individual loan.

For single-family and multifamily loans, we use this information, in conjunction with housing market and economic conditions, to structure our pricing and our eligibility and underwriting criteria to reflect the current risk of loans with these higher-risk characteristics, and in some cases we decide to significantly reduce our participation in riskier loan product categories. Management also uses this data together with other credit risk measures to identify key trends that guide the development of our loss mitigation strategies.

The following tables display the delinquency status and serious delinquency rates for specified loan categories of our single-family conventional and total multifamily guaranty book of business.

|   | As of                             |                    |                                     |                                  |                    |                                     |
|---|-----------------------------------|--------------------|-------------------------------------|----------------------------------|--------------------|-------------------------------------|
|   | September 30, 2015 <sup>(1)</sup> |                    |                                     | December 31, 2014 <sup>(1)</sup> |                    |                                     |
|   | 30 Days Delinquent                | 60 Days Delinquent | Seriously Delinquent <sup>(2)</sup> | 30 Days Delinquent               | 60 Days Delinquent | Seriously Delinquent <sup>(2)</sup> |
| Percentage of single-family conventional guaranty book of business <sup>(3)</sup> | 1.29%                             | 0.36%              | 1.64%                               | 1.27%                            | 0.38%              | 1.99%                               |
| Percentage of single-family conventional loans <sup>(4)</sup>                     | 1.48                              | 0.40               | 1.59                                | 1.47                             | 0.43               | 1.89                                |

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|  | As of   |  |   |  |
|--|---|--|---|--|
|  | September 30, 2015 <sup>(1)</sup>   |  | December 31, 2014 <sup>(1)</sup>  |  |
|  | Percentage of Single-Family Conventional Guaranty Book of Business <sup>(3)</sup> | Seriously Delinquent Rate <sup>(2)</sup> | Percentage of Single-Family Conventional Guaranty Book of Business <sup>(3)</sup> | Seriously Delinquent Rate <sup>(2)</sup> |
| <b>Estimated mark-to-market loan-to-value ratio:</b> |   |  |   |  |
| Greater than 100% .....                              | 3%  | 10.71%                                   | 5%  | 10.98%                                   |
| <b>Geographical distribution:</b>                    |   |  |   |  |
| California .....                                     | 20  | 0.60                                     | 20  | 0.70                                     |
| Florida .....  | 6   | 3.11                                     | 6   | 4.42                                     |
| Illinois .....                                       | 4   | 1.95                                     | 4   | 2.36                                     |
| New Jersey .....                                     | 4   | 5.01                                     | 4   | 5.78                                     |
| New York .....                                       | 5   | 3.67                                     | 5   | 4.17                                     |
| All other states .....                               | 61  | 1.33                                     | 61  | 1.52                                     |
| <b>Product distribution:</b>                         |   |  |   |  |
| Alt-A .....  | 4   | 6.75                                     | 4   | 7.77                                     |
| <b>Vintages:</b>                                     |   |  |   |  |
| 2005 .....   | 2   | 5.66                                     | 3   | 6.18                                     |
| 2006 .....   | 3   | 8.58                                     | 3   | 9.61                                     |
| 2007 .....   | 4   | 9.80                                     | 4   | 10.79                                    |
| 2008 .....   | 2   | 5.86                                     | 2   | 6.27                                     |
| All other vintages .....                             | 89  | 0.78                                     | 88  | 0.88                                     |

(1) Consists of the portion of our single-family conventional guaranty book of business for which we have detailed loan level information, which constituted approximately 99% of our total single-family conventional guaranty book of business as of September 30, 2015 and December 31, 2014.

(2) Consists of single-family conventional loans that were 90 days or more past due or in the foreclosure process as of September 30, 2015 and December 31, 2014.

(3) Calculated based on the aggregate unpaid principal balance of single-family conventional loans for each category divided by the aggregate unpaid principal balance of loans in our single-family conventional guaranty book of business.

(4) Calculated based on the number of single-family conventional loans that were delinquent divided by the total number of loans in our single-family conventional guaranty book of business.

|   | As of                                |                                     |                                     |                                     |
|---|--------------------------------------|-------------------------------------|-------------------------------------|-------------------------------------|
|   | September 30, 2015 <sup>(1)(2)</sup> |                                     | December 31, 2014 <sup>(1)(2)</sup> |                                     |
|   | 30 Days Delinquent                   | Seriously Delinquent <sup>(3)</sup> | 30 Days Delinquent                  | Seriously Delinquent <sup>(3)</sup> |
| Percentage of multifamily guaranty book of business ..... | 0.04%                                | 0.05%                               | 0.04%                               | 0.05%                               |

|  | As of  |   |  |   |
|--|--|---|--|---|
|  | September 30, 2015 <sup>(1)</sup>                                  |   | December 31, 2014 <sup>(1)</sup>                                   |   |
|  | Percentage of Multifamily Guaranty Book of Business <sup>(2)</sup> | Percentage Seriously Delinquent <sup>(3)(4)</sup> | Percentage of Multifamily Guaranty Book of Business <sup>(2)</sup> | Percentage Seriously Delinquent <sup>(3)(4)</sup> |
| <b>Original LTV ratio:</b>   |  |   |  |   |
| Greater than 80% .....   | 3%   | 0.03%   | 3%   | 0.31%   |
| Less than or equal to 80% .....  | 97   | 0.06  | 97   | 0.04  |
| Current debt service coverage ratio less than 1.0 <sup>(5)</sup> ..... | 2  | 0.87  | 3  | 0.83  |

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- (1) Consists of the portion of our multifamily guaranty book of business for which we have detailed loan level information, which constituted approximately 99% of our total multifamily guaranty book of business as of September 30, 2015 and December 31, 2014, excluding loans that have been defeased.
- (2) Calculated based on the aggregate unpaid principal balance of multifamily loans for each category divided by the aggregate unpaid principal balance of loans in our multifamily guaranty book of business.
- (3) Consists of multifamily loans that were 60 days or more past due as of the dates indicated.
- (4) Calculated based on the unpaid principal balance of multifamily loans that were seriously delinquent divided by the aggregate unpaid principal balance of multifamily loans for each category included in our guaranty book of business.
- (5) Our estimates of current DSCRs are based on the latest available income information for these properties. Although we use the most recently available results of our multifamily borrowers, there is a lag in reporting, which typically can range from 3 to 6 months but in some cases may be longer.

***Other Concentrations***

*Mortgage Sellers and Servicers.* Mortgage servicers collect mortgage and escrow payments from borrowers, pay taxes and insurance costs from escrow accounts, monitor and report delinquencies, and perform other required activities on our behalf. Our mortgage sellers and servicers are also obligated to repurchase loans or foreclosed properties, reimburse us for losses or provide other remedies if the foreclosed property has been sold, under certain circumstances, such as if it is determined that the mortgage loan did not meet our underwriting or eligibility requirements, if loan representations and warranties are violated or if mortgage insurers rescind coverage. However, under our revised representation and warranty framework, we no longer require repurchase for loans that have breaches of certain selling representations and warranties if they have met specified criteria for relief. Our business with mortgage servicers is concentrated. Our five largest single-family mortgage servicers, including their affiliates, serviced approximately 44% of our single-family guaranty book of business as of September 30, 2015, compared with 46% as of December 31, 2014. Our ten largest multifamily mortgage servicers, including their affiliates, serviced approximately 69% of our multifamily guaranty book of business as of September 30, 2015, compared with approximately 67% as of December 31, 2014.

If a significant mortgage seller or servicer counterparty, or a number of mortgage sellers or servicers, fails to meet their obligations to us, it could result in an increase in our credit losses and credit-related expense, and have a material adverse effect on our results of operations, liquidity, financial condition and net worth.

*Mortgage Insurers.* Mortgage insurance “risk in force” generally represents our maximum potential loss recovery under the applicable mortgage insurance policies. We had total mortgage insurance coverage risk in force of \$115.7 billion and \$109.6 billion on the single-family mortgage loans in our guaranty book of business as of September 30, 2015 and December 31, 2014, respectively, which represented 4% of our single-family guaranty book of business as of September 30, 2015 and December 31, 2014. Our primary mortgage insurance coverage risk in force was \$114.9 billion and \$108.7 billion as of September 30, 2015 and December 31, 2014, respectively. Our pool mortgage insurance coverage risk in force was \$770 million and \$852 million as of September 30, 2015 and December 31, 2014, respectively. Our top four mortgage insurance companies provided 79% of our mortgage insurance as of September 30, 2015 and December 31, 2014.

Of our largest primary mortgage insurers, PMI Mortgage Insurance Co. (“PMI”), Triad Guaranty Insurance Corporation (“Triad”) and Republic Mortgage Insurance Company (“RMIC”) are under various forms of supervised control by their state regulators and are in run-off. Entering run-off may close off a source of profits and liquidity that may have otherwise assisted a mortgage insurer in paying claims under insurance policies, and could also cause the quality and speed of its claims processing to deteriorate. These three mortgage insurers provided a combined \$10.6 billion, or 9%, of our risk in force mortgage insurance coverage of our single-family guaranty book of business as of September 30, 2015.

In April 2015, PMI increased its cash payments on policyholder claims from 67% to 70%, and subsequently paid sufficient amounts of its outstanding deferred payment obligations to bring payment on those claims to 70%. It is uncertain whether PMI will be permitted in the future to pay any remaining deferred policyholder claims or increase or decrease the amount of cash they pay on claims.

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Although the financial condition of our mortgage insurer counterparties currently approved to write new business has improved in recent years, there is still risk that these counterparties may fail to fulfill their obligations to pay our claims under insurance policies. If we determine that it is probable that we will not collect all of our claims from one or more of our mortgage insurer counterparties, it could result in an increase in our loss reserves, which could adversely affect our results of operations, liquidity, financial condition and net worth.

When we estimate the credit losses that are inherent in our mortgage loans and under the terms of our guaranty obligations we also consider the recoveries that we will receive on primary mortgage insurance, as mortgage insurance recoveries would reduce the severity of the loss associated with defaulted loans. We evaluate the financial condition of our mortgage insurer counterparties and adjust the contractually due recovery amounts to ensure that only probable losses as of the balance sheet date are included in our loss reserve estimate. As a result, if our assessment of one or more of our mortgage insurer counterparties' ability to fulfill their respective obligations to us worsens, it could result in an increase in our loss reserves. As of September 30, 2015 and December 31, 2014, the amount by which our estimated benefit from mortgage insurance reduced our total loss reserves as of these dates was \$2.3 billion and \$4.1 billion, respectively.

We had outstanding receivables of \$1.2 billion recorded in "Other assets" in our condensed consolidated balance sheets as of September 30, 2015 and \$1.4 billion as of December 31, 2014 related to amounts claimed on insured, defaulted loans excluding government insured loans. Of this amount, \$280 million as of September 30, 2015 and \$269 million as of December 31, 2014 was due from our mortgage sellers or servicers. We assessed the total outstanding receivables for collectibility, and they are recorded net of a valuation allowance of \$795 million as of September 30, 2015 and \$799 million as of December 31, 2014. The valuation allowance reduces our claim receivable to the amount which is considered probable of collection as of September 30, 2015 and December 31, 2014.

For information on credit risk associated with our derivative transactions and repurchase agreements refer to "Note 9, Derivative Instruments" and "Note 14, Netting Arrangements."

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**14. Netting Arrangements**

We use master netting arrangements, which allow us to offset certain financial instruments and collateral with the same counterparty, to minimize counterparty credit exposure. The tables below display information related to derivatives, securities purchased under agreements to resell or similar arrangements, and securities sold under agreements to repurchase or similar arrangements, which are subject to an enforceable master netting arrangement or similar agreement that are either offset or not offset in our condensed consolidated balance sheets.

|   | As of September 30, 2015 |  |   |   |                           |                 |
|---|--------------------------|--|---|---|---------------------------|-----------------|
|   | Gross<br>Amount          | Gross<br>Amount<br>Offset <sup>(1)</sup> | Net Amount<br>Presented in<br>the Condensed<br>Consolidated<br>Balance Sheets | Amounts Not Offset in the<br>Condensed Consolidated<br>Balance Sheets |                           | Net<br>Amount   |
|   |                          |  |   | Financial<br>Instruments <sup>(2)</sup>                               | Collateral <sup>(3)</sup> |                 |
|   | (Dollars in millions)    |  |   |   |                           |                 |
| Assets:   |                          |  |   |   |                           |                 |
| OTC risk management derivatives . . . . .   | \$ 4,494                 | \$(4,487)                                | \$ 7  | \$ —  | \$ —                      | \$ 7            |
| Cleared risk management derivatives . . . . .   | 1,124                    | 70                                       | 1,194   | —   | —                         | 1,194           |
| Mortgage commitment derivatives . . . . .   | 384                      | —  | 384   | (189)   | (2)                       | 193             |
| Total derivative assets . . . . .   | <u>6,002</u>             | <u>(4,417)</u>                           | <u>1,585</u> <sup>(4)</sup>   | <u>(189)</u>  | <u>(2)</u>                | <u>1,394</u>    |
| Securities purchased under agreements to resell<br>or similar arrangements <sup>(5)</sup> . . . . . | 42,100                   | —  | 42,100  | —   | (42,100)                  | —               |
| Total assets . . . . .  | <u>\$ 48,102</u>         | <u>\$(4,417)</u>                         | <u>\$ 43,685</u>  | <u>\$ (189)</u>   | <u>\$(42,102)</u>         | <u>\$ 1,394</u> |
| Liabilities:  |                          |  |   |   |                           |                 |
| OTC risk management derivatives . . . . .   | \$ (7,417)               | \$ 7,082                                 | \$ (335)  | \$ —  | \$ —                      | \$ (335)        |
| Cleared risk management derivatives . . . . .   | (3,554)                  | 3,553                                    | (1)   | —   | 1                         | —               |
| Mortgage commitment derivatives . . . . .   | (567)                    | —  | (567)   | 189   | 6                         | (372)           |
| Total derivative liabilities . . . . .  | <u>(11,538)</u>          | <u>10,635</u>                            | <u>(903)</u> <sup>(4)</sup>   | <u>189</u>  | <u>7</u>                  | <u>(707)</u>    |
| Securities sold under agreements to repurchase or<br>similar arrangements . . . . .                 | (118)                    | —  | (118)   | —   | 118                       | —               |
| Total liabilities . . . . .   | <u>\$(11,656)</u>        | <u>\$10,635</u>                          | <u>\$ (1,021)</u>   | <u>\$ 189</u>   | <u>\$ 125</u>             | <u>\$ (707)</u> |



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|  | Gross Amount      | Gross Amount Offset <sup>(1)</sup> | Net Amount Presented in the Condensed Consolidated Balance Sheets | Amounts Not Offset in the Condensed Consolidated Balance Sheets |                           | Net Amount      |
|--|-------------------|------------------------------------|---|---|---------------------------|-----------------|
|  |                   |                                    |   | Financial Instruments <sup>(2)</sup>                            | Collateral <sup>(3)</sup> |                 |
| (Dollars in millions)  |                   |                                    |   |   |                           |                 |
| <b>Assets:</b>   |                   |                                    |   |   |                           |                 |
| OTC risk management derivatives  | \$ 5,461          | \$(5,428)                          | \$ 33   | \$ —  | \$ (33)                   | \$ —            |
| Cleared risk management derivatives  | 927               | 242                                | 1,169   | —   | —                         | 1,169           |
| Mortgage commitment derivatives  | 255               | —                                  | 255   | (116)   | (7)                       | 132             |
| Total derivative assets  | 6,643             | (5,186)                            | 1,457 <sup>(4)</sup>  | (116)   | (40)                      | 1,301           |
| Securities purchased under agreements to resell or similar arrangements <sup>(5)</sup> | 47,550            | —                                  | 47,550  | —   | (47,550)                  | —               |
| Total assets   | <u>\$ 54,193</u>  | <u>\$(5,186)</u>                   | <u>\$ 49,007</u>  | <u>\$ (116)</u>   | <u>\$ (47,590)</u>        | <u>\$ 1,301</u> |
| <b>Liabilities:</b>  |                   |                                    |   |   |                           |                 |
| OTC risk management derivatives  | \$ (7,836)        | \$ 7,567                           | \$ (269)  | \$ —  | \$ —                      | \$ (269)        |
| Cleared risk management derivatives  | (2,627)           | 2,627                              | —   | —   | —                         | —               |
| Mortgage commitment derivatives  | (344)             | —                                  | (344)   | 116   | —                         | (228)           |
| Total derivative liabilities   | (10,807)          | 10,194                             | (613) <sup>(4)</sup>  | 116   | —                         | (497)           |
| Securities sold under agreements to repurchase or similar arrangements                 | (50)              | —                                  | (50)  | —   | 50                        | —               |
| Total liabilities  | <u>\$(10,857)</u> | <u>\$10,194</u>                    | <u>\$ (663)</u>   | <u>\$ 116</u>   | <u>\$ 50</u>              | <u>\$ (497)</u> |

<sup>(1)</sup> Represents the effect of the right to offset under legally enforceable master netting arrangements to settle with the same counterparty on a net basis, including cash collateral posted and received and accrued interest.

<sup>(2)</sup> Mortgage commitment derivative amounts reflect where we have recognized both an asset and a liability with the same counterparty under an enforceable master netting arrangement but we have not elected to offset the related amounts in our condensed consolidated balance sheets.

<sup>(3)</sup> Represents collateral received that has neither been recognized nor offset in our condensed consolidated balance sheets as well as collateral posted that has neither been derecognized nor offset in our condensed consolidated balance sheets. Does not include collateral held or posted in excess of our exposure. The fair value of non-cash collateral accepted for OTC risk management derivatives was \$51 million as of December 31, 2014. The fair value of non-cash collateral accepted for securities purchased under agreements to resell or similar arrangements was \$42.2 billion and \$47.6 billion, of which \$37.9 billion and \$41.9 billion could be sold or repledged as of September 30, 2015 and December 31, 2014, respectively. None of the underlying collateral was sold or repledged as of September 30, 2015 or December 31, 2014. The fair value of non-cash collateral we pledged for securities sold under agreements to repurchase was \$118 million and \$50 million as of September 30, 2015 and December 31, 2014, respectively, which the counterparty was permitted to sell or repledge. The fair value of non-cash collateral we pledged for cleared risk management derivatives was \$136 million as of September 30, 2015, which the counterparty was permitted to sell or repledge.

<sup>(4)</sup> Excludes derivative assets of \$25 million and \$28 million as of September 30, 2015 and December 31, 2014, respectively, and derivative liabilities of \$1 million as of September 30, 2015 and December 31, 2014, recognized in our condensed consolidated balance sheets that are not subject to enforceable master netting arrangements.

<sup>(5)</sup> Includes \$15.5 billion and \$16.6 billion of securities purchased under agreements to resell or similar arrangements classified as “Cash and cash equivalents” in our condensed consolidated balance sheets as of September 30, 2015 and December 31, 2014, respectively.

Derivative instruments are recorded at fair value and securities purchased under agreements to resell or similar arrangements are recorded at amortized cost in our condensed consolidated balance sheets.

We determine our rights to offset the assets and liabilities presented above with the same counterparty, including collateral posted or received, based on the contractual arrangements entered into with our individual counterparties and various rules and regulations that would govern the insolvency of a derivative counterparty. The following is a description, under various agreements, of the nature of those rights and their effect or potential effect on our financial position.

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The terms of the majority of our contracts for OTC risk management derivatives are governed under master agreements of the International Swaps and Derivatives Association Inc. (“ISDA”). These agreements provide that all transactions entered into under the agreement with the counterparty constitute a single contractual relationship. An event of default by the counterparty allows the early termination of all outstanding transactions under the same ISDA agreement and we may offset all outstanding amounts related to the terminated transactions including collateral posted or received.

The terms of our contracts for cleared derivatives are governed under the rules of the clearing organization and the agreement between us and the clearing member of that clearing organization. In the event of a clearing organization default, all open positions at the clearing organization are closed and a net position (on a clearing member by clearing member basis) is calculated. Unless otherwise transferred, in the event of a clearing member default, all open positions cleared through that clearing member are closed and a net position is calculated.

The terms of our contracts for mortgage commitment derivatives are primarily governed by the Fannie Mae Single-Family Selling Guide (“Guide”), for Fannie Mae-approved lenders, or Master Securities Forward Transaction Agreements (“MSFTA”), for counterparties that are not Fannie Mae-approved lenders. In the event of default by the counterparty, both the Guide and the MSFTA allow us to terminate all outstanding transactions under the applicable agreement and offset all outstanding amounts related to the terminated transactions including collateral posted or received. In addition, under the Guide, upon a lender event of default, we generally may offset any amounts owed to a lender against any amounts a lender may owe us under any other existing agreement, regardless of whether or not such other agreements are in default or payments are immediately due.

The terms of our contracts for securities purchased under agreements to resell and securities sold under agreements to repurchase are governed by Master Repurchase Agreements, which are based on the guidelines prescribed by the Securities Industry and Financial Markets Association. Master Repurchase Agreements provide that all transactions under the agreement constitute a single contractual relationship. An event of default by the counterparty allows the early termination of all outstanding transactions under the same agreement and we may offset all outstanding amounts related to the terminated transactions including collateral posted or received.

We also have securities purchased under agreements to resell which we transact through the Fixed Income Clearing Corporation (“FICC”). Under the rules of the FICC, all agreements for securities purchased under agreements to resell that are submitted to the FICC for clearing become transactions with the FICC that are subject to FICC clearing rules. In the event of a FICC default, all open positions at the FICC are closed and a net position is calculated.

## **15. Fair Value**

We use fair value measurements for the initial recording of certain assets and liabilities and periodic remeasurement of certain assets and liabilities on a recurring or nonrecurring basis.

### ***Fair Value Measurement***

Fair value measurement guidance defines fair value, establishes a framework for measuring fair value and sets forth disclosures around fair value measurements. This guidance applies whenever other accounting guidance requires or permits assets or liabilities to be measured at fair value. The guidance establishes a three-level fair value hierarchy that prioritizes the inputs into the valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority, Level 1, to measurements based on unadjusted quoted prices in active markets for identical assets or liabilities. The next highest priority, Level 2, is given to measurements of assets and liabilities based on limited observable inputs or observable inputs for similar assets and liabilities. The lowest priority, Level 3, is given to measurements based on unobservable inputs.

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*Recurring Changes in Fair Value*

The following tables display our assets and liabilities measured in our condensed consolidated balance sheets at fair value on a recurring basis subsequent to initial recognition, including instruments for which we have elected the fair value option.

| Fair Value Measurements as of September 30, 2015 |  |   |  |                                      |                         |
|--|--|---|--|--------------------------------------|-------------------------|
|  | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Netting<br>Adjustment <sup>(1)</sup> | Estimated<br>Fair Value |
| (Dollars in millions)                            |  |   |  |                                      |                         |
| <b>Recurring fair value measurements:</b>        |  |   |  |                                      |                         |
| Assets:  |  |   |  |                                      |                         |
| Trading securities:                              |  |   |  |                                      |                         |
| Mortgage-related securities:                     |  |   |  |                                      |                         |
| Fannie Mae                                       | \$ —   | \$ 5,097  | \$ —   | \$ —                                 | \$ 5,097                |
| Freddie Mac                                      | —  | 1,474   | —  | —                                    | 1,474                   |
| Ginnie Mae                                       | —  | 353   | —  | —                                    | 353                     |
| Alt-A private-label securities                   | —  | 136   | 315  | —                                    | 451                     |
| Subprime private-label securities                | —  | —   | 696  | —                                    | 696                     |
| CMBS   | —  | 2,398   | —  | —                                    | 2,398                   |
| Mortgage revenue bonds                           | —  | —   | 579  | —                                    | 579                     |
| Non-mortgage-related securities:                 |  |   |  |                                      |                         |
| U.S. Treasury securities                         | 26,961   | —   | —  | —                                    | 26,961                  |
| Total trading securities                         | 26,961   | 9,458   | 1,590  | —                                    | 38,009                  |
| Available-for-sale securities:                   |  |   |  |                                      |                         |
| Mortgage-related securities:                     |  |   |  |                                      |                         |
| Fannie Mae                                       | —  | 4,282   | —  | —                                    | 4,282                   |
| Freddie Mac                                      | —  | 4,595   | 4  | —                                    | 4,599                   |
| Ginnie Mae                                       | —  | 413   | —  | —                                    | 413                     |
| Alt-A private-label securities                   | —  | 1,855   | 1,494  | —                                    | 3,349                   |
| Subprime private-label securities                | —  | —   | 3,677  | —                                    | 3,677                   |
| CMBS   | —  | 1,309   | —  | —                                    | 1,309                   |
| Mortgage revenue bonds                           | —  | —   | 2,933  | —                                    | 2,933                   |
| Other  | —  | 1   | 1,444  | —                                    | 1,445                   |
| Total available-for-sale securities              | —  | 12,455  | 9,552  | —                                    | 22,007                  |
| Mortgage loans                                   | —  | 13,105  | 1,500  | —                                    | 14,605                  |
| Other assets:                                    |  |   |  |                                      |                         |
| Risk management derivatives:                     |  |   |  |                                      |                         |
| Swaps  | —  | 5,417   | 158  | —                                    | 5,575                   |
| Swaptions  | —  | 39  | 4  | —                                    | 43                      |
| Other  | —  | —   | 25   | —                                    | 25                      |
| Netting adjustment                               | —  | —   | —  | (4,417)                              | (4,417)                 |
| Mortgage commitment derivatives                  | —  | 374   | 10   | —                                    | 384                     |
| Total other assets                               | —  | 5,830   | 197  | (4,417)                              | 1,610                   |
| Total assets at fair value                       | \$ 26,961  | \$ 40,848   | \$ 12,839  | \$ (4,417)                           | \$ 76,231               |

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Fair Value Measurements as of September 30, 2015

|   | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Netting<br>Adjustment <sup>(1)</sup> | Estimated<br>Fair Value |
|---|--|---|--|--------------------------------------|-------------------------|
|   | (Dollars in millions)  |   |  |                                      |                         |
| Liabilities:                              |  |   |  |                                      |                         |
| Long-term debt:                           |  |   |  |                                      |                         |
| Of Fannie Mae:                            |  |   |  |                                      |                         |
| Senior floating . . . . .                 | \$ —   | \$ 9,606  | \$ 369   | \$ —                                 | \$ 9,975                |
| Total of Fannie Mae . . . . .             | —  | 9,606   | 369  | —                                    | 9,975                   |
| Of consolidated trusts . . . . .          | —  | 22,572  | 571  | —                                    | 23,143                  |
| Total long-term debt . . . . .            | —  | 32,178  | 940  | —                                    | 33,118                  |
| Other liabilities:                        |  |   |  |                                      |                         |
| Risk management derivatives:              |  |   |  |                                      |                         |
| Swaps . . . . .                           | —  | 10,531  | 133  | —                                    | 10,664                  |
| Swaptions . . . . .                       | —  | 307   | —  | —                                    | 307                     |
| Other . . . . .                           | —  | —   | 1  | —                                    | 1                       |
| Netting adjustment . . . . .              | —  | —   | —  | (10,635)                             | (10,635)                |
| Mortgage commitment derivatives . . . . . | —  | 564   | 3  | —                                    | 567                     |
| Total other liabilities . . . . .         | —  | 11,402  | 137  | (10,635)                             | 904                     |
| Total liabilities at fair value . . . . . | \$ —   | \$ 43,580   | \$ 1,077   | \$ (10,635)                          | \$ 34,022               |

**FANNIE MAE**  
**(In conservatorship)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(UNAUDITED)**

Fair Value Measurements as of December 31, 2014

|   | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Netting<br>Adjustment <sup>(1)</sup> | Estimated<br>Fair Value |
|---|--|---|--|--------------------------------------|-------------------------|
|   | (Dollars in millions)  |   |  |                                      |                         |
| Assets:                                       |  |   |  |                                      |                         |
| Trading securities:                           |  |   |  |                                      |                         |
| Mortgage-related securities:                  |  |   |  |                                      |                         |
| Fannie Mae . . . . .                          | \$ —   | \$ 4,635  | \$ 305   | \$ —                                 | \$ 4,940                |
| Freddie Mac . . . . .                         | —  | 1,369   | —  | —                                    | 1,369                   |
| Ginnie Mae . . . . .                          | —  | 166   | —  | —                                    | 166                     |
| Alt-A private-label securities . . . . .      | —  | 323   | 597  | —                                    | 920                     |
| Subprime private-label securities . . . . .   | —  | —   | 1,307  | —                                    | 1,307                   |
| CMBS . . . . .                                | —  | 2,515   | —  | —                                    | 2,515                   |
| Mortgage revenue bonds . . . . .              | —  | —   | 722  | —                                    | 722                     |
| Other . . . . .                               | —  | —   | 99   | —                                    | 99                      |
| Non-mortgage-related securities:              |  |   |  |                                      |                         |
| U.S. Treasury securities . . . . .            | 19,466   | —   | —  | —                                    | 19,466                  |
| Total trading securities . . . . .            | <u>19,466</u>  | <u>9,008</u>  | <u>3,030</u>                                       | <u>—</u>                             | <u>31,504</u>           |
| Available-for-sale securities:                |  |   |  |                                      |                         |
| Mortgage-related securities:                  |  |   |  |                                      |                         |
| Fannie Mae . . . . .                          | —  | 5,639   | —  | —                                    | 5,639                   |
| Freddie Mac . . . . .                         | —  | 5,522   | 6  | —                                    | 5,528                   |
| Ginnie Mae . . . . .                          | —  | 476   | —  | —                                    | 476                     |
| Alt-A private-label securities . . . . .      | —  | 2,538   | 3,140  | —                                    | 5,678                   |
| Subprime private-label securities . . . . .   | —  | —   | 5,240  | —                                    | 5,240                   |
| CMBS . . . . .                                | —  | 1,397   | —  | —                                    | 1,397                   |
| Mortgage revenue bonds . . . . .              | —  | —   | 4,023  | —                                    | 4,023                   |
| Other . . . . .                               | —  | 2   | 2,671  | —                                    | 2,673                   |
| Total available-for-sale securities . . . . . | <u>—</u>   | <u>15,574</u>   | <u>15,080</u>                                      | <u>—</u>                             | <u>30,654</u>           |
| Mortgage loans . . . . .                      | —  | 13,796  | 1,833  | —                                    | 15,629                  |
| Other assets:                                 |  |   |  |                                      |                         |
| Risk management derivatives:                  |  |   |  |                                      |                         |
| Swaps . . . . .                               | —  | 6,085   | 150  | —                                    | 6,235                   |
| Swaptions . . . . .                           | —  | 153   | —  | —                                    | 153                     |
| Other . . . . .                               | —  | —   | 28   | —                                    | 28                      |
| Netting adjustment . . . . .                  | —  | —   | —  | (5,186)                              | (5,186)                 |
| Mortgage commitment derivatives . . . . .     | —  | 251   | 4  | —                                    | 255                     |
| Total other assets . . . . .                  | <u>—</u>   | <u>6,489</u>  | <u>182</u>   | <u>(5,186)</u>                       | <u>1,485</u>            |
| Total assets at fair value . . . . .          | <u>\$ 19,466</u>   | <u>\$ 44,867</u>  | <u>\$ 20,125</u>                                   | <u>\$ (5,186)</u>                    | <u>\$ 79,272</u>        |

**FANNIE MAE**  
**(In conservatorship)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(UNAUDITED)**

**Fair Value Measurements as of December 31, 2014**

|                                       | <b>Quoted Prices<br/>in Active<br/>Markets for<br/>Identical Assets<br/>(Level 1)</b> | <b>Significant<br/>Other<br/>Observable<br/>Inputs<br/>(Level 2)</b> | <b>Significant<br/>Unobservable<br/>Inputs<br/>(Level 3)</b> | <b>Netting<br/>Adjustment<sup>(1)</sup></b> | <b>Estimated<br/>Fair Value</b> |
|---------------------------------------|---|--|--|---|---------------------------------|
|                                       | (Dollars in millions)   |  |  |   |                                 |
| Liabilities:                          |   |  |  |   |                                 |
| Long-term debt:                       |   |  |  |   |                                 |
| Of Fannie Mae:                        |   |  |  |   |                                 |
| Senior floating .....                 | \$ —  | \$ 6,040   | \$ 363   | \$ —  | \$ 6,403                        |
| Total of Fannie Mae .....             | —   | 6,040  | 363  | —   | 6,403                           |
| Of consolidated trusts .....          | —   | 18,956   | 527  | —   | 19,483                          |
| Total long-term debt .....            | —   | 24,996   | 890  | —   | 25,886                          |
| Other liabilities:                    |   |  |  |   |                                 |
| Risk management derivatives:          |   |  |  |   |                                 |
| Swaps .....                           | —   | 9,339  | 133  | —   | 9,472                           |
| Swaptions .....                       | —   | 991  | —  | —   | 991                             |
| Other .....                           | —   | —  | 1  | —   | 1                               |
| Netting adjustment .....              | —   | —  | —  | (10,194)                                    | (10,194)                        |
| Mortgage commitment derivatives ..... | —   | 341  | 3  | —   | 344                             |
| Total other liabilities .....         | —   | 10,671   | 137  | (10,194)                                    | 614                             |
| Total liabilities at fair value ..... | <u>\$ —</u>   | <u>\$ 35,667</u>   | <u>\$ 1,027</u>  | <u>\$ (10,194)</u>                          | <u>\$ 26,500</u>                |

<sup>(1)</sup> Derivative contracts are reported on a gross basis by level. The netting adjustment represents the effect of the legal right to offset under legally enforceable master netting arrangements to settle with the same counterparty on a net basis, including cash collateral posted and received.

The following tables display a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3). The tables also display gains and losses due to changes in fair value, including both realized and unrealized gains and losses, recognized in our condensed consolidated statements of operations and comprehensive income for Level 3 assets and liabilities. When assets and liabilities are transferred between levels, we recognize the transfer as of the end of the period.

**FANNIE MAE**  
**(In conservatorship)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(UNAUDITED)**

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**  
**For the Three Months Ended September 30, 2015**

|                                     | Total Gains or (Losses) (Realized/<br>Unrealized) |                              | Included in<br>Other<br>Comprehensive<br>Income <sup>(1)</sup> | Purchases <sup>(2)</sup> | Sales <sup>(2)</sup> | Issues <sup>(3)</sup> | Settlements <sup>(3)</sup> | Transfers<br>out of<br>Level 3 <sup>(4)</sup> | Transfers<br>into<br>Level 3 <sup>(4)</sup> | Balance,<br>September<br>30, 2015 | Net Unrealized<br>Gains (Losses)<br>Included in Net<br>Income Related<br>to Assets and<br>Liabilities Still<br>Held as of<br>September 30,<br>2015 <sup>(5)(6)</sup> |
|-------------------------------------|---|------------------------------|--|--------------------------|----------------------|-----------------------|----------------------------|---|---|-----------------------------------|--|
|                                     | Balance,<br>June 30,<br>2015                      | Included<br>in Net<br>Income |  |                          |                      |                       |                            |   |   |                                   |  |
| (Dollars in millions)               |   |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Trading securities:                 |   |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Mortgage-related:                   |   |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Alt-A private-label securities      | \$ 325  | \$ (3)                       | \$ —   | \$ —                     | \$ —                 | \$ —                  | \$ (7)                     | \$ —  | \$ —  | \$ 315                            | \$ (3)   |
| Subprime private-label securities   | 718   | (5)                          | —  | —                        | —                    | —                     | (17)                       | —   | —   | 696                               | (5)  |
| Mortgage revenue bonds              | 602   | (19)                         | —  | —                        | —                    | —                     | (4)                        | —   | —   | 579                               | (19)   |
| Total trading securities            | \$ 1,645  | \$ (27) <sup>(6)(7)</sup>    | \$ —   | \$ —                     | \$ —                 | \$ —                  | \$ (28)                    | \$ —  | \$ —  | \$ 1,590                          | \$ (27)  |
| Available-for-sale securities:      |   |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Mortgage-related:                   |   |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Fannie Mae                          | \$ 129  | \$ —                         | \$ —   | \$ —                     | \$ (122)             | \$ —                  | \$ (8)                     | \$ —  | \$ 1  | \$ —                              | \$ —   |
| Freddie Mac                         | 4   | —                            | —  | —                        | —                    | —                     | —                          | (1)   | 1   | 4                                 | —  |
| Alt-A private-label securities      | 1,654   | 2                            | (8)  | —                        | —                    | —                     | (178)                      | —   | 24  | 1,494                             | —  |
| Subprime private-label securities   | 3,837   | 33                           | (45)   | —                        | —                    | —                     | (148)                      | —   | —   | 3,677                             | —  |
| Mortgage revenue bonds              | 3,171   | 4                            | (29)   | —                        | (8)                  | —                     | (205)                      | —   | —   | 2,933                             | —  |
| Other                               | 2,158   | 73                           | (95)   | —                        | (644)                | —                     | (48)                       | —   | —   | 1,444                             | —  |
| Total available-for-sale securities | \$ 10,953   | \$ 112 <sup>(7)(8)</sup>     | \$ (177)   | \$ —                     | \$ (774)             | \$ —                  | \$ (587)                   | \$ (1)  | \$ 26                                       | \$ 9,552                          | \$ —   |
| Mortgage loans                      | \$ 1,595  | \$ 9 <sup>(6)(7)</sup>       | \$ —   | \$ —                     | \$ —                 | \$ —                  | \$ (97)                    | \$ (77)                                       | \$ 70                                       | \$ 1,500                          | \$ (24)  |
| Net derivatives                     | 4   | 79 <sup>(6)</sup>            | —  | —                        | —                    | —                     | (32)                       | —   | 9   | 60                                | 28   |
| Long-term debt:                     |   |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Of Fannie Mae:                      |   |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Senior floating                     | \$ (346)  | \$ (23)                      | \$ —   | \$ —                     | \$ —                 | \$ —                  | \$ —                       | \$ —  | \$ —  | \$ (369)                          | \$ (23)  |
| Of consolidated trusts              | (493)   | —                            | —  | —                        | —                    | (64)                  | 18                         | 33  | (65)  | (571)                             | —  |
| Total long-term debt                | \$ (839)  | \$ (23) <sup>(6)</sup>       | \$ —   | \$ —                     | \$ —                 | \$ (64)               | \$ 18                      | \$ 33   | \$ (65)                                     | \$ (940)                          | \$ (23)  |

**FANNIE MAE**  
**(In conservatorship)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(UNAUDITED)**

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**  
**For the Nine Months Ended September 30, 2015**

|  | Total Gains or (Losses) (Realized/<br>Unrealized) |                              | Included in<br>Other<br>Comprehensive<br>Income <sup>(1)</sup> | Purchases <sup>(2)</sup> | Sales <sup>(2)</sup> | Issues <sup>(3)</sup> | Settlements <sup>(3)</sup> | Transfers<br>out of<br>Level 3 <sup>(4)</sup> | Transfers<br>into<br>Level 3 <sup>(4)</sup> | Balance,<br>September<br>30, 2015 | Net Unrealized<br>Gains (Losses)<br>Included in Net<br>Income Related<br>to Assets and<br>Liabilities Still<br>Held as of<br>September 30,<br>2015 <sup>(5)(6)</sup> |
|--|---|------------------------------|--|--------------------------|----------------------|-----------------------|----------------------------|---|---|-----------------------------------|--|
|  | Balance,<br>December 31,<br>2014                  | Included<br>in Net<br>Income |  |                          |                      |                       |                            |   |   |                                   |  |
| (Dollars in millions)                      |   |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Trading securities:                        |   |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Mortgage-related:                          |   |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Fannie Mae                                 | \$ 305  | \$ (27)                      | \$ —   | \$ —                     | \$ (2)               | \$ —                  | \$ —                       | \$ (278)                                      | \$ 2  | \$ —                              | \$ —   |
| Alt-A private-label securities             | 597   | 41                           | —  | —                        | (267)                | —                     | (40)                       | (44)  | 28  | 315                               | (3)  |
| Subprime private-label securities          | 1,307   | 38                           | —  | —                        | (580)                | —                     | (69)                       | —   | —   | 696                               | (2)  |
| Mortgage revenue bonds                     | 722   | (17)                         | —  | —                        | (118)                | —                     | (8)                        | —   | —   | 579                               | (17)   |
| Other                                      | 99  | 4                            | —  | —                        | (100)                | —                     | (3)                        | —   | —   | —                                 | —  |
| <b>Total trading securities</b>            | <b>\$ 3,030</b>                                   | <b>\$ 39</b>                 | <b>\$ —</b>  | <b>\$ —</b>              | <b>\$ (1,067)</b>    | <b>\$ —</b>           | <b>\$ (120)</b>            | <b>\$ (322)</b>                               | <b>\$ 30</b>                                | <b>\$ 1,590</b>                   | <b>\$ (22)</b>   |
| Available-for-sale securities:             |   |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Mortgage-related:                          |   |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Fannie Mae                                 | \$ —  | \$ —                         | \$ —   | \$ 421                   | \$ (425)             | \$ —                  | \$ (8)                     | \$ —  | \$ 12                                       | \$ —                              | \$ —   |
| Freddie Mac                                | 6   | —                            | —  | —                        | —                    | —                     | (1)                        | (2)   | 1   | 4                                 | —  |
| Alt-A private-label securities             | 3,140   | 174                          | (124)  | —                        | (1,108)              | —                     | (387)                      | (538)   | 337   | 1,494                             | —  |
| Subprime private-label securities          | 5,240   | 478                          | (277)  | —                        | (1,325)              | —                     | (439)                      | —   | —   | 3,677                             | —  |
| Mortgage revenue bonds                     | 4,023   | 44                           | (56)   | —                        | (324)                | —                     | (754)                      | —   | —   | 2,933                             | —  |
| Other                                      | 2,671   | (20)                         | (10)   | —                        | (1,012)              | —                     | (185)                      | —   | —   | 1,444                             | —  |
| <b>Total available-for-sale securities</b> | <b>\$ 15,080</b>                                  | <b>\$ 676</b>                | <b>\$ (467)</b>  | <b>\$ 421</b>            | <b>\$ (4,194)</b>    | <b>\$ —</b>           | <b>\$ (1,774)</b>          | <b>\$ (540)</b>                               | <b>\$ 350</b>                               | <b>\$ 9,552</b>                   | <b>\$ —</b>  |
| Mortgage loans                             | \$ 1,833  | \$ 47                        | \$ —   | \$ 5                     | \$ —                 | \$ —                  | \$ (273)                   | \$ (331)                                      | \$ 219                                      | \$ 1,500                          | \$ (17)  |
| Net derivatives                            | 45  | (20)                         | —  | —                        | —                    | —                     | 26                         | —   | 9   | 60                                | 23   |
| Long-term debt:                            |   |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Of Fannie Mae:                             |   |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Senior floating                            | \$ (363)  | \$ (6)                       | \$ —   | \$ —                     | \$ —                 | \$ —                  | \$ —                       | \$ —  | \$ —  | \$ (369)                          | \$ (6)   |
| Of consolidated trusts                     | (527)   | (8)                          | —  | —                        | —                    | (64)                  | 43                         | 142   | (157)                                       | (571)                             | 11   |
| <b>Total long-term debt</b>                | <b>\$ (890)</b>                                   | <b>\$ (14)</b>               | <b>\$ —</b>  | <b>\$ —</b>              | <b>\$ —</b>          | <b>\$ (64)</b>        | <b>\$ 43</b>               | <b>\$ 142</b>                                 | <b>\$ (157)</b>                             | <b>\$ (940)</b>                   | <b>\$ 5</b>  |



**FANNIE MAE**  
**(In conservatorship)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(UNAUDITED)**

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**  
**For the Three Months Ended September 30, 2014**

|  | Total Gains or (Losses)<br>(Realized/Unrealized) |                              | Included in<br>Other<br>Comprehensive<br>Income <sup>(1)</sup> | Purchases <sup>(2)</sup> | Sales <sup>(2)</sup> | Issues <sup>(3)</sup> | Settlements <sup>(3)</sup> | Transfers<br>out of<br>Level 3 <sup>(4)</sup> | Transfers<br>into<br>Level 3 <sup>(4)</sup> | Balance,<br>September<br>30, 2014 | Net Unrealized<br>Gains (Losses)<br>Included in Net<br>Income Related<br>to Assets and<br>Liabilities Still<br>Held as of<br>September 30,<br>2014 <sup>(5)(6)</sup> |
|--|--|------------------------------|--|--------------------------|----------------------|-----------------------|----------------------------|---|---|-----------------------------------|--|
|  | Balance,<br>June 30,<br>2014                     | Included<br>in Net<br>Income |  |                          |                      |                       |                            |   |   |                                   |  |
| (Dollars in millions)                                |  |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Trading securities:                                  |  |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Mortgage-related:                                    |  |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Fannie Mae . . . . .                                 | \$ —   | \$ —                         | \$ —   | \$ —                     | \$ —                 | \$ —                  | \$ —                       | \$ —  | \$ 325                                      | \$ 325                            | \$ —   |
| Alt-A private-label securities . . . . .             | 643  | 2                            | —  | —                        | —                    | —                     | (21)                       | (16)  | 87  | 695                               | 3  |
| Subprime private-label securities . . . . .          | 1,282  | 66                           | —  | —                        | —                    | —                     | (32)                       | —   | —   | 1,316                             | 66   |
| Mortgage revenue bonds . . . . .                     | 643  | 53                           | —  | —                        | —                    | —                     | (3)                        | —   | —   | 693                               | 46   |
| Other . . . . .                                      | 101  | 1                            | —  | —                        | —                    | —                     | (3)                        | —   | —   | 99                                | 1  |
| <b>Total trading securities . . . . .</b>            | <b>\$ 2,669</b>                                  | <b>\$ 122</b>                | <b>\$ —</b>  | <b>\$ —</b>              | <b>\$ —</b>          | <b>\$ —</b>           | <b>\$ (59)</b>             | <b>\$ (16)</b>                                | <b>\$ 412</b>                               | <b>\$ 3,128</b>                   | <b>\$ 116</b>  |
| Available-for-sale securities:                       |  |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Mortgage-related:                                    |  |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Fannie Mae . . . . .                                 | \$ 2   | \$ —                         | \$ —   | \$ —                     | \$ —                 | \$ —                  | \$ —                       | \$ (2)  | \$ —  | \$ —                              | \$ —   |
| Freddie Mac . . . . .                                | 9  | —                            | —  | —                        | —                    | —                     | (1)                        | (2)   | —   | 6                                 | —  |
| Alt-A private-label securities . . . . .             | 3,717  | 15                           | (60)   | —                        | —                    | —                     | (111)                      | (333)   | 268   | 3,496                             | —  |
| Subprime private-label securities . . . . .          | 5,705  | 87                           | 89   | —                        | (317)                | —                     | (178)                      | —   | —   | 5,386                             | —  |
| Mortgage revenue bonds . . . . .                     | 4,560  | (4)                          | 200  | —                        | (12)                 | —                     | (478)                      | —   | —   | 4,266                             | —  |
| Other . . . . .                                      | 2,817  | 11                           | (3)  | —                        | —                    | —                     | (82)                       | —   | —   | 2,743                             | —  |
| <b>Total available-for-sale securities . . . . .</b> | <b>\$ 16,810</b>                                 | <b>\$ 109</b>                | <b>\$ 226</b>  | <b>\$ —</b>              | <b>\$ (329)</b>      | <b>\$ —</b>           | <b>\$ (850)</b>            | <b>\$ (337)</b>                               | <b>\$ 268</b>                               | <b>\$ 15,897</b>                  | <b>\$ —</b>  |
| Mortgage loans . . . . .                             | \$ 2,531   | \$ 116                       | \$ —   | \$ 3                     | \$ —                 | \$ —                  | \$ (93)                    | \$ (750)                                      | \$ 64                                       | \$ 1,871                          | \$ (13)  |
| Net derivatives . . . . .                            | 20   | (25)                         | —  | —                        | —                    | —                     | (9)                        | —   | 5   | (9)                               | (9)  |
| Long-term debt:                                      |  |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Of Fannie Mae:                                       |  |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Senior floating . . . . .                            | \$ (325)   | \$ (10)                      | \$ —   | \$ —                     | \$ —                 | \$ —                  | \$ (1)                     | \$ —  | \$ —  | \$ (336)                          | \$ (11)  |
| Of consolidated trusts . . . . .                     | (498)  | (14)                         | —  | —                        | —                    | —                     | 16                         | 34  | (26)  | (488)                             | (14)   |
| <b>Total long-term debt . . . . .</b>                | <b>\$ (823)</b>                                  | <b>\$ (24)</b>               | <b>\$ —</b>  | <b>\$ —</b>              | <b>\$ —</b>          | <b>\$ —</b>           | <b>\$ 15</b>               | <b>\$ 34</b>                                  | <b>\$ (26)</b>                              | <b>\$ (824)</b>                   | <b>\$ (25)</b>   |

**FANNIE MAE**  
**(In conservatorship)**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)**  
**(UNAUDITED)**

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**  
**For the Nine Months Ended September 30, 2014**

|  | Total Gains or (Losses)<br>(Realized/Unrealized) |                              | Included in<br>Other<br>Comprehensive<br>Income <sup>(1)</sup> | Purchases <sup>(2)</sup> | Sales <sup>(2)</sup> | Issues <sup>(3)</sup> | Settlements <sup>(3)</sup> | Transfers<br>out of<br>Level 3 <sup>(4)</sup> | Transfers<br>into<br>Level 3 <sup>(4)</sup> | Balance,<br>September<br>30, 2014 | Net Unrealized<br>Gains (Losses)<br>Included in Net<br>Income Related<br>to Assets and<br>Liabilities Still<br>Held as of<br>September 30,<br>2014 <sup>(5)(6)</sup> |
|--|--|------------------------------|--|--------------------------|----------------------|-----------------------|----------------------------|---|---|-----------------------------------|--|
|  | Balance,<br>December 31,<br>2013                 | Included<br>in Net<br>Income |  |                          |                      |                       |                            |   |   |                                   |  |
| (Dollars in millions)                      |  |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Trading securities:                        |  |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Mortgage-related:                          |  |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Fannie Mae                                 | \$ 42  | \$ (1)                       | \$ —   | \$ —                     | \$ —                 | \$ —                  | \$ (2)                     | \$ (39)                                       | \$ 325                                      | \$ 325                            | \$ —   |
| Freddie Mac                                | 2  | —                            | —  | —                        | —                    | —                     | —                          | (2)   | —   | —                                 | —  |
| Alt-A private-label securities             | 618  | 105                          | —  | —                        | (23)                 | —                     | (59)                       | (159)   | 213   | 695                               | 100  |
| Subprime private-label securities          | 1,448  | 245                          | —  | —                        | (241)                | —                     | (136)                      | —   | —   | 1,316                             | 209  |
| Mortgage revenue bonds                     | 565  | 137                          | —  | —                        | —                    | —                     | (9)                        | —   | —   | 693                               | 130  |
| Other                                      | 99   | 10                           | —  | —                        | —                    | —                     | (10)                       | —   | —   | 99                                | 10   |
| <b>Total trading securities</b>            | <b>\$ 2,774</b>                                  | <b>\$ 496</b>                | <b>\$ —</b>  | <b>\$ —</b>              | <b>\$ (264)</b>      | <b>\$ —</b>           | <b>\$ (216)</b>            | <b>\$ (200)</b>                               | <b>\$ 538</b>                               | <b>\$ 3,128</b>                   | <b>\$ 449</b>  |
| Available-for-sale securities:             |  |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Mortgage-related:                          |  |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Fannie Mae                                 | \$ 7   | \$ —                         | \$ —   | \$ —                     | \$ —                 | \$ —                  | \$ (1)                     | \$ (8)  | \$ 2  | \$ —                              | \$ —   |
| Freddie Mac                                | 8  | —                            | —  | —                        | —                    | —                     | (1)                        | (2)   | 1   | 6                                 | —  |
| Alt-A private-label securities             | 3,791  | 131                          | (11)   | —                        | (320)                | —                     | (310)                      | (1,207)                                       | 1,422                                       | 3,496                             | —  |
| Subprime private-label securities          | 7,068  | 388                          | 270  | —                        | (1,666)              | —                     | (674)                      | —   | —   | 5,386                             | —  |
| Mortgage revenue bonds                     | 5,253  | (31)                         | 480  | —                        | (70)                 | —                     | (1,366)                    | —   | —   | 4,266                             | —  |
| Other                                      | 2,885  | 17                           | 92   | —                        | —                    | —                     | (251)                      | —   | —   | 2,743                             | —  |
| <b>Total available-for-sale securities</b> | <b>\$ 19,012</b>                                 | <b>\$ 505</b>                | <b>\$ 831</b>  | <b>\$ —</b>              | <b>\$ (2,056)</b>    | <b>\$ —</b>           | <b>\$ (2,603)</b>          | <b>\$ (1,217)</b>                             | <b>\$ 1,425</b>                             | <b>\$ 15,897</b>                  | <b>\$ —</b>  |
| Mortgage loans                             | \$ 2,704   | \$ 243                       | \$ —   | \$ 34                    | \$ —                 | \$ —                  | \$ (259)                   | \$ (1,063)                                    | \$ 212                                      | \$ 1,871                          | \$ 49  |
| Net derivatives                            | (40)   | 52                           | —  | —                        | —                    | —                     | (25)                       | (1)   | 5   | (9)                               | 14   |
| Long-term debt:                            |  |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Of Fannie Mae:                             |  |                              |  |                          |                      |                       |                            |   |   |                                   |  |
| Senior floating                            | \$ (955)   | \$ (115)                     | \$ —   | \$ —                     | \$ —                 | \$ (750)              | \$ 19                      | \$ 1,465                                      | \$ —  | \$ (336)                          | \$ (70)  |
| Of consolidated trusts                     | (518)  | (48)                         | —  | —                        | —                    | (1)                   | 51                         | 100   | (72)  | (488)                             | (45)   |
| <b>Total long-term debt</b>                | <b>\$ (1,473)</b>                                | <b>\$ (163)</b>              | <b>\$ —</b>  | <b>\$ —</b>              | <b>\$ —</b>          | <b>\$ (751)</b>       | <b>\$ 70</b>               | <b>\$ 1,565</b>                               | <b>\$ (72)</b>                              | <b>\$ (824)</b>                   | <b>\$ (115)</b>  |

(1) Gains (losses) included in other comprehensive income are included in “Changes in unrealized gains on AFS securities, net of reclassification adjustments and taxes” in the condensed consolidated statements of operations and comprehensive income.

(2) Purchases and sales include activity related to the consolidation and deconsolidation of assets of securitization trusts.

(3) Issues and settlements include activity related to the consolidation and deconsolidation of liabilities of securitization trusts.

(4) Transfers out of Level 3 consisted primarily of private-label mortgage-related securities backed by Alt-A loans and credit risk sharing securities issued under our CAS series. Prices for these securities were obtained from multiple third-party vendors or dealers. Transfers out of Level 3 also occurred for mortgage loans for which unobservable inputs used in valuations became less significant. Transfers into Level 3 consisted primarily of private-label mortgage-related securities backed by Alt-A loans. Prices for these securities are based on inputs from a single source or inputs that were not readily observable.

(5) Amount represents temporary changes in fair value. Amortization, accretion and OTTI are not considered unrealized and are not included in this amount.

(6) Gains (losses) are included in “Fair value losses, net” in our condensed consolidated statements of operations and comprehensive income.

(7) Gains (losses) are included in “Net interest income” in our condensed consolidated statements of operations and comprehensive income.

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(8) Gains (losses) are included in “Investment gains, net” in our condensed consolidated statements of operations and comprehensive income.

The following tables display valuation techniques and the range and the weighted average of significant unobservable inputs for our Level 3 assets and liabilities measured at fair value on a recurring basis.

| Fair Value Measurements as of September 30, 2015           |                                  |  |                      |                                   |       |
|--|----------------------------------|--|----------------------|-----------------------------------|-------|
| Fair Value   | Significant Valuation Techniques | Significant Unobservable Inputs <sup>(1)</sup> | Range <sup>(1)</sup> | Weighted - Average <sup>(1)</sup> |       |
| (Dollars in millions)                                      |                                  |  |                      |                                   |       |
| <b>Recurring fair value measurements:</b>                  |                                  |  |                      |                                   |       |
| Trading securities:  |                                  |  |                      |                                   |       |
| Mortgage-related securities:                               |                                  |  |                      |                                   |       |
| Alt-A private-label securities <sup>(2)</sup> . . . . .    | \$ 64                            | Consensus                                      | Default Rate (%)     | 1.6                               | 1.6   |
|  |                                  |  | Prepayment Speed (%) | 3.7                               | 3.7   |
|  |                                  |  | Severity (%)         | 61.7                              | 61.7  |
|  |                                  |  | Spreads (bps)        | 266.1                             | 266.1 |
|  | 251                              | Discounted Cash Flow                           | Default Rate (%)     | 1.5 - 3.0                         | 2.7   |
|  |                                  |  | Prepayment Speed (%) | 4.0                               | 4.0   |
|  |                                  |  | Severity (%)         | 55.0 - 95.0                       | 88.1  |
|  |                                  |  | Spreads (bps)        | 222.5 - 230.4                     | 229.0 |
| Total Alt-A private-label securities . . .                 | <u>315</u>                       |  |                      |                                   |       |
| Subprime private-label securities <sup>(2)</sup> . . . . . | 479                              | Consensus                                      | Default Rate (%)     | 4.0 - 10.3                        | 6.5   |
|  |                                  |  | Prepayment Speed (%) | 1.0 - 4.6                         | 2.3   |
|  |                                  |  | Severity (%)         | 41.8 - 95.0                       | 75.5  |
|  |                                  |  | Spreads (bps)        | 275.0 - 280.0                     | 275.4 |
|  | 169                              | Discounted Cash Flow                           | Default Rate (%)     | 4.0 - 8.0                         | 5.0   |
|  |                                  |  | Prepayment Speed (%) | 2.0 - 3.3                         | 2.4   |
|  |                                  |  | Severity (%)         | 60.0 - 78.0                       | 65.2  |
|  |                                  |  | Spreads (bps)        | 203.0 - 300.0                     | 225.7 |
|  | <u>48</u>                        | Other  |                      |                                   |       |
| Total subprime private-label securities                    | <u>696</u>                       |  |                      |                                   |       |
| Mortgage revenue bonds . . . . .                           | 563                              | Discounted Cash Flow                           | Spreads (bps)        | 24.5 - 371.8                      | 274.8 |
|  | <u>16</u>                        | Other  |                      |                                   |       |
| Total mortgage revenue bonds . . . . .                     | <u>579</u>                       |  |                      |                                   |       |
| Total trading securities . . . . .                         | <u>\$ 1,590</u>                  |  |                      |                                   |       |

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**Fair Value Measurements as of September 30, 2015**

|  | <b>Fair Value</b>            | <b>Significant Valuation Techniques</b> | <b>Significant Unobservable Inputs<sup>(1)</sup></b> | <b>Range<sup>(1)</sup></b> | <b>Weighted - Average<sup>(1)</sup></b> |
|--|------------------------------|---|--|----------------------------|---|
|  | <b>(Dollars in millions)</b> |   |  |                            |   |
| Available-for-sale securities:                           |                              |   |  |                            |   |
| Mortgage-related securities:                             |                              |   |  |                            |   |
| Agency <sup>(3)</sup> .....                              | \$ 4                         | Other                                   |  |                            |   |
| Alt-A private-label securities <sup>(2)</sup> .....      | 598                          | Consensus                               | Default Rate (%)                                     | 0.4 - 12.2                 | 4.3                                     |
|  |                              |   | Prepayment Speed (%)                                 | 0.2 - 31.8                 | 14.5                                    |
|  |                              |   | Severity (%)   | 6.8 - 95.0                 | 66.5                                    |
|  |                              |   | Spreads (bps)  | 197.0 - 245.0              | 242.7                                   |
|  | 545                          | Consensus                               |  |                            |   |
|  | 313                          | Discounted Cash Flow                    | Default Rate (%)                                     | 4.0 - 7.0                  | 4.5                                     |
|  |                              |   | Prepayment Speed (%)                                 | 3.0 - 10.0                 | 5.0                                     |
|  |                              |   | Severity (%)   | 50.0 - 85.0                | 63.5                                    |
|  |                              |   | Spreads (bps)  | 201.6 - 481.0              | 289.2                                   |
|  | 38                           | Other                                   |  |                            |   |
| Total Alt-A private-label securities . . .               | <u>1,494</u>                 |   |  |                            |   |
| Subprime private-label securities <sup>(2)</sup> . . . . | 2,365                        | Consensus                               | Default Rate (%)                                     | 0.5 - 19.3                 | 7.7                                     |
|  |                              |   | Prepayment Speed (%)                                 | 0.3 - 13.2                 | 3.4                                     |
|  |                              |   | Severity (%)   | 14.5 - 95.0                | 78.5                                    |
|  |                              |   | Spreads (bps)  | 245.0 - 280.0              | 273.7                                   |
|  | 774                          | Consensus                               |  |                            |   |
|  | 265                          | Discounted Cash Flow                    | Default Rate (%)                                     | 5.6 - 12.0                 | 7.8                                     |
|  |                              |   | Prepayment Speed (%)                                 | 1.0 - 4.0                  | 1.9                                     |
|  |                              |   | Severity (%)   | 59.0 - 95.0                | 80.4                                    |
|  |                              |   | Spreads (bps)  | 169.4 - 315.0              | 225.4                                   |
|  | 273                          | Other                                   |  |                            |   |
| Total subprime private-label securities                  | <u>3,677</u>                 |   |  |                            |   |
| Mortgage revenue bonds .....                             | 1,126                        | Single Vendor                           | Spreads (bps)  | 7.0 - 347.9                | 62.8                                    |
|  | 1,607                        | Discounted Cash Flow                    | Spreads (bps)  | 7.0 - 407.9                | 275.5                                   |
|  | 200                          | Other                                   |  |                            |   |
| Total mortgage revenue bonds. ....                       | <u>2,933</u>                 |   |  |                            |   |
| Other .....  | 737                          | Consensus                               | Default Rate (%)                                     | 0.0 - 4.6                  | 3.4                                     |
|  |                              |   | Prepayment Speed (%)                                 | 2.5 - 17.4                 | 4.5                                     |
|  |                              |   | Severity (%)   | 3.1 - 95.0                 | 67.1                                    |
|  |                              |   | Spreads (bps)  | 195.0 - 466.3              | 334.1                                   |
|  | 550                          | Discounted Cash Flow                    | Default Rate (%)                                     | 0.0 - 4.9                  | 0.2                                     |
|  |                              |   | Prepayment Speed (%)                                 | 0.0 - 2.0                  | 0.1                                     |
|  |                              |   | Severity (%)   | 25.0 - 95.0                | 90.6                                    |
|  |                              |   | Spreads (bps)  | 245.0 - 350.0              | 330.3                                   |
|  | 157                          | Other                                   |  |                            |   |
| Total other .....  | <u>1,444</u>                 |   |  |                            |   |
| Total available-for-sale securities. ....                | <u>\$ 9,552</u>              |   |  |                            |   |

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**Fair Value Measurements as of September 30, 2015**

|   | <b>Fair Value</b>            | <b>Significant Valuation Techniques</b> | <b>Significant Unobservable Inputs<sup>(1)</sup></b> | <b>Range<sup>(1)</sup></b> | <b>Weighted - Average<sup>(1)</sup></b> |
|---|------------------------------|---|--|----------------------------|---|
|   | <b>(Dollars in millions)</b> |   |  |                            |   |
| Mortgage loans:                             |                              |   |  |                            |   |
| Single-family .....                         | \$ 107                       | Build-Up                                | Default Rate (%)                                     | 0.0 - 98.8                 | 35.7                                    |
|   |                              |   | Prepayment Speed (%)                                 | 3.0 - 100.0                | 10.4                                    |
|   |                              |   | Severity (%)   | 0.0 - 100.0                | 38.5                                    |
|   | 667                          | Build-Up                                |  |                            |   |
|   | 236                          | Consensus                               |  |                            |   |
|   | 258                          | Consensus                               | Default Rate (%)                                     | 0.0 - 7.6                  | 3.3                                     |
|   |                              |   | Prepayment Speed (%)                                 | 3.2 - 30.3                 | 5.9                                     |
|   |                              |   | Severity (%)   | 20.0 - 95.0                | 78.8                                    |
|   |                              |   | Spreads (bps)  | 243.4 - 278.0              | 253.5                                   |
|   | 71                           | Other                                   |  |                            |   |
| Total single-family .....                   | <u>1,339</u>                 |   |  |                            |   |
| Multifamily .....                           | 161                          | Build-Up                                | Spreads (bps)  | 61.0 - 334.2               | 161.1                                   |
| Total mortgage loans .....                  | <u>\$ 1,500</u>              |   |  |                            |   |
| Net derivatives .....                       | \$ (115)                     | Internal Model                          |  |                            |   |
|   | 162                          | Dealer Mark                             |  |                            |   |
|   | 13                           | Other                                   |  |                            |   |
| Total net derivatives .....                 | <u>\$ 60</u>                 |   |  |                            |   |
| Long-term debt:                             |                              |   |  |                            |   |
| Of Fannie Mae:                              |                              |   |  |                            |   |
| Senior floating .....                       | \$ (369)                     | Discounted Cash Flow                    |  |                            |   |
| Of consolidated trusts <sup>(4)</sup> ..... | (127)                        | Consensus                               |  |                            |   |
|   | (194)                        | Consensus                               | Default Rate (%)                                     | 0.0 - 4.0                  | 3.1                                     |
|   |                              |   | Prepayment Speed (%)                                 | 3.5 - 30.3                 | 5.4                                     |
|   |                              |   | Severity (%)   | 20.0 - 95.0                | 78.0                                    |
|   |                              |   | Spreads (bps)  | 243.4 - 260.0              | 254.8                                   |
|   | (250)                        | Other                                   |  |                            |   |
| Total of consolidated trusts .....          | <u>(571)</u>                 |   |  |                            |   |
| Total long-term debt .....                  | <u>\$ (940)</u>              |   |  |                            |   |

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**Fair Value Measurements as of December 31, 2014**

|  | <b>Fair Value</b>            | <b>Significant Valuation Techniques</b> | <b>Significant Unobservable Inputs<sup>(1)</sup></b> | <b>Range<sup>(1)</sup></b> | <b>Weighted - Average<sup>(1)</sup></b> |
|--|------------------------------|---|--|----------------------------|---|
|  | <b>(Dollars in millions)</b> |   |  |                            |   |
| <b>Recurring fair value measurements:</b>                  |                              |   |  |                            |   |
| Trading securities:  |                              |   |  |                            |   |
| Mortgage-related securities:                               |                              |   |  |                            |   |
| Agency <sup>(3)(4)</sup> . . . . .                         | \$ 153                       | Single Vendor                           | Prepayment Speed (%)                                 | 100.0                      | 100.0                                   |
|  |                              |   | Spreads (bps)  | 256.5 - 350.8              | 293.4                                   |
|  | 130                          | Consensus                               | Prepayment Speed (%)                                 | 100.0                      | 100.0                                   |
|  |                              |   | Spreads (bps)  | 184.6 - 219.5              | 197.5                                   |
|  | 22                           | Other                                   |  |                            |   |
| Total Agency . . . . .                                     | <u>305</u>                   |   |  |                            |   |
| Alt-A private-label securities <sup>(2)</sup> . . . . .    | 290                          | Single Vendor                           | Default Rate (%)                                     | 8.3 - 9.1                  | 8.5                                     |
|  |                              |   | Prepayment Speed (%)                                 | 2.9 - 3.2                  | 3.1                                     |
|  |                              |   | Severity (%)   | 79.5 - 95.0                | 90.4                                    |
|  |                              |   | Spreads (bps)  | 267.2 - 308.2              | 279.4                                   |
|  | 66                           | Consensus                               | Default Rate (%)                                     | 5.4                        | 5.4                                     |
|  |                              |   | Prepayment Speed (%)                                 | 7.0                        | 7.0                                     |
|  |                              |   | Severity (%)   | 48.8                       | 48.8                                    |
|  |                              |   | Spreads (bps)  | 264.8                      | 264.8                                   |
|  | 151                          | Consensus                               |  |                            |   |
|  | 90                           | Other                                   |  |                            |   |
| Total Alt-A private-label securities . . . . .             | <u>597</u>                   |   |  |                            |   |
| Subprime private-label securities <sup>(2)</sup> . . . . . | 422                          | Consensus                               | Default Rate (%)                                     | 3.5 - 11.8                 | 7.2                                     |
|  |                              |   | Prepayment Speed (%)                                 | 1.4 - 5.2                  | 2.8                                     |
|  |                              |   | Severity (%)   | 72.1 - 95.0                | 85.9                                    |
|  |                              |   | Spreads (bps)  | 265.0                      | 265.0                                   |
|  | 549                          | Consensus                               |  |                            |   |
|  | 290                          | Discounted Cash Flow                    | Default Rate (%)                                     | 4.3 - 6.2                  | 5.2                                     |
|  |                              |   | Prepayment Speed (%)                                 | 2.3 - 4.2                  | 3.3                                     |
|  |                              |   | Severity (%)   | 62.2 - 95.0                | 73.8                                    |
|  |                              |   | Spreads (bps)  | 265.0 - 382.1              | 283.7                                   |
|  | 46                           | Other                                   |  |                            |   |
| Total subprime private-label securities . . . . .          | <u>1,307</u>                 |   |  |                            |   |
| Mortgage revenue bonds . . . . .                           | 161                          | Dealer Mark                             | Spreads (bps)  | 288.1                      | 288.1                                   |
|  | 540                          | Discounted Cash Flow                    | Spreads (bps)  | 6.0 - 318.0                | 263.0                                   |
|  | 21                           | Other                                   |  |                            |   |
| Total mortgage revenue bonds . . . . .                     | <u>722</u>                   |   |  |                            |   |
| Other . . . . .  | 99                           | Dealer Mark                             |  |                            |   |
| Total trading securities . . . . .                         | <u>\$ 3,030</u>              |   |  |                            |   |

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| Fair Value Measurements as of December 31, 2014          |                                  |  |                      |                                 |       |
|--|----------------------------------|--|----------------------|---------------------------------|-------|
| Fair Value   | Significant Valuation Techniques | Significant Unobservable Inputs <sup>(1)</sup> | Range <sup>(1)</sup> | Weighted-Average <sup>(1)</sup> |       |
|  |                                  | (Dollars in millions)                          |                      |                                 |       |
| Available-for-sale securities:                           |                                  |  |                      |                                 |       |
| Mortgage-related securities:                             |                                  |  |                      |                                 |       |
| Agency <sup>(3)</sup> .....                              | \$ 6                             | Other  |                      |                                 |       |
| Alt-A private-label securities <sup>(2)</sup> .....      | 322                              | Single Vendor                                  | Default Rate (%)     | 0.2 - 13.1                      | 4.6   |
|  |                                  |  | Prepayment Speed (%) | 0.2 - 20.5                      | 8.2   |
|  |                                  |  | Severity (%)         | 27.8 - 89.7                     | 61.0  |
|  |                                  |  | Spreads (bps)        | 190.0 - 315.0                   | 264.9 |
|  | 493                              | Single Vendor                                  |                      |                                 |       |
|  | 1,187                            | Consensus                                      | Default Rate (%)     | 0.4 - 31.2                      | 5.1   |
|  |                                  |  | Prepayment Speed (%) | 0.1 - 48.9                      | 11.0  |
|  |                                  |  | Severity (%)         | 0.2 - 95.0                      | 59.6  |
|  |                                  |  | Spreads (bps)        | 183.8 - 240.0                   | 236.7 |
|  | 691                              | Consensus                                      |                      |                                 |       |
|  | 403                              | Discounted Cash Flow                           | Default Rate (%)     | 5.0 - 11.5                      | 7.0   |
|  |                                  |  | Prepayment Speed (%) | 0.5 - 8.4                       | 3.4   |
|  |                                  |  | Severity (%)         | 35.1 - 92.4                     | 54.2  |
|  |                                  |  | Spreads (bps)        | 188.0 - 340.0                   | 243.4 |
|  | 44                               | Other  |                      |                                 |       |
| Total Alt-A private-label securities . . .               | <u>3,140</u>                     |  |                      |                                 |       |
| Subprime private-label securities <sup>(2)</sup> . . . . | 383                              | Single Vendor                                  | Default Rate (%)     | 2.1 - 8.3                       | 5.5   |
|  |                                  |  | Prepayment Speed (%) | 1.5 - 3.3                       | 2.1   |
|  |                                  |  | Severity (%)         | 65.4 - 95.0                     | 78.5  |
|  |                                  |  | Spreads (bps)        | 215.0 - 262.0                   | 230.0 |
|  | 2,722                            | Consensus                                      | Default Rate (%)     | 1.5 - 37.4                      | 6.3   |
|  |                                  |  | Prepayment Speed (%) | 0.1 - 17.7                      | 2.6   |
|  |                                  |  | Severity (%)         | 1.5 - 95.0                      | 84.4  |
|  |                                  |  | Spreads (bps)        | 155.0 - 265.0                   | 220.0 |
|  | 1,755                            | Consensus                                      |                      |                                 |       |
|  | 317                              | Discounted Cash Flow                           | Default Rate (%)     | 3.0 - 12.3                      | 7.0   |
|  |                                  |  | Prepayment Speed (%) | 1.1 - 9.0                       | 4.1   |
|  |                                  |  | Severity (%)         | 28.9 - 91.8                     | 81.2  |
|  |                                  |  | Spreads (bps)        | 155.0 - 895.0                   | 250.5 |
|  | 63                               | Other  |                      |                                 |       |
| Total subprime private-label securities                  | <u>5,240</u>                     |  |                      |                                 |       |
| Mortgage revenue bonds .....                             | 1,504                            | Single Vendor                                  | Spreads (bps)        | (11.5)- 361.5                   | 52.7  |
|  | 418                              | Single Vendor                                  |                      |                                 |       |
|  | 510                              | Dealer Mark                                    | Spreads (bps)        | 222.8 - 322.1                   | 265.9 |
|  | 1,581                            | Discounted Cash Flow                           | Spreads (bps)        | (11.5)- 620.2                   | 251.4 |
|  | 10                               | Other  |                      |                                 |       |
| Total mortgage revenue bonds .....                       | <u>4,023</u>                     |  |                      |                                 |       |
| Other .....  | 337                              | Single Vendor                                  | Default Rate (%)     | 1.7 - 5.0                       | 4.4   |
|  |                                  |  | Prepayment Speed (%) | 3.0 - 9.3                       | 3.8   |
|  |                                  |  | Severity (%)         | 4.0 - 94.6                      | 69.6  |
|  |                                  |  | Spreads (bps)        | 263.1 - 427.2                   | 291.5 |
|  | 720                              | Consensus                                      | Default Rate (%)     | 0.1 - 6.6                       | 3.9   |
|  |                                  |  | Prepayment Speed (%) | 3.0 - 30.4                      | 4.8   |
|  |                                  |  | Severity (%)         | 0.4 - 95.0                      | 62.4  |
|  |                                  |  | Spreads (bps)        | 215.0 - 481.4                   | 320.6 |
|  | 1,215                            | Dealer Mark                                    |                      |                                 |       |
|  | 399                              | Other  |                      |                                 |       |
| Total other .....  | <u>2,671</u>                     |  |                      |                                 |       |
| Total available-for-sale securities .....                | <u>\$15,080</u>                  |  |                      |                                 |       |

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**Fair Value Measurements as of December 31, 2014**

|   | <u>Fair Value</u> | <u>Significant Valuation Techniques</u> | <u>Significant Unobservable Inputs<sup>(1)</sup></u> | <u>Range<sup>(1)</sup></u> | <u>Weighted - Average<sup>(1)</sup></u> |
|---|-------------------|---|--|----------------------------|---|
| <b>(Dollars in millions)</b>                |                   |   |  |                            |   |
| Mortgage loans:                             |                   |   |  |                            |   |
| Single-family.....                          | \$ 934            | Build-Up                                | Default Rate (%)                                     | 0.0 - 99.0                 | 14.9                                    |
|   |                   |   | Prepayment Speed (%)                                 | 3.6 - 99.8                 | 16.3                                    |
|   |                   |   | Severity (%)   | 3.4 - 100.0                | 23.7                                    |
|   | 279               | Consensus                               |  |                            |   |
|   | 402               | Discounted Cash Flow                    | Default Rate (%)                                     | 2.7 - 13.1                 | 5.5                                     |
|   |                   |   | Prepayment Speed (%)                                 | 0.1 - 13.5                 | 7.5                                     |
|   |                   |   | Severity (%)   | 35.5 - 95.0                | 61.3                                    |
|   |                   |   | Spreads (bps)  | 155.0 - 665.0              | 227.4                                   |
|   | <u>39</u>         | Other                                   |  |                            |   |
| Total single-family.....                    | 1,654             |   |  |                            |   |
| Multifamily.....                            | <u>179</u>        | Build-Up                                | Spreads (bps)  | 59.0 - 323.4               | 137.3                                   |
| Total mortgage loans.....                   | <u>\$ 1,833</u>   |   |  |                            |   |
| Net derivatives.....                        | \$ (107)          | Internal Model                          |  |                            |   |
|   | 150               | Dealer Mark                             |  |                            |   |
|   | <u>2</u>          | Other                                   |  |                            |   |
| Total net derivatives.....                  | <u>\$ 45</u>      |   |  |                            |   |
| Long-term debt:                             |                   |   |  |                            |   |
| Of Fannie Mae:                              |                   |   |  |                            |   |
| Senior floating.....                        | \$ (363)          | Discounted Cash Flow                    |  |                            |   |
| Of consolidated trusts <sup>(4)</sup> ..... | (219)             | Consensus                               |  |                            |   |
|   | (205)             | Discounted Cash Flow                    | Default Rate (%)                                     | 2.7 - 11.9                 | 4.0                                     |
|   |                   |   | Prepayment Speed (%)                                 | 0.1 - 100.0                | 33.4                                    |
|   |                   |   | Severity (%)   | 35.5 - 95.0                | 54.6                                    |
|   |                   |   | Spreads (bps)  | 88.0 - 665.0               | 249.4                                   |
|   | <u>(103)</u>      | Other                                   |  |                            |   |
| Total of consolidated trusts.....           | <u>(527)</u>      |   |  |                            |   |
| Total long-term debt.....                   | <u>\$ (890)</u>   |   |  |                            |   |

(1) Valuation techniques for which no unobservable inputs are disclosed generally reflect the use of third-party pricing services or dealers, and the range of unobservable inputs applied by these sources is not readily available or cannot be reasonably estimated. Where we have disclosed unobservable inputs for consensus and single vendor techniques, those inputs are based on our validations performed at the security level using discounted cash flows.

(2) Default Rate as disclosed represents the estimated beginning annualized rate of default and is used as a basis to forecast the future default rates that serve as an input for valuation.

(3) Includes Fannie Mae and Freddie Mac securities.

(4) Includes instruments for which the prepayment speed as disclosed represents the estimated annualized rate of prepayment after all prepayment penalty provisions have expired and also instruments for which prepayment speed as disclosed represents the estimated rate of prepayment over the remaining life of the instrument.

In our condensed consolidated balance sheets certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when we evaluate loans for impairment). We did not have any Level 1 assets or liabilities that were measured at fair value on a nonrecurring basis as of September 30, 2015 or December 31, 2014. We held \$21 million and \$93 million in Level 2 assets, comprised of mortgage loans held for sale, and no Level 2 liabilities that were measured at fair value on a nonrecurring basis as of September 30, 2015 and December 31, 2014, respectively.

The following table displays valuation techniques for our Level 3 assets measured at fair value on a nonrecurring basis. The significant unobservable inputs related to these techniques primarily relate to collateral dependent valuations. The related ranges and weighted averages are not meaningful when aggregated as they vary significantly from property to property.



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|   | <u>Valuation Techniques</u> | <b>Fair Value Measurements (Level 3)</b><br>as of |                              |
|---|-----------------------------|---|------------------------------|
|   |                             | <b>September 30,<br/>2015</b>                     | <b>December 31,<br/>2014</b> |
| (Dollars in millions)   |                             |   |                              |
| <b>Nonrecurring fair value measurements:</b>  |                             |   |                              |
| Mortgage loans held for sale, at lower of cost or fair value . . . .                | Consensus                   | \$ 2,251  | \$ 110                       |
|   | Single Vendor               | 431   | —                            |
|   | Other                       | 2   | —                            |
|   |                             | <hr/>   | <hr/>                        |
| Total mortgage loans held for sale, at lower of cost or fair value . . . . .        |                             | 2,684   | 110                          |
| Single-family mortgage loans held for investment, at amortized cost . . . . .       | Internal Model              | 8,585   | 16,654                       |
|   | Other                       | —   | 60                           |
|   |                             | <hr/>   | <hr/>                        |
| Total single-family mortgage loans held for investment, at amortized cost . . . . . |                             | 8,585   | 16,714                       |
| Multifamily mortgage loans held for investment, at amortized cost . . . . .         | Broker Price Opinions       | 90  | 45                           |
|   | Asset Manager Estimate      | 289   | 580                          |
|   | Other                       | 7   | —                            |
|   |                             | <hr/>   | <hr/>                        |
| Total multifamily mortgage loans held for investment, at amortized cost . . . . .   |                             | 386   | 625                          |
| Acquired property, net:   |                             |   |                              |
| Single-family . . . . .   | Accepted Offers             | 620   | 864                          |
|   | Appraisals                  | 865   | 1,509                        |
|   | Walk Forwards               | 637   | 1,173                        |
|   | Internal Model              | 970   | 1,045                        |
|   | Other                       | 122   | 191                          |
|   |                             | <hr/>   | <hr/>                        |
| Total single-family . . . . .   |                             | 3,214   | 4,782                        |
| Multifamily . . . . .   | Broker Price Opinions       | 31  | 127                          |
|   | Other                       | 2   | 13                           |
|   |                             | <hr/>   | <hr/>                        |
| Total multifamily . . . . .   |                             | 33  | 140                          |
| Other assets . . . . .  | Other                       | 27  | 45                           |
| Total nonrecurring assets at fair value . . . . .                                   |                             | <u>\$ 14,929</u>                                  | <u>\$ 22,416</u>             |

We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. The following is a description of the valuation techniques we use for fair value measurement and disclosure as well as our basis for classifying these measurements as Level 1, Level 2 or Level 3 of the valuation hierarchy in more specific situations.

***Trading Securities and Available-for-Sale Securities***

These securities are recorded in our condensed consolidated balance sheets at fair value on a recurring basis. Fair value is measured using quoted market prices in active markets for identical assets, when available.

We classify securities whose values are based on quoted market prices in active markets for identical assets as Level 1 of the valuation hierarchy. We classify securities in active markets as Level 2 of the valuation hierarchy if quoted market prices in active markets for identical assets are not available. For all valuation techniques used for securities where there is limited activity or less transparency around these inputs to the valuation, these securities are classified as Level 3 of the valuation hierarchy.

A description of our securities valuation techniques is as follows:

Single Vendor: This valuation technique utilizes one vendor price to estimate fair value. We generally validate these observations of fair value through the use of a discounted cash flow technique whose unobservable inputs (for example, default rates) are disclosed in the table above.

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Dealer Mark: This valuation technique utilizes one dealer price to estimate fair value. We generally validate these observations of fair value through the use of a discounted cash flow technique whose unobservable inputs (for example, default rates) are disclosed in the table above.

Consensus: This technique utilizes an average of two or more vendor prices for similar securities. We generally validate these observations of fair value through the use of a discounted cash flow technique whose unobservable inputs (for example, default rates) are disclosed in the table above.

Discounted Cash Flow: In the absence of prices provided by third-party pricing services supported by observable market data, we estimate the fair value of a portion of our securities using a discounted cash flow technique that uses inputs such as default rates, prepayment speeds, loss severity and spreads based on market assumptions where available.

For private-label securities, an increase in unobservable prepayment speeds in isolation would generally result in an increase in fair value, and an increase in unobservable spreads, severity rates or default rates in isolation would generally result in a decrease in fair value. For mortgage revenue bonds classified as Level 3 of the valuation hierarchy, an increase in unobservable spreads would result in a decrease in fair value. Although the sensitivities of the fair value of our recurring Level 3 securities of the valuation hierarchy to various unobservable inputs are discussed above in isolation, interrelationships exist among these inputs such that a change in one unobservable input typically results in a change to one or more of the other inputs.

***Mortgage Loans Held for Investment***

The majority of HFI loans are reported in our condensed consolidated balance sheets at the principal amount outstanding, net of cost basis adjustments and an allowance for loan losses. We estimate the fair value of HFI loans using the build-up and consensus valuation techniques, as discussed below, for periodic disclosure of financial instruments as required by GAAP. For our remaining loans, which include those containing embedded derivatives that would otherwise require bifurcation and consolidated loans of senior-subordinated trust structures, we elected the fair value option and therefore, we record these loans at fair value in our condensed consolidated balance sheets. We measure these loans on a recurring basis using the build-up, consensus, discounted cash flow and single vendor price techniques. Certain impaired loans are measured at fair value on a nonrecurring basis by using the fair value of their underlying collateral. Specific techniques used include internal models, broker price opinions and appraisals.

A description of our loan valuation techniques is as follows:

Build-up: We derive the fair value of mortgage loans using a build-up valuation technique. In the build-up valuation technique we start with the base value for our Fannie Mae MBS and then add or subtract the fair value of the associated guaranty asset, guaranty obligation (“GO”) and master servicing arrangement. We use observable market values of Fannie Mae MBS with similar characteristics, either on a pool or loan level, determined primarily from third party pricing services, quoted market prices in active markets for similar securities, and other observable market data as a base value. We set the GO equal to the estimated fair value we would receive if we were to issue our guaranty to an unrelated party in a stand-alone arm’s length transaction at the measurement date. We estimate the fair value of the GO using our internal valuation models, which calculate the present value of expected cash flows based on management’s best estimate of certain key assumptions such as current mark-to-market LTV ratios, future house prices, default rates, severity rates and required rate of return. We also estimate the fair value of the GO using our current guaranty pricing and adjust that pricing, as appropriate, for the seasoning of the collateral when such transactions reflect credit characteristics of loans held in our portfolio. As a result, the fair value of our mortgage loans will change when the pricing for our credit guaranty changes in the GSE securitization market.

Our performing loans are generally classified as Level 2 of the valuation hierarchy to the extent that significant inputs are observable. To the extent that unobservable inputs are significant, the loans are classified as Level 3 of the valuation hierarchy.

Consensus: The fair value of single-family nonperforming loans represents an estimate of the prices we would receive if we were to sell these loans in the whole-loan market. These nonperforming loans are either two or more months delinquent, in an open modification period, or in a closed modification state (both performing and nonperforming in accordance with the loan’s modified terms). We calculate the fair value of nonperforming loans based on certain key factors, including collateral value, cash flow characteristics and mortgage insurance repayment. Collateral value is derived from the current estimated mark-to-market LTV ratio of the individual loan and, where appropriate, a state-level distressed property sales discount. Cash flow characteristics include attributes such as the weighted average coupon rate and loan payment history. The fair value of

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mortgage insurance is estimated by taking the loan level coverage and adjusting it by the expected claims paying ability of the associated mortgage insurer. The expected claims paying abilities used for estimating the fair value of mortgage insurance are consistent with our credit loss forecast. Fair value is estimated from the extrapolation of indicative sample bids obtained from multiple active market participants plus the estimated value of any applicable mortgage insurance. These loans are classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

We estimate the fair value for a portion of our senior-subordinated trust structures using the average of two or more vendor prices at the security level as a proxy for estimating loan fair value. These loans are classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

Discounted Cash Flow: We estimate the fair value of a portion of our senior-subordinated trust structures using discounted cash flow at the security level as a proxy for estimating loan fair value. This valuation technique uses unobservable inputs such as prepayment speeds, default rates, spreads, and loss severities to estimate the fair value of our securities. These inputs are weighted in a model that calculates the expected cash flow of the security which is used as the basis of fair value. These loans are classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

Single Vendor: We estimate the fair value of a portion of our senior-subordinated trust structures using the single vendor valuation technique at the security level as a proxy for estimating loan fair value. We also estimate the fair value of our reverse mortgages using the single vendor valuation technique. These loans are classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

Internal Model: For loans whose value it has been determined should be based on collateral value, we use an internal proprietary distressed home price model. The internal model used in this process takes one of two approaches when valuing the collateral.

The first approach relies on comparable foreclosed property sales to estimate the value of the target collateral. The comparable foreclosed property sales approach uses various factors such as geographic distance, transaction time and the value difference. The second approach referred to as the median Metropolitan Statistical Area (“MSA”) is based on the median of all the foreclosure sales of REOs in a specific MSA. Using this sales price, MSA level discount is computed and applied to the estimated non distressed value to derive an estimated fair value. If there are not enough REO sales in a specific MSA, a median state level foreclosure discount is used to estimate the fair value.

The majority of the internal model valuations come from the comparable sales approach. The determination of whether the internal model valuations in a particular geographic area should use the comparable sales approach or median MSA is based on historical accuracy. These loans are classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

Appraisals: For a portion of our multifamily loans, we use appraisals to estimate the fair value of the loan. There are three approaches used to estimate fair value of a specific property: (1) cost, (2) income capitalization and (3) sales comparison. The cost approach uses the insurable value as a basis. The unobservable inputs used in this model include the estimated cost to construct or replace multifamily properties in the closest localities available. The income capitalization approach estimates the fair value using the present value of the future cash flow expectations by applying an appropriate overall capitalization rate to the forecasted net operating income. The significant unobservable inputs used in this calculation include rental income, fees associated with rental income, expenses associated with the property including taxes, payroll, insurance and other items, and capitalization rates, which are determined through market extraction and the debt service coverage ratio. The sales comparison approach compares the prices paid for similar properties, the prices asked by owners and offers made. The unobservable inputs to this methodology include ratios of sales prices to annual gross income, price paid per unit and adjustments made based on financing, conditions of sale and physical characteristics of the property. These loans are classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

Broker Price Opinion (“BPO”): For a portion of our multifamily loans, we use BPO to estimate the fair value of the loan. This technique uses both current property value and the property value adjusted for stabilization and market conditions. These approaches compute net operating income based on current rents and expenses and use a range of market capitalization rates to estimate property value. The unobservable inputs used in this technique are property net operating income and market capitalization rates to estimate property value. These loans are classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

Asset Manager Estimate (“AME”): For a portion of our multifamily loans, AME is used to estimate the fair value of the loan. This technique uses the net operating income and tax assessments of the specific property as well as MSA-specific market

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capitalization rates and average per unit sales values to estimate property fair value. These loans are classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

An increase in prepayment speeds in isolation would generally result in an increase in the fair value of our mortgage loans classified as Level 3 of the valuation hierarchy, and an increase in severity rates, default rates or spreads in isolation would generally result in a decrease in fair value. Although the sensitivities of the fair value of mortgage loans classified as Level 3 of the valuation hierarchy to various unobservable inputs are discussed above in isolation, interrelationships exist among these inputs such that a change in one unobservable input typically results in a change to one or more of the other inputs.

***Acquired Property, Net and Other Assets***

Acquired property, net represents foreclosed property received in full satisfaction of a loan net of a valuation allowance. Acquired property is initially recorded in our condensed consolidated balance sheets at its fair value less its estimated cost to sell. The initial fair value of foreclosed properties is determined using a hierarchy based on the reliability of available information. The hierarchy for single-family acquired property includes accepted offers, appraisals, broker price opinions and proprietary home price model values. The hierarchy for multifamily acquired property includes accepted offers, appraisals and broker price opinions. We consider an accepted offer on a specific foreclosed property to be the best estimate of its fair value. If we have not accepted an offer on the property we use the next highest priority valuation methodology available, as described in our valuation hierarchy to determine fair value. While accepted offers represent an agreement in principle to transact, a significant portion of these agreements do not get executed for various reasons, and are therefore classified as Level 3 of the valuation hierarchy.

Third-party valuations can be obtained from either an appraisal or a broker price opinion. These valuations are kept current using a monthly walk forward process that updates them for any change in the value of the property. When accepted offers or third-party valuations are not available, we generally utilize the home price values determined using an internal model.

Subsequent to initial measurement, the foreclosed properties that we intend to sell are reported at the lower of the carrying amount or fair value less estimated costs to sell. Foreclosed properties classified as held for use, included in "Other assets" in our condensed consolidated balance sheets, are depreciated and impaired when circumstances indicate that the carrying amount of the property is no longer recoverable. The fair values of our single-family foreclosed properties subsequent to initial measurement are determined using the same information hierarchy used for the initial fair value measurement.

The most commonly used techniques in our valuation of acquired property are proprietary home price model and third-party valuations (both current and walk forward). Based on the number of properties measured as of September 30, 2015, these methodologies comprised approximately 75% of our valuations, while accepted offers comprised approximately 20% of our valuations. Based on the number of properties measured as of December 31, 2014, these methodologies comprised approximately 77% of our valuations, while accepted offers comprised approximately 19% of our valuations.

Acquired property is classified as Level 3 of the valuation hierarchy because significant inputs are unobservable.

A description of our acquired property significant valuation techniques is as follows:

***Single-family acquired property valuation techniques***

**Appraisal:** An appraisal is an estimate of the value of a specific property by a certified or licensed appraiser, in accordance with the Uniform Standards of Professional Appraisal Practice. Data most commonly used is from the local Multiple Listing Service and includes properties currently listed for sale, properties under contract, and closed transactions. The appraiser performs an analysis that starts with these data points and then adjusts for differences between the comparable properties and the property being appraised, to arrive at an estimated value for the specific property. Adjustments are made for differences between comparable properties for unobservable inputs such as square footage, location, and condition of the property. The appraiser typically uses recent historical data for the estimate of value.

**Broker Price Opinion:** This technique provides an estimate of what the property is worth based upon a real estate broker's knowledge. The broker uses research of pertinent data in the appropriate market, and a sales comparison approach that is similar to the appraisal process. The broker typically has insight into local market trends, such as the number of and terms of offers, lack of offers, increasing supply, shortage of inventory and overall interest in buying a home. This information, all of which is unobservable, is used along with recent and pending sales and current listings of similar properties to arrive at an estimate of value.

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We review the appraisals and broker price opinions received to determine if they have been performed in accordance with applicable standards and if the results are consistent with our observed transactions on similar properties. We make necessary adjustments as required.

Appraisal and Broker Price Opinion Walk Forwards (“Walk Forwards”): We use these techniques to adjust appraisal and broker price opinion valuations for changing market conditions by applying a walk forward factor based on local price movements since the time the third-party value was obtained. The majority of third-party values are updated by comparing the difference in our internal home price model from the month of the original appraisal/broker price opinion to the current period and by applying the resulting percentage change to the original value. If a price is not determinable through our internal home price model, we use our zip code level home price index to update the valuations.

Internal Model: We use an internal model to estimate fair value for distressed properties. The valuation methodology and inputs used are described under “Mortgage Loans Held for Investment.”

*Multifamily acquired property valuation techniques*

Appraisals: We use this method to estimate property values for distressed properties. The valuation methodology and inputs used are described under “Mortgage Loans Held for Investment.”

Broker Price Opinions: We use this method to estimate property values for distressed properties. The valuation methodology and inputs used are described under “Mortgage Loans Held for Investment.”

***Derivatives Assets and Liabilities (collectively “Derivatives”)***

Derivatives are recorded in our condensed consolidated balance sheets at fair value on a recurring basis. The valuation process for the majority of our risk management derivatives uses observable market data provided by third-party sources, resulting in Level 2 classification of the valuation hierarchy.

A description of our derivatives valuation techniques is as follows:

Internal Model: We use internal models to value interest rate swaps which are valued by referencing yield curves derived from observable interest rates and spreads to project and discount swap cash flows to present value. Option-based derivatives use an internal model that projects the probability of various levels of interest rates by referencing swaption volatilities provided by market makers/dealers. The projected cash flows of the underlying swaps of these option-based derivatives are discounted to present value using yield curves derived from observable interest rates and spreads.

Dealer Mark: Certain highly complex structured swaps primarily use a single dealer mark due to lack of transparency in the market and may be modeled using observable interest rates and volatility levels as well as significant unobservable assumptions, resulting in Level 3 classification of the valuation hierarchy. Mortgage commitment derivatives that use observable market data, quotes and actual transaction price levels adjusted for market movement are typically classified as Level 2 of the valuation hierarchy. To the extent mortgage commitment derivatives include adjustments for market movement that cannot be corroborated by observable market data, we classify them as Level 3 of the valuation hierarchy.

***Debt***

The majority of debt of Fannie Mae is recorded in our condensed consolidated balance sheets at the principal amount outstanding, net of cost basis adjustments. We elected the fair value option for certain structured Fannie Mae debt instruments and debt of consolidated trusts with embedded derivatives, which are recorded in our condensed consolidated balance sheets at fair value on a recurring basis.

We classify debt instruments that have quoted market prices in active markets for similar liabilities when traded as assets as Level 2 of the valuation hierarchy. For all valuation techniques used for debts instruments where there is limited activity or less transparency around these inputs to the valuation, these debt instruments are classified as Level 3 of the valuation hierarchy.

A description of our debt valuation techniques is as follows:

Consensus: We estimate the fair value of debt of Fannie Mae and our debt of consolidated trusts using an average of two or more vendor prices or dealer marks that represents estimated fair value for similar liabilities when traded as assets.

Single Vendor: We estimate the fair value of debt of Fannie Mae and our debt of consolidated trusts using a single vendor price that represents estimated fair value for these liabilities when traded as assets.

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Discounted Cash Flow: In the absence of prices provided by third-party pricing services supported by observable market data, we estimate the fair value of a portion of the debt of Fannie Mae and our debt of consolidated trusts using a discounted cash flow technique that uses spreads based on market assumptions where available.

The valuation methodology and inputs used in estimating the fair value of MBS assets are described under “Trading Securities and Available-for-Sale Securities.”

***Valuation Control Processes***

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

The Pricing and Verification Group is responsible for the estimation and verification of the fair value for the majority of our financial assets and financial liabilities, including review of material assumptions used when market-based inputs do not exist. The Pricing and Verification Group also provides a quarterly update to the Valuation Oversight Committee (“VOC”) on relevant market information, pricing trends, significant valuation challenges and the resolution of those challenges. The Pricing and Verification Group resides within our Finance Division and is independent of any trading or market related activities. Fair value measurements for acquired property and collateral dependent loans are determined by other valuation groups in the Finance Division.

Our VOC includes senior representation from our Capital Markets segment, our Enterprise Risk Office and our Finance division, and is responsible for providing overall governance for our valuation processes, models and results. The composition of the VOC is determined by the VOC chair, our Chief Financial Officer, with the objective of obtaining appropriate representation from Finance, Enterprise Risk Management and select business units within Fannie Mae. Based on its review of valuation methodologies and fair value results for various financial instruments used for financial reporting, the VOC is responsible for advising the VOC chair, who has the ultimate responsibility over all valuation processes and results. The VOC also reviews trend analysis for various financial assets and liabilities on a quarterly basis.

We use third-party vendor prices and dealer quotes to estimate fair value of some of our financial assets and liabilities. Third-party vendor prices are primarily used to estimate fair value for trading securities, available-for-sale securities, debt of Fannie Mae and consolidated MBS debt. Our Pricing and Verification Group performs various review and validation procedures prior to utilizing these prices in our fair value estimation process. We verify selected prices, using a variety of methods, including corroborating the prices by reference to other independent market data, such as non-binding broker or dealer quotations, relevant benchmark indices and prices of similar instruments. We also review prices for reasonableness based on variations from prices provided in previous periods, comparing prices to internally estimated prices, using primarily a discounted cash flow approach, and conducting relative value comparisons based on specific characteristics of securities.

We have discussions with the pricing vendors as part of our due diligence process in order to maintain a current understanding of the valuation processes and related assumptions and inputs that these vendors use in developing prices. The prices provided to us by third-party pricing services reflect the existence of market reliance upon credit enhancements, if any, and the current levels of liquidity in the marketplace. If we determine that a price provided to us is outside established parameters, we will further examine the price, including having follow-up discussions with the pricing service or dealer. If we conclude that a price is not valid, we will adjust the price for various factors, such as liquidity, bid-ask spreads and credit considerations. All of these procedures are executed before we use the prices in preparing our financial statements.

We have an internal property valuation function that utilizes an internal model to compare the values received on a property and assign a risk rating based on several factors including the deviation between the various values. Property valuations with risk ratings above a specified threshold are reviewed for reasonableness by a team of property valuation experts. The internal model that is used to assign a risk rating and the threshold specified is subject to oversight from the Model Risk Management Group, which is responsible for establishing risk management controls and for reviewing models used in the determination of fair value measurements for financial reporting. In addition, our Quality Control Group reviews the overall work performed and inspects a portion of the properties in major markets, for which the third-party valuations are obtained, in order to assess the quality of the valuations.

We calibrate the performance of our proprietary distressed home price model using actual offers in recently observed transactions. The model’s performance is reviewed on a monthly basis by the REO valuation team and compared quarterly to specific model performance thresholds. The results of the validation are regularly reviewed with the VOC.

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Our Property Valuation Review Group reviews appraisals and broker price opinions to determine the most appropriate value by comparing data within these products with current comparable properties and market data. We conduct regular performance reviews of the counterparties that provide products and services for this process. In addition, valuation results and trend analyses are reviewed regularly by management responsible for valuing and disposing of real estate.

***Fair Value of Financial Instruments***

The following table displays the carrying value and estimated fair value of our financial instruments. The fair value of financial instruments we disclose includes commitments to purchase multifamily and single-family mortgage loans that we do not record in our condensed consolidated balance sheets. The fair values of these commitments are included as “Mortgage loans held for investment, net of allowance for loan losses.” The disclosure excludes certain financial instruments, such as plan obligations for pension and postretirement health care benefits, employee stock option and stock purchase plans, and also excludes all non-financial instruments. As a result, the fair value of our financial assets and liabilities does not represent the underlying fair value of our total consolidated assets and liabilities.

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**(In conservatorship)**  
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As of September 30, 2015

|  | Carrying<br>Value  | Quoted<br>Price in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Netting<br>Adjustment | Estimated<br>Fair Value |
|--|--------------------|---|---|--|-----------------------|-------------------------|
| (Dollars in millions)  |                    |   |   |  |                       |                         |
| <b>Financial assets:</b>   |                    |   |   |  |                       |                         |
| Cash and cash equivalents and restricted cash  | \$ 50,196          | \$ 34,696   | \$ 15,500   | \$ —   | \$ —                  | \$ 50,196               |
| Federal funds sold and securities purchased under agreements to resell or similar arrangements | 26,600             | —   | 26,600  | —  | —                     | 26,600                  |
| Trading securities   | 38,009             | 26,961  | 9,458   | 1,590  | —                     | 38,009                  |
| Available-for-sale securities  | 22,007             | —   | 12,455  | 9,552  | —                     | 22,007                  |
| Mortgage loans held for sale   | 3,716              | —   | 178   | 3,796  | —                     | 3,974                   |
| Mortgage loans held for investment, net of allowance for loan losses:                          |                    |   |   |  |                       |                         |
| Of Fannie Mae  | 213,639            | —   | 26,358  | 201,369  | —                     | 227,727                 |
| Of consolidated trusts   | 2,803,101          | —   | 2,675,444   | 184,922  | —                     | 2,860,366               |
| Mortgage loans held for investment   | 3,016,740          | —   | 2,701,802   | 386,291  | —                     | 3,088,093               |
| Advances to lenders  | 5,253              | —   | 4,829   | 412  | —                     | 5,241                   |
| Derivative assets at fair value  | 1,610              | —   | 5,830   | 197  | (4,417)               | 1,610                   |
| Guaranty assets and buy-ups  | 189                | —   | —   | 527  | —                     | 527                     |
| Total financial assets   | <u>\$3,164,320</u> | <u>\$ 61,657</u>  | <u>\$2,776,652</u>  | <u>\$ 402,365</u>                                  | <u>\$ (4,417)</u>     | <u>\$3,236,257</u>      |
| <b>Financial liabilities:</b>  |                    |   |   |  |                       |                         |
| Federal funds purchased and securities sold under agreements to repurchase                     | \$ 118             | \$ —  | \$ 118  | \$ —   | \$ —                  | \$ 118                  |
| Short-term debt:   |                    |   |   |  |                       |                         |
| Of Fannie Mae  | 95,427             | —   | 95,458  | —  | —                     | 95,458                  |
| Of consolidated trusts   | 1,391              | —   | —   | 1,391  | —                     | 1,391                   |
| Long-term debt:  |                    |   |   |  |                       |                         |
| Of Fannie Mae  | 322,031            | —   | 334,007   | 931  | —                     | 334,938                 |
| Of consolidated trusts   | 2,787,396          | —   | 2,827,733   | 26,613   | —                     | 2,854,346               |
| Derivative liabilities at fair value   | 904                | —   | 11,402  | 137  | (10,635)              | 904                     |
| Guaranty obligations   | 338                | —   | —   | 1,342  | —                     | 1,342                   |
| Total financial liabilities  | <u>\$3,207,605</u> | <u>\$ —</u>   | <u>\$3,268,718</u>  | <u>\$ 30,414</u>                                   | <u>\$ (10,635)</u>    | <u>\$3,288,497</u>      |



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As of December 31, 2014

|  | Carrying<br>Value  | Quoted<br>Price in<br>Active<br>Markets for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Netting<br>Adjustment | Estimated<br>Fair Value |
|--|--------------------|---|---|--|-----------------------|-------------------------|
| (Dollars in millions)  |                    |   |   |  |                       |                         |
| <b>Financial assets:</b>   |                    |   |   |  |                       |                         |
| Cash and cash equivalents and restricted cash  | \$ 54,565          | \$ 37,965   | \$ 16,600   | \$ —   | \$ —                  | \$ 54,565               |
| Federal funds sold and securities purchased under agreements to resell or similar arrangements | 30,950             | —   | 30,950  | —  | —                     | 30,950                  |
| Trading securities   | 31,504             | 19,466  | 9,008   | 3,030  | —                     | 31,504                  |
| Available-for-sale securities  | 30,654             | —   | 15,574  | 15,080   | —                     | 30,654                  |
| Mortgage loans held for sale   | 331                | —   | 169   | 169  | —                     | 338                     |
| Mortgage loans held for investment, net of allowance for loan losses:                          |                    |   |   |  |                       |                         |
| Of Fannie Mae  | 239,243            | —   | 29,896  | 217,064  | —                     | 246,960                 |
| Of consolidated trusts   | 2,779,920          | —   | 2,657,863   | 183,263  | —                     | 2,841,126               |
| Mortgage loans held for investment   | 3,019,163          | —   | 2,687,759   | 400,327  | —                     | 3,088,086               |
| Advances to lenders  | 5,559              | —   | 5,079   | 470  | —                     | 5,549                   |
| Derivative assets at fair value  | 1,485              | —   | 6,489   | 182  | (5,186)               | 1,485                   |
| Guaranty assets and buy-ups  | 210                | —   | —   | 616  | —                     | 616                     |
| Total financial assets   | <u>\$3,174,421</u> | <u>\$ 57,431</u>  | <u>\$2,771,628</u>  | <u>\$ 419,874</u>                                  | <u>\$ (5,186)</u>     | <u>\$3,243,747</u>      |
| <b>Financial liabilities:</b>  |                    |   |   |  |                       |                         |
| Federal funds purchased and securities sold under agreements to repurchase                     | \$ 50              | \$ —  | \$ 50   | \$ —   | \$ —                  | \$ 50                   |
| Short-term debt:   |                    |   |   |  |                       |                         |
| Of Fannie Mae  | 105,012            | —   | 105,022   | —  | —                     | 105,022                 |
| Of consolidated trusts   | 1,560              | —   | —   | 1,560  | —                     | 1,560                   |
| Long-term debt:  |                    |   |   |  |                       |                         |
| Of Fannie Mae  | 355,431            | —   | 367,703   | 982  | —                     | 368,685                 |
| Of consolidated trusts   | 2,760,152          | —   | 2,815,843   | 19,334   | —                     | 2,835,177               |
| Derivative liabilities at fair value   | 614                | —   | 10,671  | 137  | (10,194)              | 614                     |
| Guaranty obligations   | 382                | —   | —   | 1,579  | —                     | 1,579                   |
| Total financial liabilities  | <u>\$3,223,201</u> | <u>\$ —</u>   | <u>\$3,299,289</u>  | <u>\$ 23,592</u>                                   | <u>\$ (10,194)</u>    | <u>\$3,312,687</u>      |

*Financial Instruments for which fair value approximates carrying value*—We hold certain financial instruments that are not carried at fair value but for which the carrying value approximates fair value due to the short-term nature and negligible credit risk inherent in them. These financial instruments include cash and cash equivalents, the majority of advances to lenders, and federal funds and securities sold/purchased under agreements to repurchase/resell.

*Federal funds and securities sold/purchased under agreements to repurchase/resell*—The carrying value for the majority of these specific instruments approximates the fair value due to the short-term nature and the negligible inherent credit risk, as they involve the exchange of collateral that is easily traded. Were we to calculate the fair value of these instruments we would use observable inputs resulting in Level 2 classification.

*Mortgage Loans Held for Sale*—Loans are reported at the lower of cost or fair value in our condensed consolidated balance sheets. The valuation methodology and inputs used in estimating the fair value of HFS loans are the same as for our HFI loans and are described under “Fair Value Measurement—Mortgage Loans Held for Investment.” These loans are classified

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as Level 2 of the valuation hierarchy to the extent that significant inputs are observable. To the extent that significant inputs are unobservable, the loans are classified within Level 3 of the valuation hierarchy.

*HARP Loans*—We measure the fair value of loans that are delivered under the Home Affordable Refinance Program (“HARP”) using a modified build-up approach while the loan is performing. Under this modified approach, we set the credit component of the consolidated loans (that is, the guaranty obligation) equal to the compensation we would currently receive for a loan delivered to us under the program because the total compensation for these loans is equal to their current exit price in the GSE securitization market. For a description of the build-up valuation methodology, refer to “Fair Value Measurement—Mortgage Loans Held for Investment.” We will continue to use this pricing methodology as long as the HARP program is available to market participants. If, subsequent to delivery, the refinanced loan becomes past due or is modified as a part of a troubled debt restructuring, the fair value of the guaranty obligation is then measured consistent with other loans that have similar characteristics.

The total compensation that we receive for the delivery of a HARP loan reflects the pricing that we are willing to offer because HARP is a part of a broader government program intended to provide assistance to homeowners and prevent foreclosures. If these benefits were not reflected in the pricing for these loans (that is, if the loans were valued using our standard build-up approach), the fair value disclosed in the table above would be lower by \$1.4 billion as of September 30, 2015 and \$3.3 billion as of December 31, 2014. The total fair value of our mortgage loans that have been refinanced under HARP as presented in the table above was \$292.0 billion as of September 30, 2015 and \$314.0 billion as of December 31, 2014.

*Advances to Lenders*—The carrying value for the majority of our advances to lenders approximates fair value due to the short-term nature and the negligible inherent credit risk. If we were to calculate the fair value of these instruments we would use discounted cash flow models that use observable inputs such as spreads based on market assumptions, resulting in Level 2 classification.

Advances to lenders also include loans for which the carrying value does not approximate fair value. These loans do not qualify for Fannie Mae MBS securitization and are valued using market-based techniques including credit spreads, severities and prepayment speeds for similar loans, through third-party pricing services or through a model approach incorporating both interest rate and credit risk simulating a loan sale via a synthetic structure. We classify these valuations as Level 3 given that significant inputs are not observable or are determined by extrapolation of observable inputs.

*Guaranty Assets and Buy-ups*—Guaranty assets related to our portfolio securitizations are recorded in our condensed consolidated balance sheets at fair value on a recurring basis and are classified as Level 3. Guaranty assets in lender swap transactions are recorded in our condensed consolidated balance sheets at the lower of cost or fair value. These assets, which are measured at fair value on a nonrecurring basis, are also classified as Level 3.

We estimate the fair value of guaranty assets based on the present value of expected future cash flows of the underlying mortgage assets using management’s best estimate of certain key assumptions, which include prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved. These cash flows are projected using proprietary prepayment, interest rate and credit risk models. Because guaranty assets are like an interest-only income stream, the projected cash flows from our guaranty assets are discounted using one-month LIBOR plus an option-adjusted spread that is calibrated using a representative sample of interest-only swaps that reference Fannie Mae MBS. We believe the remitted fee income is less liquid than interest-only swaps and more like an excess servicing strip. Therefore, we take a further discount of the present value for these liquidity considerations. This discount is based on market quotes from third-party pricing services.

The fair value of the guaranty assets includes the fair value of any associated buy-ups.

*Guaranty Obligations*—The fair value of all guaranty obligations, measured subsequent to their initial recognition, is our estimate of a hypothetical transaction price we would receive if we were to issue our guaranty to an unrelated party in a standalone arm’s-length transaction at the measurement date. These obligations are classified as Level 3. The valuation methodology and inputs used in estimating the fair value of the guaranty obligations are described under “Fair Value Measurement—Mortgage Loans Held for Investment—Build-up.”

***Fair Value Option***

We elected the fair value option for our credit risk sharing debt securities issued under our CAS series and certain loans that contain embedded derivatives that would otherwise require bifurcation. Under the fair value option, we elected to carry these instruments at fair value instead of bifurcating the embedded derivative from such instruments.

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We elected the fair value option for all long-term structured debt instruments that are issued in response to specific investor demand and have interest rates that are based on a calculated index or formula and are economically hedged with derivatives at the time of issuance. By electing the fair value option for these instruments, we are able to eliminate the volatility in our results of operations that would otherwise result from the accounting asymmetry created by recording these structured debt instruments at cost while recording the related derivatives at fair value.

We elected the fair value option for the financial assets and liabilities of the consolidated senior-subordinate trust structures. By electing the fair value option for these instruments, we are able to eliminate the volatility in our results of operations that would otherwise result from different accounting treatment between loans at cost and debt at cost.

Interest income for the mortgage loans is recorded in “Interest income—Mortgage loans” and interest expense for the debt instruments is recorded in “Interest expense—Long-term debt” in our condensed consolidated statements of operations and comprehensive income.

The following table displays the fair value and unpaid principal balance of the financial instruments for which we have made fair value elections.

|                                | As of                        |                                       |                      |                              |                                       |           |
|--------------------------------|------------------------------|---------------------------------------|----------------------|------------------------------|---------------------------------------|-----------|
|                                | September 30, 2015           |                                       |                      | December 31, 2014            |                                       |           |
| Loans <sup>(1)</sup>           | Long-Term Debt of Fannie Mae | Long-Term Debt of Consolidated Trusts | Loans <sup>(1)</sup> | Long-Term Debt of Fannie Mae | Long-Term Debt of Consolidated Trusts |           |
| (Dollars in millions)          |                              |                                       |                      |                              |                                       |           |
| Fair value . . . . .           | \$ 14,605                    | \$ 9,975                              | \$ 23,143            | \$ 15,629                    | \$ 6,403                              | \$ 19,483 |
| Unpaid principal balance . . . | 14,019                       | 10,104                                | 21,038               | 15,001                       | 6,512                                 | 17,810    |

<sup>(1)</sup> Includes nonaccrual loans with a fair value of \$241 million and \$240 million as of September 30, 2015 and December 31, 2014, respectively. The difference between unpaid principal balance and the fair value of these nonaccrual loans as of September 30, 2015 and December 31, 2014 was \$60 million and \$75 million, respectively. Includes loans that are 90 days or more past due with a fair value of \$269 million and \$271 million as of September 30, 2015 and December 31, 2014, respectively. The difference between unpaid principal balance and the fair value of these 90 or more days past due loans as of September 30, 2015 and December 31, 2014 was \$52 million and \$78 million, respectively.

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*Changes in Fair Value under the Fair Value Option Election*

The following tables display fair value gains and losses, net, including changes attributable to instrument-specific credit risk, for loans and debt for which the fair value election was made. Amounts are recorded as a component of “Fair value losses, net” in our condensed consolidated statements of operations and comprehensive income.

|  | For the Three Months Ended September 30, |                |                      |              |                |                      |
|--|--|----------------|----------------------|--------------|----------------|----------------------|
|  | 2015                                     |                |                      | 2014         |                |                      |
|  | Loans                                    | Long-Term Debt | Total Gains (Losses) | Loans        | Long-Term Debt | Total Gains (Losses) |
|  | (Dollars in millions)                    |                |                      |              |                |                      |
| Changes in instrument-specific credit risk | \$ 73                                    | \$ 150         | \$ 223               | \$ 67        | \$ 187         | \$ 254               |
| Other changes in fair value                | (15)                                     | (81)           | (96)                 | (33)         | (27)           | (60)                 |
| Fair value gains, net                      | <u>\$ 58</u>                             | <u>\$ 69</u>   | <u>\$ 127</u>        | <u>\$ 34</u> | <u>\$ 160</u>  | <u>\$ 194</u>        |

|  | For the Nine Months Ended September 30, |                |                      |               |                 |                      |
|--|---|----------------|----------------------|---------------|-----------------|----------------------|
|  | 2015                                    |                |                      | 2014          |                 |                      |
|  | Loans                                   | Long-Term Debt | Total Gains (Losses) | Loans         | Long-Term Debt  | Total Gains (Losses) |
|  | (Dollars in millions)                   |                |                      |               |                 |                      |
| Changes in instrument-specific credit risk | \$ 110                                  | \$ 45          | \$ 155               | \$ 92         | \$ 60           | \$ 152               |
| Other changes in fair value                | (65)                                    | (42)           | (107)                | 461           | (364)           | 97                   |
| Fair value gains (losses), net             | <u>\$ 45</u>                            | <u>\$ 3</u>    | <u>\$ 48</u>         | <u>\$ 553</u> | <u>\$ (304)</u> | <u>\$ 249</u>        |

In determining the changes in the instrument-specific credit risk for loans, the changes in the associated credit-related components of these loans, primarily the guaranty obligation, were taken into consideration with the overall change in the fair value of the loans for which we elected the fair value option for financial instruments. In determining the changes in the instrument-specific credit risk for debt, the changes in Fannie Mae debt spreads to LIBOR that occurred during the period were taken into consideration with the overall change in the fair value of the debt for which we elected the fair value option for financial instruments. Specifically, cash flows are evaluated taking into consideration any derivatives through which Fannie Mae has swapped out of the structured features of the notes and thus created a floating-rate LIBOR-based debt instrument. The change in value of these LIBOR-based cash flows based on the Fannie Mae yield curve at the beginning and end of the period represents the instrument-specific credit risk.

**16. Commitments and Contingencies**

We are party to various types of legal actions and proceedings, including actions brought on behalf of various classes of claimants. We also are subject to regulatory examinations, inquiries and investigations and other information gathering requests. In some of the matters, indeterminate amounts are sought. Modern pleading practice in the U.S. permits considerable variation in the assertion of monetary damages or other relief. Jurisdictions may permit claimants not to specify the monetary damages sought or may permit claimants to state only that the amount sought is sufficient to invoke the jurisdiction of the trial court. This variability in pleadings, together with our and our counsel’s actual experience in litigating or settling claims, leads us to conclude that the monetary relief that may be sought by plaintiffs bears little relevance to the merits or disposition value of claims.

On a quarterly basis, we review relevant information about all pending legal actions and proceedings for the purpose of evaluating and revising our contingencies, reserves and disclosures.

We have substantial and valid defenses to the claims in the proceedings described below and intend to defend these matters vigorously. However, legal actions and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. Accordingly, the outcome of any given matter and the amount or range of potential loss at particular points in time is frequently difficult to ascertain. Uncertainties can include how fact finders will evaluate documentary evidence and the credibility and effectiveness of witness testimony, and how courts will apply the law. Disposition valuations are also subject to the uncertainty of how opposing parties and their counsel may view the evidence and applicable law.

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We establish a reserve for matters when a loss is probable and we can reasonably estimate the amount of such loss. For legal actions or proceedings where there is only a reasonable possibility that a loss may be incurred, or where we are not currently able to estimate the reasonably possible loss or range of loss, we do not establish a reserve. We are often unable to estimate the possible losses or ranges of losses, particularly for proceedings that are in their early stages of development, where plaintiffs seek indeterminate or unspecified damages, where there may be novel or unsettled legal questions relevant to the proceedings, or where settlement negotiations have not occurred or progressed.

Given the uncertainties involved in any action or proceeding, regardless of whether we have established a reserve, the ultimate resolution of certain of these matters may be material to our operating results for a particular period, depending on, among other factors, the size of the loss or liability imposed and the level of our net income or loss for that period.

In addition to the matters specifically described below, we are involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that we do not expect will have a material impact on our business or financial condition. We have also advanced fees and expenses of certain current and former officers and directors in connection with various legal proceedings pursuant to our bylaws and indemnification agreements.

*In re 2008 Fannie Mae ERISA Litigation*

In a consolidated complaint filed in 2009 in the U.S. District Court for the Southern District of New York, plaintiffs alleged that certain of our current and former officers and directors, including members of Fannie Mae's Benefit Plans Committee and the Compensation Committee of Fannie Mae's Board of Directors during the relevant time periods, as fiduciaries of Fannie Mae's Employee Stock Ownership Plan ("ESOP"), breached their duties to ESOP participants and beneficiaries by investing ESOP funds in Fannie Mae common stock when it was no longer prudent to continue to do so. Plaintiffs purported to represent a class of participants and beneficiaries of the ESOP whose accounts invested in Fannie Mae common stock beginning April 17, 2007. Plaintiffs sought unspecified damages, attorneys' fees and other fees and costs, and injunctive and other equitable relief.

On October 31, 2014, we reached an agreement in principle with plaintiffs that would resolve this matter on behalf of all parties. The proposed settlement amount did not impact our results of operations or financial condition. On April 17, 2015, plaintiffs filed a motion for preliminary approval of the settlement, which the court granted on May 5, 2015. On August 13, 2015, the court granted final approval of the settlement.

*Senior Preferred Stock Purchase Agreements Litigation*

A number of putative class action lawsuits were filed in the U.S. District Court for the District of Columbia against us, FHFA as our conservator, Treasury and Freddie Mac from July through September 2013 by shareholders of Fannie Mae and/or Freddie Mac challenging the August 2012 amendment to each company's senior preferred stock purchase agreement with Treasury. These lawsuits were consolidated and, on December 3, 2013, plaintiffs (preferred and common shareholders of Fannie Mae and/or Freddie Mac) filed a consolidated class action complaint in the U.S. District Court for the District of Columbia against us, FHFA as our conservator, Treasury and Freddie Mac ("*In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations*"). The preferred shareholder plaintiffs allege that the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendments to the senior preferred stock purchase agreements nullified certain of the shareholders' rights, particularly the right to receive dividends. The common shareholder plaintiffs allege that the August 2012 amendments constituted a taking of their property by requiring that all future profits of Fannie Mae and Freddie Mac be paid to Treasury. Plaintiffs allege claims for breach of contract and breach of the implied covenant of good faith and fair dealing against us, FHFA and Freddie Mac, a takings claim against FHFA and Treasury, and a breach of fiduciary duty claim derivatively on our and Freddie Mac's behalf against FHFA and Treasury. Plaintiffs seek to represent several classes of preferred and/or common shareholders of Fannie Mae and/or Freddie Mac who held stock as of the public announcement of the August 2012 amendments. Plaintiffs seek unspecified damages, equitable and injunctive relief, and costs and expenses, including attorneys' fees.

A non-class action suit, *Arrowood Indemnity Company v. Fannie Mae*, was filed in the U.S. District Court for the District of Columbia on September 20, 2013 by preferred shareholders against us, FHFA as our conservator, the Director of FHFA (in his official capacity), Treasury, the Secretary of the Treasury (in his official capacity) and Freddie Mac. Plaintiffs bring claims for breach of contract and breach of the implied covenant of good faith and fair dealing against us, FHFA and Freddie Mac, and claims for violation of the Administrative Procedure Act against the FHFA and Treasury defendants, alleging that the net worth sweep provisions nullified certain rights of the preferred shareholders, particularly the right to receive dividends. Plaintiffs seek damages, equitable and injunctive relief, and costs and expenses, including attorneys' fees.

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On September 30, 2014, the court dismissed both lawsuits and plaintiffs in both suits filed timely notices of appeal. On October 27, 2014, the U.S. Court of Appeals for the D.C. Circuit consolidated these appeals with appeals in two other cases involving the same subject matter, but to which we are not a party.

Given the stage of these lawsuits, the substantial and novel legal questions that remain, and our substantial defenses, we are currently unable to estimate the reasonably possible loss or range of loss arising from this litigation.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

Information about market risk is set forth in “MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management.”

### **Item 4. Controls and Procedures**

#### **Overview**

We are required under applicable laws and regulations to maintain controls and procedures, which include disclosure controls and procedures as well as internal control over financial reporting, as further described below.

#### **Evaluation of Disclosure Controls and Procedures**

##### ***Disclosure Controls and Procedures***

Disclosure controls and procedures refer to controls and other procedures designed to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures.

##### ***Evaluation of Disclosure Controls and Procedures***

As required by Rule 13a-15 under the Exchange Act, management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as in effect as of September 30, 2015, the end of the period covered by this report. As a result of management’s evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of September 30, 2015 or as of the date of filing this report.

Our disclosure controls and procedures were not effective as of September 30, 2015 or as of the date of filing this report because they did not adequately ensure the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws. As a result, we were not able to rely upon the disclosure controls and procedures that were in place as of September 30, 2015 or as of the date of this filing, and we continue to have a material weakness in our internal control over financial reporting. This material weakness is described in more detail below under “Description of Material Weakness.” Based on discussions with FHFA and the structural nature of this material weakness, we do not expect to remediate this material weakness while we are under conservatorship.

#### **Description of Material Weakness**

The Public Company Accounting Oversight Board’s Auditing Standard No. 5 defines a material weakness as a deficiency or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis.

Management has determined that we continued to have the following material weakness as of September 30, 2015 and as of the date of filing this report:

- *Disclosure Controls and Procedures.* We have been under the conservatorship of FHFA since September 6, 2008. Under the 2008 Reform Act, FHFA is an independent agency that currently functions as both our conservator and our regulator with respect to our safety, soundness and mission. Because of the nature of the conservatorship under the 2008 Reform Act, which places us under the “control” of FHFA (as that term is defined by securities laws), some of the information that we may need to meet our disclosure obligations may be solely within the knowledge of FHFA. As our conservator, FHFA has the power to take actions without our knowledge that could be material to our shareholders and other stakeholders, and could significantly affect our financial performance or our continued existence as an ongoing business. Although we and FHFA attempted to design and implement disclosure policies and procedures that would account for the conservatorship and accomplish the same objectives as a disclosure controls and procedures policy of a typical reporting company, there are inherent structural limitations on our ability to design, implement, test

or operate effective disclosure controls and procedures. As both our regulator and our conservator under the 2008 Reform Act, FHFA is limited in its ability to design and implement a complete set of disclosure controls and procedures relating to Fannie Mae, particularly with respect to current reporting pursuant to Form 8-K. Similarly, as a regulated entity, we are limited in our ability to design, implement, operate and test the controls and procedures for which FHFA is responsible.

Due to these circumstances, we have not been able to update our disclosure controls and procedures in a manner that adequately ensures the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws, including disclosures affecting our condensed consolidated financial statements. As a result, we did not maintain effective controls and procedures designed to ensure complete and accurate disclosure as required by GAAP as of September 30, 2015 or as of the date of filing this report. Based on discussions with FHFA and the structural nature of this weakness, we do not expect to remediate this material weakness while we are under conservatorship.

### **Mitigating Actions Relating to Material Weakness**

As described above under “Description of Material Weakness,” we continue to have a material weakness in our internal control over financial reporting relating to our disclosure controls and procedures. However, we and FHFA have engaged in the following practices intended to permit accumulation and communication to management of information needed to meet our disclosure obligations under the federal securities laws:

- FHFA has established the Division of Conservatorship, which is intended to facilitate operation of the company with the oversight of the conservator.
- We have provided drafts of our SEC filings to FHFA personnel for their review and comment prior to filing. We also have provided drafts of external press releases, statements and speeches to FHFA personnel for their review and comment prior to release.
- FHFA personnel, including senior officials, have reviewed our SEC filings prior to filing, including this quarterly report on Form 10-Q for the quarter ended September 30, 2015 (“Third Quarter 2015 Form 10-Q”), and engaged in discussions regarding issues associated with the information contained in those filings. Prior to filing our Third Quarter 2015 Form 10-Q, FHFA provided Fannie Mae management with a written acknowledgment that it had reviewed the Third Quarter 2015 Form 10-Q, and it was not aware of any material misstatements or omissions in the Third Quarter 2015 Form 10-Q and had no objection to our filing the Third Quarter 2015 Form 10-Q.
- The Director of FHFA and our Chief Executive Officer have been in frequent communication, typically meeting on at least a bi-weekly basis.
- FHFA representatives attend meetings frequently with various groups within the company to enhance the flow of information and to provide oversight on a variety of matters, including accounting, credit and market risk management, external communications and legal matters.
- Senior officials within FHFA’s Office of the Chief Accountant have met frequently with our senior finance executives regarding our accounting policies, practices and procedures.

### **Changes in Internal Control over Financial Reporting**

#### ***Overview***

Management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, whether any changes in our internal control over financial reporting that occurred during our last fiscal quarter have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Below we describe changes in our internal control over financial reporting since June 30, 2015 that management believes have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

In the ordinary course of business, we review our system of internal control over financial reporting and make changes that we believe will improve these controls and increase efficiency, while continuing to ensure that we maintain effective internal controls. Changes may include implementing new, more efficient systems, automating manual processes and updating existing systems. For example, we are currently implementing various financial system applications in stages across the company. As we continue to implement these financial system applications, each implementation may become a significant component of our internal control over financial reporting.



### ***Implementation of New Mortgage Securities Transaction Processing and Accounting Systems***

In July 2015, we completed an initiative to simplify and integrate our processing of and accounting for mortgage securities transactions. We implemented a new third-party mortgage securities trading system and a new third-party securities accounting system and data repository. These new systems and enhanced infrastructure replaced legacy applications and systems that were previously used for operational, accounting and financial reporting purposes. In connection with this implementation and related business process changes, we replaced multiple internal controls over financial reporting that were previously considered effective with new or enhanced controls, amended existing controls and, in many cases, removed controls that are no longer applicable. We will continue to monitor and test these new controls for adequate design and operating effectiveness. We believe these changes to our mortgage securities transaction processing and accounting systems will allow us to be more efficient and further strengthen our internal control over financial reporting. These systems were operating during the third quarter of 2015 and were used to prepare our third quarter 2015 condensed consolidated financial statements included in this report.

## PART II—OTHER INFORMATION

### Item 1. Legal Proceedings

The information in this item supplements and updates information regarding certain legal proceedings set forth in “Legal Proceedings” in our 2014 Form 10-K, our First Quarter 2015 Form 10-Q and our Second Quarter 2015 Form 10-Q. We also provide information regarding material legal proceedings in “Note 16, Commitments and Contingencies,” which is incorporated herein by reference. In addition to the matters specifically described or incorporated by reference in this item, we are involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that do not have a material impact on our business. Litigation claims and proceedings of all types are subject to many factors that generally cannot be predicted accurately.

We record reserves for legal claims when losses associated with those claims become probable and the amounts can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher or lower than the amounts reserved for those claims. For matters where the likelihood or extent of a loss is not probable or cannot be reasonably estimated, we do not recognize in our condensed consolidated financial statements the potential liability that may result from these matters. Except for matters that have been settled, we presently cannot determine the ultimate resolution of the matters described below or incorporated by reference into this item or in our 2014 Form 10-K, our First Quarter 2015 Form 10-Q or our Second Quarter 2015 Form 10-Q. If certain of these matters are determined against us, it could have a material adverse effect on our results of operations, liquidity and financial condition, including our net worth.

#### Senior Preferred Stock Purchase Agreements Litigation

Between June 2013 and October 2015, several lawsuits were filed by preferred and common stockholders of Fannie Mae and Freddie Mac in the U.S. Court of Federal Claims, the U.S. District Court for the District of Columbia, the U.S. District Court for the Southern District of Iowa, the U.S. District Court for the Northern District of Iowa, the U.S. District Court for the District of Delaware and the U.S. District Court for the Eastern District of Kentucky against the United States, Treasury and/or FHFA, challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac. Some of these lawsuits also contain claims against Fannie Mae and Freddie Mac. The legal claims being advanced by one or more of these lawsuits include challenges to the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendments to the agreements, as well as to FHFA’s decision to require Fannie Mae and Freddie Mac to draw funds from Treasury in order to pay dividends to Treasury during conservatorship. The plaintiffs seek various forms of equitable and injunctive relief, including rescission of the August 2012 amendments, as well as damages. On September 30, 2014, the U.S. District Court for the District of Columbia dismissed all but one of the cases pending before that court. The plaintiffs in each of the dismissed cases filed a notice of appeal and on October 27, 2014, the U.S. Court of Appeals for the D.C. Circuit consolidated these appeals. The plaintiffs in the case that was not dismissed by the court voluntarily dismissed their lawsuit on October 31, 2014. On February 3, 2015, the U.S. District Court for the Southern District of Iowa dismissed the case pending before it. The matters where Fannie Mae is a named defendant are described below or in “Note 16, Commitments and Contingencies.”

Fannie Mae is a nominal defendant in two actions filed against the United States in the U.S. Court of Federal Claims: *Fisher v. United States of America*, filed on December 2, 2013, and *Rafter v. United States of America*, filed on August 14, 2014. Plaintiffs in these cases allege that the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendment to the senior preferred stock purchase agreement constitute a taking of Fannie Mae’s property without just compensation in violation of the U.S. Constitution. The *Fisher* plaintiffs are pursuing this claim derivatively on behalf of Fannie Mae, while the *Rafter* plaintiffs are pursuing the claim directly against the United States. Plaintiffs in *Rafter* also allege a derivative claim that the government breached an implied contract with Fannie Mae’s Board of Directors by implementing the net worth sweep dividend provisions. Plaintiffs in *Fisher* request just compensation to Fannie Mae in an unspecified amount. Plaintiffs in *Rafter* seek just compensation to themselves on their constitutional claim and payment of damages to Fannie Mae on their derivative claim for breach of an implied contract. The United States filed a motion to dismiss the *Fisher* case on January 23, 2014; however, the court has stayed proceedings in this case until discovery in a related case, *Fairholme Funds v. United States*, is complete and the court sets a date for the *Fairholme Funds* plaintiffs to respond to the government’s motion to dismiss filed in that case. In the *Rafter* case, the court has ordered the government to file a response to the complaint within sixty days after discovery is complete in the *Fairholme Funds* case.

Fannie Mae is also a nominal defendant in a case filed against FHFA and Treasury in the U.S. District Court for the District of Delaware: *Jacobs v. FHFA, et al.*, filed on August 17, 2015. The plaintiffs allege that the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendments to the agreements violate Delaware law. The plaintiffs are pursuing this claim derivatively on behalf of Fannie Mae and directly against the

government. The plaintiffs have also alleged direct breach of contract claims and breach of fiduciary duty claims against the government. The government has not yet filed a response to the complaint.

#### **Item 1A. Risk Factors**

In addition to the information in this report, you should carefully consider the risks relating to our business that we identify in “Risk Factors” in our 2014 Form 10-K. This section supplements and updates that discussion. For a complete understanding of the subject, you should read both together. Please also refer to “MD&A—Risk Management” in this report and in our 2014 Form 10-K for more detailed descriptions of the primary risks to our business and how we seek to manage those risks.

The risks we face could materially adversely affect our business, results of operations, financial condition, liquidity and net worth, and could cause our actual results to differ materially from our past results or the results contemplated by forward-looking statements contained in this report. However, these are not the only risks we face. In addition to the risks we discuss below and in our 2014 Form 10-K, we face risks and uncertainties not currently known to us or that we currently believe are immaterial.

#### ***The future of our company is uncertain.***

There continues to be significant uncertainty regarding the future of our company, including how long the company will continue to exist in its current form, the extent of our role in the market, what form we will have, what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated and whether we will continue to exist following conservatorship. The conservatorship is indefinite in duration and the timing, conditions and likelihood of our emerging from conservatorship are uncertain. Termination of the conservatorship, other than in connection with a receivership, requires Treasury’s consent under the senior preferred stock purchase agreement.

In 2011, the Administration released a report to Congress on ending the conservatorships of the GSEs and reforming America’s housing finance market. The report provides that the Administration will work with FHFA to determine the best way to responsibly reduce Fannie Mae and Freddie Mac’s role in the market and ultimately wind down both institutions. The report also addresses three options for a reformed housing finance system. The report does not state whether or how the existing infrastructure or human capital of Fannie Mae may be used in the establishment of such a reformed system. The report emphasizes the importance of proceeding with a careful transition plan and providing the necessary financial support to Fannie Mae and Freddie Mac during the transition period. In August 2013, the White House released a paper confirming that a core principle of the Administration’s housing policy priorities is to wind down Fannie Mae and Freddie Mac through a responsible transition. In January 2015, the White House reaffirmed the Administration’s view that housing finance reform should include ending Fannie Mae and Freddie Mac’s business model. Administration officials have also publicly stated on several occasions that the passage of housing finance reform legislation is the only responsible way to end the conservatorships of Fannie Mae and Freddie Mac.

In the last session of Congress, members of Congress considered several bills to reform the housing finance system, including bills that, among other things, would require Fannie Mae and Freddie Mac to be wound down after a period of time and place certain restrictions on Fannie Mae’s and Freddie Mac’s activities prior to being wound down. A number of bills have also been introduced in the current session of Congress that convened in January 2015 relating to Fannie Mae, Freddie Mac and the housing finance system that could materially affect our business if enacted. We expect that Congress will continue to hold hearings and consider legislation on the future status of Fannie Mae and Freddie Mac, including proposals that would result in Fannie Mae’s liquidation or dissolution. Congress or FHFA may also consider legislation or regulation aimed at increasing the competition we face, reducing our market share, expanding our obligations to provide funds to Treasury or constraining our business operations. We cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation. See “Business—Housing Finance Reform” in our 2014 Form 10-K and “MD&A—Legislative and Regulatory Developments—Housing Finance Reform” in this report and in our Second Quarter 2015 Form 10-Q for more information about the Administration’s report and paper, and Congressional proposals regarding housing finance reform.

#### ***Our business and results of operations may be materially adversely affected if we are unable to retain and recruit well-qualified employees. The limitations on our employee compensation put us at a disadvantage compared to many other companies in attracting and retaining employees.***

Our business processes are highly dependent on the talents and efforts of our employees. The conservatorship, the uncertainty of our future, limitations on employee compensation and negative publicity concerning the GSEs have had and are likely to continue to have an adverse effect on our ability to retain and recruit well-qualified employees. Turnover in key management positions and challenges in integrating new management could harm our ability to manage our business effectively and ultimately adversely affect our financial performance.

Actions taken by Congress, FHFA and Treasury to date, or that may be taken by them or other government agencies in the future, have had, and may continue to have, an adverse effect on the retention and recruitment of senior executives, management and other employees. We are subject to significant restrictions on the amount and type of compensation we may pay our executives and other employees under conservatorship. For example, in April 2012, the STOCK Act was enacted, which includes a provision that prohibits senior executives at Fannie Mae and Freddie Mac from receiving bonuses during any period of conservatorship on or after the date of enactment of the law. In addition, we are unable to offer equity-based compensation. As a result, we have not been able to incent and reward excellent performance with compensation structures that provide upside potential to our executives, which places us at a disadvantage compared to many other companies in attracting and retaining executives. In addition, the uncertainty of potential Congressional action with respect to housing finance reform, which may result in the wind-down of the company, negatively affects our ability to retain and recruit employees.

In many cases, the amount of compensation we pay our senior executives is significantly less than the compensation of executives in similar roles at many companies in our comparator group. Our inability to increase executive compensation to market levels for the foreseeable future puts us at greater risk of attrition, and also hampers our ability to recruit new executives. Moreover, our inability to offer market-based compensation makes succession planning difficult.

In June 2015, FHFA approved an increase in our Chief Executive Officer's total annual direct compensation target to \$4,000,000 effective July 1, 2015. In September 2015, the Senate approved a bill that would suspend the current compensation package of our Chief Executive Officer and reduce his compensation to the level that was in effect as of January 1, 2015. The bill also provides that the Chief Executive Officer's compensation may not be increased following this reduction if the company is in conservatorship or receivership. The House Committee on Financial Services approved a similar bill in July 2015. If this legislation becomes law, our Chief Executive Officer's total annual direct compensation would be reduced to \$600,000 and would be frozen at this level. This amount is more than 90% below the market median of compensation for chief executive officers of companies in our comparator group according to a benchmarking analysis conducted in 2014. As a result, this cap on Chief Executive Officer compensation would negatively affect our ability to retain our Chief Executive Officer and engage in effective succession planning for this critical role.

We face competition from within the financial services industry and from businesses outside of the financial services industry for qualified employees. Additionally, an improving economy has put additional pressures on turnover, as attractive opportunities have become available to our employees. Our competitors for talent are generally not subject to the same limitations on employee compensation. The constraints on our compensation could adversely affect our ability to attract qualified candidates.

If we are unable to retain, promote and attract employees with the necessary skills and talent, we would face increased risks for operational failures. If there were several high-level departures at approximately the same time, our ability to conduct our business would likely be materially adversely affected, which could have a material adverse effect on our results of operations and financial condition.

***A breach of the security of our systems, or those of third parties with which we do business, including as a result of cyber attacks, could damage or disrupt our business or result in the disclosure or misuse of confidential information, which could damage our reputation, increase our costs and cause losses.***

Our operations rely on the secure receipt, processing, storage and transmission of confidential and other information in our computer systems and networks and with our business partners, including confidential or personal information that is subject to privacy laws, regulations or customer-imposed controls. Information security risks for large institutions like us have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state-sponsored actors. From time to time we have been, and likely will continue to be, the target of attempted cyber attacks, computer viruses, malicious code, phishing attacks, denial of service attacks and other information security breaches. To date, we have not experienced any material losses relating to cyber attacks or other information security breaches, but we could suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our prominent size and scale and our role in the financial services industry, the outsourcing of some of our business operations, and the current global economic and political environment. As a result, we have increased our investments in the development and enhancement of controls, processes and practices designed to detect and prevent information security threats.

Although we take measures to protect the security of our computer systems, software and networks, our computer systems, software and networks may be vulnerable to cyber attack, breaches, unauthorized access, misuse, computer viruses or other

malicious code and other events that could have a security impact. The occurrence of such an event could jeopardize or result in the unauthorized disclosure, gathering, monitoring, misuse, corruption, loss or destruction of confidential and other information belonging to us, our customers, our counterparties or borrowers that is processed and stored in, and transmitted through, our computer systems and networks, damage to our computers or systems, or otherwise cause interruptions or malfunctions in our, our customers', our counterparties' or third parties' operations. This could result in significant losses, loss of customers and business opportunities, reputational damage, violation of applicable privacy laws and other laws, litigation, regulatory fines, penalties or intervention, reimbursement or other compensatory costs, or otherwise adversely affect our business, financial condition or results of operations. In addition, we may be required to expend significant additional resources to modify our protective measures and to investigate and remediate vulnerabilities or other exposures arising from operational and security risks. Although we recently obtained insurance coverage relating to cybersecurity risks, our insurance may not be sufficient to provide adequate loss coverage in all circumstances.

Third parties with which we do business may also be sources of cybersecurity or other technological risks. We outsource certain functions and these relationships allow for the storage and processing of our information, as well as customer, counterparty and borrower information. While we engage in actions to mitigate our exposure resulting from outsourcing, ongoing threats may result in unauthorized access, loss or destruction of data or other cybersecurity incidents with increased costs and consequences to us such as those described above.

## **Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

### **Recent Sales of Unregistered Securities**

Under the terms of our senior preferred stock purchase agreement with Treasury, we are prohibited from selling or issuing our equity interests, other than as required by (and pursuant to) the terms of a binding agreement in effect on September 7, 2008, without the prior written consent of Treasury. During the quarter ended September 30, 2015, we did not sell any equity securities.

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

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

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

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

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

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

### **Our Purchases of Equity Securities**

We did not repurchase any of our equity securities during the third quarter of 2015.

### **Dividend Restrictions**

Our payment of dividends is subject to the following restrictions:

*Restrictions Relating to Conservatorship.* Our conservator announced on September 7, 2008 that we would not pay any dividends on the common stock or on any series of preferred stock, other than the senior preferred stock. In addition, FHFA's

regulations relating to conservatorship and receivership operations prohibit us from paying any dividends while in conservatorship unless authorized by the Director of FHFA. The Director of FHFA directs us to make dividend payments on the senior preferred stock on a quarterly basis.

*Restrictions Under Senior Preferred Stock Purchase Agreement.* The senior preferred stock purchase agreement prohibits us from declaring or paying any dividends on Fannie Mae equity securities (other than the senior preferred stock) without the prior written consent of Treasury. In addition, in 2012 the terms of the senior preferred stock purchase agreement and the senior preferred stock were amended to ultimately require the payment of our entire net worth to Treasury. As a result, our net income is not available to common stockholders. For more information on the terms of the senior preferred stock purchase agreement and senior preferred stock, see “Business—Conservatorship and Treasury Agreements—Treasury Agreements—Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant” in our 2014 Form 10-K.

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

*Statutory Restrictions.* Under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the 2008 Reform Act (together, the “GSE Act”), FHFA has authority to prohibit capital distributions, including payment of dividends, if we fail to meet our capital requirements. If FHFA classifies us as significantly undercapitalized, approval of the Director of FHFA is required for any dividend payment. Under the GSE Act, we are not permitted to make a capital distribution if, after making the distribution, we would be undercapitalized, except the Director of FHFA may permit us to repurchase shares if the repurchase is made in connection with the issuance of additional shares or obligations in at least an equivalent amount and will reduce our financial obligations or otherwise improve our financial condition.

### **Item 3. Defaults Upon Senior Securities**

None.

### **Item 4. Mine Safety Disclosures**

None.

### **Item 5. Other Information**

None.

### **Item 6. Exhibits**

An index to exhibits has been filed as part of this report beginning on page E-1 and is incorporated herein by reference.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Federal National Mortgage Association

By: /s/ Timothy J. Mayopoulos

Timothy J. Mayopoulos  
President and Chief Executive Officer

Date: November 5, 2015

By: /s/ David C. Benson

David C. Benson  
Executive Vice President and  
Chief Financial Officer

Date: November 5, 2015

## INDEX TO EXHIBITS

| <u>Item</u> | <u>Description</u>  |
|-------------|---|
| 3.1         | Fannie Mae Charter Act (12 U.S.C. § 1716 et seq.) as amended through July 21, 2010 (Incorporated by reference to Exhibit 3.1 to Fannie Mae's Quarterly Report on Form 10-Q (Commission file number 000-50231) for the quarter ended June 30, 2015, filed August 6, 2015.) |
| 3.2         | Fannie Mae Bylaws, as amended through January 30, 2009 (Incorporated by reference to Exhibit 3.2 to Fannie Mae's Annual Report on Form 10-K (Commission file number 001-34140) for the year ended December 31, 2008, filed February 26, 2009.)                            |
| 31.1        | Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)   |
| 31.2        | Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)   |
| 32.1        | Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350   |
| 32.2        | Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350   |
| 101. INS    | XBRL Instance Document*   |
| 101. SCH    | XBRL Taxonomy Extension Schema*   |
| 101. CAL    | XBRL Taxonomy Extension Calculation*  |
| 101. DEF    | XBRL Taxonomy Extension Definition*   |
| 101. LAB    | XBRL Taxonomy Extension Label*  |
| 101. PRE    | XBRL Taxonomy Extension Presentation*   |

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\* The financial information contained in these XBRL documents is unaudited.



