FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-Q
May 08, 2014

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

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014
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	52-0883107
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3900 Wisconsin Avenue, NW Washington, DC	20016
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:
(202) 752-7000
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
As of March 31, 2014, there were 1,158,080,657 shares of common stock of the registrant outstanding.

TABLE OF CONTENTS

MD&A TABLE REFERENCE

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, 2013 ("2013 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 2013 Form 10-K.

This report contains forward-looking statements that are based on management's current expectations and are subject to significant uncertainties and changes in circumstances. Please review "Forward-Looking Statements" for more information on the forward-looking statements in this report. Our actual results may differ materially from those reflected in our forward-looking statements due to a variety of factors including, but not limited to, those discussed in "Risk Factors" and elsewhere in this report and in "Risk Factors" in our 2013 Form 10-K.

You can find a "Glossary of Terms Used in This Report" in the "MD&A" of our 2013 Form 10-K.

INTRODUCTION

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

Fannie Mae provides reliable, large-scale access to affordable mortgage credit and indirectly enables families to buy, refinance or rent homes. We securitize mortgage loans originated by lenders into Fannie Mae mortgage-backed securities that we guarantee, which we refer to as Fannie Mae MBS. One of our key functions is to evaluate, price and manage the credit risk on the loans and securities that we guarantee. We also purchase mortgage loans and mortgage-related securities for securitization and sale at a later date and, to a declining extent, for our retained mortgage portfolio. 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, 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 2013 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." 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 "Business—Housing Finance Reform" in our 2013 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.

1

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

EXECUTIVE SUMMARY

Our Strategy and Progress

We are focused on:

- achieving strong financial performance and strengthening our book of business;
- supporting the housing recovery by providing reliable, large-scale access to affordable mortgage credit and helping struggling homeowners; and
- helping to lay the foundation for a safer, transparent and sustainable housing finance system going forward.

Achieving strong financial performance and strengthening our book of business

Our actions to accomplish these goals have had a positive impact:

- Financial Performance. We reported net income of $5.3 billion and pre-tax income of $7.9 billion for the first quarter of 2014, compared with net income of $58.7 billion and pre-tax income of $8.1 billion for the first quarter of 2013. See "Summary of Our Financial Performance" below for an overview of our financial performance for the first quarter of 2014, as compared with the first quarter of 2013. As of March 31, 2014, we have been profitable for nine consecutive quarters, and we expect to remain profitable for the foreseeable future. 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 June 2014 dividend payment to Treasury, we will have paid a total of $126.8 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 "Outlook—Dividend Obligations to Treasury" below for more information regarding our dividend payments to Treasury.
- Book of Business. Changes we have made beginning in 2008 to strengthen our underwriting and eligibility standards have improved the credit quality of our single-family guaranty book of business. Single-family loans we have acquired since the beginning of 2009 (referred to as our "new single-family book of business") comprised 78% of our single-family guaranty book of business as of March 31, 2014, while the single-family loans we acquired prior to 2009 (referred to as our "legacy book of business") comprised 22% of our single-family guaranty book of business. As described below in "Strengthening Our Book of Business—New Book of Business," we expect that our new single-family book of business will be profitable over its lifetime.
- Credit Performance. As of March 31, 2014, our single-family serious delinquency rate had declined for sixteen consecutive quarters. Our single-family serious delinquency rate was 2.19% as of March 31, 2014, compared with 2.38% as of December 31, 2013. See "Improving the Credit Performance of our Book of Business" below for additional information on the credit performance of the mortgage loans in our single-family guaranty book of business for each of the last five quarters, and for a description of our strategies for reducing credit losses on our legacy book of business.

Although we have improved our financial performance and the quality of our book of business since entering into conservatorship in 2008, 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 2013 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 "Business—Housing Finance Reform" in our 2013 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 and helping struggling homeowners

We continued our efforts to support the housing recovery in the first quarter of 2014. We remained the largest single issuer of mortgage-related securities in the secondary market during the first quarter of 2014 and a continuous source of liquidity in the multifamily market. We also continued to help struggling homeowners. In the first quarter of 2014, we provided over 48,000 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.

Helping to lay the foundation for a safer, transparent and sustainable housing finance system going forward

We also continued our efforts to help build a sustainable housing finance system, including pursuing the strategic goals identified by our conservator: build a new infrastructure for the secondary mortgage market; gradually contract our dominant presence in the marketplace while simplifying and shrinking our operations; and maintain foreclosure prevention activities and credit availability for new and refinanced mortgages. We discuss these goals in our 2013 Form 10-K in "Business—Executive Summary—Helping to Build a Sustainable Housing Finance System."

In addition to working on FHFA's goals, we are also working on additional related initiatives to help prepare our business and infrastructure for potential future changes in the structure of the U.S. housing finance system and to help ensure our safety and soundness during conservatorship. These projects will likely take several years to implement. We are devoting significant resources to and incurring significant expenses in implementing FHFA's objectives and these additional related initiatives.

Summary of Our Financial Performance

Comprehensive Income

We recognized comprehensive income of $5.7 billion in the first quarter of 2014, consisting of net income of $5.3 billion and other comprehensive income of $372 million. In comparison, we recognized comprehensive income of $59.3 billion in the first quarter of 2013, consisting of net income of $58.7 billion and other comprehensive income of $654 million.

Our comprehensive income for the first quarter of 2014 included a provision for federal income taxes of $2.6 billion resulting from our estimated federal income tax liability for the first quarter of 2014. Our comprehensive income for the first quarter of 2013 included a benefit for federal income taxes of $50.6 billion resulting from the release of the substantial majority of our valuation allowance against our deferred tax assets. We discuss the factors that led to our conclusion to release the valuation allowance against our deferred tax assets in "Critical Accounting Policies and Estimates—Deferred Tax Assets" and "Note 10, Income Taxes" in our 2013 Form 10-K.

Our pre-tax income was $7.9 billion in the first quarter of 2014 compared with $8.1 billion in the first quarter of 2013. The decrease in our pre-tax income was primarily due to fair value losses and a decline in net interest income in the first quarter of 2014. These decreases were offset by income from settlement agreements resolving certain lawsuits relating to private-label mortgage-related securities ("PLS") sold to us, resolutions we entered into relating to representation and warranty matters and compensatory fees related to servicing matters. In the first quarter of 2014, we recognized $4.7 billion in income related to these arrangements, compared with $820 million in the first quarter of 2013.

Fair value losses of $1.2 billion in the first quarter of 2014 were primarily driven by derivative fair value losses as longer-term swap rates declined in the first quarter of 2014 compared with fair value gains of $834 million in the first quarter of 2013 primarily driven by derivative fair value gains as swap rates increased in the first quarter of 2013.

Net interest income decreased to $4.7 billion in the first quarter of 2014 from $6.3 billion in the first quarter of 2013, primarily due to a decline in the average balance of our retained mortgage portfolio, partially offset by higher guaranty fee income. Also contributing to the decline in our net interest income in the first quarter of 2014 compared with the first quarter of 2013 was our recognition in the first quarter of 2013 of $518 million of income from unamortized cost basis adjustments on loans repurchased by Bank of America as part of the resolution agreement that was entered into in January 2013.

Credit-related income decreased to $1.0 billion in the first quarter of 2014 from $1.2 billion in the first quarter of 2013. Our credit results for the first quarter of 2014 were primarily driven by higher discounted cash flow projections

on our individually impaired loans due to a decrease in mortgage interest rates in the first quarter of 2014. Lower mortgage interest rates shorten the expected lives of modified loans, which reduces the impairment on these loans and results in a decrease in the provision for credit losses. In the first quarter of 2013, our credit results were primarily driven by an increase in home prices, including the sales prices of our REO properties as a result of strong demand in the first quarter of 2013.
We expect volatility from period to period in our financial results due to changes in market conditions that result in periodic fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings. These

instruments include derivatives and trading securities. The estimated fair value of our derivatives and trading securities may fluctuate substantially from period to period because of changes in interest rates, credit spreads and interest rate volatility, as well as activity related to these financial instruments. While the estimated fair value of our derivatives that serve to mitigate certain risk exposures may fluctuate, some of the financial instruments that generate these exposures are not recorded at fair value in our condensed consolidated financial statements. 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 decreased to $8.1 billion as of March 31, 2014 from $9.6 billion as of December 31, 2013 primarily due to our payment to Treasury of $7.2 billion in senior preferred stock dividends during the first quarter of 2014, partially offset by our comprehensive income of $5.7 billion for the first quarter of 2014. Our dividend payment for the second quarter of 2014 will be $5.7 billion, which is calculated based on our net worth of $8.1 billion as of March 31, 2014 less the applicable capital reserve amount of $2.4 billion.

Strengthening Our Book of Business

New Book of Business

While continuing to make it possible for families to purchase, refinance or rent homes, we have established responsible credit standards. Beginning in 2008, we took actions to significantly strengthen our underwriting and eligibility standards and change our pricing to promote sustainable homeownership and stability in the housing market. These actions have improved the credit quality of our book of business. Given their strong credit risk profile and based on their performance so far, we expect that in the aggregate the loans we have acquired since January 1, 2009, which comprised 78% of our single-family guaranty book of business as of March 31, 2014, will be profitable over their lifetime, by which we mean that we expect our guaranty fee income on these loans to exceed our credit losses and administrative costs for them. In contrast, we expect that the single-family loans we acquired from 2005 through 2008, in the aggregate, will not be profitable over their lifetime. See "Outlook—Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations" in this report and "Risk Factors" in both this report and our 2013 Form 10-K for a discussion of factors that could cause our expectations regarding the performance of the loans in our single-family book of business to change. For information on certain credit characteristics of our new single-family book of business as compared to our legacy book of business, see "Table 29: Selected Credit Characteristics of Single-Family Conventional Loans Held, by Acquisition Period." For more 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 30: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business" in that section.

Our new single-family book of business includes loans that are refinancings of loans that were in our legacy book of business, including loans acquired under our Refi Plus™ initiative, which offers refinancing flexibility to eligible Fannie Mae borrowers. Our Refi Plus initiative includes loans acquired under the Obama Administration's Home Affordable Refinance Program ("HARP℠"). Refi Plus loans constituted 25% of our new single-family book of business as of March 31, 2014. Accordingly, as of March 31, 2014, 58% of our single-family guaranty book of business was comprised of non-Refi Plus loans acquired since the beginning of 2009, 20% was comprised of Refi Plus loans acquired since the beginning of 2009, and 22% was comprised of single-family loans we acquired prior to 2009. Information about the impact of HARP and Refi Plus on the credit characteristics of our new single-family book of business appears in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Credit Profile Summary—HARP and Refi Plus Loans" and in "Table 31: Selected Credit Characteristics of Single-Family Conventional Loans Acquired under HARP and Refi Plus" in that section.

Recently Acquired Single-Family Loans

Table 1 below displays information regarding our average charged guaranty fee on and specified risk characteristics of the single-family loans we acquired in each of the last five quarters. Table 1 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 for these periods.

Table 1: Single-Family Acquisitions Statistics

	2014	2013			
	Q1	Q4	Q3	Q2	Q1
Single-family average charged guaranty fee on new acquisitions (in basis points)(1)(2)	63.0	61.2	58.7	56.9	54.4
Single-family Fannie Mae MBS issuances (in millions)(3)	$76,972	$117,809	$186,459	$206,978	$221,865
Select risk characteristics of single-family conventional acquisitions:(4)					
Weighted average FICO credit score at origination	741	745	750	754	757
Weighted average original loan-to-value ratio(5)	77 %	77 %	76 %	75 %	75 %
Original loan-to-value ratio over 80%(5)(6)	31	33	31	29	26
Loan purpose:					
Purchase	45 %	49 %	38 %	25 %	17 %
Refinance	55	51	62	75	83

____

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

(4) Calculated based on unpaid principal balance of single-family loans for each category at time of acquisition. Single-family business volume refers to both single-family mortgage loans we purchase for our retained mortgage portfolio and single-family mortgage loans we guarantee.

(5) The original loan-to-value (“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%.

The increase in our average charged guaranty fee on newly acquired single-family loans in the first quarter of 2014 as compared with the first quarter of 2013 was driven primarily by an increase in total loan level price adjustments charged on our acquisitions in the first quarter of 2014, as these acquisitions included a higher proportion of loans with higher loan-to-value (“LTV”) ratios and a higher proportion of loans with lower FICO credit scores than our acquisitions in the first quarter of 2013. Loan level price adjustments refer to one-time cash fees that we charge at the time we initially acquire a loan based on the credit characteristics of the loan. See “Business—Our Charter and Regulation of Our Activities—Potential Changes to Our Single-Family Guaranty Fee Pricing” in our 2013 Form 10-K for information on potential future changes to our guaranty fee pricing.

The increase in our acquisitions of loans with higher LTV ratios in the first quarter of 2014 as compared with the first quarter of 2013 was primarily due to a decline in the percentage of our acquisitions consisting of refinance loans and a corresponding increase in the percentage of our acquisitions consisting of home purchase loans, which typically have higher LTV ratios than refinance loans. In the first quarter of 2014, refinancings comprised approximately 55% of our single-family conventional business volume, compared with approximately 83% in the first quarter of 2013. In addition, we experienced a decline in the average FICO credit scores of both our refinance loan acquisitions and our home purchase loan acquisitions in the first quarter of 2014 as compared with the first quarter of 2013. Despite this shift in the credit risk profile of our acquisitions, the single-family loans we purchased or guaranteed in the first quarter of 2014 continued to have a strong credit profile with a weighted average original LTV ratio of 77%, a weighted average FICO credit score of 741, and a product mix with a significant percentage of fully amortizing fixed-rate mortgage loans. For more information on the credit risk profile of our single-family conventional loan acquisitions for the first quarter of 2014, see "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management," including "Table 30: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business" in that section.

We expect refinancings to continue to constitute a smaller portion of our single-family business volume in 2014 than in 2013. As a result, we expect to continue to acquire a higher proportion of loans with higher LTV ratios in 2014 than in 2013. Overall mortgage originations also declined significantly in the first quarter of 2014 as compared with the first quarter of 2013, and we expect this trend of lower origination volumes to continue in 2014.

Whether the loans we acquire in the future will exhibit an overall credit profile and performance similar to our more recent acquisitions will depend on a number of factors, including our future pricing and eligibility standards and those of mortgage insurers, the Federal Housing Administration (“FHA”) and the Veterans Administration (“VA”), the percentage of loan originations representing refinancings, changes in interest rates, our future objectives, 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 as they seek higher-yielding assets, it could negatively affect the credit risk profile of our new single-family acquisitions.

Improving the Credit Performance of our Book of Business

We continue our efforts to improve the credit performance of our book of business. In addition to acquiring loans with strong credit profiles, as we discuss above in “Strengthening Our Book of Business,” we continue to execute on our strategies for reducing credit losses on our legacy book of business, such as helping eligible Fannie Mae borrowers with high LTV ratio loans refinance into more sustainable loans through HARP, offering borrowers loan modifications that can significantly reduce their monthly payments, pursuing foreclosure alternatives and managing our real estate owned (“REO”) inventory to minimize 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 2 presents information for each of the last five quarters about the credit performance of mortgage loans in our single-family guaranty book of business and our workouts. The term “workouts” refers to 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 2 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 2: Credit Statistics, Single-Family Guaranty Book of Business[1]

	2014	2013				
	Q1	Full Year	Q4	Q3	Q2	Q1
	(Dollars in millions)					
As of the end of each period:						
Serious delinquency rate[2]	2.19 %	2.38 %	2.38 %	2.55 %	2.77 %	3.02 %
Seriously delinquent loan count	383,810	418,837	418,837	447,840	483,253	527,529
Troubled debt restructurings on accrual status[3]	$144,077	$140,512	$140,512	$138,165	$136,558	$134,325
Nonaccrual loans[4]	73,972	81,355	81,355	86,848	93,883	102,602
Foreclosed property inventory:						
Number of properties[5]	102,398	103,229	103,229	100,941	96,920	101,449
Carrying value	$10,492	$10,334	$10,334	$10,036	$9,075	$9,263
Combined loss reserves[6]	42,919	44,705	44,705	45,608	49,930	56,626
Total loss reserves[7]	44,760	46,689	46,689	47,664	52,141	59,114
During the period:						
Foreclosed property (number of properties):						
Acquisitions[5]	31,896	144,384	32,208	37,353	36,106	38,717
Dispositions	(32,727)	(146,821)	(29,920)	(33,332)	(40,635)	(42,934)
Credit-related income[8]	$1,002	$11,205	$848	$3,642	$5,681	$1,034
Credit losses[9]	1,127	4,452	325	1,083	1,541	1,503
REO net sales prices to unpaid principal balance[10]	68 %	67 %	68 %	68 %	68 %	65 %
Short sales net sales price to unpaid principal balance[11]	71 %	67 %	70 %	68 %	67 %	64 %
Loan workout activity (number of loans):						
Home retention loan workouts[12]	38,299	172,029	41,053	39,559	43,782	47,635
Short sales and deeds-in-lieu of foreclosure	10,127	61,949	13,021	15,092	17,710	16,126
Total loan workouts	48,426	233,978	54,074	54,651	61,492	63,761
Loan workouts as a percentage of the average balance of delinquent loans in our guaranty book of business[13]	25.70 %	26.01 %	26.59 %	25.32 %	26.93 %	25.88 %

(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. We include single-family conventional loans that we own and those that back Fannie Mae MBS in the calculation of the single-family serious delinquency rate.

(3) A troubled debt restructuring (“TDR”) is a modification to the contractual terms of a loan in which a concession is granted to a borrower experiencing financial difficulty.

(4)

We generally classify single-family loans as nonaccrual when the payment of principal or interest on the loan is two or more months past due according to its contractual terms. Excludes off-balance sheet loans in unconsolidated Fannie Mae MBS trusts that would meet our criteria for nonaccrual status if the loans had been on-balance sheet.

(5) Includes held for use properties, which are reported in our condensed consolidated balance sheets as a component of "Other assets," and acquisitions through deeds-in-lieu of foreclosure.

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

7

(7) Consists of (a) the combined loss reserves, (b) allowance for accrued interest receivable and (c) allowance for preforeclosure property taxes and insurance receivables.
(8) Consists of (a) the benefit for credit losses and (b) foreclosed property income.
(9) Consists of (a) charge-offs, net of recoveries and (b) foreclosed property income, adjusted to exclude the impact of fair value losses resulting from credit-impaired loans acquired from MBS trusts.
(10) 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.
(11) Calculated as the amount of sale proceeds received on properties sold in short sale transactions during the respective period divided by the aggregate unpaid principal balance of the related loans. Net sales price represents the contract sales price less the selling costs for the property and other charges paid by the seller at the closing, including borrower relocation incentive payments and subordinate lien(s) negotiated payoffs.
(12) Consists of (a) modifications, which do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as TDRs, or repayment plans or forbearances that have been initiated but not completed and (b) repayment plans and forbearances completed. See "Table 35: 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.
(13) 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.

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

We provide more information on our efforts to reduce our credit losses in "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 2013 Form 10-K. See also "Risk Factors" in our 2013 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.

Contributions to the Housing and Mortgage Markets

Liquidity and Support Activities

As the largest provider of residential mortgage credit in the United States, we indirectly enable families to buy, refinance or rent homes. During the first quarter of 2014, we continued to provide critical liquidity and support to the U.S. mortgage market in a number of important ways:

- We serve as a stable source of liquidity for purchases of homes and financing of multifamily rental housing, as well as for refinancing existing mortgages. The approximately $87 billion in liquidity we provided to the mortgage market in the first quarter of 2014 through our purchases and guarantees of loans and securities enabled borrowers to complete approximately 232,000 mortgage refinancings and approximately 163,000 home purchases, and provided financing for approximately 72,000 units of multifamily housing.
- Our role in the market enables 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 over 48,000 loan workouts in the first quarter of 2014 to help homeowners stay in their homes or otherwise avoid foreclosure. These efforts helped to stabilize neighborhoods, home prices and the housing market.
- We helped borrowers refinance loans, including through our Refi Plus initiative. We acquired approximately 97,000 Refi Plus loans in the first quarter of 2014. Refinancings delivered to us through Refi Plus in the first quarter of 2014 reduced borrowers' monthly mortgage payments by an average of $157. Some borrowers' monthly payments increased as they took advantage of the ability to refinance through Refi Plus to reduce the term of their loan, to switch from an

adjustable-rate mortgage to a fixed-rate mortgage or to switch from an interest-only mortgage to a fully amortizing mortgage.

- We support affordability in the multifamily rental market. Over 85% of the multifamily units we financed in the first quarter of 2014 were affordable to families earning at or below the median income in their area.

8

- In addition to purchasing and guaranteeing loans, we provide funds to the mortgage market through short-term financing and other activities. These activities are described in more detail in our 2013 Form 10-K in "Business—Business Segments—Capital Markets."

2014 Market Share

We estimate that our single-family market share was 31% in the first quarter of 2014, compared with 32% in the fourth quarter of 2013 and 41% in the first quarter of 2013. We estimate that the total single-family market share of Fannie Mae, Freddie Mac and Ginnie Mae was 75% in the first quarter of 2014, compared with 70% in the fourth quarter of 2013 and 86% in the first quarter of 2013. These amounts represent our estimates of single-family mortgage acquisitions by Fannie Mae, Freddie Mac and Ginnie Mae for each quarter as a percentage of the single-family first-lien mortgages we currently estimate were originated in the United States that quarter. We exclude from Fannie Mae's market share number our acquisitions of delinquent loans purchased from our MBS trusts. Because our estimate of mortgage originations in prior periods is subject to change as additional data become available, these market share estimates may change in the future, perhaps materially.

We remained the largest single issuer of mortgage-related securities in the secondary market during the first quarter of 2014, with an estimated market share of new single-family mortgage-related securities issuances of 41%, compared with 46% in the fourth quarter of 2013 and 48% in the first quarter of 2013.

We remained a continuous source of liquidity in the multifamily market in the first quarter of 2014. We owned or guaranteed approximately 20% of the outstanding debt on multifamily properties as of December 31, 2013 (the latest date for which information was available).

Housing and Mortgage Market and Economic Conditions

Economic growth slowed in the first quarter of 2014 compared with the fourth quarter of 2013. According to the U.S. Bureau of Economic Analysis advance estimate, the inflation-adjusted U.S. gross domestic product, or GDP, rose by 0.1% on an annualized basis in the first quarter of 2014, compared with an increase of 2.6% in the fourth quarter of 2013. The overall economy gained an estimated 569,000 jobs in the first quarter of 2014. According to the U.S. Bureau of Labor Statistics, over the last 12 months ending in March 2014, the economy created an estimated 2.2 million non-farm jobs. The unemployment rate was 6.7% in March 2014, unchanged from December 2013. In April 2014, non-farm payrolls increased by 288,000 jobs, and the unemployment rate decreased to 6.3%.

Total originations in the U.S. single-family mortgage market were an estimated $245.8 billion in the first quarter of 2014, down from an estimated $357.5 billion in the fourth quarter of 2013, driven by a decline in refinancings to an estimated $117.7 billion in the first quarter of 2014 from an estimated $184.3 billion in the fourth quarter of 2013. According to the Federal Reserve, total U.S. residential mortgage debt outstanding, which includes $9.86 trillion of single-family debt outstanding, was estimated to be approximately $10.78 trillion as of December 31, 2013 (the latest date for which information was available), unchanged from September 30, 2013.

Housing activity declined during the first quarter of 2014 as compared with the fourth quarter of 2013. Total existing home sales averaged 4.6 million units annualized in the first quarter of 2014, a 6.9% decrease from the fourth quarter of 2013, according to data from the National Association of REALTORS®. Sales of foreclosed homes and preforeclosure, or "short," sales (together, "distressed sales") accounted for 14% of existing home sales in both March 2014 and December 2013, compared with 21% in March 2013. According to the U.S. Census Bureau, new single-family home sales weakened during the first quarter of 2014, averaging an annualized rate of 434,000 units, a 2.5% decrease from the fourth quarter of 2013.

The number of months' supply, or the inventory/sales ratio, of available existing homes and of new homes each increased in the first quarter of 2014. According to the U.S. Census Bureau, the number of months' supply of new homes was 6.0 months as of March 31, 2014, compared with 5.1 months as of December 31, 2013. According to data from the National Association of REALTORS®, the months' supply of existing unsold homes was 5.2 months as of March 31, 2014, compared with a 4.6 months' supply as of December 31, 2013.

The overall mortgage market serious delinquency rate, which has trended down since peaking in the fourth quarter of 2009, remained historically high at 5.4% as of December 31, 2013 (the latest date for which information was available), according to the Mortgage Bankers Association National Delinquency Survey, compared with 5.7% as of September 30, 2013. We provide information about Fannie Mae's serious delinquency rate, which also decreased in the

fourth quarter of 2013, in “Improving the Credit Performance of our Book of Business.”
Based on our home price index, we estimate that home prices on a national basis increased by 0.4% in the first quarter of 2014, following an increase of 8.5% in 2013 and 4.2% in 2012. Despite the recent increases in home prices, we estimate that,

through March 31, 2014, home prices on a national basis remained 13.4% below their peak in the third quarter of 2006. Our home price estimates are based on preliminary data and are subject to change as additional data become available.

Many homeowners continue to have “negative equity” in their homes as a result of declines in home prices since 2006, which means their principal mortgage balance exceeds the current market value of their home. This increases the likelihood that borrowers will abandon their mortgage obligations and that the loans will become delinquent and proceed to foreclosure. According to CoreLogic, Inc. the number of residential properties with mortgages in a negative equity position in the fourth quarter of 2013 was approximately 6.5 million, unchanged from the third quarter of 2013 and down from 10.5 million in the fourth quarter of 2012. The percentage of properties with mortgages in a negative equity position in the fourth quarter of 2013 was 13.3%, unchanged from the third quarter of 2013 and down from 21.6% in the fourth quarter of 2012 and its peak of 26.0% reached in the fourth quarter of 2009.

Thirty-year mortgage rates ended the quarter at 4.40% for the week of March 27, 2014, down from 4.48% for the week ended December 26, 2013, according to Freddie Mac.

During the first quarter of 2014, multifamily fundamentals improved modestly, according to preliminary third-party data. The national multifamily vacancy rate for institutional investment-type apartment properties decreased to an estimated 5.00% as of March 31, 2014, compared with 5.10% as of December 31, 2013 and 5.25% as of March 31, 2013.

National asking rents increased by an estimated 0.5% during the first quarter of 2014, compared with an increase of 1.0% during the fourth quarter of 2013. 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 42,000 units during the first quarter of 2014, according to preliminary data from Reis, Inc., compared with approximately 49,000 units during the fourth quarter of 2013.

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. Approximately 280,000 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. As a result, multifamily fundamentals could be impacted in certain localized areas, producing a temporary slowdown in net absorption rates, occupancy levels and effective rents in those areas later in 2014.

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 “Business—Housing Finance Reform” in our 2013 Form 10-K for a discussion of proposals for reform of the housing finance system, including the GSEs, that could materially affect our business, including proposed federal legislation that, among other things, would require the wind down of Fannie Mae and Freddie Mac. See “Risk Factors” in both this report and in our 2013 Form 10-K 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 first quarter of 2014, with net income of $5.3 billion. We expect to remain profitable for the foreseeable future. While we expect our annual net income to remain strong over the next few years, we expect our annual net income to be substantially lower than our net income for 2013. We discuss the reasons for this expectation, and note our expectation that certain factors that contributed to a large portion of our 2013 net income will not contribute as significantly or at all to our earnings in 2014 or future years, in “Business—Executive Summary—Outlook—Financial Results” in our 2013 Form 10-K. Our earnings will be affected by a number of factors, including: changes in home prices; changes in interest rates; 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. Some of these factors, such as changes in interest rates or home prices, could result in significant variability in our earnings from quarter to quarter or year to year. 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.

Revenues. We currently have two primary sources of revenues: (1) the difference between interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets; and (2) the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties. 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). Historically, we have generated the majority of our revenues from the difference between the interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets. As we discuss in our 2013 Form 10-K in "Business—Conservatorship and Treasury Agreements—Treasury Agreements—Covenants under Treasury Agreements," we are required to reduce the size of our retained mortgage portfolio each year until we hold no more than $250 billion in mortgage assets by the end of 2018. As a result of both the shrinking of our retained mortgage portfolio and the impact of guaranty fee increases, an increasing portion of our revenues in recent years has been derived from guaranty fees rather than from interest income earned on our retained mortgage portfolio assets. We recognize almost all of our guaranty fee revenue in net interest income in our condensed consolidated statements of operations and comprehensive income due to the consolidation of the substantial majority of our MBS trusts on our balance sheets. The percentage of our net interest income derived from guaranty fees on loans underlying our Fannie Mae MBS has increased in recent periods. We estimate that approximately 45% of our net interest income for the first quarter of 2014 was derived from guaranty fees on loans underlying our Fannie Mae MBS, compared with approximately 35% for the first quarter of 2013. We expect that this trend will continue and that, in the near future, guaranty fees will become the primary source of our revenues.

The decrease in the balance of mortgage assets held in our retained mortgage portfolio contributed to a decline in our net interest income in the first quarter of 2014 as compared with the first quarter of 2013. We expect continued decreases in the size of our retained mortgage portfolio, which will continue to negatively impact our net interest income and revenues; however, we also expect increases in our guaranty fee revenues will at least partially offset the negative impact of the decline in our retained mortgage portfolio. 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; 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; economic and housing market conditions; and legislative and regulatory changes.

Although our single-family acquisition volume declined significantly in the first quarter of 2014 as compared with the fourth quarter of 2013, liquidations of loans from our single-family guaranty book of business also declined. Accordingly, the size of our single-family guaranty book of business remained relatively flat in the first quarter of 2014 as compared with the fourth quarter of 2013, and our single-family guaranty fee revenues continued to increase. We expect our single-family acquisition volumes this year to continue to remain lower than prior year volumes; however, we also expect liquidations of loans from our single-family guaranty book of business to remain lower. As a result, we do not expect these lower volumes to have a material adverse effect on the size of our single-family guaranty book of business or on our single-family guaranty fee revenues in the near term. However, if the current reduction in our acquisition volume accelerates or remains ongoing for a significant period of time or if the rate of liquidations of loans from our single-family guaranty book increases without a corresponding increase in our acquisitions, it could adversely affect the size of our single-family guaranty book of business and our single-family guaranty fee revenues over the long term.

In 2013 and the first quarter of 2014, our revenues were positively impacted by income from settlement agreements resolving certain lawsuits relating to PLS sold to us. Income from PLS settlements contributed $4.1 billion to our revenues in the first quarter of 2014, compared with $1.6 billion in the fourth quarter of 2013 and $2.2 billion for all of 2013. As of March 31, 2014, we had resolved a majority of the PLS lawsuits filed by FHFA on our behalf, and we expect to receive significantly less revenue from PLS settlements in future periods.

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 $2.4 billion for each quarter of 2014 and then decreases by $600 million annually until it reaches zero in 2018.

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. From 2008 through the first quarter of 2014, we paid a total of $121.1 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 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. In June 2014, we expect to pay Treasury additional senior preferred stock dividends of $5.7 billion for the second quarter of 2014.

Overall Market Conditions. We expect that single-family mortgage loan serious delinquency and severity rates will continue their downward trend, but 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 expect the level of multifamily foreclosures in 2014 will generally remain commensurate with 2013 levels.

We believe that the increase in mortgage rates since the first half of 2013 will result in a decline in overall single-family mortgage originations in 2014 as compared with 2013, driven by a decline in refinancings. We forecast that total originations in the U.S. single-family mortgage market in 2014 will decrease from 2013 levels by approximately 40%, from an estimated $1.91 trillion in 2013 to $1.14 trillion in 2014, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will decrease from an estimated $1.18 trillion in 2013 to $416.6 billion in 2014. We forecast that total single-family mortgage debt outstanding will increase slightly in 2014, increasing from an estimated $9.86 trillion as of December 31, 2013 to $9.94 trillion as of December 31, 2014.

In recent years, the Federal Reserve has purchased a significant amount of mortgage-related securities issued by us, Freddie Mac and Ginnie Mae. The Federal Reserve began to taper these purchases in January 2014. The Federal Reserve's tapering of its mortgage-related securities purchases, or possible future sales of mortgage-related securities by the Federal Reserve, could result in increases in mortgage interest rates and adversely affect our single-family business volume. See "Risk Factors" in our 2013 Form 10-K for a description of the potential risks to our business as a result of increases in mortgage interest rates.

Home Prices. Based on our home price index, we estimate that home prices on a national basis increased by 0.4% in the first quarter of 2014. Although we expect home price growth to continue in 2014, we expect the rate of home price growth on a national basis in 2014 will be lower than in 2013. Future home price changes may be very different from our expectations as a result of significant inherent uncertainty in the current market environment, including uncertainty about the effect of 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-related 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 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. We currently realize losses on loans, through our charge-offs, at the time of foreclosure or when we accept short sales or deeds-in-lieu of foreclosure. Our credit losses were $1.1 billion in the first quarter of 2014, compared with $260 million in the fourth quarter of 2013 and $1.5 billion in the first quarter of 2013. Although our credit losses have declined in recent years, we expect our credit losses in 2014 and 2015 will be higher than in 2013. The amounts we recognized in 2013 pursuant to a number of repurchase and compensatory fee resolution agreements reduced our 2013 credit losses from what they otherwise would have been. Moreover, we expect our implementation of the charge-off provisions required by FHFA's Advisory Bulletin AB 2012-02 in 2015 will increase our credit losses for 2015 from what they otherwise would have been. We expect our credit losses to resume their downward trend beginning in 2016. See "Legislative and Regulatory Developments—FHFA Advisory Bulletin Regarding Framework for

Adversely Classifying Loans” for further information about this Advisory Bulletin.
Loss Reserves. Our total loss reserves consist of (1) our allowance for loan losses, (2) our allowance for accrued interest receivable, (3) our allowance for preforeclosure property taxes and insurance receivables, and (4) our reserve for guaranty losses. Our total loss reserves were $45.3 billion as of March 31, 2014, down from $47.3 billion as of December 31, 2013 and their peak of $76.9 billion as of December 31, 2011. We expect our loss reserves will continue to decline in 2014, but at a slower pace than in 2013. Although our loss reserves have declined substantially from their peak and are expected to decline further, we expect our loss reserves will remain elevated relative to the levels experienced prior to the 2008 housing crisis for an extended period because (1) we expect future defaults on loans that we acquired prior to 2009 and the resulting charge-offs will occur over a period of years and (2) a significant portion of our reserves represents concessions granted to borrowers

upon modification of their loans and our reserves will continue to reflect these concessions until the loans are fully repaid or default.

Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations. We present a number of estimates and expectations in this executive summary regarding our future performance, including estimates and expectations regarding our future financial results and profitability, the level and sources of our revenues, our future dividend payments to Treasury, the profitability and performance of single-family loans we have acquired, our future acquisitions, future liquidations of loans from our single-family guaranty book of business, 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 delinquency and severity rates, future mortgage originations, future refinancings, future single-family mortgage debt outstanding and future home prices. 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 competitive environment; our future serious delinquency rates; future legislative or regulatory requirements that have a significant impact on our business, such as a requirement that we implement a principal forgiveness program; future legislative or regulatory changes that have a significant impact on our business, such as the enactment of housing finance reform legislation; actions we may be required to take by FHFA, as our conservator or as our regulator, such as changes in the type of business we do; future updates to our models relating to our loss reserves, including the assumptions used by these models; future changes to our accounting policies; significant changes in modification and foreclosure activity; changes in borrower behavior, such as an increasing number of underwater borrowers who strategically default on their mortgage loans; the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies; whether our counterparties meet their obligations in full; resolution or settlement agreements we may enter into with our counterparties; changes in the fiscal and monetary policies of the Federal Reserve, including the effect of the tapering of its program of purchasing mortgage-related securities and any future sales of such securities; changes in the fair value of our assets and liabilities; impairments of our assets; changes in generally accepted accounting principles ("GAAP"); credit availability; natural and other disasters; and other factors, including those discussed in "Forward-Looking Statements," "Risk Factors" and elsewhere in this report and in our 2013 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.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

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 2013 Form 10-K. Also see "Risk Factors" in this report and in our 2013 Form 10-K for a discussion of risks relating to legislative and regulatory matters.

Housing Finance Reform

Policymakers and others have focused significant attention in recent years on how to reform the nation's housing finance system, including what role, if any, the GSEs should play. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was signed into law in July 2010, called for enactment of meaningful structural reforms of Fannie Mae and Freddie Mac. See "Business—Housing Finance Reform" in our 2013 Form 10-K for a description of activities relating to GSE reform that occurred in 2011 through early 2014, including descriptions of: the Administration's housing policy priorities, which include winding down Fannie Mae and Freddie Mac through a responsible transition; the Administration's February 2011 report on GSE reform, which discusses potential options for a new long-term structure for the housing finance system following the wind-down of Fannie Mae and Freddie Mac; and legislation introduced in the first session of the current Congress relating to housing finance system reform and the terms of Fannie Mae's and Freddie Mac's senior preferred stock purchase agreements with Treasury.

Congress has continued to consider housing finance reform and the future of the GSEs in recent months. In March 2014, two new proposals for housing finance reform were released by members of Congress: on March 16, 2014, Senate Banking Committee Chairman Johnson and Ranking Member Crapo released a draft bill entitled the “Housing Finance Reform and Taxpayer Protection Act of 2014;” and on March 27, 2014, House Financial Services Committee Ranking Member Waters released a draft bill entitled the “Housing Opportunities Move the Economy (HOME) Forward Act of 2014.” These bills each propose to establish new, different housing finance systems to replace Fannie Mae and Freddie Mac. Each of the proposed bills, if enacted in its current form, would result in the wind-down and eventual liquidation of Fannie Mae and Freddie Mac, and would materially affect our business prior to our eventual liquidation. For example, both bills include provisions that: require that we pay assessments or fees to help fund the operations of entities in the new housing finance system; permit the sale or transfer of our infrastructure and assets to entities in the new housing finance system; eliminate our housing goals; and prohibit us from engaging in new business after a specified period of time which may be within five years after enactment of the legislation.

The Johnson-Crapo bill maintains the current “net worth sweep” dividend payment provisions of Fannie Mae and Freddie Mac’s senior preferred stock purchase agreements with Treasury, except that amendments to facilitate the sale of our assets in compliance with our wind-down plan would be permitted. In addition, the Johnson-Crapo bill amends the statutory priority for paying unsecured claims in a receivership of Fannie Mae or Freddie Mac, putting amounts owed to the United States immediately after the administrative expenses of the receiver and before general creditors and other unsecured claims, unless the United States agrees or consents otherwise. By contrast, the Waters bill provides for distribution of the net earnings of Fannie Mae and Freddie Mac during the conservatorships in the following order of priority: (1) repayment of the senior preferred stock owned by Treasury; (2) payment of interest to Treasury at a rate of 10% per year over the term of the senior preferred stock; (3) establishment of any reserve funds Treasury determines are needed in connection with the wind-down of Fannie Mae and Freddie Mac; (4) payment of any deferred contributions to the Housing Trust Fund and Capital Magnet Fund that have not been paid; (5) purchase of other outstanding preferred shares; and (6) purchase of outstanding common shares, including warrants held by Treasury. The Waters bill provides for a full faith and credit U.S. government guaranty on all of Fannie Mae and Freddie Mac’s obligations, while the Johnson-Crapo bill provides for a U.S. government guaranty that is limited to those obligations of Fannie Mae and Freddie Mac that are specified in the bill. There is uncertainty as to how certain of the provisions described above and other provisions of the bills would be applied.

We expect Congress to continue to consider housing finance reform legislation. We cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation. As a result, there continues to be significant uncertainty regarding the future of our company. See “Risk Factors” in this report and our 2013 Form 10-K for discussions of the risks to our business relating to the uncertain future of our company and of how the uncertain future of our company may adversely affect our ability to retain and recruit well-qualified employees, including senior management.

Dodd-Frank Act—FHFA Rule Regarding Stress Testing

Pursuant to an FHFA rule issued in September 2013 implementing a provision of the Dodd-Frank Act, we are required to conduct an annual stress test, based on our data as of September 30 of that year, using three different scenarios of financial conditions provided by FHFA: baseline, adverse and severely adverse. As required by the rule, we published the stress test results for the severely adverse scenario on our Web site on April 30, 2014.

Housing Goals

As described in “Business—Our Charter and Regulation of Our Activities—The GSE Act—Housing Goals and Duty to Serve Underserved Markets,” 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. In April 2014, FHFA notified us that the overall low-income areas home purchase benchmark for 2014 is 18%.

FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans

In April 2012, FHFA issued Advisory Bulletin AB 2012-02, “Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention” (the “Advisory Bulletin”), which is applicable to Fannie Mae, Freddie Mac and the Federal Home Loan Banks. The Advisory Bulletin establishes guidelines for adverse classification and identification of specified single-family and multifamily assets and off-balance sheet credit exposures. The Advisory Bulletin indicates that this guidance considers and is generally consistent with the Uniform Retail Credit Classification and Account Management Policy issued by the federal banking regulators in June 2000. Among other requirements, this Advisory Bulletin requires that we classify the portion of an outstanding single-family loan balance in excess of the fair value of the underlying property, less costs to sell and adjusted for any credit enhancements, as a “loss” no later than when the loan becomes 180 days delinquent, except in certain specified circumstances (such as those involving properly secured loans with an LTV ratio equal to or less than 60%). For multifamily loans, the Advisory Bulletin requires that any portion of a loan balance that exceeds the amount secured by the fair value of the collateral, less costs to sell, for which there is no available and reliable source of repayment other than the sale of the underlying real estate collateral, to be classified as a "loss." The Advisory Bulletin also requires us to charge off the portion of the loan classified as a "loss." The Advisory Bulletin specifies that, if we subsequently receive full or partial payment of a previously charged-off loan, we may report a recovery of the amount, either through our loss reserves or as a reduction in our foreclosed property expenses. In May 2013, FHFA issued an additional Advisory Bulletin clarifying the implementation timeline for AB 2012-02, requiring that: (1) the asset classification provisions of AB 2012-02 should be implemented by January 1, 2014; and (2) the charge-off provisions of AB 2012-02 should be implemented no later than January 1, 2015. Effective January 1, 2014, we implemented the asset classification provisions of AB 2012-02 and expect to provide FHFA with this information in May 2014.

We establish an allowance for loan losses against our loans either through our collective loss reserve or our loss reserve for individually impaired loans. Thus, at the time single-family loans become 180 days delinquent, we have already established an allowance for loan losses against them. The Advisory Bulletin requires us to change our practice for determining when a loan is deemed uncollectible to the date the loan is classified as a “loss” as described above. This is a change from our current practice for determining when a loan is deemed to be uncollectible, which is based on historical data and results in a loan being deemed to be uncollectible at the date of foreclosure or other liquidation event (such as a deed-in-lieu of foreclosure or a short sale).

In the period in which we adopt the Advisory Bulletin, our allowance for loan losses on the impacted loans will be eliminated and the corresponding recorded investment in the loan will be reduced by the amounts that are charged off. Under our existing accounting practices and upon adoption of the Advisory Bulletin, the ultimate amount of losses we realize on our loan portfolio will be the same over time; however, the timing of when we recognize the losses in our financial statements will differ.

We are working with FHFA to consider how the Advisory Bulletin may impact our credit risk management practices. During the past twelve months, approximately 45% of our first-time modifications were initiated after loans became 180 days delinquent. This is a result of a number of factors, including servicer backlogs, lack of borrower responsiveness to loss mitigation efforts, and extended foreclosure timelines, which affect the willingness of borrowers to engage regarding loss mitigation options. Given the current rate of modification activity after loans become 180 days delinquent, the benefit we expect from borrower re-performance is significant in estimating the losses for this population of loans. In July 2013, we introduced a streamlined modification program that may accelerate the timing of our modifications; however, we still expect a meaningful number of modifications to be initiated after our loans become 180 days past due. As we obtain incremental information on the performance of this program, we will enhance our loss estimates, as necessary, to reflect the change in the expected timing and volume of modifications.

We are working with FHFA to resolve certain implementation issues related to our adoption of the Advisory Bulletin. We do not expect that the adoption of the Advisory Bulletin will have a material impact on our financial position or results of operations.

For information on the risks presented by our adoption of the Advisory Bulletin, see “Risk Factors” in our 2013 Form 10-K.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the condensed consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We describe our most significant accounting policies in “Note 1, Summary of Significant Accounting Policies” in this report and in our 2013 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 2013 Form 10-K for a discussion of the risks associated with the need for management to make judgments and estimates in applying our accounting policies and methods. We have identified four of our accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. These critical accounting policies and estimates are as follows:

- Fair Value Measurement;
- Total Loss Reserves;
- Other-Than-Temporary Impairment of Investment Securities; and

• Deferred Tax Assets.

See "MD&A—Critical Accounting Policies and Estimates" in our 2013 Form 10-K for a discussion of these critical accounting policies and estimates.

CONSOLIDATED RESULTS OF OPERATIONS

This section provides a discussion of our condensed consolidated results of operations for the periods indicated and should be read together with our condensed consolidated financial statements, including the accompanying notes. Table 3 displays a summary of our condensed consolidated results of operations for the periods indicated.

Table 3: Summary of Condensed Consolidated Results of Operations

	For the Three Months Ended March 31,		
	2014	2013	Variance
	(Dollars in millions)		
Net interest income	$4,738	$6,304	$(1,566)
Fee and other income	4,355	568	3,787
Net revenues	9,093	6,872	2,221
Investment gains, net	146	118	28
Fair value (losses) gains, net	(1,190)	834	(2,024)
Administrative expenses	(672)	(641)	(31)
Credit-related income			
Benefit for credit losses	774	957	(183)
Foreclosed property income	262	260	2
Total credit-related income	1,036	1,217	(181)
Other non-interest expenses[1]	(504)	(286)	(218)
Income before federal income taxes	7,909	8,114	(205)
(Provision) benefit for federal income taxes	(2,584)	50,571	(53,155)
Net income attributable to Fannie Mae	$5,325	$58,685	$(53,360)
Total comprehensive income attributable to Fannie Mae	$5,697	$59,339	$(53,642)

____

(1) Consists of net other-than-temporary impairments, debt extinguishment losses, net, TCCA fees and other expenses, net.

Net Interest Income

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

Table 4 displays an analysis of our net interest income, average balances, and related yields earned on assets and incurred on liabilities for the periods indicated. For most components of the average balances, we use a daily weighted average of amortized cost. When daily average balance information is not available, such as for mortgage loans, we use monthly averages. Table 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 March 31,					
	2014			2013		
	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	$296,018	$2,634	3.56 %	$345,077	$3,830	4.44 %
Mortgage loans of consolidated trusts	2,771,950	25,954	3.75	2,669,149	25,394	3.81
Total mortgage loans[(1)]	3,067,968	28,588	3.73	3,014,226	29,224	3.88
Mortgage-related securities	157,595	1,819	4.62	236,309	2,683	4.54
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(107,798)	(1,258)	4.67	(152,986)	(1,797)	4.70
Total mortgage-related securities, net	49,797	561	4.51	83,323	886	4.25
Non-mortgage securities[(2)]	33,626	6	0.07	42,879	13	0.12
Federal funds sold and securities purchased under agreements to resell or similar arrangements	33,395	5	0.06	69,804	27	0.15
Advances to lenders	3,213	19	2.37	6,085	30	1.97
Total interest-earning assets	$3,187,999	$29,179	3.66 %	$3,216,317	$30,180	3.75 %
Interest-bearing liabilities:						
Short-term debt[(3)]	$62,931	$20	0.13 %	$112,790	$42	0.15 %
Long-term debt	442,368	2,345	2.12	513,910	2,675	2.08
Total short-term and long-term funding debt	505,299	2,365	1.87	626,700	2,717	1.73
Debt securities of consolidated trusts	2,822,418	23,334	3.31	2,754,427	22,956	3.33
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(107,798)	(1,258)	4.67	(152,986)	(1,797)	4.70
Total debt securities of consolidated trusts held by third parties	2,714,620	22,076	3.25	2,601,441	21,159	3.25
Total interest-bearing liabilities	$3,219,919	$24,441	3.04 %	$3,228,141	$23,876	2.96 %
Net interest income/net interest yield		$4,738	0.59 %		$6,304	0.78 %

	As of March 31,	
	2014	2013
Selected benchmark interest rates[(4)]		
3-month LIBOR	0.23 %	0.28 %
2-year swap rate	0.55	0.42
5-year swap rate	1.80	0.95
30-year Fannie Mae MBS par coupon rate	3.44	2.62

(1) Average balance includes mortgage loans on nonaccrual status. Interest income on nonaccrual mortgage loans is recognized when cash is received. Interest income not recognized for loans on nonaccrual status was $527 million for the first quarter of 2014 compared with $763 million for the first quarter of 2013.

(2) Includes cash equivalents.

(3) Includes federal funds purchased and securities sold under agreements to repurchase.

(4) Data from IntercontinentalExchange Group, Inc., Thomson Reuters and Bloomberg L.P.

17

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

	For the Three Months Ended March 31, 2014 vs. 2013		
	Total Variance	Variance Due to:[1] Volume	Rate
	(Dollars in millions)		
Interest income:			
Mortgage loans of Fannie Mae	$(1,196)	$(499)	$(697)
Mortgage loans of consolidated trusts	560	967	(407)
Total mortgage loans	(636)	468	(1,104)
Total mortgage-related securities, net	(325)	(381)	56
Non-mortgage securities[2]	(7)	(2)	(5)
Federal funds sold and securities purchased under agreements to resell or similar arrangements	(22)	(10)	(12)
Advances to lenders	(11)	(16)	5
Total interest income	(1,001)	59	(1,060)
Interest expense:			
Short-term debt[3]	(22)	(17)	(5)
Long-term debt	(330)	(378)	48
Total short-term and long-term funding debt	(352)	(395)	43
Total debt securities of consolidated trusts held by third parties	917	1,090	(173)
Total interest expense	565	695	(130)
Net interest income	$(1,566)	$(636)	$(930)

____
(1) Combined rate/volume variances are allocated to both rate and volume based on the relative size of each variance.
(2) Includes cash equivalents.
(3) Includes federal funds purchased and securities sold under agreements to repurchase.

Net interest income decreased in the first quarter of 2014 compared with the first quarter of 2013, primarily due to a decrease in net interest income from our retained mortgage portfolio, partially offset by an increase in net interest income from our consolidated trusts.

The decrease in net interest income from our retained mortgage portfolio was primarily due to lower interest income on mortgage loans and securities driven by a 22% decline in the average balance of our retained mortgage portfolio, as well as the positive impact on our interest income and yield for mortgage loans in the first quarter of 2013 due to our January 2013 resolution agreement with Bank of America. This decrease was partially offset by lower interest expense on funding debt due to lower funding needs.

The increase in net interest income from our consolidated trusts was primarily due to higher guaranty fees driven by a higher volume of loans subject to the cumulative impact of price increases in 2012, including a 10 basis point increase during the second quarter of 2012 mandated by the Temporary Payroll Tax Cut Continuation Act of 2011 ("TCCA") and an additional average increase of 10 basis points implemented during the fourth quarter of 2012. We recognize almost all of our guaranty fees in net interest income due to the consolidation of the substantial majority of our MBS trusts on our balance sheet.

Fee and Other Income

Fee and other income includes transaction fees, technology fees, multifamily fees and other miscellaneous income.

Fee and other income increased in the first quarter of 2014 compared with the first quarter of 2013 primarily as a result of $4.1 billion recognized as income in the first quarter of 2014 resulting from settlement agreements resolving certain lawsuits relating to PLS sold to us. See "Legal Proceedings—FHFA Private-Label Mortgage-Related Securities Litigation" for additional information.

Fair Value (Losses) Gains, Net

Table 6 displays the components of our fair value gains and losses.

Table 6: Fair Value (Losses) Gains, Net

	For the Three Months Ended March 31,	
	2014	2013
	(Dollars in millions)	
Risk management derivatives fair value (losses) gains attributable to:		
Net contractual interest expense accruals on interest rate swaps	$(199)	$(200)
Net change in fair value during the period	(741)	631
Total risk management derivatives fair value (losses) gains, net	(940)	431
Mortgage commitment derivatives fair value (losses) gains, net	(345)	131
Total derivatives fair value (losses) gains, net	(1,285)	562
Trading securities gains, net	145	396
Other, net[1]	(50)	(124)
Fair value (losses) gains, net	$(1,190)	$834

	2014	2013
5-year swap rate:		
As of January 1	1.79%	0.86%
As of March 31	1.80%	0.95%
10-year swap rate:		
As of January 1	3.09%	1.84%
As of March 31	2.84%	2.01%

____

(1) Consists of debt fair value gains (losses), net; debt foreign exchange gains (losses), net; and mortgage loans fair value gains (losses), net.

Risk Management Derivatives Fair Value (Losses) Gains, 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 duration risk, which includes prepayment risk. We recognized risk management derivative fair value losses in the first quarter 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 recognized risk management derivative fair value gains in the first quarter of 2013 primarily as a result of increases in the fair value of our pay-fixed derivatives due to increases in swap rates during the period.

We present, by derivative instrument type, the fair value gains and losses, net on our derivatives for the three months ended March 31, 2014 and 2013 in "Note 9, Derivative Instruments."

Mortgage Commitment Derivatives Fair Value (Losses) Gains, Net

We recognized fair value losses on our mortgage commitments in the first quarter of 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 period. We recognized fair value gains on our mortgage commitments in the first quarter of 2013 primarily due to gains on commitments to sell mortgage-related securities as a result of a decrease in prices as interest rates increased during the commitment period.

Trading Securities Gains, Net

Gains from trading securities in the first quarter of 2014 were driven by higher prices on securities primarily due to a decrease in interest rates, in addition to a narrowing of credit spreads on subprime private-label securities. Gains from trading securities in the first quarter of 2013 were primarily driven by higher prices on Alt-A and subprime private-label

securities, due to the narrowing of credit spreads on these securities as well as an improvement in the credit outlook of certain financial guarantors of these securities.

Credit-Related Income

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

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 amounts 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 March 31, 2014	December 31, 2013
	(Dollars in millions)	
Allowance for loan losses	$41,911	$43,846
Reserve for guaranty losses(1)	1,520	1,449
Combined loss reserves	43,431	45,295
Allowance for accrued interest receivable	1,048	1,156
Allowance for preforeclosure property taxes and insurance receivable(2)	802	839
Total loss reserves	45,281	47,290
Fair value losses previously recognized on acquired credit-impaired loans(3)	10,939	11,316
Total loss reserves and fair value losses previously recognized on acquired credit-impaired loans	$56,220	$58,606

____

(1) Amount included in “Other liabilities” in our condensed consolidated balance sheets.

(2) Amount included in “Other assets” in our condensed consolidated balance sheets.

(3) Represents the fair value losses on loans purchased out of unconsolidated MBS trusts reflected in our condensed consolidated balance sheets.

Table 8 displays changes in the total allowance for loan losses, reserve for guaranty losses and the total combined loss reserves for the periods indicated.

Table 8: Allowance for Loan Losses and Reserve for Guaranty Losses (Combined Loss Reserves)

	For the Three Months Ended March 31,	
	2014	2013
	(Dollars in millions)	
Changes in combined loss reserves:		
Allowance for loan losses:		
Beginning balance	$43,846	$58,795
Benefit for loan losses	(872)	(984)
Charge-offs[1]	(1,599)	(2,720)
Recoveries	391	1,272
Other[2]	145	98
Ending balance	$41,911	$56,461
Reserve for guaranty losses:		
Beginning balance	$1,449	$1,231
Provision for guaranty losses	98	27
Charge-offs	(28)	(56)
Recoveries	1	1
Ending balance	$1,520	$1,203
Combined loss reserves:		
Beginning balance	$45,295	$60,026
Benefit for credit losses	(774)	(957)
Charge-offs[1]	(1,627)	(2,776)
Recoveries	392	1,273
Other[2]	145	98
Ending balance	$43,431	$57,664

	As of	
	March 31, 2014	December 31, 2013
	(Dollars in millions)	
Allocation of combined loss reserves:		
Balance at end of each period attributable to:		
Single-family	$42,919	$44,705
Multifamily	512	590
Total	$43,431	$45,295
Single-family and multifamily combined loss reserves as a percentage of applicable guaranty book of business:		
Single-family	1.49 %	1.55 %
Multifamily	0.26	0.29
Combined loss reserves as a percentage of:		
Total guaranty book of business	1.41 %	1.47 %
Recorded investment in nonaccrual loans[3]	57.29	54.20

21

(1) Includes accrued interest of $94 million and $115 million for the three months ended March 31, 2014 and 2013, respectively.

(2) Amounts represent the net activity recorded in our allowances for accrued interest receivable and preforeclosure property taxes and insurance receivable from borrowers. The benefit for credit losses, charge-offs and recoveries activity included in this table reflects all changes for both the allowance for loan losses and the valuation allowances for accrued interest and preforeclosure property taxes and insurance receivable that relate to the mortgage loans.

(3) Excludes off-balance sheet loans in unconsolidated Fannie Mae MBS trusts that would meet our criteria for nonaccrual status if the loans had been on-balance sheet.

The amount of our benefit or provision for credit losses varies from period to period based on changes in actual and expected home prices, borrower payment behavior, the types and volumes of loss mitigation activities and foreclosures completed, and actual and estimated recoveries from our lender and mortgage insurer counterparties. See “Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management” for information on mortgage insurers and outstanding mortgage seller and servicer repurchase obligations. In addition, our benefit or provision for credit losses and our loss reserves can be impacted by updates to the assumptions and data used in determining our allowance for loan losses.

We recognized a benefit for credit losses of $774 million in the first quarter of 2014 and $957 million in the first quarter of 2013. The following factors contributed to our benefit for credit losses in the first quarter of 2014:

- Mortgage interest rates declined in the first quarter of 2014 resulting in higher discounted cash flow projections on our individually impaired loans. Lower mortgage interest rates shorten the expected lives of modified loans, which reduces the impairment on these loans and results in a decrease in the provision for credit losses.
- Home prices increased by 0.4% in the first quarter of 2014 and 1.6% in the first quarter of 2013. Higher home prices decrease the likelihood that loans will default and reduce the amount of credit loss on loans that default, which reduces our total loss reserves and provision for credit losses.
- The number of our seriously delinquent single-family loans declined 27% to approximately 384,000 as of March 31, 2014 from approximately 528,000 as of March 31, 2013, and the number of “early stage” delinquent loans (loans that are 30 to 89 days past due) declined 19% to approximately 316,000 as of March 31, 2014 from approximately 392,000 as of March 31, 2013. The reduction in the number of delinquent loans was due to home retention solutions, foreclosure alternatives and completed foreclosures, as well as our acquisition of loans with stronger credit profiles since the beginning of 2009. A decline in the number of loans becoming delinquent or seriously delinquent reduces our total loss reserves and provision for credit losses.

In the first quarter of 2013, our benefit for credit losses was primarily driven by an increase in home prices, including the sales prices of our REO properties as a result of strong demand in the first quarter of 2013, and lower single-family delinquency rates.

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 held-for-investment and held-for-sale 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	
	March 31, 2014	December 31, 2013
	(Dollars in millions)	
TDRs on accrual status:		
Single-family	$144,077	$140,512
Multifamily	684	715
Total TDRs on accrual status	$144,761	$141,227
Nonaccrual loans:		
Single-family	$73,972	$81,355
Multifamily	1,840	2,209
Total nonaccrual loans	$75,812	$83,564
Accruing on-balance sheet loans past due 90 days or more[1]	$685	$719

	For the Three Months Ended	
	March 31,	
	2014	2013
	(Dollars in millions)	
Interest related to on-balance sheet TDRs and nonaccrual loans:		
Interest income forgone[2]	$1,760	$1,998
Interest income recognized for the period[3]	1,369	1,451

(1) Recorded investment in loans that, as of the end of each period, are 90 days or more past due and continuing to accrue interest. The majority of this amount 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.

(2) 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.

(3) 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

Foreclosed property income was flat in the first quarter of 2014 compared with the first quarter of 2013. The amount of foreclosed property income recognized that is related to resolutions we entered into for representation and warranty matters and compensatory fees related to servicing matters increased in the first quarter of 2014 compared with the first quarter of 2013; however, this increase was offset by a decrease in gains recognized on dispositions of our REO properties in the first quarter of 2014.

Credit Loss Performance Metrics

Our credit-related income 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 average single-family and multifamily initial charge-off severity rates.

Table 10: Credit Loss Performance Metrics

	For the Three Months Ended March 31,			
	2014		2013	
	Amount	Ratio[1]	Amount	Ratio[1]
	(Dollars in millions)			
Charge-offs, net of recoveries	$1,235	16.0 bps	$1,503	19.8 bps
Foreclosed property income	(262)	(3.4)	(260)	(3.4)
Credit losses including the effect of fair value losses on acquired credit-impaired loans	973	12.6	1,243	16.4
Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property income[2]	160	2.1	255	3.4
Credit losses and credit loss ratio	$1,133	14.7 bps	$1,498	19.8 bps
Credit losses attributable to:				
Single-family	$1,127		$1,503	
Multifamily	6		(5)	
Total	$1,133		$1,498	
Single-family initial charge-off severity rate[3]		20.31 %		27.18 %
Multifamily initial charge-off severity rate[3]		29.91 %		34.49 %

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

(2) Includes fair value losses from acquired credit-impaired loans.

(3) 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 from short sales and third-party sales. Multifamily rate is net of risk-sharing agreements.

Credit losses decreased in the first quarter of 2014 compared with the first quarter of 2013 primarily due to lower REO acquisitions driven by lower delinquencies. In addition, in the first quarter of 2014, credit losses were positively impacted by the recovery of previously charged off loans resulting from a settlement agreement reached in the first quarter of 2014 with Lehman Brothers Holdings, Inc. (“Lehman Brothers”) related to representation and warranty matters. For more information on this agreement, see “Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Other.”

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

Regulatory Hypothetical Credit Loss Sensitivities

Under a September 2005 agreement with FHFA’s predecessor, the Office of Federal Housing Enterprise Oversight, we are required to disclose on a quarterly basis the present value of the change in future expected credit losses from our existing single-family guaranty book of business from an immediate 5% decline in single-family home prices for the entire United States followed by a return to the average of the possible growth rate paths used in our internal credit pricing models. The sensitivity results represent the difference between future expected credit losses under our base case scenario, which is derived from our internal home price path forecast, and a scenario that assumes an instantaneous nationwide 5% decline in home prices.

Table 11 displays the credit loss sensitivities as of the dates indicated for first-lien single-family loans that are in our retained mortgage portfolio or underlying Fannie Mae MBS, before and after consideration of projected credit risk sharing proceeds, such as private mortgage insurance claims and other credit enhancements.

Table 11: Single-Family Credit Loss Sensitivity[1]

	As of March 31, 2014	December 31, 2013
	(Dollars in millions)	
Gross single-family credit loss sensitivity	$9,475	$9,109
Less: Projected credit risk sharing proceeds	(1,102)	(1,062)
Net single-family credit loss sensitivity	$8,373	$8,047
Single-family loans in our retained mortgage portfolio and loans underlying Fannie Mae MBS	$2,819,111	$2,828,395
Single-family net credit loss sensitivity as a percentage of outstanding single-family loans in our retained mortgage portfolio and Fannie Mae MBS	0.30 %	0.28 %

____

(1) Represents total economic credit losses, which consist of credit losses and forgone interest. Calculations are based on 98% of our total single-family guaranty book of business as of March 31, 2014 and December 31, 2013. The mortgage loans and mortgage-related securities that are included in these estimates consist of: (a) single-family Fannie Mae MBS (whether held in our retained mortgage portfolio or held by third parties), excluding certain whole loan Real Estate Mortgage Investment Conduits ("REMICs") and private-label wraps; (b) single-family mortgage loans, excluding mortgages secured only by second liens, subprime mortgages, manufactured housing chattel loans and reverse mortgages; and (c) long-term standby commitments. We expect the inclusion in our estimates of the excluded products may impact the estimated sensitivities set forth in this table.

Because these sensitivities represent hypothetical scenarios, they should be used with caution. Our regulatory stress test scenario is limited in that it assumes an instantaneous uniform 5% nationwide decline in home prices, which is not representative of the historical pattern of changes in home prices. Changes in home prices generally vary on a regional, as well as a local, basis. In addition, these stress test scenarios are calculated independently without considering changes in other interrelated assumptions, such as unemployment rates or other economic factors, which are likely to have a significant impact on our future expected credit losses.

Other Non-Interest Expenses

Other non-interest expenses increased in the first quarter of 2014 compared with the first quarter of 2013 primarily due to an increase in TCCA fees. TCCA fees increased in the first quarter of 2014 compared with the first quarter of 2013 due to an increase in the volume of loans in our single-family book of business subject to the TCCA. We expect the guaranty fees collected and expenses incurred under the TCCA to continue to increase in the future.

Federal Income Taxes

We recognized a provision for federal income taxes of $2.6 billion in the first quarter of 2014 compared with a benefit for federal income taxes of $50.6 billion in the first quarter of 2013. In calculating our interim provision for federal income taxes, we use an estimate of our annual effective tax rate, which we update each quarter based on actual financial results and forward-looking estimates. In the first quarter of 2013, we released the substantial majority of the valuation allowance against our deferred tax assets, which fully offset the calculation of tax expense and resulted in the $50.6 billion benefit reported in the first quarter of 2013. See "MD&A—Critical Accounting Policies and Estimates—Deferred Tax Assets" in our 2013 Form 10-K for a discussion of the factors that led us to release our valuation allowance against our deferred tax assets in 2013.

BUSINESS SEGMENT RESULTS

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 2013 Form 10-K.

In this section, we summarize our segment results for the first quarter of 2014 and 2013 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 12, 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 the periods indicated. 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), net interest income (loss), TCCA fees and administrative expenses.

Table 12: Single-Family Business Results(1)

	For the Three Months Ended March 31,		
	2014	2013	Variance
	(Dollars in millions)		
Net interest (loss) income(2)	$(48)	$520	$(568)
Guaranty fee income(3)(4)	2,870	2,375	495
Credit-related income(5)	1,002	1,034	(32)
TCCA fees(4)	(322)	(186)	(136)
Other expenses(6)	(466)	(422)	(44)
Income before federal income taxes	3,036	3,321	(285)
(Provision) benefit for federal income taxes(7)	(927)	31,578	(32,505)
Net income attributable to Fannie Mae	$2,109	$34,899	$(32,790)
Other key performance data:			
Single-family effective guaranty fee rate (in basis points)(4)(8)	39.8	33.5	
Single-family average charged guaranty fee on new acquisitions (in basis points)(4)(9)	63.0	54.4	
Average single-family guaranty book of business(10)	$2,884,653	$2,834,490	
Single-family Fannie Mae MBS issuances(11)	$76,972	$221,865	

(1) Certain prior period amounts have been reclassified to conform with the current period presentation.

(2) Includes the cost to reimburse the Capital Markets group for interest income not recognized for loans in our retained mortgage portfolio on nonaccrual status, the cost to reimburse MBS trusts for interest income not recognized for loans in consolidated trusts on nonaccrual status and income from cash payments received on loans that have been placed on nonaccrual status.

(3) 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.

(4) Includes the impact of the 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.”

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

(6) Consists of investment gains, net, fair value losses, net, fee and other income, administrative expenses and other expenses.

(7) The benefit for the first quarter of 2013 represented the release of the substantial majority of our valuation allowance against the portion of our deferred tax assets that we attribute to our Single-Family segment based on the nature of the item.

(8) Calculated based on annualized Single-Family segment guaranty fee income divided by the average single-family guaranty book of business, expressed in basis points.

(9)

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.

(10) 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.

26

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

Pre-tax income decreased in the first quarter of 2014 compared with the first quarter of 2013 primarily due to a net interest loss in the first quarter of 2014 compared with net interest income in the first quarter of 2013, which was partially offset by an increase in guaranty fee income.

We recognized a net interest loss in the first quarter of 2014 compared with net interest income in the first quarter of 2013 primarily due to our resolution agreement with Bank of America during the first quarter of 2013, which resulted in the recognition of unamortized cost basis adjustments on the loans repurchased by Bank of America in that period.

Guaranty fee income and our effective guaranty fee rate increased in the first quarter of 2014 compared with the first quarter of 2013 as loans with higher guaranty fees have become a larger part of our single-family guaranty book of business due to the cumulative impact of guaranty fee price increases implemented in 2012 and also due to higher amortization income on loan level price adjustments.

In December 2011, Congress enacted the TCCA which, among other provisions, required that we increase our single-family guaranty fees by at least 10 basis points and remit this increase to Treasury, rather than retaining the incremental revenue. This TCCA-related revenue is included in guaranty fee income, and the expense is recognized as "TCCA fees." TCCA fees increased in the first quarter of 2014 compared with the first quarter of 2013, 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 first quarter of 2014.

Credit-related income slightly decreased in the first quarter of 2014 compared with the first quarter of 2013. Our single-family credit-related results for the first quarter of 2014 were primarily driven by higher discounted cash flow projections on our individually impaired loans due to a decrease in mortgage interest rates in the first quarter of 2014. Lower mortgage interest rates shorten the expected lives of modified loans, which reduces the impairment on these loans and results in a decrease in the provision for credit losses. In the first quarter of 2013, our single-family credit-related results were primarily driven by an increase in home prices, including the sales prices of our REO properties as a result of strong demand in the first quarter of 2013. Our single-family credit-related income represents the substantial majority of our consolidated activity. We provide a discussion of our credit-related income and credit losses in "Consolidated Results of Operations—Credit-Related Income."

We recognized a provision for federal income taxes in the first quarter of 2014 compared with a benefit for federal income taxes in the first quarter of 2013. The benefit for federal income taxes in the first quarter of 2013 represented the release of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our Single-Family segment.

Our average charged guaranty fee on newly acquired single-family loans increased in the first quarter of 2014 as compared with the first quarter of 2013 primarily driven by an increase in total loan level price adjustments charged on our acquisitions in the first quarter of 2014, as these acquisitions included a higher proportion of loans with higher LTV ratios and a higher proportion of loans with lower FICO credit scores than our acquisitions in the first quarter of 2013.

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

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 no longer 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 for the periods indicated. The primary sources of revenue for our Multifamily business are guaranty fee income and fee and other income. Other items that impact income or loss primarily include credit-related income (expense) and administrative expenses.

Table 13: Multifamily Business Results

	For the Three Months Ended March 31,		
	2014	2013	Variance
	(Dollars in millions)		
Guaranty fee income[1]	$311	$291	$20
Fee and other income	24	51	(27)
Gains from partnership investments[2]	45	59	(14)
Credit-related income[3]	34	183	(149)
Other expenses[4]	(93)	(73)	(20)
Income before federal income taxes	321	511	(190)
Benefit for federal income taxes[5]	9	7,988	(7,979)
Net income attributable to Fannie Mae	$330	$8,499	$(8,169)
Other key performance data:			
Multifamily effective guaranty fee rate (in basis points)[6]	62.3	56.6	
Multifamily credit loss ratio (in basis points)[7]	1.2	(1.0)	
Average multifamily guaranty book of business[8]	$199,829	$205,800	
Multifamily new business volume[9]	$3,520	$8,216	
Multifamily units financed from new business volume	72,000	143,000	
Multifamily Fannie Mae MBS issuances[10]	$4,879	$9,074	
Multifamily Fannie Mae structured securities issuances (issued by Capital Markets group)	$3,262	$3,236	
Additional net interest income earned on Fannie Mae multifamily mortgage loans and MBS (included in Capital Markets group's results)[11]	$121	$198	
Average Fannie Mae multifamily mortgage loans and MBS in Capital Markets group's portfolio[12]	$56,655	$85,715	

	As of	
	March 31, 2014	December 31, 2013
	(Dollars in millions)	
Multifamily serious delinquency rate	0.10 %	0.10 %
Percentage of multifamily guaranty book of business with credit enhancement	91 %	91 %
Fannie Mae percentage of total multifamily mortgage debt outstanding[13]	20 %	20 %
Multifamily Fannie Mae MBS outstanding[14]	$150,693	$148,724

(1) 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.

(2) 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.

(3) Consists of the benefit for credit losses and foreclosed property income.

(4) Consists of net interest loss, investment gains, net, administrative expenses and other (expenses) income.

(5) The benefit for the first quarter of 2013 represented the release of the substantial majority of our valuation allowance against the portion of our deferred tax assets that we attribute to our Multifamily segment based on the nature of the item.

(6) Calculated based on annualized Multifamily segment guaranty fee income divided by the average multifamily guaranty book of business, expressed in basis points.

(7) Calculated based on annualized Multifamily segment credit losses divided by the average multifamily guaranty book of business, expressed in basis points. The credit loss ratio may be negative as a result of recoveries on previously charged off amounts.

(8) 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.

(9) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued (excluding portfolio securitizations) and multifamily loans purchased during the period.

(10) 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 $1.4 billion and $825 million for the three months ended March 31, 2014 and 2013, respectively, and (c) conversions of adjustable-rate loans to fixed-rate loans and discount MBS ("DMBS") to MBS of $44 million for the three months ended March 31, 2013. We did not have any conversions of adjustable-rate loans to fixed-rate loans or DMBS to MBS for the three months ended March 31, 2014.

(11) 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.

(12) Based on unpaid principal balance.

(13) Includes mortgage loans and Fannie Mae MBS guaranteed by the Multifamily segment. Information labeled as of March 31, 2014 is as of December 31, 2013 and is based on the Federal Reserve's December 2013 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.

(14) Includes $20.5 billion and $22.4 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 March 31, 2014 and December 31, 2013, respectively, and $1.2 billion of Fannie Mae MBS collateralized by bonds issued by state and local housing finance agencies as of both March 31, 2014 and December 31, 2013.

Pre-tax income decreased in the first quarter 2014 compared with the first quarter of 2013 primarily due to a decrease in credit-related income, which declined primarily as a result of smaller improvements in default and loss severity trends in the first quarter of 2014 compared with the first quarter of 2013.

Guaranty fee income increased in the first quarter of 2014 compared with the first quarter of 2013 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.

Our benefit for federal income taxes significantly decreased in the first quarter of 2014 compared with the first quarter of 2013. We recognized a benefit for federal income taxes in the first quarter of 2013 that represented the release of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our Multifamily segment. We recognized a benefit for federal income taxes in the first quarter of 2014 due to the recognition of tax credits associated with our LIHTC investments.

Multifamily new business volume decreased in the first quarter of 2014 compared with the first quarter of 2013 as a result of a more competitive market. The multifamily sector continued to demonstrate steady demand and stable fundamentals at the national level.

Capital Markets Group Results

Table 14 displays the financial results of our Capital Markets group for the periods indicated. 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 "Risk Management—Market Risk Management, Including Interest Rate Risk Management—Measurement of Interest Rate Risk" in our 2013 Form 10-K and "Note 9, Derivative Instruments" in this report and our 2013 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, other-than-temporary impairments, allocated guaranty fee expense and administrative expenses.

Table 14: Capital Markets Group Results

	For the Three Months Ended March 31,		
	2014	2013	Variance
	(Dollars in millions)		
Net interest income[1]	$1,830	$2,742	$(912)
Investment gains, net[2]	1,336	1,349	(13)
Fair value (losses) gains, net[3]	(1,337)	875	(2,212)
Fee and other income	4,133	349	3,784
Other expenses[4]	(461)	(435)	(26)
Income before federal income taxes	5,501	4,880	621
(Provision) benefit for federal income taxes[5]	(1,666)	11,005	(12,671)
Net income attributable to Fannie Mae	$3,835	$15,885	$(12,050)

____

(1) Includes contractual interest income, excluding recoveries, on nonaccrual loans received from the Single-Family segment of $743 million and $1.1 billion for the three months ended March 31, 2014 and 2013, 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.

(2) 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.

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

(4) Includes allocated guaranty fee expense, debt extinguishment losses, net, administrative expenses, net other-than-temporary impairments and other (expenses) income. 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.

(5) The benefit for the first quarter of 2013 represented the release of the substantial majority of our valuation allowance against the portion of our deferred tax assets that we attribute to our Capital Markets group based on the nature of the item.

Pre-tax income increased in the first quarter of 2014 compared with the first quarter of 2013 primarily due to higher fee and other income in the first quarter of 2014. This increase was partially offset by fair value losses in the first quarter of 2014 compared with fair value gains in the first quarter of 2013 and a decrease in net interest income.

Fee and other income increased in the first quarter of 2014 compared with the first quarter of 2013 primarily as a result of income in the first quarter of 2014 resulting from settlement agreements resolving certain lawsuits relating to PLS sold to us. See "Legal Proceedings—FHFA Private-Label Mortgage-Related Securities Litigation" for additional information.

Fair value losses in the first quarter of 2014 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 gains and losses 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) Gains, Net."

The decrease in net interest income in the first quarter of 2014 compared with the first quarter of 2013 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.

We supplement our issuance of debt securities with derivative instruments to further reduce duration risk, which includes prepayment 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) gains, net" and is displayed in "Table 6: Fair Value (Losses) Gains, Net."

We recognized a provision for federal income taxes in the first quarter of 2014 compared with a benefit for federal income taxes in the first quarter of 2013. The benefit for federal income taxes in the first quarter of 2013 represented the release of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our Capital Markets group.

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, 2014 is $469.6 billion. As we reduce the size of our retained mortgage portfolio, our revenues generated by our retained mortgage portfolio will decrease. As of March 31, 2014, we owned $467.7 billion in mortgage assets, compared with $490.7 billion as of December 31, 2013. 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 2013 Form 10-K.

Table 15 displays our Capital Markets group's mortgage portfolio activity for the periods indicated.

Table 15: Capital Markets Group's Mortgage Portfolio Activity[1]

	For the Three Months Ended March 31,	
	2014	2013
	(Dollars in millions)	
Mortgage loans:		
Beginning balance	$314,664	$371,708
Purchases	30,900	72,264
Securitizations[2]	(26,543)	(64,787)
Liquidations and sales[3]	(13,032)	(27,186)
Mortgage loans, ending balance	305,989	351,999
Mortgage securities:		
Beginning balance	176,037	261,346
Purchases[4]	3,530	9,462
Securitizations[2]	26,543	64,787
Sales	(37,242)	(75,207)
Liquidations[3]	(7,145)	(14,608)
Mortgage securities, ending balance	161,723	245,780
Total Capital Markets group's mortgage portfolio	$467,712	$597,779

(1) Based on unpaid principal balance.
(2) Includes portfolio securitization transactions that do not qualify for sale treatment under GAAP.
(3) Includes scheduled repayments, prepayments, foreclosures, and lender repurchases.
(4) Includes purchases of Fannie Mae MBS issued by consolidated trusts.

Table 16 displays the composition of the Capital Markets group's mortgage portfolio as of March 31, 2014 and December 31, 2013.

Table 16: Capital Markets Group's Mortgage Portfolio Composition[1]

	As of	
	March 31, 2014	December 31, 2013
	(Dollars in millions)	
Capital Markets group's mortgage loans:		
Single-family loans:		
Government insured or guaranteed	$38,786	$39,399
Conventional:		
Long-term, fixed-rate	212,988	215,945
Intermediate-term, fixed-rate	8,150	8,385
Adjustable-rate	12,273	13,171
Total single-family conventional	233,411	237,501
Total single-family loans	272,197	276,900
Multifamily loans:		
Government insured or guaranteed	261	267
Conventional:		
Long-term, fixed-rate	2,488	2,687
Intermediate-term, fixed-rate	23,866	27,325
Adjustable-rate	7,177	7,485
Total multifamily conventional	33,531	37,497
Total multifamily loans	33,792	37,764
Total Capital Markets group's mortgage loans	305,989	314,664
Capital Markets group's mortgage-related securities:		
Fannie Mae	117,283	129,841
Freddie Mac	7,616	8,124
Ginnie Mae	719	899
Alt-A private-label securities	10,886	11,153
Subprime private-label securities	12,088	12,322
CMBS	3,925	3,983
Mortgage revenue bonds	5,896	6,319
Other mortgage-related securities	3,310	3,396
Total Capital Markets group's mortgage-related securities[2]	161,723	176,037
Total Capital Markets group's mortgage portfolio	$467,712	$490,701

(1) Based on unpaid principal balance.

(2) The fair value of these mortgage-related securities was $165.8 billion and $179.5 billion as of March 31, 2014 and December 31, 2013, respectively.

The Capital Markets group's mortgage portfolio decreased as of March 31, 2014 compared with December 31, 2013, primarily due to sales and liquidations outpacing purchases in the first quarter of 2014. Purchase activity declined in the first quarter of 2014 compared with the first quarter of 2013 primarily due to fewer loan purchases as a result of an increase in mortgage interest rates.

The loans we purchased in the first quarter of 2014 included $5.2 billion in delinquent loans we purchased from our single-family MBS trusts. As a result of purchasing delinquent loans from MBS trusts as they become four or more consecutive monthly payments delinquent and decreasing our retained mortgage portfolio to meet the requirements of the senior preferred stock purchase agreement, an increasing portion of the Capital Markets group's mortgage portfolio is comprised of loans restructured in a TDR and nonaccrual loans. 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 as of March 31, 2014 and December 31, 2013.

Table 17: Capital Markets Group's Mortgage Portfolio

	As of March 31, 2014		December 31, 2013	
	Unpaid Principal Balance	% of total	Unpaid Principal Balance	% of total
	(Dollars in millions)			
TDRs on accrual status	$139,975	30 %	$136,237	28 %
Nonaccrual loans	68,513	15 %	75,006	15 %
All other mortgage-related assets	259,224	55 %	279,458	57 %
Total Capital Markets group's mortgage portfolio	$467,712	100 %	$490,701	100 %

CONSOLIDATED BALANCE SHEET ANALYSIS

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

Table 18 displays a summary of our condensed consolidated balance sheets as of the dates indicated.

Table 18: Summary of Condensed Consolidated Balance Sheets

	As of March 31, 2014	December 31, 2013	Variance
	(Dollars in millions)		
Assets			
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	$26,806	$ 58,203	$(31,397)
Restricted cash	24,583	28,995	(4,412)
Investments in securities[1]	68,923	68,939	(16)
Mortgage loans:			
Of Fannie Mae	292,196	300,508	(8,312)
Of consolidated trusts	2,767,731	2,769,578	(1,847)
Allowance for loan losses	(41,911)	(43,846)	1,935
Mortgage loans, net of allowance for loan losses	3,018,016	3,026,240	(8,224)
Deferred tax assets, net	45,366	47,560	(2,194)
Other assets[2]	42,811	40,171	2,640
Total assets	$3,226,505	$ 3,270,108	$(43,603)
Liabilities and equity			
Debt:			
Of Fannie Mae	$481,853	$ 529,434	$(47,581)
Of consolidated trusts	2,712,842	2,705,089	7,753
Other liabilities[3]	23,718	25,994	(2,276)
Total liabilities	3,218,413	3,260,517	(42,104)
Total equity[4]	8,092	9,591	(1,499)
Total liabilities and equity	$3,226,505	$ 3,270,108	$(43,603)

____

(1) Includes $17.6 billion as of March 31, 2014 and $16.3 billion as of December 31, 2013 of non-mortgage-related securities that are included in our other investments portfolio, which we present in “Table 26: Cash and Other Investments Portfolio.”

(2) Consists of accrued interest receivable, net; acquired property, net; and other assets.

(3) Consists of accrued interest payable, federal funds purchased and securities sold under agreements to repurchase and other liabilities.

(4) Consists of preferred stock, senior preferred stock, common stock, accumulated deficit, accumulated other comprehensive income, treasury stock, and noncontrolling interest.

Cash and Other Investments Portfolio

Our cash and other investments portfolio consists of cash and cash equivalents, federal funds sold and securities purchased under agreements to resell or similar arrangements, and investments in non-mortgage-related securities. See “Liquidity and Capital Management—Liquidity Management—Cash and Other Investments Portfolio” for additional information on our cash and other investments portfolio.

Restricted Cash

Restricted cash primarily includes unscheduled borrower payments received by the servicer or consolidated trusts due to be remitted to the MBS certificate holders in the subsequent month. Our restricted cash decreased in the first quarter of 2014 as a result of fewer unscheduled payments received due to lower payoff volumes in March 2014 compared with December 2013.

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, as of the dates indicated. We classify private-label securities as Alt-A, subprime, CMBS or manufactured housing 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	
	March 31, 2014	December 31, 2013
	(Dollars in millions)	
Mortgage-related securities:		
Fannie Mae	$12,238	$12,443
Freddie Mac	8,172	8,681
Ginnie Mae	805	995
Alt-A private-label securities	8,834	8,865
Subprime private-label securities	8,483	8,516
CMBS	4,245	4,324
Mortgage revenue bonds	5,609	5,821
Other mortgage-related securities	2,950	2,988
Total	$51,336	$52,633

Mortgage Loans

The decrease in mortgage loans, net of the allowance for loan losses, in the first quarter of 2014 was primarily due to a decline in mortgage loans of Fannie Mae as a result of an increase in mortgage interest rates that led to lower purchase volumes during the first quarter of 2014. 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."

Debt

Debt of Fannie Mae is the primary means of funding our mortgage investments. The decrease in debt of Fannie Mae in the first quarter of 2014 was primarily driven by lower funding needs. 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 certificate holders. The increase in debt of consolidated trusts in the first quarter of 2014 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 decreased as of March 31, 2014 compared with December 31, 2013 due to our payment of senior preferred stock dividends to Treasury during the first quarter of 2014, partially offset by our first quarter 2014 comprehensive income.

SUPPLEMENTAL NON-GAAP INFORMATION—FAIR VALUE BALANCE SHEETS

We disclose on a quarterly basis supplemental non-GAAP consolidated fair value balance sheets, which reflect our assets and liabilities at estimated fair value.

Table 20 summarizes changes in our stockholders' equity reported in our GAAP condensed consolidated balance sheets and in the estimated fair value of our net assets in our non-GAAP consolidated fair value balance sheets for the first quarter of 2014. The estimated fair value of our net assets is calculated based on the difference between the fair value of our assets and the fair value of our liabilities, adjusted for noncontrolling interests. We use various valuation techniques to estimate fair value, some of which incorporate internal assumptions that are subjective and involve a high degree of management judgment. We describe the specific valuation techniques used to determine fair value and disclose the carrying value and fair value of our financial assets and liabilities in "Note 16, Fair Value."

Table 20: Comparative Measures—GAAP Change in Stockholders' Equity and Non-GAAP Change in Fair Value of Net Assets

	For the Three Months Ended March 31, 2014 (Dollars in millions)
GAAP condensed consolidated balance sheets:	
Fannie Mae stockholders' equity as of December 31, 2013[1]	$9,541
Total comprehensive income	5,697
Senior preferred stock dividend paid	(7,191)
Other	(5)
Fannie Mae stockholders' equity as of March 31, 2014[1]	$8,042
Non-GAAP consolidated fair value balance sheets:	
Estimated fair value of net assets as of December 31, 2013	$(33,368)
Senior preferred stock dividends payable[2]	(5,692)
Change in estimated fair value of net assets excluding the senior preferred stock dividends payable	12,729
Increase in estimated fair value of net assets, net	7,037
Estimated fair value of net assets as of March 31, 2014	$(26,331)

____

(1) Our net worth, as defined under the senior preferred stock purchase agreement, is equivalent to the "Total equity" amount reported in our condensed consolidated balance sheets, which consists of "Total Fannie Mae stockholders' equity" and "Noncontrolling interest."

(2) Represents the dividend we expect to pay Treasury in the second quarter of 2014 on the senior preferred stock, which, for purposes of our non-GAAP fair value balance sheets, we present as a liability. Under the terms of the senior preferred stock, effective January 1, 2013, 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 immediately preceding fiscal quarter over an applicable capital reserve amount. The applicable capital reserve amount is $2.4 billion for all quarterly dividend periods in 2014 and will be reduced by $600 million each year until it reaches zero on January 1, 2018. The Director of FHFA directs us to make dividend payments on the senior preferred stock on a quarterly basis.

During the first quarter of 2014, the estimated fair value of our net assets (excluding the senior preferred stock dividends payable) increased by approximately $13 billion. This increase was primarily due to an improvement in credit-related items, mostly driven by lower delinquencies, which reduced our expected losses in the first quarter of 2014. The income from the interest spread between our mortgage assets and associated debt and derivatives during the first quarter of 2014 contributed to the increase in the estimated fair value of our net assets. Also contributing to the increase in the estimated fair value of our net assets was the resolution of certain lawsuits relating to PLS sold to us.

Cautionary Language Relating to Supplemental Non-GAAP Financial Measures

In reviewing our non-GAAP consolidated fair value balance sheets, there are a number of important factors and limitations to consider. The estimated fair value of our net assets is calculated as of a particular point in time based on our existing assets and liabilities. It does not incorporate other factors that may have a significant impact on our long-term fair value, including revenues generated from future business activities in which we expect to engage, the value from our foreclosure and loss mitigation efforts or the impact that legislation or potential regulatory actions may have on us. As a result, the estimated fair value of our net assets presented in our non-GAAP consolidated fair value balance sheets does not represent an estimate of our net realizable value, liquidation value or our market value as a whole. Amounts we ultimately realize from the disposition of assets or settlement of liabilities may vary materially from the estimated fair values presented in our non-GAAP consolidated fair value balance sheets.

In addition, the fair value of our net assets presented in our fair value balance sheet does not represent an estimate of the value we expect to realize from operating the company, primarily because:

- The estimated fair value of our guaranty obligations on mortgage loans significantly exceeds the projected credit losses we would expect to incur, as fair value takes into account certain assumptions about liquidity and required rates of return that a market participant may demand in assuming a credit obligation, and
- The fair value of our net assets reflects a point in time estimate of the fair value of our existing assets and liabilities, and does not incorporate the value associated with new business that may be added in the future.

The fair value of our net assets is not a measure defined within GAAP and may not be comparable to similarly titled measures reported by other companies.

Supplemental Non-GAAP Consolidated Fair Value Balance Sheets

We display our non-GAAP fair value balance sheets as of the dates indicated in Table 21.

Table 21: Supplemental Non-GAAP Consolidated Fair Value Balance Sheets

	As of March 31, 2014			As of December 31, 2013		
	GAAP Carrying Value	Fair Value Adjustment(1)	Estimated Fair Value	GAAP Carrying Value	Fair Value Adjustment(1)	Estimated Fair Value
	(Dollars in millions)					
Assets:						
Cash and cash equivalents	$38,639	$ —	$38,639	$48,223	$ —	$48,223
Federal funds sold and securities purchased under agreements to resell or similar arrangements	12,750	—	12,750	38,975	—	38,975
Trading securities	31,795	—	31,795	30,768	—	30,768
Available-for-sale securities	37,128	—	37,128	38,171	—	38,171
Mortgage loans:						
Mortgage loans held for sale	1,494	8	1,502	380	—	380
Mortgage loans held for investment, net of allowance for loan losses:						
Of Fannie Mae	251,899	(9,993)	241,906	259,638	(13,758)	245,880
Of consolidated trusts	2,764,623	5,325 (2)(3)	2,769,948	2,766,222	(20,080) (2)(3)	2,746,142
Total mortgage loans	3,018,016	(4,660)	3,013,356 (4)	3,026,240	(33,838)	2,992,402 (4)
Advances to lenders	3,904	(24)	3,880 (5)	3,727	(39)	3,688 (5)
Derivative assets at fair value	836	—	836 (5)	2,073	—	2,073 (5)
Guaranty assets and buy-ups, net	261	449	710 (5)	267	439	706 (5)
Total financial assets	3,143,329	(4,235)	3,139,094 (6)	3,188,444	(33,438)	3,155,006 (6)
Credit enhancements	547	717	1,264 (5)	548	984	1,532 (5)
Deferred tax assets, net	45,366	—	45,366 (7)	47,560	—	47,560 (7)
Other assets	37,263	(213)	37,050 (5)	33,556	(235)	33,321 (5)
Total assets	$3,226,505	$ (3,731)	$3,222,774	$3,270,108	$ (32,689)	$3,237,419
Liabilities:						
Federal funds purchased and securities sold under agreements to repurchase	$25	$ —	$25	$—	$ —	$—
Short-term debt:						
Of Fannie Mae	65,448	12	65,460	72,295	9	72,304
Of consolidated trusts	1,899	—	1,899	2,154	—	2,154
Long-term debt:						
Of Fannie Mae	416,405	10,980	427,385	457,139	8,409	465,548

Of consolidated trusts	2,710,943	14,362	(2)	2,725,305		2,702,935	(5,349)	(2)	2,697,586	
Derivative liabilities at fair value	209	—		209	(8)	1,469	—		1,469	(8)
Guaranty obligations	467	1,640		2,107	(8)	485	1,948		2,433	(8)
Total financial liabilities	3,195,396	26,994		3,222,390	(6)	3,236,477	5,017		3,241,494	(6)
Senior preferred stock dividend[9]	—	5,692		5,692		—	7,191		7,191	
Other liabilities	23,017	(2,044)		20,973	(8)	24,040	(1,988)		22,052	(8)
Total liabilities	3,218,413	30,642		3,249,055		3,260,517	10,220		3,270,737	
Equity (deficit):										
Fannie Mae stockholders' equity (deficit):										
Senior preferred[10]	117,149	—		117,149		117,149	—		117,149	
Preferred	19,130	(11,615)		7,515		19,130	(13,004)		6,126	
Common	(128,237)	(22,758)		(150,995)		(126,738)	(29,905)		(156,643)	
Total Fannie Mae stockholders' equity (deficit)/non-GAAP fair value of net assets	$8,042	$ (34,373)		$(26,331)		$9,541	$ (42,909)		$(33,368)	
Noncontrolling interest	50	—		50		50	—		50	
Total equity (deficit)	8,092	(34,373)		(26,281)		9,591	(42,909)		(33,318)	
Total liabilities and equity (deficit)	$3,226,505	$ (3,731)		$3,222,774		$3,270,108	$ (32,689)		$3,237,419	

38

____

Explanation and Reconciliation of Non-GAAP Measures to GAAP Measures

(1) Each of the amounts listed as a "fair value adjustment" represents the difference between the carrying value included in our GAAP condensed consolidated balance sheets and our best judgment of the estimated fair value of the listed item.

(2) Fair value of consolidated loans is impacted by credit risk, which has no corresponding impact on the consolidated debt.

(3) Includes the estimated fair value of our liability to Treasury for TCCA-related guaranty fee payments over the expected life of the loans.

(4) Performing loans had a fair value and an unpaid principal balance of $2.9 trillion as of March 31, 2014 and December 31, 2013. Nonperforming loans, which for the purposes of our non-GAAP fair value balance sheets consists of loans that are delinquent by one or more payments, had a fair value of $98.9 billion and an unpaid principal balance of $138.9 billion as of March 31, 2014, compared with a fair value of $103.8 billion and an unpaid principal balance of $149.3 billion as of December 31, 2013. See "Note 16, Fair Value" for additional information on valuation techniques for performing and nonperforming loans.

(5) "Other assets" include (a) Accrued interest receivable, net and (b) Acquired property, net as reported in our GAAP consolidated balance sheets. "Other assets" in our GAAP consolidated balance sheets include the following: (a) Advances to lenders; (b) Derivative assets at fair value; (c) Guaranty assets and buy-ups, net; and (d) Credit enhancements. The carrying value of these items totaled $5.5 billion and $6.6 billion as of March 31, 2014 and December 31, 2013, respectively.

(6) We estimated the fair value of these financial instruments in accordance with the fair value accounting guidance as described in "Note 16, Fair Value."

(7) The amount included in "estimated fair value" of deferred tax assets, net represents the GAAP carrying value and does not reflect fair value.

(8) "Other liabilities" include Accrued interest payable as reported in our GAAP consolidated balance sheets. "Other liabilities" in our GAAP consolidated balance sheets include the following: (a) Derivative liabilities at fair value and (b) Guaranty obligations. The carrying value of these items totaled $676 million and $2.0 billion as of March 31, 2014 and December 31, 2013.

(9) Represents the dividend we expect to pay to Treasury in the subsequent quarter on the senior preferred stock, which, for purposes of our non-GAAP fair balance sheets, we present as a liability.

(10) The amount included in "estimated fair value" of the senior preferred stock is the liquidation preference, which is the same as the GAAP carrying value, and does not reflect fair value.

LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity Management

Our business activities require that we maintain adequate liquidity to fund our operations. Liquidity risk is the risk that we will not be able to meet our funding obligations in a timely manner. Our liquidity risk management framework is designed to address our liquidity risk. 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 2013 Form 10-K. See "MD&A—Liquidity and Capital Management—Liquidity Management" and "Risk Factors" in our 2013 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 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. Under the senior preferred stock purchase agreement, we are required to reduce our retained mortgage portfolio to $469.6 billion by December 31, 2014 and, by December 31 of each year thereafter, 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.

Fannie Mae Debt Funding Activity

Table 22 displays the activity in debt of Fannie Mae for the periods indicated. 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 22: Activity in Debt of Fannie Mae

	For the Three Months Ended March 31,	
	2014	2013
	(Dollars in millions)	
Issued during the period:		
Short-term:		
Amount	$32,438	$84,711
Weighted-average interest rate	0.05 %	0.13 %
Long-term:		
Amount	$8,060	$62,708
Weighted-average interest rate	1.63 %	1.00 %
Total issued:		
Amount	$40,498	$147,419
Weighted-average interest rate	0.37 %	0.50 %
Paid off during the period:[1]		
Short-term:		
Amount	$39,272	$74,419
Weighted-average interest rate	0.08 %	0.14 %
Long-term:		
Amount	$49,117	$58,651
Weighted-average interest rate	1.85 %	2.14 %
Total paid off:		
Amount	$88,389	$133,070
Weighted-average interest rate	1.06 %	1.02 %

(1) 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.

Debt issuances decreased during the first three months of 2014 compared with the first three months of 2013 primarily due to lower funding needs as our retained mortgage portfolio decreased. Redemptions of callable debt decreased during the first three months of 2014 compared with the first three months of 2013 due to higher interest rates.

Outstanding Debt

Total outstanding debt of Fannie Mae includes short-term and long-term debt, excluding debt of consolidated trusts. Our outstanding short-term debt, based on its original contractual maturity, as a percentage of our total outstanding debt was 14% as of March 31, 2014 and December 31, 2013. The weighted-average interest rate on our long-term debt, based on its original contractual maturity, increased to 2.16% as of March 31, 2014 from 2.14% as of December 31, 2013.

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 on December 31 of the immediately preceding calendar year. Our debt limit under the senior preferred stock purchase agreement was reduced to $663.0 billion in 2014. As of March 31, 2014, our aggregate indebtedness totaled $486.3 billion, which was $176.7 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 23 displays information as of the dates indicated on our outstanding short-term and long-term debt based on its original contractual terms.

Table 23: Outstanding Short-Term Borrowings and Long-Term Debt[(1)]

	As of March 31, 2014				December 31, 2013			
	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[(2)]	—	$25	—	%	—	$—	—	%
Short-term debt:								
Fixed-rate:								
Discount notes	—	$65,248	0.12	%	—	$71,933	0.12	%
Foreign exchange discount notes	—	200	0.81		—	362	1.07	
Total short-term debt of Fannie Mae[(3)]		65,448	0.13			72,295	0.13	
Debt of consolidated trusts	—	1,900	0.10		—	2,154	0.09	
Total short-term debt		$67,348	0.12	%		$74,449	0.13	%
Long-term debt:								
Senior fixed:								
Benchmark notes and bonds	2014 - 2030	$197,233	2.42	%	2014 - 2030	$212,234	2.45	%
Medium-term notes[(4)]	2014 - 2023	137,654	1.33		2014 - 2023	161,445	1.28	
Foreign exchange notes and bonds	2021 - 2028	662	5.40		2021 - 2028	682	5.41	
Other[(5)]	2014 - 2038	37,754	4.96		2014 - 2038	38,444	4.99	
Total senior fixed		373,303	2.28			412,805	2.24	
Senior floating:								
Medium-term notes[(4)]	2014 - 2019	37,492	0.18		2014 - 2019	38,441	0.20	
Other[(5)(6)]	2020 - 2037	1,775	4.19		2020 - 2037	955	5.18	
Total senior floating		39,267	0.35			39,396	0.32	
Subordinated fixed:								
Qualifying subordinated	—	—	—		2014	1,169	5.27	
Subordinated debentures[(7)]	2019	3,589	9.92		2019	3,507	9.92	
Total subordinated fixed		3,589	9.92			4,676	8.76	
Secured borrowings[(8)]	2021 - 2022	246	1.87		2021 - 2022	262	1.86	
Total long-term debt of Fannie Mae[(9)]		416,405	2.16			457,139	2.14	
Debt of consolidated trusts[(5)]	2014 - 2054	2,710,942	3.28		2014 - 2053	2,702,935	3.26	
Total long-term debt		$3,127,347	3.13	%		$3,160,074	3.10	%
Outstanding callable debt of Fannie Mae[(10)]		$140,919	1.66	%		$168,397	1.59	%

---

(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 amounts include fair value gains and losses associated with debt that we elected to carry at fair value. The unpaid principal balance of outstanding debt of Fannie Mae, which excludes unamortized discounts and premiums, other cost basis adjustments, fair value adjustments and debt of consolidated trusts, totaled $486.4 billion and $534.3 billion as of March 31, 2014 and December 31, 2013, respectively.

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

(3) 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. Reported amounts include unamortized discounts and premiums, other cost basis adjustments and fair value adjustments of $22 million and $30 million as of March 31, 2014 and December 31, 2013, respectively.

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

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

(6) Includes credit risk sharing securities issued under our Connecticut Avenue Securities series, which transfers some of the credit risk on our mortgage loans to the investors in these securities.

(7) Consists of subordinated debt with an interest deferral feature.

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

(9) Long-term debt of Fannie Mae consists of borrowings with an original contractual maturity of greater than one year. Reported amounts include the current portion of long-term debt that is due within one year, which totaled $80.9 billion and $89.8 billion as of March 31, 2014 and December 31, 2013, respectively. Reported amounts also include unamortized discounts and premiums, other cost basis adjustments and fair value adjustments of $4.5 billion and $4.8 billion as of March 31, 2014 and December 31, 2013, respectively. The unpaid principal balance of long-term debt of Fannie Mae, which excludes unamortized discounts and premiums, other cost basis adjustments and fair value adjustments and amounts related to debt of consolidated trusts, totaled $420.9 billion and $462.0 billion as of March 31, 2014 and December 31, 2013, respectively.

(10) 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 or the option of the investor at any time on or after a specified date.

Maturity Profile of Outstanding Debt of Fannie Mae

Table 24 displays the maturity profile, as of March 31, 2014, of our outstanding debt maturing within one year, including the current portion of our long-term debt and amounts we have announced for early redemption. Our outstanding debt maturing within one year, as a percentage of our total outstanding debt, excluding debt of consolidated trusts, was 30% as of March 31, 2014 and 31% as of December 31, 2013. The weighted-average maturity of our outstanding debt that is maturing within one year was 143 days as of March 31, 2014, compared with 151 days as of December 31, 2013.

Table 24: Maturity Profile of Outstanding Debt of Fannie Mae Maturing Within One Year[1]

____

(1) Includes unamortized discounts and premiums and other cost basis adjustments of $124 million as of March 31, 2014. Excludes debt of consolidated trusts maturing within one year of $3.1 billion as of March 31, 2014.

Table 25 displays the maturity profile, as of March 31, 2014, of the portion of our long-term debt that matures in more than one year, on a quarterly basis for one year and on an annual basis thereafter, excluding amounts we have announced for early

43

redemption within one year. The weighted-average maturity of our outstanding debt maturing in more than one year was approximately 60 months as of March 31, 2014 and approximately 59 months as of December 31, 2013.

Table 25: Maturity Profile of Outstanding Debt of Fannie Mae Maturing in More Than One Year[(1)]

____

(1) Includes unamortized discounts and premiums, other cost basis adjustments and fair value adjustments of $4.4 billion as of March 31, 2014. Excludes debt of consolidated trusts of $2.7 trillion as of March 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

Our cash and other investments portfolio decreased from December 31, 2013 to March 31, 2014. This decrease was primarily driven by lower funding needs as our retained mortgage portfolio decreased. 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—Issuers 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 26 displays information on the composition of our cash and other investments portfolio as of the dates indicated.

Table 26: Cash and Other Investments Portfolio

	As of March 31, 2014	December 31, 2013
	(Dollars in millions)	
Cash and cash equivalents	$14,056	$19,228
Federal funds sold and securities purchased under agreements to resell or similar arrangements	12,750	38,975
U.S. Treasury securities[(1)]	17,587	16,306
Total cash and other investments	$44,393	$74,509

____

(1) Excludes U.S. Treasury securities that had a maturity at the date of acquisition of three months or less and would therefore be included in cash and cash equivalents.

Credit Ratings

Our credit ratings from the major credit ratings organizations, as well as the credit ratings of the U.S. government, are primary factors that could affect our ability to access the capital markets and our cost of funds. In addition, our credit ratings are important when we seek to engage in certain long-term transactions, such as derivative transactions. Standard & Poor's Ratings Services ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings Ltd. ("Fitch") have all indicated that, if they were to lower the sovereign credit ratings on the U.S., they would likely lower their ratings on the debt of Fannie Mae and certain other government-related entities. We cannot predict whether one or more of these ratings agencies will lower our debt ratings in the future. See "Risk Factors" in our 2013 Form 10-K for a discussion of the risks to our business relating to a decrease in our credit ratings, which could include an increase in our borrowing costs, limits on our ability to issue debt, and additional collateral requirements under our derivatives contracts.

Table 27 displays the credit ratings issued by the three major credit rating agencies as of April 30, 2014.

Table 27: Fannie Mae Credit Ratings

	As of April 30, 2014		
	S&P	Moody's	Fitch
Long-term senior debt	AA+	Aaa	AAA
Short-term senior debt	A-1+	P-1	F1+
Subordinated debt	AA-	Aa2	AA-
Preferred stock	D	Ca	C/RR6
Outlook	Stable	Stable	Stable
	(for Long Term Senior Debt and Subordinated Debt)	(for Long Term Senior Debt and Preferred Stock)	(for AAA rated Long Term Issuer Default Rating)

In March 2014, Fitch removed the Rating Watch Negative that was previously placed on our long-term senior debt, short-term senior debt, and subordinated debt ratings, following a similar action on the debt ratings of the U.S. government. Fitch also affirmed our 'AAA' Long-term Issuer Default Ratings (IDRs) and the rating outlook is Stable.

Cash Flows

Three Months Ended March 31, 2014. Cash and cash equivalents decreased by $5.2 billion from $19.2 billion as of December 31, 2013 to $14.1 billion as of March 31, 2014. This decrease in the balance was primarily driven by cash used to (1) acquire mortgage loans and provide advances to lenders; (2) redeem funding debt, which outpaced debt issuances, due to lower funding needs; (3) acquire delinquent loans out of MBS trusts and (4) pay dividends to Treasury.

Partially offsetting these cash outflows were cash inflows from issuances of long-term debt of consolidated trusts from selling Fannie Mae MBS securities to third parties.

Three Months Ended March 31, 2013. Cash and cash equivalents increased by $2.3 billion from $21.1 billion as of December 31, 2012 to $23.4 billion as of March 31, 2013. This increase in the balance was primarily driven by cash provided by (1) issuances of long-term debt of consolidated trusts, from selling Fannie Mae MBS securities to third parties; (2) the sale of our REO inventory and (3) proceeds related to resolution agreements related to representation and warranty and compensatory fee matters.

Partially offsetting these cash inflows were cash outflows from: (1) the acquisition of mortgage loans and providing advances to lenders and (2) purchases of federal funds.

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 $138.0 billion as of March 31, 2014 and $137.3 billion as of December 31, 2013.

Under the terms of the senior preferred stock, starting January 1, 2013, 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 $5.7 billion by June 30, 2014.

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 March 31, 2014. 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 March 31, 2014 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. 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 2013 Form 10-K.

Our first quarter 2014 dividend of $7.2 billion was declared by FHFA and subsequently paid by us on March 31, 2014. 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 $2.4 billion for dividend periods in 2014 and will 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 second quarter of 2014 of $5.7 billion by June 30, 2014. The Director of FHFA directs us to make dividend payments on the senior preferred stock on a quarterly basis.

See "Risk Factors" in our 2013 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 2013 Form 10-K for more information on the terms of the senior preferred stock and our senior preferred stock purchase agreement with Treasury.

OFF-BALANCE SHEET ARRANGEMENTS

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 $43.3 billion as of March 31, 2014 and $44.3 billion as of December 31, 2013.

For a description of our off-balance sheet arrangements, see "MD&A—Off-Balance Sheet Arrangements" in our 2013 Form 10-K.

RISK MANAGEMENT

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 seek to 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 "Legislative and Regulatory Developments—Housing Finance Reform" and "Risk Factors" in this report and in "Business—Housing Finance Reform" in our 2013 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 2013 Form 10-K and "Risk Factors" in this report and our 2013 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, including mortgage sellers and servicers who are obligated to repurchase loans from us or reimburse us for losses in certain circumstances.

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 28 displays the composition of our mortgage credit book of business as of the dates indicated. Our single-family mortgage credit book of business accounted for 93% of our mortgage credit book of business as of March 31, 2014 and December 31, 2013.

Table 28: Composition of Mortgage Credit Book of Business[1]

	As of					
	March 31, 2014			December 31, 2013		
	Single-Family	Multifamily	Total	Single-Family	Multifamily	Total
	(Dollars in millions)					
Mortgage loans and Fannie Mae MBS[2]	$2,852,649	$182,502	$3,035,151	$2,862,306	$183,891	$3,046,197
Unconsolidated Fannie Mae MBS, held by third parties[3]	12,131	1,299	13,430	12,430	1,314	13,744
Other credit guarantees[4]	14,607	15,238	29,845	15,183	15,414	30,597
Guaranty book of business	$2,879,387	$199,039	$3,078,426	$2,889,919	$200,619	$3,090,538
Agency mortgage-related securities[5]	8,304	32	8,336	8,992	32	9,024
Other mortgage-related securities[6]	26,834	9,301	36,135	27,563	9,640	37,203
Mortgage credit book of business	$2,914,525	$208,372	$3,122,897	$2,926,474	$210,291	$3,136,765
Guaranty Book of Business Detail:						
Conventional Guaranty Book of Business[7]	$2,817,912	$197,373	$3,015,285	$2,827,169	$198,906	$3,026,075
Government Guaranty Book of Business[8]	$61,475	$1,666	$63,141	$62,750	$1,713	$64,463

(1) Based on unpaid principal balance.

(2) 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.

(3) Reflects unpaid principal balance of unconsolidated Fannie Mae MBS, held by third-party investors. The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

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

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

(6) Consists primarily of mortgage revenue bonds, Alt-A and subprime private-label securities and CMBS.

(7) 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.

(8) 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.

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 March 31, 2014 and December 31, 2013. 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 2013 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 (expense) and credit losses in "Consolidated Results of Operations—Credit-Related Income." 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 2013 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. 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 Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards” in our 2013 Form 10-K.

Table 29 below displays information regarding the credit characteristics of the loans in our single-family conventional guaranty book of business as of March 31, 2014 by acquisition period, which illustrates the improvement in the credit risk profile of loans we acquired beginning in 2009 compared with loans we acquired in 2005 through 2008. We initiated underwriting and eligibility changes that became effective for deliveries in late 2008 and 2009 that focused on strengthening our underwriting and eligibility standards to promote sustainable homeownership.

Table 29: Selected Credit Characteristics of Single-Family Conventional Loans Held, by Acquisition Period

	As of March 31, 2014							
	% of Single-Family Conventional Guaranty Book of Business(1)		Current Estimated Mark-to-Market LTV Ratio(2)		Current Mark-to-Market LTV Ratio >100%(3)		Serious Delinquency Rate(4)	
New Single-Family Book of Business:								
Refi Plus(5)	20	%	75	%	14	%	0.59	%
Non-Refi Plus(6)	58		61		*		0.22	
Total New Single-Family Book of Business(7)	78	%	65	%	4	%	0.32	%
Legacy Book of Business:								
2005-2008	14	%	85	%	27	%	8.80	%
2004 and prior	8		50		3		3.37	
Total Single-Family Book of Business	100	%	66	%	7	%	2.19	%

____

* 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 March 31, 2014.

(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 majority of loans in our new single-family book of business as of March 31, 2014 with mark-to-market LTV ratios over 100% were loans acquired under the Administration’s Home Affordable Refinance Program. See “HARP and Refi Plus Loans” below for more information on our recent acquisitions of loans with high LTV ratios.

(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 March 31, 2014 serious delinquency rates of loans in our legacy book of business. The serious delinquency rate as of March 31, 2014 for loans we acquired in 2009, the oldest vintage in our new book of business, was 1.02%.

(5) Includes loans acquired through the HARP program.
(6) Includes primarily other refinancings and home purchase mortgages.
(7) Refers to single-family mortgage loans we have acquired since the beginning of 2009.

As part of our credit risk management process, we conduct reviews on random samples of loans to identify loans that may not have met our underwriting or eligibility requirements. 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 to move the primary focus of our quality control reviews from the time a loan defaults to shortly after the time the loan is delivered to us. For a description of these changes in our quality control process and our new representation and warranty framework, see "MD&A—Risk Management—Mortgage Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards" in our 2013 Form 10-K. We and Freddie Mac continue to work with FHFA to identify opportunities to enhance the current representation and warranty framework, providing the mortgage finance industry with more certainty and transparency regarding selling representation and warranty obligations.

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—Mortgage Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring" in our 2013 Form 10-K.

Table 30 displays our single-family conventional business volumes and our single-family conventional guaranty book of business for the periods indicated, based on certain key risk characteristics that we use to evaluate the risk profile and credit quality of our single-family loans.

Table 30: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business[1]

	Percent of Single-Family Conventional Business Volume[2] For the Three Months Ended March 31,		Percent of Single-Family Conventional Guaranty Book of Business[3][4] As of	
	2014	2013	March 31, 2014	December 31, 2013
Original LTV ratio:[5]				
<= 60%	17 %	26 %	22 %	22 %
60.01% to 70%	13	15	15	15
70.01% to 80%	39	33	38	38
80.01% to 90%[6]	12	9	10	10
90.01% to 100%[6]	15	8	10	10
100.01% to 125%[6]	3	5	3	3
Greater than 125%[6]	1	4	2	2
Total	100 %	100 %	100 %	100 %
Weighted-average	77 %	75 %	74 %	74 %
Average loan amount	$193,053	$211,454	$160,174	$160,357
Estimated mark-to-market LTV ratio:[7]				
<= 60%			38 %	38 %
60.01% to 70%			19	19
70.01% to 80%			19	19
80.01% to 90%			11	11
90.01% to 100%			6	6
100.01% to 125%			5	5
Greater than 125%			2	2
Total			100 %	100 %
Weighted-average			66 %	67 %
Product type:				
Fixed-rate:[8]				
Long-term	75 %	76 %	73 %	72 %
Intermediate-term	20	22	18	18
Interest-only	—	*	1	1
Total fixed-rate	95	98	92	91
Adjustable-rate:				
Interest-only	*	*	2	2
Other ARMs	5	2	6	7
Total adjustable-rate	5	2	8	9
Total	100 %	100 %	100 %	100 %
Number of property units:				
1 unit	96 %	98 %	97 %	97 %
2-4 units	4	2	3	3
Total	100 %	100 %	100 %	100 %
Property type:				
Single-family homes	89 %	90 %	91 %	91 %
Condo/Co-op	11	10	9	9

Total	100 %	100 %	100 %	100 %

51

	Percent of Single-Family Conventional Business Volume[2] For the Three Months Ended March 31,		Percent of Single-Family Conventional Guaranty Book of Business[3][4] As of	
	2014	2013	March 31, 2014	December 31, 2013
Occupancy type:				
Primary residence	85 %	88 %	88 %	88 %
Second/vacation home	4	4	4	4
Investor	11	8	8	8
Total	100 %	100 %	100 %	100 %
FICO credit score at origination:				
< 620	2 %	1 %	3 %	3 %
620 to < 660	6	3	5	5
660 to < 700	14	8	12	12
700 to < 740	21	17	19	19
>= 740	57	71	61	61
Total	100 %	100 %	100 %	100 %
Weighted-average	741	757	744	744
Loan purpose:				
Purchase	45 %	17 %	28 %	28 %
Cash-out refinance	16	15	21	21
Other refinance	39	68	51	51
Total	100 %	100 %	100 %	100 %
Geographic concentration:[9]				
Midwest	14 %	15 %	15 %	15 %
Northeast	16	17	19	19
Southeast	21	20	22	22
Southwest	19	15	16	16
West	30	33	28	28
Total	100 %	100 %	100 %	100 %
Origination year:				
< = 2004			9 %	9 %
2005			3	4
2006			3	3
2007			5	5
2008			3	3
2009			7	7
2010			10	10
2011			11	11
2012			25	26
2013			23	22
2014			1	—
Total			100 %	100 %

---

*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. Second lien mortgage loans represented less than 0.5% of our single-family conventional guaranty book of business as of March 31, 2014 and December 31, 2013.

(2) Calculated based on unpaid principal balance of single-family loans for each category at time of acquisition. Single-family business volume refers to both single-family mortgage loans we purchase for our retained mortgage portfolio and single-family mortgage loans we guarantee.

(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 March 31, 2014 and December 31, 2013. See "Business—Our Charter and Regulation of Our Activities—Charter Act—Loan Standards" an "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Credit Prof Summary—Jumbo Conforming and High-Balance Loans" in our 2013 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) 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 acquisition of loans with original LTV ratios over 80% increased to 31% in the first quarter of 2014 compared with 26% in the first quarter of 2013. This increase was primarily due to an increase in our acquisitions of home purchase mortgage loans, which increased to 45% in the first quarter of 2014 compared with 17% in the first quarter of 2013, and a corresponding decline in our acquisitions of refinance loans. Our acquisitions of loans with FICO credit scores at origination of 740 or above decreased to 57% in the first quarter of 2014, compared with 71% in the first quarter of 2013. Our acquisition of loans with FICO credit scores at origination of less than 700 increased to 22% in the first quarter of 2014, compared with 12% in the first quarter of 2013. The weighted average FICO credit score at origination of our acquisitions decreased to 741 in the first quarter of 2014, compared with 757 in the first quarter of 2013.

Although our first quarter 2014 acquisitions included a greater proportion of loans with higher LTV ratios and lower FICO credit scores than our first quarter 2013 acquisitions, our first quarter 2014 single-family acquisitions continued to have a strong credit profile with a weighted average original LTV ratio of 77%, a weighted average FICO credit score of 741, and a product mix with a significant percentage of fully amortizing fixed-rate mortgage loans. The average original LTV ratio of single-family loans we acquired in the first quarter of 2014, excluding HARP loans, was 74%, compared with 104% for HARP loans. The weighted average FICO credit score at origination of the single-family mortgage loans we acquired in the first quarter of 2014, excluding HARP loans, was 745, compared with 706 for HARP loans.

The credit profile of our future acquisitions will depend on many factors, including our future pricing and eligibility standards and those of mortgage insurers, the FHA and the VA, changes in interest rates, the percentage of loan originations representing refinancings, our future objectives, government policy, market and competitive conditions, and the volume and characteristics of loans we acquire under HARP. 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 as they seek higher-yielding assets, it could negatively affect the credit profile of our new single-family acquisitions.

HARP and Refi Plus Loans

Since 2009, our acquisitions have included a significant number of loans that are refinancings of existing Fannie Mae loans under HARP, 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. We offer HARP under our Refi Plus initiative, which offers additional refinancing flexibility to eligible borrowers who are current on their loans and whose loans are owned or guaranteed by us and meet certain additional criteria. Under HARP, we allow our borrowers who have mortgage loans 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.

The loans we acquire under HARP have higher LTV ratios than we would otherwise permit, greater than 100% in some cases. Under HARP, we were previously authorized to acquire loans only if their current LTV ratios did not exceed 125% for fixed-rate loans or 105% for adjustable-rate mortgages. Changes to HARP implemented in the first half of 2012 extended refinancing flexibility to eligible borrowers with loans that have LTV ratios greater than 125% for fixed-rate loans, which made the benefits of HARP available to a greater number of borrowers. In addition to the high LTV ratios that characterize HARP loans, some borrowers for HARP and Refi Plus loans also have lower FICO credit scores and/or may provide less documentation than we would otherwise require. In April 2013, FHFA announced the extension of the ending date for HARP to December 31, 2015.

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 acquired loans essentially replaces the credit risk that we already held prior to the refinancing. These loans have higher risk profiles and higher serious delinquency rates and may not perform as well as 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).

Although mortgage rates remain low by historical standards, they were higher in the first quarter of 2014 than in the first quarter of 2013. As a result, the percentage of acquisitions that are refinanced loans, including loans acquired under our Refi Plus initiative, which includes HARP, has declined. HARP loans constituted approximately 10% of our total single-family acquisitions in the first quarter of 2014, compared with approximately 16% of total single-family acquisitions in the first quarter of 2013.

We expect the volume of refinancings under HARP to continue to decline, due to the increase in interest rates and a decrease in the population of borrowers with loans that have high LTV ratios who are willing to refinance and would benefit from refinancing. Approximately 1% of our total single-family conventional business volume for the first quarter of 2014 consisted of HARP refinanced loans with LTV ratios greater than 125% at the time of acquisition, compared with 4% for the first quarter of 2013. In addition, approximately 2% of our single-family conventional guaranty book of business consisted of loans with an estimated mark-to-market LTV ratio greater than 125% as of March 31, 2014 compared with 5% as of March 31, 2013.

Table 31 displays the serious delinquency rates and current mark-to-market LTV ratios as of March 31, 2014 of single-family loans we acquired under HARP and Refi Plus, compared with the other single-family loans we acquired since the beginning of 2009.

Table 31: Selected Credit Characteristics of Single-Family Conventional Loans Acquired under HARP and Refi Plus

	As of March 31, 2014						
	Percentage of New Book		Current Mark-to-Market LTV Ratio > 100%		FICO Credit Score at Origination[1]	Serious Delinquency Rate	
HARP[2]	14	%	25	%	734	0.85	%
Other Refi Plus[3]	11			*	748	0.32	
Total Refi Plus	25		14		740	0.59	
Non-Refi Plus[4]	75			*	761	0.22	
Total new book of business[5]	100	%	4	%	755	0.32	%

* Represents less than 0.5%.

(1) In the case of refinancings, represents FICO credit score at the time of the refinancing.

(2) HARP loans 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.

(3) Other Refi Plus includes all other Refi Plus loans that are not HARP loans.

(4) Includes primarily other refinancings and home purchase mortgages.

(5) Refers to single-family mortgage loans we have acquired since the beginning of 2009.

Alt-A and Subprime Loans

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

We do not rely solely on our classifications of loans as Alt-A or subprime 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 "Note 3, Mortgage Loans," and "Note 6, Financial Guarantees."

Our exposure to Alt-A and subprime 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 and subprime loans or (2) resecuritizations, or wraps, of private-label mortgage-related securities backed by Alt-A mortgage loans that we have guaranteed. As a result of our decision to discontinue the purchase of newly originated Alt-A loans, 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. We are also not currently acquiring newly originated subprime loans, although we are acquiring refinancings of existing Fannie Mae subprime loans in connection with our Refi Plus initiative. Unlike the loans they replace, these refinancings are not included in our reported subprime loans because they do not meet our classification criteria for subprime 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. We have classified a mortgage loan as subprime if and only if the loan was originated by a lender specializing in subprime business or by a subprime division of a large lender; however, we exclude loans originated by these lenders from the subprime classification if we acquired the loans in accordance with our standard underwriting criteria, which typically require compliance by the seller with our Selling Guide (including standard representations and warranties) and/or evaluation of the loans through our Desktop Underwriter® system. The unpaid principal balance of Alt-A loans included in our single-family conventional guaranty book of business of $127.5 billion as of March 31, 2014, represented approximately 5% of our single-family conventional guaranty book of business. The unpaid principal balance of subprime loans included in our single-family conventional guaranty book of business of $4.1 billion as of March 31, 2014, represented approximately 0.1% of our single-family conventional guaranty book of business.

See "MD&A—Risk Management—Mortgage Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring" in our 2013 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.

Loan modifications involve changes to the original mortgage terms such as product type, interest rate, amortization term, maturity date and/or unpaid principal balance. Additionally, we currently offer up to twelve months of forbearance for those homeowners who are unemployed as an additional tool to help homeowners avoid foreclosure.

Foreclosure alternatives may be more appropriate if the borrower has experienced a significant adverse change in financial condition due to events such as unemployment or reduced income, divorce, or unexpected issues like medical bills and is therefore no longer able to make the required mortgage payments. Since the cost of foreclosure can be significant to both the borrower and Fannie Mae, to avoid foreclosure and satisfy the first-lien mortgage obligation, our servicers work with a borrower to accept a deed-in-lieu of foreclosure whereby the borrower voluntarily signs over the title to their property to the servicer or sells the home prior to foreclosure in a short sale. These alternatives are designed to reduce our credit losses while helping borrowers avoid having to go through a foreclosure. We work to obtain the highest price possible for the properties sold in short sales and, in the first quarter of 2014, we received net sales proceeds from our short sale transactions equal to 71% of the loans' unpaid principal balance, compared with 64% in the first quarter of 2013.

In the following section, we present statistics on our problem loans, describe specific 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

The following table displays the delinquency status of loans in our single-family conventional guaranty book of business (based on number of loans) as of the dates indicated.

Table 32: Delinquency Status of Single-Family Conventional Loans

	As of March 31, 2014		December 31, 2013		March 31, 2013	
Delinquency status:						
30 to 59 days delinquent	1.40	%	1.64	%	1.72	%
60 to 89 days delinquent	0.40		0.49		0.53	
Seriously delinquent	2.19		2.38		3.02	
Percentage of seriously delinquent loans that have been delinquent for more than 180 days	74	%	73	%	74	%

Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010. The decrease in our serious delinquency rate is the result of home retention solutions, foreclosure alternatives and completed foreclosures, as well as our acquisition of loans with stronger credit profiles since the beginning of 2009.

Although our serious delinquency rate has decreased, this 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. 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 many states. 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 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, changes in home prices, unemployment levels and other macroeconomic conditions also influence serious delinquency rates. We expect the number of our single-family loans in our book of business that are seriously delinquent to remain above pre-2008 levels for years.

Table 33 displays a comparison, by geographic region and by loans with and without credit enhancement, of the serious delinquency rates as of the dates indicated for single-family conventional loans in our single-family guaranty book of business. Serious delinquency rates vary by geographic region due to many factors including regional home prices, unemployment, economic conditions and state foreclosure timelines.

Table 33: Single-Family Serious Delinquency Rates

	As of					
	March 31, 2014		December 31, 2013		March 31, 2013	
	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate	Percentage of Book Outstanding	Serious Delinquency Rate
Single-family conventional delinquency rates by geographic region:[1]						
Midwest	15 %	1.81 %	15 %	2.00 %	15 %	2.61 %
Northeast	19	3.74	19	3.88	19	4.30
Southeast	22	3.00	22	3.33	23	4.38
Southwest	16	1.11	16	1.23	16	1.56
West	28	1.25	28	1.40	27	2.00
Total single-family conventional loans	100 %	2.19 %	100 %	2.38 %	100 %	3.02 %
Single-family conventional loans:						
Credit enhanced[2]	15 %	4.27 %	15 %	4.75 %	14 %	6.43 %
Non-credit enhanced	85	1.85	85	2.00	86	2.49
Total single-family conventional loans	100 %	2.19 %	100 %	2.38 %	100 %	3.02 %

____

(1) See footnote 9 to “Table 30: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business” for states included in each geographic region.

(2) 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.

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. 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 34 displays the serious delinquency rates and other financial information for our single-family conventional loans with some of these higher-risk characteristics and in some of these higher-risk states as of the dates indicated. We also include information for our loans in California, as this state accounts for the largest share of our single-family conventional guaranty book of business. The reported categories are not mutually exclusive.

Table 34: Single-Family Conventional Serious Delinquent Loan Concentration Analysis

	As of								
	March 31, 2014			December 31, 2013			March 31, 2013		
	Percentage of Book Outstanding	Serious Delinquency Rate	Estimated Mark-to-Market LTV Ratio(1)	Percentage of Book Outstanding	Serious Delinquency Rate	Estimated Mark-to-Market LTV Ratio(1)	Percentage of Book Outstanding	Serious Delinquency Rate	Estimated Mark-to-Market LTV Ratio(1)
	(Dollars in millions)								
States:									
California	20 %	0.86 %	56 %	20 %	0.98 %	58 %	19 %	1.46 %	69 %
Florida	6	6.12	78	6	6.89	80	6	9.36	93
Illinois	4	2.79	77	4	3.12	76	4	4.20	86
New Jersey	4	6.08	70	4	6.25	69	4	6.89	74
New York	5	4.31	61	5	4.42	61	6	4.70	65
All other states	61	1.70	68	61	1.85	68	61	2.32	73
Product type:									
Alt-A	5	8.72	83	5	9.23	83	5	10.80	94
Subprime	*	16.17	94	*	16.93	95	*	19.49	105
Vintages:									
2005	3	6.81	78	4	7.26	78	5	7.71	88
2006	3	10.58	92	3	11.26	92	5	11.96	103
2007	5	11.53	94	5	12.18	94	6	12.71	105
2008	3	6.40	77	3	6.69	77	4	6.67	87
All other vintages	86	0.96	63	85	1.02	63	80	1.25	68
Estimated mark-to-market LTV ratio:									
Greater than 100%(1)	7	11.27	121	7	12.22	122	13	12.83	126
Select combined risk characteristics:									
Original LTV ratio > 90% and FICO score < 620	1	9.84	103	1	10.90	103	1	13.14	112

---

* Percentage is less than 0.5%.

(1) Second lien mortgage loans held by third parties are not included in the calculation of the estimated mark-to-market LTV ratios.

Loan Workout Metrics

Table 35 displays statistics on our single-family loan workouts that were completed, by type, for the periods indicated. 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.

58

Table 35: Statistics on Single-Family Loan Workouts

	For the Three Months Ended March 31,			
	2014		2013	
	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans
	(Dollars in millions)			
Home retention strategies:				
Modifications	$6,191	36,044	$7,917	43,153
Repayment plans and forbearances completed[1]	296	2,255	575	4,482
Total home retention strategies	6,487	38,299	8,492	47,635
Foreclosure alternatives:				
Short sales	1,374	6,804	2,593	12,139
Deeds-in-lieu of foreclosure	528	3,323	660	3,987
Total foreclosure alternatives	1,902	10,127	3,253	16,126
Total loan workouts	$8,389	48,426	$11,745	63,761
Loan workouts as a percentage of single-family guaranty book of business[2]	1.17 %	1.10 %	1.66 %	1.46 %

(1) 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.

(2) Calculated based on loan workouts during the period as a percentage of our single-family guaranty book of business as of the end of the period.

The volume of home retention solutions completed in the first quarter of 2014 decreased compared with the first quarter of 2013, primarily due to a decline in the number of delinquent loans in the first quarter of 2014, compared with the first quarter of 2013.

During the first quarter of 2014, we initiated approximately 35,100 first time trial modifications, including Home Affordable Modification Program ("HAMP") and non-HAMP modifications, compared with approximately 44,200 first time trial modifications during the first quarter of 2013. We also initiated other types of workouts, such as repayment plans and forbearances.

HAMP guidance directs servicers either to cancel or to convert trial modifications after three or four monthly payments, depending on the borrower's circumstances. As of March 31, 2014, 59% of our HAMP trial modifications had been converted to permanent HAMP modifications since the inception of the program. The conversion rate for HAMP modifications since June 1, 2010, when servicers became required to perform a full verification of a borrower's eligibility prior to offering a HAMP trial modification, was 88% as of March 31, 2014. The average length of a trial period for completed HAMP modifications initiated after June 1, 2010 was four months.

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.

Approximately 60% of our performing loan modifications include a reduction in the borrower's interest rate. This interest rate is fixed for an initial period and is followed by one or more annual interest rate increases. The majority of these modifications with pending interest rate resets, including HAMP modifications, will begin to experience interest rate increases in late 2014 through 2015. These interest rate increases could adversely affect the performance of these modifications.

Table 36 displays the percentage of our single-family loan modifications completed during the first quarter of 2013, all of 2012 and the last nine months of 2011 that were current or paid off one year after modification, as well as the percentage of our single-family loan modifications completed during the first quarter of 2012 and the last nine months of 2011 that were current or paid off two years after modification.

59

Table 36: Percentage of Single-Family Loan Modifications That Were Current or Paid Off at One and Two Years Post-Modification[1]

	2013	2012				2011		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
One Year Post-Modification								
HAMP modifications	83 %	82 %	82 %	81 %	79 %	78 %	78 %	78 %
Non-HAMP modifications	73	74	74	72	70	66	68	69
Total	75	76	76	75	73	71	72	75
Two Years Post-Modification								
HAMP modifications					78 %	77 %	76 %	75 %
Non-HAMP modifications					71	67	67	67
Total					73	71	71	73

(1) Excludes loans that were classified as subprime ARMs that were modified into fixed-rate mortgages. Modifications do not reflect loans currently in trial modifications.

There is significant uncertainty regarding the ultimate long term success of our current modification efforts. We believe the performance of our workouts will be highly dependent on economic factors, such as unemployment rates, household wealth and income, and home prices. Modifications, even those with reduced monthly payments, may also not be sufficient to help borrowers with second liens and other significant non-mortgage debt obligations. FHFA, other agencies of the U.S. government or Congress may ask us to undertake new initiatives to support the housing and mortgage markets should our current modification efforts ultimately not perform in a manner that results in the stabilization of these markets. See “Risk Factors” in our 2013 Form 10-K for a discussion of efforts we may be required or asked to undertake and their potential effect on us.

REO Management

Foreclosure and REO activity affect the amount of credit losses we realize in a given period. Table 37 displays our foreclosure activity, by region, for the periods indicated. Regional REO acquisition and charge-off trends generally follow a pattern that is similar to, but lags, that of regional delinquency trends.

Table 37: Single-Family Foreclosed Properties

	For the Three Months Ended March 31,	
	2014	2013
Single-family foreclosed properties (number of properties):		
Beginning of period inventory of single-family foreclosed properties (REO)[1]	103,229	105,666
Acquisitions by geographic area:[2]		
Midwest	7,542	11,983
Northeast	3,417	2,454
Southeast	13,524	14,294
Southwest	4,097	5,317
West	3,316	4,669
Total properties acquired through foreclosure[1]	31,896	38,717
Dispositions of REO	(32,727)	(42,934)
End of period inventory of single-family foreclosed properties (REO)[1]	102,398	101,449
Carrying value of single-family foreclosed properties (dollars in millions)[3]	$10,492	$9,263
Single-family foreclosure rate[4]	0.73 %	0.89 %

(1) 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."

(2) See footnote 9 to "Table 30: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business" for states included in each geographic region.

(3) Excludes foreclosed property claims receivables, which are reported in our condensed consolidated balance sheets as a component of "Acquired property, net."

(4) 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, as well as the slower pace of completed foreclosures we are experiencing due to lengthy foreclosure timelines in a number of states, have resulted in a reduction in the number of REO acquisitions, while the lower demand for foreclosed properties has resulted in fewer REO dispositions in the first quarter of 2014 as compared with the first quarter of 2013.

We continue to manage our REO inventory to minimize 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.

Table 38 displays the current status of our single-family foreclosed property inventory, including the percentage of our inventory that we are unable to market, as of the dates indicated.

Table 38: Single-Family Foreclosed Property Status

	Percent of Single-Family Foreclosed Properties As of			
	March 31, 2014		December 31, 2013	
Available-for-sale	27	%	33	%
Offer accepted(1)	19		14	
Appraisal stage(2)	14		17	
Unable to market:				
Occupied status(3)	11		10	
Redemption status(4)	8		9	
Properties being repaired	13		9	
Rental property(5)	3		3	
Other	5		5	
Total unable to market	40		36	
Total	100	%	100	%

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

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

(3) Properties that are still occupied, and for which the eviction process is not yet complete.

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

(5) Properties with a tenant living in the home under our tenant in place or deed for lease programs.

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 (expense) and credit losses in “Business Segment Results—Multifamily Business Results.”

Multifamily Acquisition Policy and Underwriting Standards

Our Multifamily business, together with our Enterprise Risk Management division, which provides independent risk oversight of the 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). Our primary multifamily delivery channel is the Delegated Underwriting and Servicing, or DUS®, program, which is comprised 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 and/or loan size. Loans delivered to us by DUS lenders and their affiliates represented 93% of our multifamily guaranty book of business as of March 31, 2014 and December 31, 2013.

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 an equal 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 39 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 as of the dates indicated.

Table 39: Multifamily Lender Risk-Sharing

	As of March 31, 2014	December 31, 2013
Lender risk-sharing		
DUS	81 %	80 %
Non-DUS negotiated	5	5
No recourse to the lender	14	15