FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-K
February 20, 2015

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2014
Commission File No.: 0-50231
Federal National Mortgage Association
(Exact name of registrant as specified in its charter)
Fannie Mae

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

Registrant's telephone number, including area code:
(202) 752-7000
Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
None	

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, without par value
(Title of class)
8.25% Non-Cumulative Preferred Stock, Series T, stated value $25 per share
(Title of class)
8.75% Non-Cumulative Mandatory Convertible Preferred Stock, Series 2008-1, stated value $50 per share
(Title of class)
Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series S, stated value $25 per share
(Title of class)
7.625% Non-Cumulative Preferred Stock, Series R, stated value $25 per share
(Title of class)
6.75% Non-Cumulative Preferred Stock, Series Q, stated value $25 per share
(Title of class)
Variable Rate Non-Cumulative Preferred Stock, Series P, stated value $25 per share
(Title of class)
Variable Rate Non-Cumulative Preferred Stock, Series O, stated value $50 per share
(Title of class)
5.375% Non-Cumulative Convertible Series 2004-1 Preferred Stock, stated value $100,000 per share
(Title of class)
5.50% Non-Cumulative Preferred Stock, Series N, stated value $50 per share
(Title of class)
4.75% Non-Cumulative Preferred Stock, Series M, stated value $50 per share
(Title of class)
5.125% Non-Cumulative Preferred Stock, Series L, stated value $50 per share
(Title of class)
5.375% Non-Cumulative Preferred Stock, Series I, stated value $50 per share

(Title of class)
5.81% Non-Cumulative Preferred Stock, Series H, stated value $50 per share
(Title of class)
Variable Rate Non-Cumulative Preferred Stock, Series G, stated value $50 per share
(Title of class)
Variable Rate Non-Cumulative Preferred Stock, Series F, stated value $50 per share
(Title of class)
5.10% Non-Cumulative Preferred Stock, Series E, stated value $50 per share
(Title of class)
5.25% Non-Cumulative Preferred Stock, Series D, stated value $50 per share
(Title of class)
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ
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 ¨ No þ
The aggregate market value of the common stock held by non-affiliates of the registrant computed by reference to the last reported sale price of the common stock quoted on the OTC Bulletin Board on June 30, 2014 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $4.5 billion.
As of January 31, 2015, there were 1,158,082,750 shares of common stock of the registrant outstanding.

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TABLE REFERENCE

PART I

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 "Business—Conservatorship and Treasury Agreements."
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 "Business—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.

You can find a "Glossary of Terms Used in This Report" in "Management's Discussion and Analysis of Financial Condition and Results of Operations ('MD&A')."

Item 1. Business

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, primarily for securitization and sale at a later date. We use the term "acquire" in this report to refer to both our securitizations and our purchases of mortgage-related assets. We obtain funds to support our business activities by issuing a variety of debt securities in the domestic and international capital markets, which attracts global capital to the United States housing market.

Our conservatorship has no specified termination date, and we do not know when or how the conservatorship will terminate, whether we will continue to exist following conservatorship, what changes to our business structure will be made during or following the conservatorship, or what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated. In addition, our agreements with Treasury that provide for financial support include covenants that significantly restrict our business activities and provide for dividends to accrue at a rate equal to our net worth less a capital reserve amount, which continues to decrease annually until it reaches zero, allowing us to retain only a limited and decreasing amount of our net worth. We provide additional information on the conservatorship, the provisions of our agreements with Treasury, and their impact on our business under "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 "Housing Finance Reform."

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

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

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EXECUTIVE SUMMARY

Please read this Executive Summary together with our MD&A and our consolidated financial statements as of December 31, 2014 and related notes to the consolidated financial statements.

Our Strategy

We are focused on:

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

Achieving strong financial and credit performance

We continued to achieve strong financial and credit performance in 2014:

- Financial Performance. We reported net income of $14.2 billion and pre-tax income of $21.1 billion in 2014, compared with net income of $84.0 billion and pre-tax income of $38.6 billion in 2013. See "Summary of Our Financial Performance" below for an overview of our 2014 financial performance. We expect to remain profitable on an annual basis for the foreseeable future; however, certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year. For more information regarding our expectations for our future financial performance, see "Outlook—Financial Results" and "Outlook—Revenues" below.
- Dividend Payments to Treasury. With our expected March 2015 dividend payment to Treasury, we will have paid a total of $136.4 billion in dividends to Treasury on our senior preferred stock. The aggregate amount of draws we have received from Treasury to date under the senior preferred stock purchase agreement is $116.1 billion. Under the terms of the senior preferred stock purchase agreement, dividend payments do not offset prior Treasury draws. See "Treasury Draws and Dividend Payments" and "Outlook—Dividend Obligations to Treasury" below for more information regarding our dividend payments to Treasury.
- Book of Business and Credit Performance. Beginning in 2008, we made changes to strengthen our underwriting and eligibility standards that have improved the credit quality of our single-family guaranty book of business, and contributed to improvement in our credit performance. Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010, and was 1.89% as of December 31, 2014, compared with 2.38% as of December 31, 2013. Single-family seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. See "Single-Family Guaranty Book of Business" below for information on the credit performance of the mortgage loans in our single-family guaranty book of business and on our single-family acquisitions for each of the last five years.

Our business model has changed significantly since we entered into conservatorship in 2008 and continues to evolve. To meet the requirements of our senior preferred stock purchase agreement with Treasury, our retained mortgage portfolio has declined substantially since entering conservatorship and will continue to decline until 2018, which has resulted in, and is expected to continue to result in, declines in our revenues from our retained mortgage portfolio assets. In addition, the amount of guaranty fee income we receive for managing the credit risk of loans in our book of business has increased significantly since entering into conservatorship and we expect will continue to increase. See "Outlook—Revenues" for more information on the shift in, and future expectations regarding, the sources of our revenue.

Our business also continues to evolve as a result of our efforts to build a safer and sustainable housing finance system and to pursue the strategic goals identified by our conservator. For example, we have begun to transfer a portion of the existing credit risk on our single-family guaranty book of business in order to reduce the risk to taxpayers of future borrower defaults, and we expect to continue engaging in economically sensible ways to expand our offerings of credit risk transfer transactions in the future. See "Helping to Build a Sustainable Housing Finance System" for a discussion of our credit risk transfer transactions and other efforts to build a safer and sustainable housing finance system.

We remain under conservatorship and subject to the restrictions of the senior preferred stock purchase agreement with Treasury. As a result of the senior preferred stock purchase agreement and directives from our conservator, we are not permitted to retain our net worth (other than a limited amount that will decrease to zero by 2018), rebuild our capital position

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or pay dividends or other distributions to stockholders other than Treasury. See “Conservatorship and Treasury Agreements” 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 “Housing Finance Reform” for information on recent proposals for housing finance reform.

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

We continued our efforts to support the housing recovery in 2014. We remained the largest single issuer of mortgage-related securities in the single-family secondary market in 2014 and a continuous source of liquidity in the multifamily market. We also continued to help struggling homeowners. In 2014, we provided approximately 165,000 loan workouts to help homeowners stay in their homes or otherwise avoid foreclosure. We discuss our activities to support the housing and mortgage markets in “Contributions to the Housing and Mortgage Markets” below.

Serving customer needs and improving our business efficiency

We are undertaking various initiatives to better serve our customers’ needs and improve our business efficiency, including: revising and clarifying our representation and warranty framework to reduce lenders’ repurchase risk; simplifying our business processes; and updating our infrastructure. We discuss these initiatives in “Serving Customer Needs and Improving Our Business Efficiency” below.

Helping to build a sustainable housing finance system

We continued to help lay the foundation for a safer and sustainable housing finance system in 2014. Our efforts included pursuing the strategic goals and objectives identified by our conservator, as well as investing in enhancements to our business and infrastructure. We discuss these efforts in “Helping to Build a Sustainable Housing Finance System” below.

Summary of Our Financial Performance

Comprehensive Income

We recognized comprehensive income of $14.7 billion in 2014, consisting of net income of $14.2 billion and other comprehensive income of $530 million. In comparison, we recognized comprehensive income of $84.8 billion in 2013, consisting of net income of $84.0 billion and other comprehensive income of $819 million. The decrease in comprehensive income was primarily driven by a provision for federal income taxes of $6.9 billion in 2014 compared to a benefit for federal income taxes of $45.4 billion in 2013 primarily due to the release of our valuation allowance against our deferred tax assets in the first quarter of 2013. See “MD&A—Critical Accounting Polices and Estimates—Deferred Tax Assets” for additional information.

Our 2014 pre-tax income was $21.1 billion, compared with $38.6 billion in 2013. The decrease in our pre-tax income was primarily due to a decrease in credit-related income and a shift to fair value losses from fair value gains.

Credit-related income decreased to $3.8 billion in 2014 from $11.8 billion in 2013. This decrease was primarily attributable to home prices increasing at a slower pace in 2014 as compared with 2013. In addition, 2013 credit-related income benefited from foreclosed property income primarily due to the recognition of income related to compensatory fee arrangements.

Fair value losses of $4.8 billion in 2014 were primarily driven by a decline in longer-term swap rates in 2014. Fair value gains of $3.0 billion in 2013 were primarily driven by an increase in longer-term swap rates in 2013.

Our results included pre-tax income of $5.7 billion in each of 2014 and 2013 as a result of resolution agreements we reached relating to private-label mortgage-related securities (“PLS”) sold to us, representation and warranty matters, and compensatory fees.

We expect volatility from period to period in our financial results from a number of factors, particularly changes in market conditions that result in fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings. These instruments include derivatives and certain securities. The estimated fair value of our derivatives and securities may fluctuate substantially from period to period because of changes in interest rates, the yield curve, mortgage spreads and implied volatility, as well as activity related to these financial instruments. We use derivatives to manage the interest rate risk exposure of our net portfolio, which consists of our retained mortgage portfolio, cash and other investments portfolio, and our outstanding debt of Fannie Mae. Some of these financial instruments in our net portfolio are not recorded at fair value in our consolidated financial statements, and as a result we may experience accounting gains or losses due to changes in interest rates or other market conditions that may not be indicative of the economic interest rate risk exposure of

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our net portfolio. See "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management" for more information. In addition, our credit-related income or expense can vary substantially from period to period primarily due to changes in home prices, borrower payment behavior and economic conditions.

See "MD&A—Consolidated Results of Operations" for more information on our results.

Net Worth

Our net worth decreased to $3.7 billion as of December 31, 2014 from $9.6 billion as of December 31, 2013 primarily due to our payments to Treasury of $20.6 billion in senior preferred stock dividends, partially offset by our comprehensive income of $14.7 billion during 2014.

The dividend amount payable to Treasury on the senior preferred stock for each dividend period from January 1, 2013 through and including December 31, 2017 is 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 was $2.4 billion for dividend periods in 2014 and further decreased to $1.8 billion for dividend periods in 2015. Our expected dividend payment of $1.9 billion for the first quarter of 2015 is calculated based on our net worth of $3.7 billion as of December 31, 2014 less the applicable capital reserve amount of $1.8 billion.

Single-Family Guaranty Book of Business

Credit Performance

We continued to achieve strong credit performance in 2014. In addition to acquiring loans with strong credit profiles, as we discuss below in "Recently Acquired Single-Family Loans," we continued to execute on our strategies for reducing credit losses, such as helping eligible Fannie Mae borrowers with high loan-to-value ("LTV") ratio loans refinance into more sustainable loans through the Obama Administration's Home Affordable Refinance Program® ("HARP®"), offering borrowers loan modifications that can significantly reduce their monthly payments, pursuing foreclosure alternatives and managing our real estate owned ("REO") inventory to appropriately manage costs and maximize sales proceeds. As we work to reduce credit losses, we also seek to assist struggling homeowners, help stabilize communities and support the housing market.

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

Table 1: Credit Statistics, Single-Family Guaranty Book of Business[1]

	2014	2013	2012
	(Dollars in millions)		
As of the end of each period:			
Serious delinquency rate[2]	1.89 %	2.38 %	3.29 %
Seriously delinquent loan count	329,590	418,837	576,591
Foreclosed property inventory:			
Number of properties[3]	87,063	103,229	105,666
Carrying value	$9,745	$10,334	$9,505
Total loss reserves[4]	$37,762	$46,689	$61,396
During the period:			
Credit-related income[5]	$3,625	$11,205	$919
Credit losses[6]	$5,978	$4,452	$14,392
REO net sales prices to unpaid principal balance[7]	69 %	67 %	59 %
Short sales net sales price to unpaid principal balance[8]	72 %	67 %	61 %
Loan workout activity (number of loans):			
Home retention loan workouts[9]	130,132	172,029	186,741
Short sales and deeds-in-lieu of foreclosure	34,480	61,949	88,732
Total loan workouts	164,612	233,978	275,473
Loan workouts as a percentage of delinquent loans in our guaranty book of business	23.20 %	29.20 %	26.38 %

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

(2) Calculated based on the number of single-family conventional loans that are 90 days or more past due and loans that have been referred to foreclosure but not yet foreclosed upon, divided by the number of loans in our single-family conventional guaranty book of business.

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

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

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

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

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

(8) Calculated as the amount of sale proceeds received on properties sold in short sale transactions during the respective 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.

(9) Consists of (a) modifications (which do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as troubled debt restructurings ("TDRs"), or repayment plans or forbearances that have been initiated but not completed) and (b) repayment plans and forbearances completed. See "Table 40: 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.

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 and contributed to improvement in our credit performance. For information on the credit risk profile of our single-family guaranty book of business, see "MD&A—Risk Management—Credit Risk Management—

Single-Family Mortgage Credit Risk Management," including "Table 36: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business."

We continue to experience disproportionately higher credit losses and serious delinquency rates from single-family loans originated in 2005 through 2008 than from loans originated in other years. Single-family loans originated in 2005 through 2008 constituted 12% of our single-family book of business as of December 31, 2014, but constituted 59% of our seriously delinquent loans as of December 31, 2014 and drove 75% of our 2014 credit losses. For information on the credit performance of our single-family book of business based on loan vintage, see "Table 15: Credit Loss Concentration Analysis" in "MD&A—Consolidated Results of Operations—Credit-Related Income—Credit Loss Performance Metrics" and "Table 39: Single-Family Conventional Seriously Delinquent Loan Concentration Analysis" in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management." For informatio on certain credit characteristics of our single-family book of business based on the period in which we acquired the loans, see "Table 33: Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period" in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

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 "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" and "MD&A—Risk Management—Institutional Counterparty Credit Risk Management." See also "Risk Factors," where we describe factors that may adversely affect the success of our efforts, including our reliance on third parties to service our loans, conditions in the foreclosure environment, and risks relating to our mortgage insurer counterparties.

Recently Acquired Single-Family Loans

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

Table 2: Single-Family Acquisitions Statistics

	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Single-family average charged guaranty fee on new acquisitions (in basis points)(1)(2)	62.9	57.4	39.9	28.8	25.7
Single-family Fannie Mae MBS issuances	$375,676	$733,111	$827,749	$564,606	$603,247
Select risk characteristics of single-family conventional acquisitions:(3)					
Weighted average FICO® credit score at origination	744	753	761	762	762
FICO credit score at origination less than 660	7 %	5 %	3 %	2 %	2 %
Weighted average original LTV ratio(4)	77 %	76 %	75 %	69 %	68 %
Original LTV ratio over 80%(4)(5)	32 %	29 %	25 %	18 %	16 %
Original LTV ratio over 95%(4)(6)	4 %	10 %	11 %	4 %	3 %
Loan purpose:					
Purchase	52 %	30 %	21 %	24 %	22 %
Refinance	48 %	70 %	79 %	76 %	78 %

(1) For the periods 2012 forward, includes the impact of a 10 basis point guaranty fee increase implemented in April 2012 pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, the incremental revenue from which must be remitted to Treasury. The resulting revenue is included in guaranty fee income and the expense is recognized in "TCCA fees."

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

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

(4) The original LTV ratio generally is based on the original unpaid principal balance of the loan divided by the appraised property value reported to us at the time of acquisition of the loan. Excludes loans for which this information is not readily available.

(5) We purchase loans with original LTV ratios above 80% as part of our mission to serve the primary mortgage market and provide liquidity to the housing finance system. Except as permitted under HARP, our charter generally requires primary mortgage insurance or other credit enhancement for loans that we acquire that have an LTV ratio over 80%.

(6) Approximately 79% of the greater than 95% LTV ratio loans we acquired in 2014 were acquired pursuant to HARP. See "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" for information on HARP loans.

As shown in Table 2, our single-family average charged guaranty fee on new acquisitions has increased significantly since 2012, driven by guaranty fee increases implemented in 2012 and increases in loan level price adjustments charged on our acquisitions, as our acquisitions in 2013 and 2014 included a higher proportion of loans with higher LTV ratios and a higher proportion of loans with lower FICO credit scores than our 2010, 2011 and 2012 acquisitions. 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. The guaranty fee increases implemented in 2012 included a 10 basis point 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. See "Our Charter and Regulation of Our Activities—Potential Changes to Our Single-Family Guaranty Fee Pricing" for information on potential future changes to our guaranty fee pricing.

The increase in our average charged guaranty fee on newly-acquired single-family loans in 2014 as compared with 2013 was driven primarily by an increase in loan level price adjustments charged on our acquisitions in 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 2013 acquisitions. The increase in our acquisitions of loans with higher LTV ratios in 2014 as compared with 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 non-HARP refinance loans. Despite this shift in the credit risk profile of our acquisitions, the single-family loans we acquired in 2014 continued to have a strong credit profile, with a weighted average original LTV ratio of 77% and a weighted average FICO credit score of 744. For more information on the credit risk profile of our single-family conventional loan acquisitions in 2014, 2013 and 2012, see "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management," including "Table 36: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business."

Our single-family acquisition volume and single-family Fannie Mae MBS issuances decreased significantly in 2014 compared with 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.

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 Department of Veterans Affairs ("VA"), the percentage of loan originations representing refinancings, changes in interest rates, our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers, government policy, market and competitive conditions, and the volume and characteristics of HARP loans we acquire in the future. In addition, if our lender customers retain more of the higher-quality loans they originate, it could negatively affect the credit risk profile of our new single-family acquisitions.

Providing Targeted Access to Credit Opportunities for Creditworthy Borrowers

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

In addition, in December 2014, we changed our eligibility requirements to increase our maximum LTV ratio for loans to first-time home buyers from 95% to 97%. We previously acquired loans with LTV ratios up to 97% from all lenders, but in late 2013, we changed our eligibility requirements to reduce our maximum LTV ratio to 95% for non-HARP acquisitions from lenders other than housing finance agencies, effective for acquisitions beginning in July 2014. Although higher LTV ratio loans typically present a higher credit risk than lower LTV ratio loans, we believe our acquisition of single-family loans with

95.01% to 97% LTV ratios will not materially affect our overall credit risk due to our requirements for these loans and our expectation that they will constitute a small portion of our overall acquisition volumes. Our requirements for these loans include compensating factors and risk mitigants, which reduce risk layering. For purchase transactions, at least one borrower on the loan must be a first-time home buyer and occupy the property as his or her principal residence. In some cases, we also require the borrower to receive housing counseling before obtaining the loan. Eligibility for refinance transactions is limited to existing Fannie Mae loans to provide support for borrowers who may not otherwise be eligible for our Refi Plus™ initiative. For both purchase and refinance loans, the loans must have fixed-rate terms and must be underwritten through Desktop Underwriter®, our proprietary automated underwriting system. Desktop Underwriter provides a comprehensive credit risk assessment on loan applications submitted through the system, assessing risk layers and compensating factors, and denying loan applications that do not meet our eligibility requirements. We require mortgage insurance or other appropriate credit enhancement for all non-HARP loans with LTV ratios greater than 80%.

To the extent we are able to encourage lenders to increase access to mortgage credit, we may acquire a greater number of single-family loans with higher risk characteristics than we have acquired in the most recent periods; however, we believe our single-family acquisitions will continue to have a strong overall credit risk profile given our current underwriting and eligibility standards and product design. We actively monitor the credit risk profile and credit performance of our single-family loan acquisitions.

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 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. We provided approximately $434 billion in liquidity to the mortgage market in 2014 through our purchases and guarantees of loans and securities. This liquidity enabled borrowers to complete approximately 937,000 mortgage refinancings and approximately 887,000 home purchases, and provided financing for approximately 446,000 units of multifamily housing.
- Our role in the market enables qualified borrowers to have reliable access to affordable mortgage credit, including a variety of conforming mortgage products such as the prepayable 30-year fixed-rate mortgage that protects homeowners from fluctuations in interest rates.
- We provided approximately 165,000 loan workouts in 2014 to help homeowners stay in their homes or otherwise avoid foreclosure. Our loan workout efforts have helped to stabilize neighborhoods, home prices and the housing market.
- We helped borrowers refinance loans, including through our Refi Plus initiative, which offers additional refinancing flexibility to eligible borrowers who are current on their loans and whose loans are owned or guaranteed by us and meet certain additional criteria. We acquired approximately 302,000 Refi Plus loans in 2014. Refinancings delivered to us through Refi Plus in the fourth quarter of 2014 reduced borrowers’ monthly mortgage payments by an average of $172.
- We support affordability in the multifamily rental market. Over 85% of the multifamily units we financed in 2014 were affordable to families earning at or below the median income in their area.
- In addition to purchasing and guaranteeing loans, we provide funds to the mortgage market through short-term financing and other activities. These activities are described in “Business Segments—Capital Markets.”

2014 Market Share

We estimate that our single-family market share was 32% in 2014, compared with 39% in 2013. These amounts represent our single-family mortgage acquisitions for each year, excluding delinquent loans we purchased from our MBS trusts, as a percentage of the single-family first-lien mortgages we currently estimate were originated in the United States that year. 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 fourth quarter of 2014, with an estimated market share of new single-family mortgage-related securities issuances of 40%, compared with 38%

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in the third quarter of 2014 and 46% in the fourth quarter of 2013. For all of 2014, we estimate our market share of new single-family mortgage-related securities issuances was 40%, compared with 47% for 2013.

We remained a continuous source of liquidity in the multifamily market in 2014. We owned or guaranteed approximately 19% of the outstanding debt on multifamily properties as of September 30, 2014 (the latest date for which information is available).

Serving Customer Needs and Improving Our Business Efficiency

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

We have taken several actions in recent years to improve our representation and warranty framework and help lenders reduce their repurchase risk relating to loans they deliver to us, including:

- Revising our representation and warranty framework in 2013 to limit our ability to require lenders to repurchase loans for breaches of certain selling representations and warranties, effective for loans delivered on or after January 1, 2013 that have had 36 timely payments (or 12 timely payments for Refi Plus loans) and meet other eligibility requirements. We further revised our representation and warranty framework in 2014 to relax the timely payment requirement effective for conventional loans delivered on or after July 1, 2014 to permit two instances of 30-day delinquency, and to allow loans to qualify for relief after satisfactory conclusion of a quality control review.
- Providing lenders with greater clarity on the circumstances that would result in a loan repurchase request. For example, in November 2014, we issued a lender announcement updating and clarifying aspects of our new representation and warranty framework, particularly relating to the "life of loan" representations and warranties that are not eligible for repurchase relief.
- Expediting our review of newly acquired performing loans to identify loan defects earlier, and making more frequent use of the alternatives to repurchase specified in our Selling Guide.
- Offering lenders new, innovative tools to help them ensure the quality of the loans they deliver to us. These tools include EarlyCheck™, which enables early validation of loan delivery eligibility, allowing lenders to make corrections and avoid the delivery of ineligible loans, and Collateral Underwriter™, which gives lenders access to the same appraisal review tool we use so that they can address potential appraisal issues prior to delivery of the loan to us.
- Providing lenders with training and feedback to help them resolve origination issues and reduce loan origination defects.

We believe these actions have significantly reduced uncertainty surrounding lenders' repurchase risk relating to loans they deliver to us, and our intention is that these actions will encourage lenders to safely expand their lending to a wider range of qualified borrowers. We continue to consider new ways to reduce or clarify lenders' repurchase risk. See "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" for further discussion of changes to our representation and warranty framework and actions we have taken to reduce and clarify lenders' repurchase risk.

We are also working on a multi-year effort to improve our business efficiency and agility through simplification of our business processes and enhancements to our infrastructure. Many of these improvements are also designed to enhance our customers' experience when doing business with us, including making our customers' interactions with us simpler and more efficient. These efforts include replacing some of our systems with simpler, more automated infrastructure that will enable us to more efficiently process transactions and manage our book of business, as well as to better adapt to industry and regulatory changes in the future. We are also working on implementing infrastructure improvements to support the integration of our business with the common securitization platform and our ability to issue a single common security, which we describe below under "Helping to Build a Sustainable Housing Finance System."

Helping to Build a Sustainable Housing Finance System

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

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

Beginning in 2012, FHFA has released annual corporate performance objectives for Fannie Mae and Freddie Mac, referred to as the conservatorship scorecard, which detail specific priorities for implementing FHFA's strategic goals. FHFA released its 2014 conservatorship scorecard in May 2014, and its 2015 conservatorship scorecard in January 2015. Both FHFA's 2014 and 2015 conservatorship scorecards include objectives designed to further the goal of reforming the housing finance system. We describe below some of the initiatives we are undertaking pursuant to the mandates of the scorecards in order to build the policies and infrastructure for a sustainable housing finance system.

Representation and Warranty Framework. FHFA's 2014 and 2015 conservatorship scorecards include an objective relating to improving the representation and warranty framework for mortgage originations. We discuss actions we have taken to improve this framework and reduce lenders' repurchase risk relating to loans they deliver to us under "Serving Customer Needs and Improving Our Business Efficiency" above.

Credit Risk Transfer Transactions. FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to credit risk transfer transactions. The goal of these transactions is, to the extent economically sensible, to transfer a limited portion of the existing credit risk on a portion of our single-family guaranty book of business in order to reduce the risk to taxpayers of future borrower defaults. We completed a total of five Connecticut Avenue Securities™ ("CAS") credit risk transfer transactions in 2013 and 2014, which transferred some of the credit risk on single-family mortgages with an unpaid principal balance of $249.0 billion. While these transactions have been relatively small compared to our overall mortgage credit risk exposure, we believe they have attracted broad interest in the private market. We currently intend to complete additional CAS transactions in 2015. In addition to our CAS transactions, we executed additional types of risk sharing transactions in 2014. We expect to continue engaging in economically sensible ways to expand our offerings of credit risk transfer transactions in the future. See "Business Segments—Single-Family Business—Single-Family Credit Risk Transfer Transactions" and "MD&A—Risk Management—Credit Risk Management" for more information on these transactions.

Mortgage Insurance. FHFA's 2014 conservatorship scorecard includes an objective relating to finalizing mortgage insurance master policies and enhanced mortgage insurer eligibility requirements. FHFA's 2015 conservatorship scorecard includes an objective relating to implementing final mortgage insurer eligibility requirements. These reforms are intended to strengthen our mortgage insurer counterparties and reduce the risk to taxpayers of future defaults by mortgage insurers on their obligations to the GSEs. See "MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management" for a description of these new policies and requirements.

Common Securitization Platform. FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to the development of a common securitization platform that is intended to replace certain elements of Fannie Mae's and Freddie Mac's proprietary systems for securitizing mortgages and performing associated back office and administrative functions. In October 2013, Fannie Mae and Freddie Mac established Common Securitization Solutions, LLC ("CSS"), a jointly owned limited liability company formed to design, develop, build and ultimately operate the platform. We continue to work with FHFA, Freddie Mac and CSS on building and testing the common securitization platform, as well as on implementing required changes to our systems and operations to integrate with the common securitization platform. We expect it will be a number of years before CSS will have sufficient operational capabilities to serve its intended purpose as a common securitization platform for us and Freddie Mac. See "Housing Finance Reform—Conservator Developments" for more information on the progress of the common securitization platform initiative.

Single Common Security. FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to the development of a single common mortgage-backed security for Fannie Mae and Freddie Mac. FHFA believes a single common security would increase liquidity in the housing finance market. The development of the single common security is expected to be a multi-year initiative. See “Housing Finance Reform—Conservator Developments” for information on FHFA’s single security proposal and “Risk Factors” for a discussion of the risks to our business associated with a single common security for Fannie Mae and Freddie Mac.

Mortgage Data Standardization Initiatives. FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to support of mortgage data standardization initiatives. These initiatives are designed to improve the accuracy and quality of loan data through the mortgage lifecycle with the development and implementation of the uniform data standards for single-family mortgages.

For more information on FHFA's 2014 conservatorship scorecard objectives and our performance against these objectives, see "Executive Compensation—Compensation Discussion and Analysis—Determination of 2014 Compensation—Assessment of Corporate Performance on 2014 Conservatorship Scorecard." For more information on FHFA's 2015 conservatorship scorecard objectives, see our Current Report on Form 8-K filed with the Securities and Exchange Commission ("SEC") on January 20, 2015.

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. These projects will likely take a number of years to implement. See "Serving Customer Needs and Improving Our Business Efficiency" above for a description of some of these initiatives.

We are devoting significant resources to and incurring significant expenses in implementing FHFA's objectives and these additional related initiatives. As described in "Risk Factors," the magnitude of the many new initiatives we are undertaking may increase our operational risk.

Treasury Draws and Dividend Payments

From 2009 through the first quarter of 2012, we received a total of $116.1 billion from Treasury under the senior preferred stock purchase agreement. This funding provided us with the capital and liquidity needed to fulfill our mission of providing liquidity and support to the nation's housing finance markets and to avoid a trigger of mandatory receivership under the Federal Housing Finance Regulatory Reform Act of 2008 (the "2008 Reform Act"). In addition, a portion of the $116.1 billion we received from Treasury was drawn to pay dividends to Treasury because, prior to 2013, our dividend payments on the senior preferred stock accrued at an annual rate of 10%, and we were directed by our conservator to pay these dividends to Treasury each quarter even when we did not have sufficient income to pay the dividend. We have not received funds from Treasury under the agreement since the first quarter of 2012. As of the date of this filing, the maximum amount of remaining funding under the agreement is $117.6 billion.

From 2008 through 2014, we paid a total of $134.5 billion in dividends to Treasury on the senior preferred stock. Under the terms of the senior preferred stock purchase agreement, dividend payments do not offset prior Treasury draws, and we are not permitted to pay down draws we have made under the agreement except in limited circumstances. Accordingly, the current aggregate liquidation preference of the senior preferred stock is $117.1 billion, due to the initial $1.0 billion liquidation preference of the senior preferred stock (for which we did not receive cash proceeds) and the $116.1 billion we have drawn from Treasury.

The Director of FHFA directs us on a quarterly basis to make dividend payments on the senior preferred stock. In March 2015, we expect to pay Treasury additional senior preferred stock dividends of $1.9 billion for the first quarter of 2015.

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 "Housing Finance Reform" for a discussion of proposals for reform of the housing finance system, including the GSEs, that could materially affect our business, including proposals to wind down Fannie Mae and Freddie Mac. See "Risk Factors" 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 2014, with pre-tax income of $21.1 billion and net income of $14.2 billion. We expect to remain profitable on an annual basis for the foreseeable future; however, we expect our earnings in future years will be substantially lower than our earnings for 2014, primarily due to our expectation of substantially lower income from resolution agreements, continued declines in net interest income from our retained mortgage portfolio assets and lower credit-related income. In addition, certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year. Our future financial results also will be affected by a number of other factors, including: our guaranty fee rates; the volume of single-family mortgage originations in the future; the size, composition and quality of our retained mortgage portfolio and guaranty book of business;

and economic and housing market conditions. Our expectations for our future financial results do not take into account the impact on our business of potential future legislative or regulatory changes, which could have a material impact on our financial results, particularly the enactment of housing finance reform legislation as noted in "Uncertainty Regarding our Future Status" above.

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

Revenues. We currently have two primary sources of revenues: (1) the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties; and (2) the difference between interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt that funds those assets. Our "retained mortgage portfolio" refers to the mortgage-related assets we own (which excludes the portion of assets held by consolidated MBS trusts that back mortgage-related securities owned by third parties). In recent years, an increasing portion of our net interest income has been derived from guaranty fees rather than from our retained mortgage portfolio assets, due to the shrinking of our retained mortgage portfolio and the impact of guaranty fee increases. We estimate that the portion of our net interest income derived from guaranty fees on loans underlying our Fannie Mae MBS increased from more than one-third in 2013 to approximately half in 2014. We expect that guaranty fees will continue to account for an increasing portion of our net interest income.

The decrease in the balance of mortgage assets held in our retained mortgage portfolio contributed to a decline in our net interest income and revenues in 2014 as compared with 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 partially offset the negative impact of the decline in our retained mortgage portfolio. We expect our guaranty fee revenues to increase over the long term, as loans with lower guaranty fees liquidate from our book of business and are replaced with new loans with higher guaranty fees. The extent to which the positive impact of increased guaranty fee revenues will offset the negative impact of the decline in the size of our retained mortgage portfolio will depend on many factors, including: changes to guaranty fee pricing we may make in the future, including any directive we receive from FHFA to change our guaranty fee pricing; the size, composition and quality of our guaranty book of business; the life of the loans in our guaranty book of business; the size, composition and quality of our retained mortgage portfolio, including the pace at which we are required by our conservator to reduce the size of our portfolio and the types of assets we are required to sell; economic and housing market conditions, including changes in interest rates; our market share; and legislative and regulatory changes.

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

As described in "Legal Proceedings" and "Note 19, Commitments and Contingencies," several lawsuits have been filed by preferred and common stockholders of Fannie Mae and Freddie Mac against the United States, Treasury and/or FHFA challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac, including challenges to the net worth sweep dividend provisions of the senior preferred stock. We cannot predict the course or the outcome of these lawsuits, or the actions the U.S. government (including Treasury or FHFA) may take in response to any ruling or finding in any of these lawsuits.

Overall Market Conditions. We expect that single-family mortgage loan serious delinquency and severity rates will continue their downward trend, but at a slower pace than in recent years. We expect that single-family serious delinquency and severity rates will remain high compared with pre-housing crisis levels because it will take some time for the remaining delinquent loans with high mark-to-market LTV ratios originated prior to 2009 to work their way

through the foreclosure process. Despite steady demand and stable fundamentals at the national level, the multifamily sector may continue to exhibit below average fundamentals in certain local markets and with certain properties.
We forecast that total originations in the U.S. single-family mortgage market in 2015 will increase from 2014 levels by approximately 7% from an estimated $1.19 trillion in 2014 to $1.28 trillion in 2015, and that the amount of originations in the

U.S. single-family mortgage market that are refinancings will increase from an estimated $516 billion in 2014 to $574 billion in 2015.

Home Prices. Based on our home price index, we estimate that home prices on a national basis increased by 4.7% in 2014. We expect a lower rate of home price appreciation in 2015 than in 2014. Future home price changes may be very different from our expectations as a result of significant inherent uncertainty in the current market environment, including uncertainty about the effect of recent and future changes in mortgage rates; actions the federal government has taken and may take with respect to fiscal policies, mortgage finance programs and policies, and housing finance reform; the Federal Reserve's purchases and sales of mortgage-backed securities; the impact of those actions on and changes generally in unemployment and the general economic and interest rate environment; and the impact on the U.S. economy of global economic and political conditions. We also expect significant regional variation in the timing and rate of home price growth.

Credit Losses. Our credit losses, which include our charge-offs, net of recoveries, reflect our realization of losses on our loans. Our credit losses were $5.9 billion in 2014, up from $4.5 billion in 2013 and down from $14.6 billion in 2012. Our credit losses increased in 2014 compared with 2013 primarily due to a lower level of credit loss recoveries in 2014 compared with 2013. We expect our credit losses in 2015 will be higher than 2014 levels because we expect our approach to implementing the charge-off provisions of FHFA's Advisory Bulletin AB 2012-02 in 2015 will increase our credit losses for 2015 from what they otherwise would be. We expect our credit losses to resume their downward trend beginning in 2016. See "Our Charter and Regulation of Our Activities—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 $38.2 billion as of December 31, 2014, down from $47.3 billion as of December 31, 2013. As described in "Our Charter and Regulation of Our Activities—FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans," our approach to implementing the charge-off provisions of FHFA's Advisory Bulletin AB 2012-02 on January 1, 2015 will result in a decrease to our allowance for loan losses as of that date of approximately $2 billion to eliminate the allowance for loan losses on the charged-off loans, which will be reflected in our financial results for the first quarter of 2015. 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 future revenues and net interest income, our future dividend payments to Treasury, the level and credit characteristics of, and the credit risk posed by, our future acquisitions, our future credit losses and our future loss reserves. We also present a number of estimates and expectations in this executive summary regarding future housing market conditions, including expectations regarding future single-family loan delinquency and severity rates, future mortgage originations, future refinancings, future home prices and future conditions in the multifamily market. These estimates and expectations are forward-looking statements based on our current assumptions regarding numerous factors. Our future estimates of our performance and housing market conditions, as well as the actual results, may differ materially from our current estimates and expectations as a result of: the timing and level of, as well as regional variation in, home price changes; changes in interest rates, unemployment rates and other macroeconomic and housing market variables; our future guaranty fee pricing, including any directive from FHFA to change our guaranty fee pricing, and the impact of that pricing on our guaranty fee revenues and competitive environment; our future serious delinquency rates; our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers; future legislative or regulatory requirements or changes that have a significant impact on our business, such as a requirement that we implement a principal forgiveness program or the enactment of housing finance reform legislation; actions we may be required to take by FHFA, as our conservator or as our regulator, such as changes in the type of business we do; 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 any change in the Federal Reserve's policy towards the reinvestment of principal payments of mortgage-backed securities or any future sales of such securities; changes in the fair value of our assets and liabilities; changes in generally accepted accounting principles ("GAAP"); credit availability; global political risks; natural disasters, terrorist attacks, pandemics or other major disruptive events; information security breaches; and other factors, including those discussed in "Forward-Looking Statements," "Risk Factors" and elsewhere in this report. 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.

RESIDENTIAL MORTGAGE MARKET

The U.S. Residential Mortgage Market

We conduct business in the U.S. residential mortgage market and the global securities market. According to the Federal Reserve, total U.S. residential mortgage debt outstanding, which includes $9.9 trillion of single-family mortgage debt outstanding, was estimated to be approximately $10.8 trillion as of September 30, 2014 (the latest date for which information is available). We owned or guaranteed mortgage assets representing approximately 29% of total U.S. residential mortgage debt outstanding as of September 30, 2014.

We operate our business solely in the United States and its territories, and accordingly, we generate no revenue from and have no long-lived assets, other than financial instruments, in geographic locations other than the United States and its territories.

Housing and Mortgage Market and Economic Conditions

According to the U.S. Bureau of Economic Analysis advance estimate, the inflation-adjusted U.S. gross domestic product, or GDP, rose by 2.4% in 2014, compared with an increase of 2.2% in 2013. According to the U.S. Bureau of Labor Statistics as of January 2015, the economy created an estimated 3.2 million non-farm jobs in 2014 and 2.4 million non-farm jobs in 2013. The unemployment rate declined to 5.6% in December 2014 from 6.7% in December 2013. In January 2015, non-farm payrolls increased by 257,000 jobs, and the unemployment rate increased to 5.7%. The most comprehensive measure of the unemployment rate, which includes those working part-time who would rather work full-time (part-time workers for economic reasons) and those not looking for work but who want to work and are available for work (discouraged workers), declined to 11.2% in December 2014 from 13.1% in December 2013.

Housing activity was mixed in 2014 as compared with 2013. Total existing home sales of 4.9 million units in 2014 represent a decrease of 3.1% from 2013, compared with a 9.2% increase in 2013, according to data from the National Association of REALTORS®. Sales of foreclosed homes and preforeclosure, or "short," sales (together, "distressed sales") accounted for 11% of existing home sales in December 2014, compared with 14% in December 2013. According to the U.S. Census Bureau, new single-family home sales increased 1.2% in 2014, after increasing by 16.6% in 2013. Homebuilding activity continued to increase in 2014, as single-family housing starts rose approximately 5% in 2014, compared with an increase of 15% in 2013. Multifamily starts rose approximately 16% in 2014, compared with an increase of 25% in 2013.

At the end of 2014, the number of months' supply, or the inventory/sales ratio, of available existing homes and of new homes were each below their historical average. According to the U.S. Census Bureau, the months' supply of new single-family unsold homes was 5.5 months as of December 31, 2014, compared with 5.1 months as of December 31, 2013. According to the National Association of REALTORS®, the months' supply of existing unsold homes was 4.4 months as of December 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 4.7% as of September 30, 2014 (the latest date for which information is available), according to the Mortgage Bankers Association National Delinquency Survey, compared with 5.4% as of December 31, 2013. We provide information about Fannie Mae's serious delinquency rate, which also decreased during 2014, in "Executive Summary—Single-Family Guaranty Book of Business—Credit Performance."

Despite recent improvement in the housing market and declining delinquency rates, approximately one out of twelve borrowers was delinquent or in foreclosure during the third quarter of 2014, according to the Mortgage Bankers Association National Delinquency Survey.

Table 3 displays several key indicators related to the total U.S. residential mortgage market.

Table 3: Housing and Mortgage Market Indicators(1)

	2014	2013	2012	% Change 2014 vs. 2013	% Change 2013 vs. 2012
Home sales (units in thousands)	5,365	5,519	5,028	(2.8)%	9.8 %
New home sales	435	429	368	1.2	16.6
Existing home sales	4,930	5,090	4,660	(3.1)	9.2
Home price change based on Fannie Mae Home Price Index ("HPI")(2)	4.7 %	8.0 %	4.1 %		
Annual average fixed-rate mortgage interest rate(3)	4.2 %	4.0 %	3.7 %		
Single-family mortgage originations (in billions)	$1,193	$1,866	$2,154	(36.1)	(13.4)
Type of single-family mortgage origination:					
Refinance share	43 %	60 %	72 %		
Adjustable-rate mortgage share	9 %	7 %	5 %		
Total U.S. residential mortgage debt outstanding (in billions)(4)	$10,824	$10,819	$10,877	*	(0.5)

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* Represents less than 0.05%.

(1) The sources of the housing and mortgage market data in this table are the Federal Reserve Board, the U.S. Census Bureau, the Department of Housing and Urban Development, the National Association of REALTORS® and the Mortgage Bankers Association. Home sales data are based on information available through December 2014. Single-family mortgage originations, as well as refinance shares, are based on February 2015 estimates from Fannie Mae's Economic & Strategic Research group. The adjustable-rate mortgage share is based on the number of conventional mortgage applications data reported by the Mortgage Bankers Association. Certain previously reported data may have been changed to reflect revised historical data from any or all of these organizations.

(2) Calculated internally using property data information on loans purchased by Fannie Mae, Freddie Mac and other third-party home sales data. Fannie Mae's HPI is a weighted repeat transactions index, measuring average price changes in repeat sales on the same properties. Fannie Mae's HPI excludes prices on properties sold in foreclosure. The reported home price change reflects the percentage change in Fannie Mae's HPI from the fourth quarter of the prior year to the fourth quarter of the reported year.

(3) Based on the annual average 30-year fixed-rate mortgage interest rate reported by Freddie Mac.

(4) U.S. residential mortgage debt outstanding information for 2014 is provided as of September 30, 2014, the latest date for which information is available.

Based on our home price index, we estimate that home prices on a national basis increased by 4.7% in 2014, following increases of 8.0% in 2013 and 4.1% in 2012. Despite the recent increases in home prices, we estimate that, through December 31, 2014, home prices on a national basis remained 10.1% 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 mortgage principal balance exceeds the current market value of their home. This increases the likelihood that borrowers will abandon their mortgage obligations and that the loans will become delinquent and proceed to foreclosure. According to CoreLogic, Inc., the number of residential properties with mortgages in a negative equity position in the third quarter of 2014 was approximately 5.1 million, down from 6.5 million in the third quarter of 2013. The percentage of properties with mortgages in a negative equity position in the third quarter of 2014 was 10.3%, down from 13.3% in the third quarter of 2013.

Thirty-year fixed-rate mortgage rates declined during the year, starting at 4.53% for the week of January 2, 2014 and ending at 3.87% for the week of December 31, 2014, according to the Freddie Mac Primary Mortgage Market Survey®. Thirty-year fixed-rate mortgage rates declined further in January 2015, reaching 3.66% for the week of

January 29, 2015.

Mortgage rates were generally higher during 2014 than they were in the first half of 2013, which contributed to a decline in single-family mortgage originations in 2014, driven by a decline in refinancing activity. We estimate that total single-family mortgage originations decreased by approximately 36% to $1.19 trillion in 2014, compared with $1.87 trillion in 2013. We estimate that the amount of single-family mortgage originations that were refinancings decreased by approximately 54% to $516 billion in 2014, compared with $1.12 trillion in 2013. While single-family mortgage originations declined by an estimated 36% in 2014, we estimate that the amount of single-family mortgage debt outstanding was relatively flat in 2014. As of September 30, 2014 (the latest date for which information is available), total single-family mortgage debt outstanding was $9.9 trillion, a decrease of 0.6% from the amount of total single-family mortgage debt outstanding as of September 30, 2013. Total U.S. residential mortgage debt outstanding decreased by 0.1% from the third quarter of 2013 to the third quarter of 2014 (the latest date for which information is available).

National multifamily market fundamentals, which include factors such as vacancy rates and rents, remained relatively stable during 2014, despite an increase in new apartment supply. Although the national estimated vacancy level increased toward the end of the year, it remained near historic lows, benefiting from steady rental demand coupled with ongoing job growth and new household formation. According to preliminary third-party data, the national multifamily vacancy rate for institutional investment-type apartment properties was an estimated 5.0% as of December 31, 2014, up from an estimated 4.75% as of September 30, 2014 and down from an estimated 5.1% as of December 31, 2013.

Effective rents and net absorption both continued to increase during 2014. National asking rents increased by an estimated 3.0% in 2014 and by an estimated 0.5% during the fourth quarter of 2014, compared with an estimated increase of 1.0% in the third quarter of 2014.

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 165,000 units in 2014, according to preliminary data from Reis, Inc. There was positive net absorption of approximately 45,000 units during the fourth quarter of 2014, compared with approximately 37,000 units during the third quarter of 2014. Although an estimated 240,000 multifamily units were added to the nation’s inventory in 2014, demand remained healthy.

Vacancy rates and rents are important to loan performance because multifamily loans are generally repaid from the cash flows generated by the underlying property. Several years of improvement in these fundamentals helped to increase property values in most metropolitan areas in 2014, and contributed to the ongoing increase in new multifamily construction development. As a result, it is estimated that there will be approximately 340,000 new multifamily units completed in 2015. The bulk of this new supply is concentrated in a limited number of metropolitan areas. We believe this increase in supply will result in a temporary slowdown in net absorption rates, occupancy levels and effective rents in those areas throughout 2015. Nevertheless, the overall national rental market supply and demand is expected to remain in balance over the longer term, based on expected construction completions, expected obsolescence, positive rental household formation trends and expected increases in the population of 20- to 34-year olds, which is the primary age group that tends to rent multifamily housing.

MORTGAGE SECURITIZATIONS

We support market liquidity by issuing Fannie Mae MBS that are readily traded in the capital markets. We create Fannie Mae MBS by placing mortgage loans in a trust and issuing Fannie Mae MBS that are backed by those mortgage loans. Monthly payments received on the loans are the primary source of payments passed through to Fannie Mae MBS holders. We guarantee to the MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the trust certificates. In return for this guaranty, we receive guaranty fees.

Below we discuss (1) two broad categories of securitization transactions: lender swaps and portfolio securitizations; (2) features of our MBS trusts; (3) circumstances under which we purchase loans from MBS trusts; and (4) single-class and multi-class Fannie Mae MBS.

Lender Swaps and Portfolio Securitizations

We currently securitize a substantial majority of the single-family and multifamily mortgage loans we acquire. Our securitization transactions primarily fall within two broad categories: lender swap transactions and portfolio securitizations.

Our most common type of securitization transaction is our “lender swap transaction.” Mortgage lenders that operate in the primary mortgage market generally deliver pools of mortgage loans to us in exchange for Fannie Mae MBS backed by these mortgage loans. A pool of mortgage loans is a group of mortgage loans with similar characteristics. After receiving the mortgage loans in a lender swap transaction, we place them in a trust for which we serve as trustee. This trust is established for the sole purpose of holding the mortgage loans separate and apart from our corporate assets. We deliver to the lender (or its designee) Fannie Mae MBS that are backed by the pool of mortgage loans in the trust and that represent an undivided beneficial ownership interest in each of the mortgage loans. We guarantee to each MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the related Fannie Mae MBS. We retain a portion of the interest payment as a fee for providing our guaranty. The mortgage servicer also retains a portion of the interest payment as a fee for servicing the loan. Then, on behalf of the trust, we make monthly distributions to the Fannie Mae MBS certificateholders from the principal and interest payments and other collections on the underlying mortgage loans.

In contrast to our lender swap securitizations, in which lenders deliver pools of mortgage loans to us that we immediately place in a trust for securitization, our "portfolio securitization transactions" involve creating and issuing Fannie Mae MBS using mortgage loans and mortgage-related securities that we hold in our retained mortgage portfolio.

Features of Our MBS Trusts

Our MBS trusts hold either single-family or multifamily mortgage loans or mortgage-related securities. Each trust operates in accordance with a trust agreement or a trust indenture. Each MBS trust is also governed by an issue supplement documenting the formation of that MBS trust, the identification of its related assets and the issuance of the related Fannie Mae MBS. The trust agreement or the trust indenture, together with the issue supplement and any amendments, are considered the "trust documents" that govern an individual MBS trust.

Purchases of Loans from our MBS Trusts

Under the terms of our MBS trust documents, we have the option or, in some instances, the obligation, to purchase mortgage loans that meet specific criteria from an MBS trust. For example, we have the option under the terms of the trust documents to purchase a loan from an MBS trust if the loan is delinquent as to four or more consecutive monthly payments. We generally have the obligation to purchase a mortgage loan from an MBS trust when the mortgage loan becomes delinquent as to 24 monthly payments. Our acquisition cost for these loans is the unpaid principal balance of the loan plus accrued interest.

In deciding whether and when to exercise our option to purchase a loan from a single-family MBS trust, we consider a variety of factors, including: our legal ability to purchase loans under the terms of the trust documents; whether we have agreed to modify the loan, which we cannot do while it remains in the trust; our mission and public policy; our loss mitigation strategies and the exposure to credit losses we face under our guaranty; our cost of funds; the impact on our results of operations; relevant market yields; the accounting impact; the administrative costs associated with purchasing and holding the loans; counterparty exposure to lenders that have agreed to cover losses associated with delinquent loans; and general market conditions. The weight we give to these factors changes depending on market circumstances and other factors.

The cost of purchasing most delinquent loans from Fannie Mae MBS trusts and holding them in our retained mortgage portfolio is currently less than the cost of advancing delinquent payments to security holders. We generally purchase loans from MBS trusts as they become four or more consecutive monthly payments delinquent. During 2014, we purchased delinquent loans with an unpaid principal balance of approximately $17.9 billion from our single-family MBS trusts. We expect to continue purchasing loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity and other factors, including the limit on the amount of mortgage assets that we may own pursuant to the senior preferred stock purchase agreement and FHFA's portfolio plan requirements.

For our multifamily MBS trusts, we typically exercise our option to purchase a loan from the trust if the loan is delinquent as to four or more consecutive monthly payments, whether those payments were made in whole or in part.

Single-Class and Multi-Class Fannie Mae MBS

Fannie Mae MBS trusts may be single-class or multi-class. Single-class MBS are MBS in which the investors receive principal and interest payments on the mortgage loans backing the MBS directly in proportion to their percentage ownership of the MBS issuance. Multi-class MBS are MBS, including Real Estate Mortgage Investment Conduits ("REMICs"), in which the cash flows on the underlying mortgage assets are divided, creating several classes of securities, each of which represents an undivided beneficial ownership interest in the assets of the related MBS trust and entitles the related holder to a specific portion of cash flows. Terms to maturity of some multi-class Fannie Mae MBS, particularly REMIC classes, may match or be shorter than the maturity of the underlying mortgage loans and/or mortgage-related securities. After these classes mature, cash flows received on the underlying mortgage assets are allocated to the remaining classes in accordance with the payment terms of the securities. As a result, each of the classes in a multi-class MBS may have a different coupon rate, average life, repayment sensitivity or final maturity. Structured Fannie Mae MBS are either multi-class MBS or single-class MBS that are typically resecuritizations of other single-class Fannie Mae MBS. In a resecuritization, pools of MBS are collected and securitized.

BUSINESS SEGMENTS

We have three business segments for management reporting purposes: Single-Family Credit Guaranty, Multifamily and Capital Markets. In this report we refer to our business groups that run these segments as our "Single-Family business," our "Multifamily business" and our "Capital Markets group." These groups engage in complementary business activities in pursuing our mission of providing liquidity, stability and affordability to the U.S. housing market. These activities are summarized in the table below and described in more detail following this table. We also summarize in the table below the key sources of revenue for each of our segments and the primary expenses.

Business Segment	Primary Business Activities	Primary Drivers of Revenue	Primary Drivers of Expense
Single-Family	Mortgage acquisitions: Works with our lender customers to acquire single-family mortgage loans through lender swap transactions or, working also with our Capital Markets group, through loan purchases Credit risk management: Prices and manages the credit risk on loans in our single-family guaranty book of business Credit loss management: Works to prevent foreclosures and reduce costs of defaulted single-family loans through home retention solutions and foreclosure alternatives, through management of foreclosures and REO, and through pursuing contractual remedies from lenders, servicers and providers of credit enhancement	Guaranty fees: Compensation for assuming and managing the credit risk on our single-family guaranty book of business Interest income not recognized: Consists of reimbursement costs for interest income not recognized for loans on nonaccrual status in our retained mortgage portfolio or in consolidated trusts, which are recorded as a reduction to our interest income Fee and other income: Compensation received for providing services to lenders	Credit-related expense: Consists of provision for single-family loan losses, provision for single-family guaranty losses and foreclosed property expense on loans underlying our single-family guaranty book of business Administrative expenses: Consists of salaries and benefits, occupancy costs, professional services, and other expenses associated with our Single-Family business operations Remittances to Treasury of a portion of our guaranty fees: Consists of amounts remitted to Treasury pursuant to the TCCA, which we expect will increase in future periods
Multifamily	Mortgage securitizations: Works with our lender customers to securitize multifamily mortgage loans delivered to us by lenders into Fannie Mae MBS in lender swap transactions Credit risk management: Prices and manages the credit risk on loans in our multifamily guaranty book of business Credit loss management: Works to prevent foreclosures and reduce costs of defaulted multifamily loans through foreclosure alternatives, through management of foreclosures and REO, and through pursuing contractual remedies from lenders, servicers and providers	Guaranty fees: Compensation for assuming and managing the credit risk on our multifamily guaranty book of business Fee and other income: Other fees associated with multifamily business activities, including prepayments	Credit-related expense: Consists of provision for multifamily credit losses and foreclosed property expense on loans underlying our multifamily guaranty book of business Administrative expenses: Consists of salaries and benefits, occupancy costs, professional services, and other expenses associated with our Multifamily business operations

of credit enhancement

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Business Segment	Primary Business Activities	Primary Drivers of Revenue	Primary Drivers of Expense
Capital Markets	Mortgage and other investments: Purchases mortgage assets and invests in non-mortgage interest-earning assets Mortgage securitizations: Purchases loans from a large group of lenders, securitizes them, and may sell the securities to dealers and investors Structured mortgage securitizations and other customer services: Issues structured Fannie Mae MBS for customers in exchange for a transaction fee and provides other fee-related services to our lender customers Interest rate risk management: Manages the interest rate risk on our portfolio by issuing a variety of debt securities in a wide range of maturities and by using derivatives	Net interest income: Generated from the difference between the interest income earned on our interest-earning assets and the interest expense associated with the debt funding those assets Fee and other income: Compensation received for engaging in structured transactions and providing other lender services. In addition, the substantial majority of fee and other income for 2013 and 2014 consisted of income resulting from settlement agreements resolving certain lawsuits relating to PLS sold to us.	Fair value gains and losses: Primarily consists of fair value gains and losses on derivatives, trading securities and other financial instruments Investment gains and losses: Primarily consists of (1) gains and losses on the sale or securitization of mortgage assets and (2) impairments recognized on our investments Administrative expenses: Consists of salaries and benefits, occupancy costs, professional services, and other expenses associated with our Capital Markets business operations

Revenues from our Business Segments

Table 4 displays our total net revenues for each of our business segments for each of the last three years. Net revenues include net interest income, guaranty fee income, and fee and other income. Under our segment reporting, the sum of the results for our three business segments does not equal our consolidated statements of operations and comprehensive income, as we separate the activity related to our consolidated trusts from the results generated by our three segments. We also include an eliminations/adjustments category to reconcile our business segment financial results and the activity related to our consolidated trusts to net income in our consolidated statements of operations and comprehensive income. For more information about the financial results and performance and total assets of each of our segments, see “MD&A—Business Segment Results” and “Note 13, Segment Reporting.”

Table 4: Business Segment Revenues

	For the Year Ended December 31,		
	2014	2013	2012
Single-Family	$12,332	$11,303	$8,120
Multifamily	1,384	1,325	1,234
Capital Markets	11,182	11,659	12,667
Consolidated Trusts and Eliminations/Adjustments	957	2,047	967
Total	$25,855	$26,334	$22,988

Single-Family Business

Working with our lender customers, our Single-Family business provides funds to the mortgage market by acquiring single-family loans through lender swap transactions or, working also with our Capital Markets group, through loan purchases. Our Single-Family business has primary responsibility for pricing and managing the credit risk on our single-family guaranty book of business, which consists of single-family mortgage loans underlying Fannie Mae MBS and single-family loans held in our retained mortgage portfolio.

A single-family loan is secured by a property with four or fewer residential units. Our Single-Family business and Capital Markets group securitize and purchase primarily conventional (not federally insured or guaranteed) single-family fixed-rate or adjustable-rate, first-lien mortgage loans, or mortgage-related securities backed by these types of loans. We also securitize or purchase loans insured by FHA, loans guaranteed by the VA, loans guaranteed by the Rural Development Housing and

Community Facilities Program of the U.S. Department of Agriculture (the "Department of Agriculture"), manufactured housing loans and other mortgage-related securities.

Revenues for our Single-Family business are derived primarily from guaranty fees received as compensation for assuming the credit risk on the mortgage loans underlying single-family Fannie Mae MBS. We also allocate guaranty fee revenues to the Single-Family business for assuming and managing the credit risk on the single-family mortgage loans held in our retained mortgage portfolio. The aggregate amount of single-family guaranty fees we receive or that are allocated to our Single-Family business in any period depends on the amount of single-family Fannie Mae MBS outstanding and loans held in our retained mortgage portfolio during the period and the applicable guaranty fee rates. The amount of Fannie Mae MBS outstanding at any time is primarily determined by the rate at which we issue new Fannie Mae MBS and by the repayment rate for the loans underlying our outstanding Fannie Mae MBS.

We describe the credit risk management process employed by our Single-Family business, including its key strategies in managing credit risk and key metrics used in measuring and evaluating our single-family credit risk, in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

Single-Family Mortgage Securitizations and Other Acquisitions

Our Single-Family business securitizes single-family mortgage loans and issues single-class Fannie Mae MBS, which are described above in "Mortgage Securitizations—Single-Class and Multi-Class Fannie Mae MBS," for our lender customers. Unlike our Capital Markets group, which securitizes loans from our retained mortgage portfolio, our Single-Family business securitizes loans solely in lender swap transactions. We describe lender swap transactions, and how they differ from portfolio securitizations, in "Mortgage Securitizations—Lender Swaps and Portfolio Securitizations." Our Single-Family business also works with our Capital Markets group to acquire single-family loans through purchases of loans.

Loans from our lender customers are delivered to us through either our "flow" or "bulk" transaction channels. In our flow business, we enter into agreements that generally set agreed-upon guaranty fees and other contract terms for a lender's future delivery of individual loans to us over a specified time period. Our bulk business generally consists of transactions in which a set of loans is delivered to us in bulk, typically with guaranty fees and other contract terms negotiated individually for each transaction.

Single-Family Mortgage Servicing, REO Management, and Lender Repurchase Evaluations

Servicing

Generally, the servicing of the mortgage loans that are held in our retained mortgage portfolio or that back our Fannie Mae MBS is performed by mortgage servicers on our behalf. Some loans are serviced for us by the lenders that initially sold the loans to us. In other cases, our loans are serviced by third-party servicers that did not originate or sell the loans to us. For loans we own or guarantee, the lender or servicer must obtain our approval before selling servicing rights to another servicer.

Our mortgage servicers typically collect and deliver principal and interest payments, administer escrow accounts, monitor and report delinquencies, perform default prevention activities, evaluate transfers of ownership interests, respond to requests for partial releases of security, and handle proceeds from casualty and condemnation losses. Our mortgage servicers are the primary point of contact for borrowers and perform a key role in the effective implementation of our homeownership assistance initiatives, negotiation of workouts of troubled loans, and other loss mitigation activities. If necessary, mortgage servicers inspect and preserve properties and process foreclosures and bankruptcies. Because we generally delegate the servicing of our mortgage loans to mortgage servicers and do not have our own servicing function, our ability to actively manage troubled loans that we own or guarantee is limited. For more information on the risks of our reliance on servicers, refer to "Risk Factors" and "MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management."

We compensate servicers primarily by permitting them to retain a specified portion of each interest payment on a serviced mortgage loan as a servicing fee. Servicers also generally retain assumption fees, late payment charges and other similar charges, to the extent they are collected from borrowers, as additional servicing compensation. We also compensate servicers for negotiating workouts on problem loans.

REO Management

If a loan defaults and we acquire a home through foreclosure or a deed-in-lieu of foreclosure, we market and sell the home through local real estate professionals. Our primary objectives are both to minimize the severity of loss to Fannie Mae by maximizing sales prices and to stabilize neighborhoods by preventing empty homes from depressing home values. In cases

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where the property does not sell, we use alternative methods of disposition, including selling homes to municipalities, other public entities or non-profit organizations, and selling properties in bulk or through public auctions.

Lender Repurchase Evaluations

We conduct post-purchase quality control file reviews to ensure that loans sold to, and serviced for, us meet our guidelines. If we discover violations through reviews, we generally issue repurchase demands to the seller or other responsible party and seek to collect on our repurchase claims; however, under our revised representation and warranty framework, we no longer require repurchase for loans that have breaches of certain selling representations and warranties if they have met specified criteria for relief. We discuss changes we have made to our post-purchase loan review process and our representation and warranty framework in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards."

Single-Family Credit Risk Transfer Transactions

Our Single-Family business has developed risk-sharing capabilities to transfer limited portions of our single-family mortgage credit risk to the private market in support of FHFA's 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac. We completed a total of five CAS credit risk transfer transactions in 2013 and 2014, which transferred some of the credit risk on single-family mortgages with an unpaid principal balance of $249.0 billion. In addition to our CAS transactions, we executed additional types of risk sharing transactions in 2014. See "MD&A—Risk Management—Credit Risk Management" for a description of these transactions.

We expect to continue engaging in economically sensible ways to expand our offerings of credit risk transfer transactions in the future. FHFA's 2015 conservatorship scorecard includes an objective that we transact credit risk transfers on reference pools of single-family mortgages with an unpaid principal balance of at least $150 billion in 2015, with this unpaid principal balance requirement to be reviewed periodically and adjusted as necessary to reflect market conditions. In meeting this target, we must utilize at least two types of risk transfer structures.

Multifamily Business

Our Multifamily business provides mortgage market liquidity for properties with five or more residential units, which may be apartment communities, cooperative properties, seniors housing, dedicated student housing or manufactured housing communities. Our Multifamily business works with our lender customers to provide funds to the mortgage market primarily by securitizing multifamily mortgage loans into Fannie Mae MBS. We also purchase multifamily mortgage loans and provide credit enhancement for bonds issued by state and local housing finance authorities to finance multifamily housing.

Our Multifamily business also works with our Capital Markets group to facilitate the purchase and securitization of multifamily mortgage loans and securities. Our multifamily guaranty book of business consists primarily of multifamily mortgage loans underlying Fannie Mae MBS and multifamily loans held in our retained mortgage portfolio. Our Multifamily business has primary responsibility for pricing and managing the credit risk on our multifamily guaranty book of business, including managing the credit risk on multifamily loans and Fannie Mae MBS backed by multifamily loans that are held in our retained mortgage portfolio.

We describe the credit risk management process employed by our Multifamily business, with oversight from our Multifamily Enterprise Risk Management group, including its key strategies in managing credit risk and key metrics used in measuring and evaluating our multifamily credit risk, in "MD&A—Risk Management—Credit Risk Management—Multifamily Mortgage Credit Risk Management."

Revenues for our Multifamily business are derived from a variety of sources, including: (1) guaranty fees received as compensation for assuming credit risk on the mortgage loans underlying multifamily Fannie Mae MBS and on the multifamily mortgage loans held in our retained mortgage portfolio and on other mortgage-related securities; and (2) other fees associated with multifamily business activities. In addition, our Capital Markets group earns revenue generated from the difference between the interest income earned on the multifamily mortgage loans and securities held in our retained mortgage portfolio and the interest expense associated with the debt that funds those loans and securities.

Key Characteristics of the Multifamily Mortgage Market and Multifamily Transactions

The multifamily mortgage market and our transactions in that market have a number of key characteristics that affect our multifamily activities and distinguish them from our activities in the single-family residential mortgage market.

- Funding sources: The multifamily market is made up of a wide variety of lending sources, including commercial banks, life insurance companies, investment banks, FHA, state and local housing finance agencies, and the GSEs.

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- Lenders: During 2014, we executed multifamily transactions with 28 lenders. Of these, 24 lenders delivered loans to us under our Delegated Underwriting and Servicing, or DUS®, product line. In determining whether to partner with a multifamily lender, we consider the lender's financial strength, multifamily underwriting and servicing experience, portfolio performance and willingness and ability to share in the risk of loss associated with the multifamily loans they originate.
- Loan size: The average size of a loan in our multifamily guaranty book of business is $6 million. A significant number of our multifamily loans are under $5 million, and some of our multifamily loans are greater than $25 million.
- Collateral: Multifamily loans are collateralized by properties that generate cash flows and effectively operate as businesses, such as garden and high-rise apartment complexes, seniors housing communities, cooperatives, dedicated student housing and manufactured housing communities.
- Borrower and sponsor profile: Multifamily borrowers are entities that are typically owned, directly or indirectly, by for-profit corporations, limited liability companies, partnerships, real estate investment trusts and individuals who invest in real estate for cash flow and equity returns in exchange for their original investment in the asset. The ultimate owners of a multifamily borrower are referred to as the borrower's "sponsors." In this report, we refer to both the borrowing entities and their sponsors as "borrowers." Because borrowing entities are typically single-asset entities, with the property as their only asset, in evaluating a borrowing entity we also evaluate its sponsors. Multifamily loans are generally non-recourse to the sponsors. When considering a multifamily borrower, creditworthiness is evaluated through a combination of quantitative and qualitative data including liquid assets, net worth, number of units owned, experience in a market and/or property type, multifamily portfolio performance, access to additional liquidity, debt maturities, asset/property management platform, senior management experience, reputation and lender exposure.
- Borrower and lender investment: Borrowers are required to contribute equity into multifamily properties on which they borrow, while lenders generally share in any losses realized from the loans that we guarantee.
- Underwriting process: Multifamily loans require detailed underwriting of the property's operating cash flow. Our underwriting includes an evaluation of the property's ability to support the loan, property quality, market and submarket factors, ability to exit at maturity and an initial risk categorization for the loan.
- Term and lifecycle: In contrast to the standard 30-year single-family residential loan, multifamily loans typically have terms of 5, 7 or 10 years, with balloon payments due at maturity.
- Prepayment terms: Most multifamily Fannie Mae loans and MBS have limits on prepayments of loans and impose prepayment premiums, consistent with standard commercial investment terms.

Multifamily Mortgage Securitizations

Our Multifamily business generally creates multifamily Fannie Mae MBS in lender swap transactions in a manner similar to our Single-Family business, as described in "Single-Family Business—Single-Family Mortgage Securitizations and Other Acquisitions." Our multifamily lender customers typically deliver only one mortgage loan, often a fixed-rate loan, to back each multifamily Fannie Mae MBS. The characteristics of each mortgage loan are used to establish guaranty fees on a risk-adjusted basis. Securitizing a single multifamily mortgage loan into a Fannie Mae MBS facilitates its sale into the secondary market.

We also issue structured transactions backed by multifamily Fannie Mae MBS through the Fannie Mae Guaranteed Multifamily Structures ("Fannie Mae GeMS™") program. This provides additional liquidity and stability to the multifamily market, while expanding the investor base for multifamily Fannie Mae MBS.

Delegated Underwriting and Servicing ("DUS")

In an effort to promote product standardization in the multifamily marketplace, in 1988 Fannie Mae initiated the DUS product line for acquiring individual multifamily loans.

DUS is a unique business model in the commercial mortgage industry. The standard industry practice for a multifamily loan requires the purchaser or guarantor to underwrite or re-underwrite each loan prior to deciding whether to purchase or guaranty the loan. Under our model, DUS lenders are pre-approved and delegated the authority to underwrite and service loans on behalf of Fannie Mae. In exchange for this authority, DUS lenders are required to share with us the risk of loss over the life of the loan, as discussed in more detail in "MD&A—Risk Management—Credit Risk Management—Multifamily Mortgage Credit Risk Management—Multifamily Acquisition Policy and Underwriting Standards." Since DUS lenders share

in the credit risk, the servicing fee to the lenders includes compensation for credit risk. Delegation permits lenders to respond to customers more rapidly, as the lender generally has the authority to approve a loan within prescribed parameters, which provides an important competitive advantage.

Our DUS model aligns the interests of the lender and Fannie Mae. Our current 24-member DUS lender network, which is comprised of large financial institutions and independent mortgage lenders, continues to be our principal source of multifamily loan deliveries.

Multifamily Mortgage Servicing

Multifamily mortgage servicing is typically performed by the lenders who sell the mortgages to us. Multifamily mortgage servicers that are members of our DUS network have agreed to accept loss sharing, which we believe increases the alignment of interests between us and our multifamily loan servicers. Because of our loss-sharing arrangements with our multifamily lenders, transfers of multifamily servicing rights are infrequent, and we carefully monitor our servicing relationships and enforce our right to approve servicing transfers. As a seller-servicer, the lender is responsible for evaluating the financial condition of properties and property owners, administering various types of agreements (including agreements regarding replacement reserves, completion or repair, and operations and maintenance), as well as conducting routine property inspections.

The Multifamily Markets in Which We Operate

In the multifamily mortgage market, we aim to address the rental housing needs of a wide range of the population in all markets across the country, with the substantial majority of our focus on supporting rental housing that is affordable to families earning at or below the median income in their area. Our mission requires us to serve the market steadily, rather than moving in and out depending on market conditions. Through the secondary mortgage market, we support rental housing for the workforce population, for senior citizens and students, and for families with the greatest economic need. Our Multifamily business is organized and operated as an integrated commercial real estate finance business, addressing the spectrum of multifamily housing finance needs, including the needs described below.

- To meet the growing need for smaller multifamily property financing, we focus on the acquisition of multifamily loans up to $3 million ($5 million in high cost areas). We acquire these loans primarily from DUS lenders; however, we have also acquired these loans from other financial institutions. Over the years, we have been an active purchaser of these loans from both DUS and non-DUS lenders, and, as of December 31, 2014, they represented 58% of our multifamily guaranty book of business by loan count and 11% based on unpaid principal balance.
- To serve low- and very low-income households, we have a team that focuses exclusively on relationships with lenders financing privately-owned multifamily properties that receive public subsidies in exchange for maintaining long-term affordable rents. We enable borrowers to leverage housing programs and subsidies provided by local, state and federal agencies. These public subsidy programs are largely targeted to providing housing to families earning less than 60% of area median income (as defined by the U.S. Department of Housing and Urban Development "HUD")) and are structured to ensure that the low and very low-income households who benefit from the subsidies pay no more than 30% of their gross monthly income for rent and utilities. As of December 31, 2014, this type of financing represented approximately 15% of our multifamily guaranty book of business, based on unpaid principal balance, including $14.3 billion in bond credit enhancements.

Capital Markets

Our Capital Markets group manages our mortgage-related assets and other interest-earning non-mortgage investments. We fund our purchases primarily through proceeds we receive from the issuance of debt securities in the domestic and international capital markets. Our Capital Markets group has primary responsibility for managing the interest rate risk associated with our investments in mortgage assets.

Our Capital Markets group's business activity is primarily focused on making short-term use of our balance sheet rather than on long-term investments. As a result, our Capital Markets group works with lender customers to provide funds to the mortgage market through short-term financing and investing activities. Activities we are undertaking to provide liquidity to the mortgage market include the following:

- Whole Loan Conduit. Whole loan conduit activities involve our purchase of single-family loans principally for the purpose of securitizing them. We purchase loans from a large group of lenders and then securitize them as Fannie Mae MBS, which may then be sold to dealers and investors.

- Early Funding. Lenders who deliver whole loans or pools of whole loans to us in exchange for MBS typically must wait between 30 and 45 days from the closing and settlement of the loans or pools and the issuance of the MBS.

This delay may limit lenders' ability to originate new loans. Under our early lender funding programs, we purchase whole loans or pools of loans on an accelerated basis, allowing lenders to receive quicker payment for the whole loans and pools, which replenishes their funds and allows them to originate more mortgage loans.

- REMICs and Other Structured Securitizations. We issue structured Fannie Mae MBS (including REMICs), typically for our lender customers or securities dealer customers, in exchange for a transaction fee.
- MBS Trading. We regularly enter into purchase and sale transactions with other market participants involving mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae, which we refer to as "agency MBS." These transactions can provide for the future delivery of mortgage-backed securities with underlying single-family loans that share certain general characteristics (often referred to as the "TBA market"). These purchase and sale transactions also can provide for the future delivery of specifically identified mortgage-backed securities with underlying loans that have other characteristics considered desirable by some investors (often referred to as the "Specified Pools market"). Through our trading activity in the TBA and Specified Pools markets, we provide significant liquidity to the agency MBS markets.

Securitization Activities

Our Capital Markets group is engaged in issuing both single-class and multi-class Fannie Mae MBS through both portfolio securitizations and structured securitizations involving third-party assets.

- Portfolio securitizations. Our Capital Markets group creates single-class and multi-class Fannie Mae MBS from mortgage-related assets held in our retained mortgage portfolio. Our Capital Markets group may sell these Fannie Mae MBS into the secondary market or may retain the Fannie Mae MBS in our retained mortgage portfolio.
- Structured securitizations. Our Capital Markets group creates single-class and multi-class structured Fannie Mae MBS, typically for our lender customers or securities dealer customers, in exchange for a transaction fee. In these transactions, the customer "swaps" a mortgage-related asset that it owns (typically a mortgage security) in exchange for a structured Fannie Mae MBS we issue. The process for issuing Fannie Mae MBS in a structured securitization is similar to the process involved in our lender swap securitizations. For more information about that process and how it differs from portfolio securitizations, see "Mortgage Securitizations—Lender Swaps and Portfolio Securitizations."

For a description of single-class Fannie Mae MBS, see "Mortgage Securitizations—Single-Class and Multi-Class Fannie Mae MBS."

Other Customer Services

Our Capital Markets group provides our lender customers with services that include offering to purchase mortgage assets; segregating customer portfolios to obtain optimal pricing for their mortgage loans; and assisting customers with hedging their mortgage business. These activities help to create a broader market for our customers and enhance liquidity in the secondary mortgage market.

Retained Mortgage Portfolio

Revenue from our Capital Markets group is derived primarily from the difference, or spread, between the interest we earn on our mortgage and non-mortgage investments and the interest we incur on the debt we issue to fund these assets. Our Capital Markets revenues are primarily derived from our retained mortgage portfolio. We expect these revenues to continue to decrease over time as the maximum allowable amount of mortgage assets we may own continues to decrease each year under our senior preferred stock purchase agreement with Treasury and pursuant to FHFA's additional request that we cap our mortgage portfolio at 90% of the annual limit under the senior preferred stock purchase agreement. See "Conservatorship and Treasury Agreements—Treasury Agreements—Covenants under Treasury Agreements" for more information on the decreasing limits on the amount of mortgage assets we are permitted to hold.

We describe the interest rate risk management process employed by our Capital Markets group, including its key strategies in managing interest rate risk and key metrics used in measuring and evaluating our interest rate risk, in "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management."

Liquidity Support and Financing Activities

Our Capital Markets group seeks to increase the liquidity of the mortgage market by maintaining a presence as an active aggregator of mortgage loans and supports the liquidity of Fannie Mae MBS in a variety of market conditions.

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Our Capital Markets group funds its purchases primarily through the issuance of a variety of debt securities in a wide range of maturities in the domestic and international capital markets. The most active investors in our debt securities include commercial bank portfolios and trust departments, investment fund managers, insurance companies, pension funds, state and local governments, and central banks. The approved dealers for underwriting various types of Fannie Mae debt securities may differ by funding program. See "MD&A—Liquidity and Capital Management—Liquidity Management" for information on the composition of our outstanding debt and a discussion of our liquidity and debt activity.

Our Capital Markets group's liquidity support and financing activities are affected by market conditions. In addition, the Capital Markets group's purchases are subject to contractual limitations, including the provisions of the senior preferred stock purchase agreement with Treasury, and to regulatory constraints, to the extent described below under "Conservatorship and Treasury Agreements" and "Our Charter and Regulation of Our Activities."

CONSERVATORSHIP AND TREASURY AGREEMENTS

Conservatorship

On September 6, 2008, the Director of FHFA appointed FHFA as our conservator, pursuant to authority provided by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act of 2008, or 2008 Reform Act (together, the "GSE Act"). The conservatorship is a statutory process designed to preserve and conserve our assets and property and put the company in a sound and solvent condition.

The conservatorship has no specified termination date and there continues to be significant uncertainty regarding the future of our company, including how long the company will continue to exist in its current form, the extent of our role in the market, what form we will have, what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated and whether we will continue to exist following conservatorship. For more information on the risks to our business relating to the conservatorship and uncertainties regarding the future of our company and business, as well as the adverse effects of the conservatorship on the rights of holders of our common and preferred stock, see "Risk Factors."

Management of the Company during Conservatorship

Upon its appointment, the conservator immediately succeeded to (1) all rights, titles, powers and privileges of Fannie Mae, and of any shareholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and (2) title to the books, records and assets of any other legal custodian of Fannie Mae. The conservator subsequently delegated specified authorities to our Board of Directors and delegated to management the authority to conduct our day-to-day operations. In connection with its delegation of authority, FHFA has instructed the Board to oversee that management consult with and obtain the written approval of the conservator before taking action in any of the areas described in "Directors, Executive Officers and Corporate Governance—Corporate Governance—Conservatorship and Delegation of Authority to Board of Directors." FHFA's instructions also require the company to notify FHFA of planned changes in business processes or operations, so that FHFA may participate in decision-making as FHFA determines appropriate. The conservator retains the authority to amend or withdraw its delegations at any time.

Our directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, where required, of the conservator. Our directors have no fiduciary duties to any person or entity except to the conservator. Accordingly, our directors 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.

Because we are in conservatorship, our common stockholders currently do not have the ability to elect directors or to vote on other matters. The conservator eliminated common and preferred stock dividends (other than dividends on the senior preferred stock issued to Treasury) during the conservatorship, and we are no longer managed with a strategy to maximize shareholder returns. For additional information about our primary goals, see "Executive Summary—Our Strategy," and for additional information about the goals of the conservatorship, see "Executive Summary—Helping to Build a Sustainable Housing Finance System" and "Housing Finance Reform—Conservator Developments."

Powers of the Conservator under the GSE Act

FHFA has broad powers when acting as our conservator. As conservator, FHFA can direct us to enter into contracts or enter into contracts on our behalf. Further, FHFA may transfer or sell any of our assets or liabilities (subject to limitations and post-transfer notice provisions for transfers of certain types of financial contracts), without any approval, assignment of rights or consent of any party. The GSE Act provides, however, that mortgage loans and mortgage-related assets that have been

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transferred to a Fannie Mae MBS trust must be held by the conservator for the beneficial owners of the Fannie Mae MBS and cannot be used to satisfy the general creditors of the company. For more information on FHFA's powers as conservator and the rules governing conservatorship and receivership operations for the GSEs, see "Our Charter and Regulation of Our Activities—The GSE Act—Receivership."

Neither the conservatorship nor the terms of our agreements with Treasury change our obligation to make required payments on our debt securities or perform under our mortgage guaranty obligations.

Under the GSE Act, FHFA must place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations (that is, we have a net worth deficit) or if we have not been paying our debts, in either case, for a period of 60 days. In addition, the Director of FHFA may place us in receivership at his discretion at any time for other reasons set forth in the GSE Act, including if we are critically undercapitalized or if we are undercapitalized and have no reasonable prospect of becoming adequately capitalized. Placement into receivership would likely have a material adverse effect on holders of our common stock, preferred stock, debt securities and Fannie Mae MBS. Should we be placed into receivership, different assumptions would be required to determine the carrying value of our assets, which could lead to substantially different financial results. For more information on the risks to our business relating to conservatorship and uncertainties regarding the future of our business, see "Risk Factors."

Treasury Agreements

On September 7, 2008, we, through FHFA, in its capacity as conservator, and Treasury entered into a senior preferred stock purchase agreement, which was amended and restated on September 26, 2008. The amended and restated agreement was subsequently amended on May 6, 2009, December 24, 2009 and August 17, 2012. Unless the context indicates otherwise, references in this report to the senior preferred stock purchase agreement refer to the agreement as amended through August 17, 2012. The terms of the senior preferred stock purchase agreement, senior preferred stock and the warrant discussed below will continue to apply to us even if we are released from the conservatorship. See "Risk Factors" for a description of the risks to our business relating to the Treasury agreements, as well as the adverse effects of the senior preferred stock and the warrant on the rights of holders of our common stock and other series of preferred stock.

Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant

Senior Preferred Stock Purchase Agreement

Under the senior preferred stock purchase agreement, we issued to Treasury (a) one million shares of Variable Liquidation Preference Senior Preferred Stock, Series 2008-2, which we refer to as the "senior preferred stock," and (b) a warrant to purchase, for a nominal price, shares of common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised, which we refer to as the "warrant."

The senior preferred stock and warrant were issued to Treasury as an initial commitment fee in consideration of the commitment from Treasury to provide funds to us under the terms and conditions set forth in the senior preferred stock purchase agreement. The senior preferred stock purchase agreement provides that, on a quarterly basis, we may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected in our consolidated balance sheet, prepared in accordance with GAAP, for the applicable fiscal quarter (referred to as the "deficiency amount"), up to the maximum amount of remaining funding under the agreement. As of the date of this filing, the maximum amount of remaining funding under the agreement is $117.6 billion. If we were to draw additional funds from Treasury under the agreement in a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement. The senior preferred stock purchase agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process.

The terms of the senior preferred stock purchase agreement provided for the payment of an unspecified quarterly commitment fee to Treasury; however, the August 2012 amendment to the agreement provided that this commitment fee will not be set, accrue or be payable, as long as the current dividend payment provisions of the senior preferred stock remain in effect.

The senior preferred stock purchase agreement provides that Treasury's funding commitment will terminate under any of the following circumstances: (1) the completion of our liquidation and fulfillment of Treasury's obligations under its funding commitment at that time, (2) the payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guaranty obligations), or (3) the funding by Treasury of the maximum amount that may be funded under the agreement. In addition, Treasury may terminate its funding commitment and declare the senior preferred stock purchase agreement null and void if a court vacates, modifies, amends, conditions, enjoins, stays or otherwise affects the appointment of the conservator or otherwise curtails the conservator's powers. Treasury may not terminate its funding commitment under the agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition.

The senior preferred stock purchase agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury's aggregate funding commitment or add conditions to Treasury's funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or guaranteed Fannie Mae MBS.

In the event of our default on payments with respect to our debt securities or guaranteed Fannie Mae MBS, if Treasury fails to perform its obligations under its funding commitment and if we and/or the conservator are not diligently pursuing remedies in respect of that failure, the holders of our debt securities or Fannie Mae MBS may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of (1) the amount necessary to cure the payment defaults on our debt and Fannie Mae MBS and (2) the lesser of (a) the deficiency amount and (b) the maximum amount that may be funded under the agreement less the aggregate amount of funding previously provided under the commitment. Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the senior preferred stock purchase agreement that will increase the liquidation preference of the senior preferred stock.

Senior Preferred Stock

Pursuant to the senior preferred stock purchase agreement, we issued one million shares of senior preferred stock to Treasury on September 8, 2008 with an aggregate initial liquidation preference of $1.0 billion. The stock's liquidation preference is subject to adjustment. For any dividend period for which dividends are payable, to the extent that dividends are not paid in cash they will accrue and be added to the liquidation preference. In addition, any amounts Treasury pays to us pursuant to its funding commitment under the senior preferred stock purchase agreement and any quarterly commitment fees that are either not paid in cash to Treasury or not waived by Treasury will be added to the liquidation preference. Accordingly, the aggregate liquidation preference of the senior preferred stock was $117.1 billion as of December 31, 2014.

Treasury, as holder of the senior preferred stock, is entitled to receive, when, as and if declared, out of legally available funds, cumulative quarterly cash dividends. Pursuant to the August 2012 amendment to the agreement, beginning in 2013, the method for calculating the amount of dividends for each quarter was changed from an annual rate of 10% per year on the then-current liquidation preference of the senior preferred stock to an amount determined based on our net worth as of the end of the immediately preceding fiscal quarter. Our net worth as defined by the agreement is the amount, if any, by which our total assets (excluding Treasury's funding commitment and any unfunded amounts related to the commitment) exceed our total liabilities (excluding any obligation in respect of capital stock), in each case as reflected on our balance sheet prepared in accordance with GAAP. The new dividend payment provision is referred to as a "net worth sweep" dividend provision. For each dividend period from January 1, 2013 through and including December 31, 2017, 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 was $3.0 billion for dividend periods in 2013, decreased to $2.4 billion for dividend periods in 2014 and further decreased to $1.8 billion for dividend periods in 2015. The capital reserve amount will continue to be reduced by $600 million each year until it reaches zero on January 1, 2018. For each dividend period beginning in 2018, the dividend amount will be the entire amount of our net worth, if any, as of the end of the immediately preceding fiscal quarter. As a result of these dividend payment provisions, when we have quarterly earnings that result in a net worth greater than the applicable capital reserve amount, we will pay dividends to Treasury in the next quarter; but if our net worth does not exceed the applicable capital reserve amount as of the end of a quarter, then we will not be required to accrue or pay any dividends in the next quarter. See "Risk Factors" for a discussion of the risks relating to our dividend obligations to Treasury on the senior preferred stock.

The senior preferred stock ranks ahead of our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. The senior preferred stock provides that we may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the senior preferred stock unless (1) full cumulative dividends on the outstanding senior preferred stock (including any unpaid dividends added to the liquidation preference) have been declared and paid in cash, and (2) all amounts required to be paid with the net proceeds of any issuance of capital stock for cash (as described in the following paragraph) have been paid in cash. Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock.

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment under the senior preferred stock purchase agreement. Moreover, we are not permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock except to the extent of (1) accrued and unpaid dividends previously added to the liquidation preference and not previously paid down; and (2) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition, if we issue any shares of capital stock for cash while the senior preferred stock is outstanding, the net proceeds of the issuance must be used to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury's funding commitment. Following the termination of Treasury's funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part.

Common Stock Warrant

Pursuant to the senior preferred stock purchase agreement, on September 7, 2008, we, through FHFA, in its capacity as conservator, issued a warrant to purchase common stock to Treasury. The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise, for an exercise price of $0.00001 per share. The warrant may be exercised in whole or in part at any time on or before September 7, 2028.

Covenants under Treasury Agreements

The senior preferred stock purchase agreement and warrant contain covenants that significantly restrict our business activities and require the prior written consent of Treasury before we can take certain actions. These covenants prohibit us from taking a number of actions, including:

- paying dividends or other distributions on or repurchasing our equity securities (other than the senior preferred stock or warrant);
- issuing additional equity securities (except in limited instances);
- selling, transferring, leasing or otherwise disposing of any assets, except for dispositions for fair market value in limited circumstances including if (a) the transaction is in the ordinary course of business and consistent with past practice or (b) in one transaction or a series of related transactions if the assets have a fair market value individually or in the aggregate of less than $250 million;
- issuing subordinated debt;
- entering into any new compensation arrangements or increasing amounts or benefits payable under existing compensation arrangements for any of our executive officers (as defined by SEC rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury; and
- seeking or permitting the termination of our conservatorship, other than in connection with a receivership.

We also are subject to limits, which are described below, on the amount of mortgage assets that we may own and the total amount of our indebtedness. As a result of these covenants, we can no longer obtain additional equity financing (other than pursuant to the senior preferred stock purchase agreement) and we are limited in the amount and type of debt financing we may obtain.

- Mortgage Asset Limit. We are restricted in the amount of mortgage assets that we may own. Pursuant to the August 2012 amendment to the agreement, the maximum allowable amount of our mortgage assets was reduced to $650.0 billion on December 31, 2012 and, on each December 31 thereafter, 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. Our mortgage asset limit under the agreement was $469.6 billion as of December 31, 2014 and will be $399.2 billion as of December 31, 2015. For purposes of the agreement, the definition of mortgage asset is based on the unpaid principal balance of such assets and does not reflect market valuation adjustments, allowance for loan losses, impairments, unamortized premiums and discounts and the impact of our consolidation of variable interest entities. Based on this definition, our mortgage assets were $413.3 billion as of December 31, 2014. We disclose the amount of our mortgage assets on a monthly basis under the caption "Gross Mortgage Portfolio" in our Monthly Summaries, which are available on our Web site and announced in a press release.

FHFA's 2014 conservatorship scorecard required us to submit a portfolio plan to FHFA outlining how we will meet, even under adverse conditions, the reductions in our portfolio required by our senior preferred stock purchase agreement with Treasury. We submitted this plan to FHFA in July 2014. In October 2014, FHFA requested that we revise our portfolio plan to cap the portfolio each year at 90% of the annual limit under our senior preferred stock purchase agreement with Treasury. FHFA's request noted that we may seek FHFA permission to increase this cap up to 95% of the annual limit under our senior preferred stock purchase agreement with Treasury upon written request and with a documented basis for exception, such as changed market conditions. To comply with FHFA's request, we submitted a revised portfolio plan in October 2014 and reduced our mortgage portfolio to $413.3 billion as of December 31, 2014, below the $422.7 billion cap requested by FHFA. See "MD&A—Business Segment Results—The Capital Markets Group's Mortgage Portfolio" for more information about our mortgage portfolio.

- Debt Limit. We are subject to a limit on the amount of our indebtedness. Our debt limit in 2014 was $663.0 billion and in 2015 is $563.6 billion. For every year thereafter, our debt cap will equal 120% of the amount of mortgage assets we are allowed to own under the senior preferred stock purchase agreement on December 31 of the immediately preceding calendar year. The definition of indebtedness for purposes of our debt cap is based on the par value of each applicable loan and does not reflect the impact of consolidation of variable interest entities. Under this definition, our indebtedness as of December 31, 2014 was $464.5 billion. We disclose the amount of our indebtedness on a monthly basis under the caption "Total Debt Outstanding" in our Monthly Summaries, which are available on our Web site and announced in a press release.

Annual Risk Management Plan Covenant. We are required to provide an annual risk management plan to Treasury not later than December 15 of each year we remain in conservatorship, beginning in 2012. Each annual risk management plan is required to set out our strategy for reducing our risk profile and to describe the actions we will take to reduce the financial and operational risk associated with each of our business segments. Each plan delivered after the first plan must include an assessment of our performance against the planned actions described in the prior year's plan. We submitted our annual risk management plan to Treasury in December 2014.

Lawsuits Challenging the Senior Preferred Stock Purchase Agreements and Conservatorship

Several lawsuits have been filed by preferred and common stockholders of Fannie Mae and Freddie Mac against the United States, Treasury and/or FHFA challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac. Some of these lawsuits also contain claims against Fannie Mae and Freddie Mac. For a description of these lawsuits, see "Legal Proceedings," "Note 19, Commitments and Contingencies" and "Risk Factors."

HOUSING FINANCE REFORM

Overview

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, and for the Treasury Secretary to submit recommendations to Congress for ending the conservatorships of Fannie Mae and Freddie Mac.

Administration Developments

In 2011, the Administration released a white paper with its recommendations on the future of housing finance reform. The report provides that the Administration will work with FHFA to determine the best way to responsibly reduce Fannie Mae and Freddie Mac's role in the market and ultimately wind down both institutions. The report identifies a number of possible policy steps for winding down Fannie Mae and Freddie Mac, reducing the government's role in housing finance and helping bring private capital back to the mortgage market. In addition, the report outlines three potential options for a new long-term structure for the housing finance system following the wind-down of Fannie Mae and Freddie Mac.

In August 2013, President Obama publicly discussed the Administration's housing policy priorities, including a core principle that included winding down Fannie Mae and Freddie Mac through a responsible transition. In a paper released by the White House, the Administration endorsed several initiatives to facilitate this transition, including the reduction of Fannie Mae's and Freddie Mac's investment portfolios by at least 15% per year through 2018, engaging in credit risk transfer pilot programs and continuing to develop a common securitization platform. In January 2015, the White House reaffirmed the Administration's view that housing finance reform should include ending Fannie Mae and Freddie Mac's business model.

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Legislative Developments

Congress has also continued to consider housing finance reform. In the last session of Congress, the Senate Committee on Banking, Housing and Urban Affairs and the House Committee on Financial Services each approved bills to reform the housing finance system. Among other matters, these bills would have required the wind down and eventual liquidation of, or the imposition of receivership for, Fannie Mae and Freddie Mac, and would have constrained our business even prior to these events. Several other bills that would have materially changed the housing finance system, including Fannie Mae's role within the system, were introduced in the last Congress.

We expect Congress to consider housing finance reform in the current congressional session, including conducting hearings and considering legislation that would alter the housing finance system or the activities or operations of the GSEs. We cannot predict the prospects for the enactment, timing or final content of legislative proposals regarding the future status of the GSEs. As a result, there continues to be significant uncertainty regarding the future of our company. See "Risk Factors" 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.

Conservator Developments

FHFA has taken a number of steps as conservator to further the reform of the housing finance system. In 2012, FHFA's then-Acting Director identified FHFA's initial strategic goals for Fannie Mae and Freddie Mac's conservatorships. In May 2014, FHFA released its 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac, which updated FHFA's 2012 strategic plan and identified three reformulated strategic goals for Fannie Mae and Freddie Mac's conservatorships:

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

In addition, beginning in 2012, FHFA has released annual corporate performance objectives for Fannie Mae and Freddie Mac, referred to as the conservatorship scorecard, which detail specific priorities for implementing FHFA's strategic goals. FHFA released its 2015 conservatorship scorecard in January 2015. FHFA's 2015 conservatorship scorecard identifies essentially the same three strategic goals identified in FHFA's 2014 strategic plan and scorecard; however, the "maintain" goal was revised slightly as follows: "Maintain, in a safe and sound manner, credit availability and foreclosure prevention activities for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets."

FHFA's 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac and FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to the development of a common securitization platform that can be used to perform certain aspects of the securitization process and the development of a single common mortgage-backed security for Fannie Mae and Freddie Mac.

Common Securitization Platform. In October 2013, Fannie Mae and Freddie Mac established Common Securitization Solutions, LLC, a jointly owned limited liability company formed to design, develop, build and ultimately operate a common securitization platform. The intended purpose of the common securitization platform is to replace certain elements of Fannie Mae's and Freddie Mac's proprietary systems for securitizing mortgages and performing associated back office and administrative functions. In addition, FHFA's 2015 conservatorship scorecard specifies that the design of the common securitization platform should allow for the integration of additional market participants in a future system. In November 2014, Fannie Mae and Freddie Mac took further steps to develop CSS's capabilities with the execution of three agreements. Fannie Mae and Freddie Mac entered into an Amended and Restated Limited Liability Company Agreement with CSS that provides further detail regarding the rights, obligations and understandings between the companies with respect to CSS, including the governance of CSS. In connection with the agreement, the companies appointed a chief executive officer and four members of the CSS Board of Managers, two each from Fannie Mae and Freddie Mac. Fannie Mae, Freddie Mac and CSS also entered into a contribution agreement providing for, among other things, the contribution by Fannie Mae and Freddie Mac of intellectual property and cash resources to CSS, as well as the assignment of various agreements necessary for CSS's development and operation of securitization functions. In addition, Fannie Mae and Freddie Mac each entered into a separate agreement with CSS with respect to the administrative support services the companies will provide to CSS until CSS has the capabilities to provide these services on its own. Although these are important steps towards the further development of the common securitization platform, we expect it will be a number of years before CSS will have sufficient operational capabilities to serve its intended purpose as a common securitization platform for us and

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Freddie Mac. We continue to work with FHFA, Freddie Mac and CSS on building and testing the common securitization platform, as well as on implementing required changes to our systems and operations to integrate with the common securitization platform.

Single Common Security. In August 2014, FHFA published a request for public input on a proposed structure for a single security that would be issued and guaranteed by Fannie Mae or Freddie Mac. FHFA's request for public input states that development of the single security will be a multi-year initiative, and that FHFA's goal for the proposed single security structure is for legacy Fannie Mae MBS and legacy Freddie Mac participation certificates to be fungible with the new single security for purposes of fulfilling "to-be-announced" ("TBA") contracts. Many of the proposed features of the single security are similar to those of current Fannie Mae MBS. FHFA's 2015 conservatorship scorecard includes objectives to finalize the structure for the single common security and to develop a plan to implement the single common security in the market. We believe the development of a single common security would likely reduce, and could eliminate, the trading advantage Fannie Mae mortgage-backed securities have over Freddie Mac mortgage-backed securities. If this occurs, we believe it would negatively impact our ability to compete for mortgage assets in the secondary market, and therefore could adversely affect our results of operations. See "Risk Factors" for a discussion of the risks to our business associated with a single common security for Fannie Mae and Freddie Mac.

For more information on FHFA's 2014 conservatorship scorecard objectives and our performance in meeting these objectives, see "Executive Compensation—Compensation Discussion and Analysis—Determination of 2014 Compensation—Assessment of Corporate Performance on 2014 Conservatorship Scorecard." For more information on FHFA's 2015 conservatorship scorecard objectives, see our Current Report on Form 8-K filed with the SEC on January 20, 2015.

OUR CHARTER AND REGULATION OF OUR ACTIVITIES

Charter Act

We are a shareholder-owned corporation, originally established in 1938, organized and existing under the Federal National Mortgage Association Charter Act, as amended, which we refer to as the Charter Act or our charter. The Charter Act sets forth the activities that we are permitted to conduct, authorizes us to issue debt and equity securities, and describes our general corporate powers. The Charter Act states that our purposes are to:

- provide stability in the secondary market for residential mortgages;
- respond appropriately to the private capital market;
- provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and
- promote access to mortgage credit throughout the nation (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

It is from these sections of the Charter Act that we derive our mission of providing liquidity, increasing stability and promoting affordability in the residential mortgage market. In addition to the alignment of our overall strategy with these purposes, all of our business activities must be permissible under the Charter Act. Our charter authorizes us to: purchase, service, sell, lend on the security of, and otherwise deal in certain mortgage loans; issue debt obligations and mortgage-related securities; and "do all things as are necessary or incidental to the proper management of [our] affairs and the proper conduct of [our] business."

Loan Standards

Mortgage loans we purchase or securitize must meet the following standards required by the Charter Act.

- Principal Balance Limitations. Our charter permits us to purchase and securitize mortgage loans secured by either a single-family or multifamily property. Single-family conventional mortgage loans are subject to maximum original principal balance limits, known as "conforming loan limits." The conforming loan limits are established each year based on the average prices of one-family residences.

The national conforming loan limit for mortgages that finance one-family residences is $417,000 in 2015, as it was in 2010 through 2014, with higher limits for mortgages secured by two- to four-family residences and in four statutorily-

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designated states and territories (Alaska, Hawaii, Guam and the U.S. Virgin Islands). Higher loan limits also apply in designated high-cost areas (counties or county-equivalent areas). FHFA provides Fannie Mae with the designated high-cost areas annually. Our charter sets loan limits for high-cost areas up to 150% of the national loan limit ($625,500 for a one-family residence; higher for two- to four-family residences and in the four statutorily-designated states and territories).

No statutory limits apply to the maximum original principal balance of multifamily mortgage loans that we purchase or securitize. In addition, the Charter Act imposes no maximum original principal balance limits on loans we purchase or securitize that are insured by FHA or guaranteed by the VA.

- Loan-to-Value and Credit Enhancement Requirements. The Charter Act generally requires credit enhancement on any single-family conventional mortgage loan that we purchase or securitize if it has a loan-to-value ratio over 80% at the time of purchase. Although we do not currently purchase or securitize second lien single-family mortgage loans, the Charter Act requires a second lien mortgage loan to have credit enhancement if the combined loan-to-value ratio exceeds 80%. The credit enhancement required by our charter may take the form of one or more of the following: (1) insurance or a guaranty by a qualified insurer of the over-80% portion of the unpaid principal balance of the mortgage; (2) a seller's agreement to repurchase or replace the mortgage in the event of default (for such period and under such circumstances as we may require); or (3) retention by the seller of at least a 10% participation interest in the mortgage. Regardless of loan-to-value ratio, the Charter Act does not require us to obtain credit enhancement to purchase or securitize loans insured by FHA or guaranteed by the VA.

Authority of U.S. Treasury to Purchase GSE Securities

Pursuant to our charter, at the discretion of the Secretary of the Treasury, Treasury may purchase our obligations up to a maximum of $2.25 billion outstanding at any one time.

Other Charter Act Provisions

The Charter Act has the following additional provisions.

- Issuances of Our Securities. We are authorized, upon the approval of the Secretary of the Treasury, to issue debt obligations and mortgage-related securities. Neither the U.S. government nor any of its agencies guarantees, directly or indirectly, our debt or mortgage-related securities.
- Exemptions for Our Securities. The Charter Act generally provides that our securities are exempt under the federal securities laws administered by the SEC. As a result, we are not required to file registration statements with the SEC under the Securities Act of 1933 with respect to offerings of any of our securities. Our non-equity securities are also exempt securities under the Securities Exchange Act of 1934 (the "Exchange Act"). However, our equity securities are not treated as exempt securities for purposes of Sections 12, 13, 14 or 16 of the Exchange Act. Consequently, we are required to file periodic and current reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.
- Exemption from Specified Taxes. Fannie Mae is exempt from taxation by states, territories, counties, municipalities and local taxing authorities, except for taxation by those authorities on our real property. We are not exempt from the payment of federal corporate income taxes.
- Other Limitations and Requirements. We may not originate mortgage loans or advance funds to a mortgage seller on an interim basis, using mortgage loans as collateral, pending the sale of the mortgages in the secondary market. In addition, we may only purchase or securitize mortgages on properties located in the United States and its territories.

The GSE Act

As a federally chartered corporation, we are subject to government regulation and oversight. FHFA is an independent agency of the federal government with general supervisory and regulatory authority over Fannie Mae, Freddie Mac and the 12 Federal Home Loan Banks ("FHLBs"). FHFA was established in July 2008, assuming the duties of our former safety and soundness regulator, the Office of Federal Housing Enterprise Oversight ("OFHEO"), and our former mission regulator, HUD. HUD remains our regulator with respect to fair lending matters. Our regulators also include the SEC and Treasury.

The GSE Act provides FHFA with safety and soundness authority that is comparable to and in some respects broader than that of the federal banking agencies. Even if we were not in conservatorship, the GSE Act gives FHFA the authority to raise capital levels above statutory minimum levels, regulate the size and content of our portfolio and approve new mortgage products, among other things.

Capital. The GSE Act provides FHFA with broad authority to increase the level of our required minimum capital and to establish capital or reserve requirements for specific products and activities. FHFA also has broad authority to establish risk-based capital requirements, to ensure that we operate in a safe and sound manner and maintain sufficient capital and reserves. During the conservatorship, FHFA has suspended our capital classifications. We continue to submit capital reports to FHFA during the conservatorship, and FHFA continues to monitor our capital levels. We describe our capital requirements below under "Capital Adequacy Requirements."

Portfolio. The GSE Act requires FHFA to establish standards governing our portfolio holdings, to ensure that they are backed by sufficient capital and consistent with our mission and safe and sound operations. FHFA is also required to monitor our portfolio and, in some circumstances, may require us to dispose of or acquire assets. In 2010, FHFA published a final rule adopting, as the standard for our portfolio holdings, the portfolio limits specified in the senior preferred stock purchase agreement described under "Conservatorship and Treasury Agreements—Treasury Agreements—Covenants under Treasury Agreements," as it may be amended from time to time. The rule is effective for as long as we remain subject to the terms and obligations of the senior preferred stock purchase agreement.

New Products and Activities. The GSE Act requires us to request FHFA's approval before initially offering any new product, subject to certain exceptions. The GSE Act also requires us to provide FHFA with written notice before commencing any new activity. In July 2009, FHFA published an interim final rule implementing these provisions of the GSE Act. Subsequently, the then-Acting Director of FHFA concluded that permitting us to engage in new products was inconsistent with the goals of the conservatorship. He therefore instructed us not to submit requests for approval of new products under the interim final rule.

Receivership. Under the GSE Act, FHFA must place us into receivership if it determines that our assets are less than our obligations for 60 days, or we have not been paying our debts as they become due for 60 days. FHFA has notified us that the measurement period for any mandatory receivership determination with respect to our assets and liabilities would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days thereafter. FHFA has advised us that if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency amount under the senior preferred stock purchase agreement, the Director of FHFA will not make a mandatory receivership determination.

In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons set forth in the GSE Act. The statutory grounds for discretionary appointment of a receiver include: a substantial dissipation of assets or earnings due to unsafe or unsound practices; the existence of an unsafe or unsound condition to transact business; an inability to meet our obligations in the ordinary course of business; a weakening of our condition due to unsafe or unsound practices or conditions; critical undercapitalization; undercapitalization and no reasonable prospect of becoming adequately capitalized; the likelihood of losses that will deplete substantially all of our capital; or by consent.

In June 2011, FHFA issued a final rule establishing a framework for conservatorship and receivership operations for the GSEs, which became effective in July 2011. The rule implements and supplements the procedures and processes set forth in the GSE Act, and does not seek to anticipate or predict future conservatorships or receiverships. For example, the final rule clarifies that:

- the powers of the conservator or receiver include continuing our mission and ensuring that our operations foster liquid, efficient, competitive and resilient national housing finance markets;
- the conservator or receiver may disaffirm or repudiate any contract or lease to which we are a party for up to 18 months following the appointment of a conservator or receiver;
- we are prohibited from making capital distributions while in conservatorship unless authorized by the Director of FHFA; and
- claims by current or former shareholders (including securities litigation claims) would receive the lowest priority in a receivership, behind: (1) administrative expenses of the receiver (or an immediately preceding conservator), (2) our other general or senior liabilities, and (3) obligations subordinated to those of general creditors.

The rule also provides that FHFA, as conservator, will not pay securities litigation claims against us during conservatorship, unless the Director of FHFA determines it is in the interest of the conservatorship.

Prudential Management and Operational Standards. As required by the GSE Act, in June 2012, FHFA published a final rule establishing prudential standards relating to the management and operations of Fannie Mae, Freddie Mac and the FHLBs in the following ten areas: (1) internal controls and information systems; (2) independence and adequacy of internal audit systems; (3) management of market risk exposure; (4) management of market risk—measurement systems, risk limits, stress testing, and monitoring and reporting; (5) adequacy and maintenance of liquidity and reserves; (6) management of asset and investment portfolio growth; (7) investments and acquisitions of assets; (8) overall risk management processes;

(9) management of credit and counterparty risk; and (10) maintenance of adequate records. These standards were established as guidelines, which the Director of FHFA may modify, revoke or add to at any time by order or notice. The rule also specifies actions FHFA may take if a regulated entity fails to meet one or more of the standards or fails to comply with the rule, such as requiring the entity to submit a corrective plan or increasing its capital requirements.

Affordable Housing Goals and Duty to Serve. We discuss our affordable housing goals and our duty to serve underserved markets below under "Housing Goals and Duty to Serve Underserved Markets."

Affordable Housing Allocations. The GSE Act requires us and Freddie Mac to set aside in each fiscal year an amount equal to 4.2 basis points for each dollar of the unpaid principal balance of our total new business purchases to fund HUD's Housing Trust Fund and Treasury's Capital Magnet Fund. The GSE Act authorizes the Director of FHFA to temporarily suspend these allocations in specified circumstances. In November 2008, FHFA suspended allocations for these funds and directed Fannie Mae and Freddie Mac to not set aside or allocate funds for the Housing Trust Fund and Capital Magnet Fund until further notice.

In December 2014, FHFA ended its temporary suspension of allocations to the Housing Trust Fund and the Capital Magnet Fund and directed Fannie Mae and Freddie Mac to begin making contributions to these funds pursuant to the GSE Act. FHFA's directive reinstating these contributions requires us to set aside amounts during each fiscal year beginning in fiscal year 2015, and to allocate or otherwise transfer the amounts set aside within 60 days after the end of each fiscal year, unless during such fiscal year we have made a draw from Treasury under the terms of the senior preferred stock purchase agreement or unless such allocation or transfer would cause us to have to make a draw from Treasury under the agreement, in which case we will make no allocation or transfer for that year and the amounts set aside for that year will be reversed. In connection with FHFA's directive, FHFA issued an interim final rule in December 2014 prohibiting Fannie Mae and Freddie Mac from redirecting or passing through the cost of these allocations to originators of mortgages that we purchase or securitize. The interim final rule became effective upon publication in the Federal Register on December 16, 2014.

Based on FHFA's directive, we expect to make our first allocation to the funds on or before February 29, 2016, based on the amount of our new business purchases in 2015. If this requirement had been in effect during fiscal year 2014, we estimate that we would have incurred approximately $172 million of additional expense in our consolidated statement of operations and comprehensive income related to the allocation of these funds.

Executive Compensation. Fannie Mae's Charter provides that the company has the power to pay compensation to our executives that the Board of Directors determines is reasonable and comparable with the compensation of executives performing similar duties in similar businesses, except that a significant portion of potential compensation must be based on our performance. The GSE Act directs FHFA to prohibit us from providing unreasonable or non-comparable compensation to our executive officers. FHFA may at any time review the reasonableness and comparability of an executive officer's compensation and may require us to withhold any payment to the officer during such review. FHFA is also authorized by the GSE Act to prohibit or limit certain golden parachute and indemnification payments to directors, officers and certain other parties. In addition, pursuant to the Stop Trading on Congressional Knowledge Act (the "STOCK Act") and related regulations issued by FHFA, our senior executives are prohibited from receiving bonuses during any period of conservatorship on or after the April 4, 2012 enactment of the law.

In January 2014, FHFA issued a revised final rule relating to the compensation of executive officers (as defined under the rule), which became effective in February 2014. The rule, among other things, provides that the Director of FHFA must prohibit us from providing any compensation to an executive officer that the Director determines is not reasonable or comparable with compensation for employment in other similar businesses involving similar duties and responsibilities. The rule also requires the approval of the Director of FHFA before we may enter into any agreement providing compensation in connection with the termination of an executive officer's employment. FHFA also issued a revised final rule relating to golden parachute payments in January 2014, which became effective in February 2014. The rule generally prohibits us from making golden parachute payments to any current or former director, officer, employee, controlling stockholder or agent of the company during any period in which we are in conservatorship, receivership or other troubled condition unless either a specific exception applies or the Director of FHFA approves the payments. For a description of regulatory and other legal requirements affecting our executive compensation, see "Executive Compensation—Compensation Discussion and Analysis—Chief Executive Officer Compensation and 2014

Executive Compensation Program—Impact of Conservatorship and Other Legal Requirements."
Fair Lending. The GSE Act requires the Secretary of HUD to assure that the GSEs meet their fair lending obligations. Among other things, HUD periodically reviews and comments on the underwriting and appraisal guidelines of each company to ensure consistency with the Fair Housing Act.

Capital Adequacy Requirements

The GSE Act establishes capital adequacy requirements. The statutory capital framework incorporates two different quantitative assessments of capital—a minimum capital requirement and a risk-based capital requirement. The minimum capital requirement is ratio-based, while the risk-based capital requirement is based on simulated stress test performance. The GSE Act requires us to maintain sufficient capital to meet both of these requirements in order to be classified as "adequately capitalized." However, during the conservatorship, FHFA has suspended our capital classifications and announced that our existing statutory and FHFA-directed regulatory capital requirements will not be binding. FHFA has advised us that, because we are under conservatorship, we will not be subject to corrective action requirements that would ordinarily result from our receiving a capital classification of "undercapitalized."

Minimum Capital Requirement. Under the GSE Act, we must maintain an amount of core capital that equals or exceeds our minimum capital requirement. The GSE Act defines core capital as the sum of the stated value of outstanding common stock (common stock less treasury stock), the stated value of outstanding non-cumulative perpetual preferred stock, paid-in capital, and retained earnings, as determined in accordance with GAAP. Our minimum capital requirement is generally equal to the sum of 2.50% of on-balance sheet assets and 0.45% of off-balance sheet obligations. For purposes of minimum capital, FHFA has directed us to continue reporting loans backing Fannie Mae MBS held by third parties based on 0.45% of the unpaid principal balance regardless of whether these loans have been consolidated pursuant to accounting rules. FHFA retains authority under the GSE Act to raise the minimum capital requirement for any of our assets or activities.

Risk-Based Capital Requirement. The GSE Act requires FHFA to establish risk-based capital requirements for Fannie Mae and Freddie Mac, to ensure that we operate in a safe and sound manner. Existing risk-based capital regulation under the GSE Act ties our capital requirements to the risk in our book of business, as measured by a stress test model. The stress test simulates our financial performance over a ten-year period of severe economic conditions characterized by both extreme interest rate movements and high mortgage default rates. FHFA has stated that it does not intend to publish our risk-based capital level during the conservatorship and has discontinued stress test simulations under the existing rule. We continue to submit detailed profiles of our books of business to FHFA to support FHFA's monitoring of our business activity and their research into future risk-based capital rules.

Critical Capital Requirement. The GSE Act also establishes a critical capital requirement, which is the amount of core capital below which we would be classified as "critically undercapitalized." Under the GSE Act, such classification is a discretionary ground for appointing a conservator or receiver. Our critical capital requirement is generally equal to the sum of 1.25% of on-balance sheet assets and 0.25% of off-balance sheet obligations. FHFA has directed us, for purposes of critical capital, to continue reporting loans backing Fannie Mae MBS held by third parties based on 0.25% of the unpaid principal balance, notwithstanding our consolidation of substantially all of the loans backing these securities. FHFA has stated that it does not intend to publish our critical capital level during the conservatorship.

Housing Goals and Duty to Serve Underserved Markets

Since 1993, we have been subject to housing goals. The structure of our housing goals changed in 2010 as a result of the 2008 Reform Act. The 2008 Reform Act also created a new duty for us to serve three underserved markets, which we discuss below.

Housing Goals for 2012 to 2014

In November 2012, FHFA published a final rule establishing the following single-family home purchase and refinance housing goal benchmarks for 2012 to 2014 for Fannie Mae and Freddie Mac. A home purchase mortgage may be counted toward more than one home purchase benchmark.

- Low-Income Families Home Purchase Benchmark: At least 23% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to low-income families (defined as income equal to or less than 80% of area median income).
- Very Low-Income Families Home Purchase Benchmark: At least 7% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to very low-income families (defined as income equal to or less than 50% of area median income).
- Low-Income Areas Home Purchase Goal Benchmark: The benchmark level for our acquisitions of single-family owner-occupied purchase money mortgage loans for families in low-income areas is set annually by notice from

FHFA, based on the benchmark level for the low-income areas home purchase subgoal (below), plus an adjustment factor reflecting the additional incremental share of mortgages for moderate-income families (defined as income equal to or less than 100% of area median income) in designated disaster areas. For 2014, FHFA set the overall low-income areas home purchase benchmark goal at 18%.

- Low-Income Areas Home Purchase Subgoal Benchmark: At least 11% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to families in low-income census tracts or to moderate-income families in high-minority census tracts.
- Low-Income Families Refinancing Benchmark: At least 20% of our acquisitions of single-family owner-occupied refinance mortgage loans must be affordable to low-income families.

Private-label mortgage-related securities, second liens and single-family government loans do not count towards our housing goals. In addition, only permanent modifications of mortgages under the Administration's Home Affordable Modification Program ("HAMP®") completed during the year count towards our housing goals; trial modifications are not counted. Moreover, these modifications count only towards our single-family low-income families refinance goal, not any of the home purchase goals. Refinancings under HARP also count toward our single-family low-income families refinancing goal.

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

To meet FHFA's housing goals, our multifamily mortgage acquisitions must finance a certain number of units affordable to low-income families and a certain number of units affordable to very low-income families. The specific requirements for each year are set forth in Table 5 below. There is no market-based alternative measurement for the multifamily goals.

Table 5: Multifamily Housing Goals for 2012 to 2014

	Goals for 2012	2013	2014
	(in units)		
Affordable to low-income families	285,000	265,000	250,000
Affordable to very low-income families	80,000	70,000	60,000

In adopting the rule in 2010 establishing the structure of our housing goals, FHFA indicated "FHFA does not intend for [Fannie Mae] to undertake uneconomic or high-risk activities in support of the [housing] goals. However, the fact that [Fannie Mae is] in conservatorship should not be a justification for withdrawing support from these market segments."

If our efforts to meet our goals prove to be insufficient, FHFA determines whether the goals were feasible. If FHFA finds that our goals were feasible, we may become subject to a housing plan that could require us to take additional steps that could have an adverse effect on our results of operations and financial condition. The housing plan must describe the actions we would take to meet the goal in the next calendar year and be approved by FHFA. The potential penalties for failure to comply with housing plan requirements include a cease-and-desist order and civil money penalties. As described in "Risk Factors," actions we may take to meet our housing goals may increase our credit losses and credit-related expense.

In January 2015, FHFA determined that we met all of our single-family and multifamily housing goals for 2013, except for the single-family very low-income families home purchase goal. FHFA determined that our performance for this goal failed to meet both the applicable benchmark and the overall market level, and that our achievement of this goal was feasible. FHFA has notified us that it will not require us to submit a formal housing plan with respect to this goal.

Table 6 displays our performance for 2013 against our single-family housing benchmarks and market share measures, as well as our multifamily housing goals, as validated by FHFA.

Table 6: Housing Goals Performance

	2013		
	Result	Bench-mark	Single-Family Market Level
Single-family housing goals:[1]			
Low-income families home purchases	23.8 %	23 %	24.0 %
Very low-income families home purchases	6.0	7	6.3
Low-income areas home purchases	21.6	21	22.1
Low-income and high-minority areas home purchases	14.0	11	14.2
Low-income families refinancing	24.3	20	24.3

	2013	
	Result (in units)	Goal
Multifamily housing goals:		
Affordable to families with income no higher than 80% of area median income	326,597	265,000
Affordable to families with income no higher than 50% of area median income	78,071	70,000

(1) Our single-family results and benchmarks are expressed as a percentage of the total number of eligible mortgages acquired during the period.

We will report our performance with respect to the 2014 housing goals in March 2015. FHFA will issue a final determination on our performance after the release of data reported under HMDA later this year.

Proposed Housing Goals for 2015 to 2017

In August 2014, FHFA published a proposed rule that would establish single-family and multifamily housing goals for Fannie Mae and Freddie Mac for 2015 to 2017. Comments on the proposed rule were due in October 2014. FHFA will issue a final rule after considering the comments received on the proposed rule.

Proposed Single-Family Housing Goals

FHFA's proposed rule requests comment on three alternative approaches for measuring Fannie Mae and Freddie Mac's performance on the single-family housing goals for 2015 to 2017:

- Alternative 1 would use the current two-step process, which measures performance by comparing it to both (1) benchmark levels that are set prospectively and (2) actual market levels that are determined retrospectively based on HMDA data;
- Alternative 2 would measure performance against prospective benchmark levels only; and
- Alternative 3 would measure performance against retrospective market levels only.

FHFA has proposed the following single-family home purchase and refinance housing goal benchmarks for 2015 to 2017 under Alternative 1. A home purchase mortgage may be counted toward more than one home purchase benchmark.

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

factor reflecting the additional incremental share of mortgages for moderate-income families (defined as income equal to or less than 100% of area median income) in designated disaster areas.

- Low-Income Areas Home Purchase Subgoal Benchmark: At least 14% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to families in low-income census tracts or to moderate-income families in high-minority census tracts. This is an increase from the benchmark of 11% that applied for 2014.
- Low-Income Families Refinancing Benchmark: At least 27% of our acquisitions of single-family owner-occupied refinance mortgage loans must be affordable to low-income families. This is an increase from the benchmark of 20% that applied for 2014.

Under Alternative 1, if we do not meet these benchmarks, we may still meet our goals. Our single-family housing goals performance would be measured against both these benchmarks and against goals-qualifying originations in the primary mortgage market after the release of HMDA data, which is typically released each year in the fall. We would be in compliance with the housing goals if we met either the benchmarks or market share measures.

FHFA’s proposed rule noted that, if it were to adopt Alternative 2, it would consider adopting single-family benchmark levels that are lower than the proposed levels for Alternative 1 described above. Alternative 3 would not involve setting prospective benchmark levels.

Proposed Multifamily Housing Goals

FHFA’s proposed rule also includes benchmark levels for a multifamily special affordable housing goal and subgoal, and establishes a new subgoal for small multifamily properties (defined as those with 5 to 50 units) affordable to low-income families. FHFA’s proposed multifamily benchmark levels for Fannie Mae for 2015 to 2017 would be the same levels that applied to Fannie Mae for 2014: 250,000 units per year must be affordable to low-income families and 60,000 units per year must be affordable to very low-income families. FHFA’s proposed new subgoal for Fannie Mae for small multifamily properties affordable to low-income families increases each year: 20,000 units in 2015; 25,000 units in 2016; and 30,000 units in 2017. There is no market-based alternative measurement for the multifamily goal or subgoals.

Duty to Serve

The 2008 Reform Act created the duty to serve underserved markets in order for us and Freddie Mac to “provide leadership to the market in developing loan products and flexible underwriting guidelines to facilitate a secondary market for very low-, low-, and moderate-income families” with respect to three underserved markets: manufactured housing, affordable housing preservation and rural areas.

The 2008 Reform Act requires FHFA to separately evaluate the following four assessment factors:

- The loan product assessment factor requires evaluation of our “development of loan products, more flexible underwriting guidelines, and other innovative approaches to providing financing to each” underserved market.
- The outreach assessment factor requires evaluation of “the extent of outreach to qualified loan sellers and other market participants.” We are expected to engage market participants and pursue relationships with qualified sellers that serve each underserved market.
- The loan purchase assessment factor requires FHFA to consider the volume of loans acquired in each underserved market relative to the market opportunities available to us. The 2008 Reform Act prohibits the establishment of specific quantitative targets by FHFA. However, in its evaluation FHFA could consider the volume of loans acquired in past years.
- The investment and grants assessment factor requires evaluation of the amount of investment and grants in projects that assist in meeting the needs of underserved markets.

In June 2010, FHFA published a proposed rule to implement our duty to serve. Under the proposed rule, we would be required to submit an underserved markets plan establishing benchmarks and objectives against which FHFA would evaluate and rate our performance. This proposed rule was not finalized. However, FHFA indicated in its proposed rule on housing goals for 2015 to 2017 that a separate proposed rulemaking on the duty to serve underserved markets was forthcoming. In addition, one of FHFA’s 2015 conservatorship scorecard objectives for us is to prepare to implement duty to serve requirements upon publication of a final rule.

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The Dodd-Frank Act

The Dodd-Frank Act has significantly changed the regulation of the financial services industry, including requiring new standards related to regulatory oversight of systemically important financial companies, derivatives transactions, asset-backed securitization, mortgage underwriting and consumer financial protection. The Dodd-Frank Act has directly affected and will continue to affect our business through new and expanded regulatory oversight and standards applicable to us. We are also indirectly affected by provisions of the Dodd-Frank Act and implementing regulations that impact the activities of our customers and counterparties in the financial services industry. We discuss the potential risks to our business resulting from the Dodd-Frank Act in "Risk Factors." Below we summarize some key provisions of the Dodd-Frank Act, as well as some proposed and final rules that have been promulgated by various government agencies to implement provisions of the legislation.

Enhanced supervision and prudential standards. The Dodd-Frank Act established the Financial Stability Oversight Council (the "FSOC"), chaired by the Secretary of the Treasury, to ensure that all financial companies—not just banks—whose failure could pose a threat to the financial stability of the United States will be subject to strong oversight. Under the Dodd-Frank Act, the FSOC is responsible for designating systemically important nonbank financial companies, while the Federal Reserve is responsible for establishing stricter prudential standards that will apply to FSOC-designated systemically important nonbank financial companies, as well as to large bank holding companies. The Federal Reserve must establish standards related to risk-based capital, leverage limits, liquidity, single-counterparty exposure limits, resolution plans, reporting credit exposures and other risk management measures. In December 2011, the Board of Governors of the Federal Reserve System issued proposed rules addressing a number of these enhanced prudential standards and, in February 2014, the Board of Governors of the Federal Reserve System issued a final rule implementing some of these enhanced prudential standards for large bank holding companies. The Federal Reserve may also impose other standards related to contingent capital, enhanced public disclosure, short-term debt limits and other requirements as appropriate.

Depending on the scope and final form of the Federal Reserve's enhanced standards, and the extent to which they apply to us if we are designated by the FSOC as a systemically important nonbank financial company, or to our customers and other counterparties, their adoption and application could increase our costs, pose operational challenges and adversely affect demand for Fannie Mae debt and MBS. We have not received any notification of possible designation as a systemically important financial institution.

Swap Transactions; Minimum Capital and Margin Requirements. The Dodd-Frank Act includes provisions requiring additional regulation of swap transactions. Because we are a user of interest rate swaps, the Dodd-Frank Act requires us, among other items, to submit new swap transactions for clearing to a derivatives clearing organization. Additionally, in September 2014, the Federal Reserve Board, the Federal Deposit Insurance Corporation ("FDIC"), FHFA, the Farm Credit Administration and the Office of the Comptroller of the Currency issued new proposed rules under the Dodd-Frank Act governing margin and capital requirements applicable to entities that are subject to their oversight. These proposed rules would require that, for all trades that have not been submitted to a derivatives clearing organization, we collect from and provide to our counterparties collateral in excess of the amounts we have historically collected or provided relative to our level of activity.

Ability to Repay. The Dodd-Frank Act amended the Truth in Lending Act to require creditors to determine that borrowers have a "reasonable ability to repay" most mortgage loans prior to making such loans. In 2013, the Consumer Financial Protection Bureau (the "CFPB") issued a final rule under Regulation Z that, among others things, requires creditors to determine a borrower's "ability to repay" a mortgage loan. If a creditor fails to comply, a borrower may be able to offset a portion of the amount owed in a foreclosure proceeding or recoup monetary damages. The rule offers several options for complying with the ability to repay requirement, including making loans that meet certain terms and characteristics (so-called "qualified mortgages"), which may provide creditors and their assignees with special protection from liability. Generally, a loan will be a qualified mortgage under the rule if, among other things, (1) the points and fees paid in connection with the loan do not exceed 3% of the total loan amount, (2) the loan term does not exceed 30 years, (3) the loan is fully amortizing with no negative amortization, interest-only or balloon features and (4) the debt-to-income ratio on the loan does not exceed 43% at origination. The CFPB also defined a special class of conventional mortgage loans that will be qualified mortgages if they (1) meet the points and fees, term and amortization requirements of qualified mortgages generally and (2) are eligible for sale to Fannie Mae or Freddie Mac. This class of qualified mortgages expires on the earlier of January 10, 2021 or when the GSEs cease to be in conservatorship or receivership.

In May 2013, FHFA directed Fannie Mae and Freddie Mac to limit our acquisition of single-family loans to those loans that meet the points and fees, term and amortization requirements for qualified mortgages, or to loans that are exempt from the ability-to-repay rule, such as loans made to investors. This limitation applies to loans with application dates on or after

January 10, 2014, the effective date of the ability-to-repay rule. We continue to evaluate the potential impact of these changes on our business.

Risk Retention. The Dodd-Frank Act requires financial regulators to jointly prescribe regulations requiring securitizers to retain a portion of the credit risk in assets transferred, sold or conveyed through the issuance of asset-backed securities, with certain exceptions. In October 2014, the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC, the SEC, FHFA and HUD issued a final rule implementing this credit risk retention requirement. The final rule generally requires securitizers to retain at least 5% of the credit risk of the assets they securitize. The rule offers several compliance options, one of which is to have either Fannie Mae or Freddie Mac (so long as they are in conservatorship or receivership) securitize and fully guarantee the assets, in which case no further retention of credit risk is required. In addition, securities backed solely by mortgage loans meeting the definition of a “qualified residential mortgage” are exempt from the risk retention requirements of the rule. The rule defines “qualified residential mortgage” to have the same meaning as the term “qualified mortgage” as defined by the CFPB in connection with its “ability to repay” rule under Regulation Z discussed above. The final risk retention rule will become effective on December 24, 2015 for single-family mortgage loans and on December 24, 2016 for multifamily mortgage loans. We do not expect any significant changes in our current business practices as a result of the risk retention rule.

Stress Testing. The Dodd-Frank Act requires certain financial companies to conduct annual stress tests to determine whether the companies have the capital necessary to absorb losses as a result of adverse economic conditions. In September 2013, FHFA issued a final rule implementing the Dodd-Frank Act’s stress test requirements for Fannie Mae, Freddie Mac and the FHLBs. Under the rule, each year we are required to conduct a 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. In conducting the stress test, we are required to calculate the impact of the scenario conditions on our capital levels and other specified measures of financial condition and performance over a period of at least nine quarters. The rule requires us to submit the stress test results for the three scenarios to FHFA and the Federal Reserve Board of Governors by February 5 of each year. In addition, we are required to publish the stress test results for the severely adverse scenario between April 15 and April 30 of each year. We submitted our first stress test results under this rule to FHFA and the Federal Reserve Board of Governors on February 5, 2014 and published the stress test results for the severely adverse scenario on our Web Site on April 30, 2014. On February 5, 2015, we submitted our second stress test results under this rule based on scenarios and assumptions provided to us by FHFA in November 2014.

Bank Capital and Liquidity Standards

Although we are not subject to banking regulations, our business may be affected by changes to the capital and liquidity requirements applicable to U.S. banks. The capital and liquidity regimes for the U.S. banking industry are currently undergoing significant changes as a result of actions by international bank regulators. In December 2010, the Basel Committee on Banking Supervision issued a set of revisions to the international capital requirements. These revisions, known as Basel III, generally narrow the definition of capital that can be used to meet risk-based standards and raise the amount of capital that must be held. Basel III also introduces new quantitative liquidity requirements. In July 2013, U.S. banking regulators issued a final regulation implementing Basel III’s capital standards. In September 2014, U.S. banking regulators also issued a final regulation setting minimum liquidity standards for large U.S. banks generally in accordance with Basel III standards. See “Risk Factors” for a discussion of this rule and how it could materially adversely affect demand by banks for our debt and MBS securities in the future, as well as how Basel III could otherwise affect our company and the future business practices of our customers and counterparties.

In addition, although we are not subject to bank capital or liquidity requirements, any revised framework for GSE standards may be based on bank requirements, particularly if the GSEs are deemed to be systemically important financial companies subject to Federal Reserve oversight.

Potential Changes to Our Single-Family Guaranty Fee Pricing

In December 2013, FHFA directed us and Freddie Mac to increase our base single-family guaranty fees for all mortgages by 10 basis points. FHFA also directed us and Freddie Mac to make changes to our single-family loan level price adjustments, which are one-time cash fees that we charge at the time we initially acquire a loan based on the credit characteristics of the loan. These changes to our single-family loan level price adjustments consisted of: (1) eliminating the 25 basis point adverse market delivery charge, which has been assessed on all single-family mortgages purchased by us since 2008, for all loans except those secured by properties located in Connecticut, Florida, New Jersey and New York, due to the significantly higher foreclosure carrying costs in these states; and (2) implementing changes to our upfront fees for single-family loans to better align pricing with the credit risk characteristics of the borrower. FHFA's December 2013 directive stated that these price changes would be effective in early 2014; however, in January 2014, FHFA directed us and Freddie Mac to delay implementation of these guaranty fee changes pending further review by FHFA.

FHFA subsequently announced on June 5, 2014 that it was requesting public input on the guaranty fees that Fannie Mae and Freddie Mac charge lenders. FHFA's request for input included questions related to guaranty fee policy and implementation, including what factors and goals should be considered in setting guaranty fees, target return on capital and amount of capital required. FHFA is currently reviewing and considering the public input that was received. See "Risk Factors" for a discussion of the potential risks to our business relating to an FHFA directive to change our guaranty fee pricing.

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"). The Advisory Bulletin provides, among other things, 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%). The Advisory Bulletin also provides that we charge off the portion of the loan classified as a "loss." We implemented the asset classification provisions of the Advisory Bulletin on January 1, 2014.

Our current analytics and historical data do not support charging off loans at 180 days delinquent. As a result, for the vast majority of our delinquent single-family loans, we expect to continue to charge off the loan at the date of foreclosure or other liquidation event (such as a deed-in-lieu of foreclosure or a short sale). For a small subset of delinquent loans deemed to be uncollectible prior to foreclosure by our historical data, we will classify them as "loss" and charge off the portion of the loan classified as "loss" prior to the date of foreclosure or other liquidation event, which given our current credit analytics and historical data, will be when the loans are excessively delinquent and the outstanding loan balance exceeds the fair value of the underlying property. We continue to enhance our data collection and analysis efforts to further refine our loss estimates as we obtain incremental information on the performance of our loans.

Our approach to adopting the charge-off provisions of the Advisory Bulletin on January 1, 2015 will result in a decrease in total loans held for investment of approximately $2 billion to reduce the recorded investment on the charged-off loans, and a corresponding decrease to our allowance for loan losses of approximately $2 billion to eliminate the allowance for loan losses associated with the charged-off loans. The adoption of the Advisory Bulletin is not expected to have a material impact on our consolidated results of operations for the first quarter of 2015.

OUR CUSTOMERS

Our principal customers are lenders that operate within the primary mortgage market where mortgage loans are originated and funds are loaned to borrowers. Our customers include mortgage banking companies, savings and loan associations, savings banks, commercial banks, credit unions, community banks, specialty servicers, insurance companies, and state and local housing finance agencies. Lenders originating mortgages in the primary mortgage market often sell them in the secondary mortgage market in the form of whole loans or in the form of mortgage-related securities.

We have a diversified funding base of domestic and international investors. Purchasers of Fannie Mae MBS or Fannie Mae debt securities include fund managers, commercial banks, pension funds, insurance companies, Treasury, foreign central banks, corporations, state and local governments, and other municipal authorities.

During 2014, approximately 1,200 lenders delivered single-family mortgage loans to us, either for securitization or for purchase. We acquire a significant portion of our single-family mortgage loans from several large mortgage lenders. During 2014, our top five lender customers, in the aggregate, accounted for approximately 33% of our single-family business volume, down from approximately 42% in 2013. Wells Fargo Bank, N.A., together with its affiliates, was the only customer that accounted for 10% or more of our single-family business volume in 2014, with approximately 12%.

A number of factors impacted our customers in 2014 and affected the volume of business and mix of customers with whom we and our competitors do business. We obtained a smaller portion of our single-family loan acquisitions from large mortgage lenders in the last three years than in prior years as a result of a reduction in the aggregation of third-party mortgage originations among large mortgage originators and other factors. At the same time, we sought and continue to seek to provide liquidity to a broader, more diverse set of mortgage lenders. In addition to the decrease in single-family mortgage seller concentration, we are acquiring an increasing portion of our business volume from non-depository sellers rather than depository financial institutions. Doing more business with a more diverse set of mortgage lenders has lowered to a degree the significant exposure concentration we have built up with a few large institutions. However, the potentially lower financial strength, liquidity and operational capacity of many of these smaller or non-depository mortgage sellers and servicers may negatively affect their ability to satisfy their repurchase or compensatory fee obligations or to service the loans on our behalf. The decrease in the concentration of our business with large depository financial institutions could increase both our institutional counterparty credit risk and our mortgage credit risk and, as a result, could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

See "Risk Factors" for a discussion of risks relating to our institutional counterparties, changes in the mortgage industry and our acquisition of a significant portion of our mortgage loans from several large mortgage lenders.

COMPETITION

We compete to acquire mortgage assets in the secondary market. We also compete for the issuance of mortgage-related securities to investors. Competition in these areas is affected by many factors, including the number of residential mortgage loans offered for sale in the secondary market by loan originators and other market participants, the nature of the residential mortgage loans offered for sale (for example, whether the loans represent refinancings), the current demand for mortgage assets from mortgage investors, the interest rate risk investors are willing to assume and the yields they will require as a result, and the credit risk and prices associated with available mortgage investments.

Competition to acquire mortgage assets is significantly affected by both our and our competitors' pricing and eligibility standards, as well as investor demand for our and our competitors' mortgage-related securities. Any future changes in our guaranty fees would likely affect our competitive environment. See "Our Charter and Regulation of Our Activities—Potential Changes to Our Single-Family Guaranty Fee Pricing" for more information on potential future changes in our guaranty fees. Our competitive environment also may be affected by many other factors in the future, such as new legislation or regulations. See "Housing Finance Reform," "Our Charter and Regulation of Our Activities" and "Risk Factors" for information on legislation and regulations that could affect our business and competitive environment.

Our competitors for the acquisition of single-family mortgage assets are financial institutions and government agencies that manage residential mortgage credit risk or invest in residential mortgage loans, including Freddie Mac, FHA, the VA, Ginnie Mae (which primarily guarantees securities backed by FHA-insured loans and VA-guaranteed loans), the twelve FHLBs, U.S. banks and thrifts, securities dealers, insurance companies, pension funds, investment funds and other mortgage investors. Our primary competitors for the issuance of single-family mortgage-related securities are Freddie Mac and Ginnie Mae, as many private market competitors dramatically reduced or ceased their activities in the single-family secondary mortgage market following the 2008 housing crisis. For the issuance of multifamily mortgage-related securities, we primarily compete with Freddie Mac, life insurers, U.S. banks and thrifts, other institutional investors, Ginnie Mae and private-label issuers of commercial mortgage-backed securities.

Although our market share of single-family mortgage acquisitions remained high in 2014 as we continued to meet the needs of the single-family mortgage market, our market share declined from 2013. We estimate that our single-family market share was 32% in 2014, compared with 39% in 2013. These amounts represent our single-family mortgage acquisitions for each year, excluding delinquent loans we purchased from our MBS trusts, as a percentage of the single-family first-lien mortgages we currently estimate were originated in the United States that year. 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 in 2014 in the absence of substantial issuances of mortgage-related securities by private institutions during the year.

We also compete for low-cost debt funding with institutions that hold mortgage portfolios, including Freddie Mac and the FHLBs.

EMPLOYEES

As of January 31, 2015, we employed approximately 7,600 personnel, including full-time and part-time employees, term employees and employees on leave.

WHERE YOU CAN FIND ADDITIONAL INFORMATION

We make available free of charge through our Web site our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all other SEC reports and amendments to those reports as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. Our Web site address is www.fanniemae.com. Materials that we file with the SEC are also available from the SEC's Web site, www.sec.gov. You may also request copies of any filing from us, at no cost, by calling the Fannie Mae Fixed-Income Securities Helpline at 1-888-BOND-HLP (1-888-266-3457) or 1-202-752-7115 or by writing to Fannie Mae, Attention: Fixed-Income Securities, 3900 Wisconsin Avenue, NW, Area 2H-3N, Washington, DC 20016.

All references in this report to our Web site addresses or the Web site address of the SEC are provided solely for your information. Information appearing on our Web site or on the SEC's Web site is not incorporated into this annual report on Form 10-K.

FORWARD-LOOKING STATEMENTS

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

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

- Our expectation that we will remain profitable on an annual basis for the foreseeable future;
- Our expectation that our earnings in future years will be substantially lower than our earnings for 2014, primarily due to our expectation of substantially lower income from resolution agreements, continued declines in net interest income from our retained mortgage portfolio assets and lower credit-related income;
- Our expectation that certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year;
- Our expectation that our future financial results also will be affected by a number of other factors, including: our guaranty fee rates; the volume of single-family mortgage originations in the future; the size, composition and quality of our retained mortgage portfolio and guaranty book of business; and economic and housing market conditions;
- Our expectation of volatility from period to period in our financial results 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;
- Our expectation that we will pay Treasury a senior preferred stock dividend for the first quarter of 2015 of $1.9 billion by March 31, 2015;
- Our expectation that we will retain only a limited amount of any future net worth because we are required by the dividend provisions of the senior preferred stock and quarterly directives from our conservator to pay Treasury each quarter the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount;
- Our belief that our acquisition of single-family loans with 95.01% to 97% LTV ratios will not materially affect our overall credit risk due to our requirements for these loans and our expectation that they will constitute a small portion of our overall acquisition volumes;
- Our belief that our single-family acquisitions will continue to have a strong overall credit risk profile given our current underwriting and eligibility standards and product design;
- Our expectation that the guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties will continue to account for an increasing portion of our net interest income;
- Our expectation that our guaranty fee revenues will increase over the long term, as loans with lower guaranty fees liquidate from our book of business and are replaced with new loans with higher guaranty fees;

- Our expectation that continued decreases in the size of our retained mortgage portfolio will continue to negatively impact our net interest income and revenues;
- Our expectation that increases in our guaranty fee revenues will partially offset the negative impact of the decline in our retained mortgage portfolio, and that the extent to which the positive impact of increased guaranty fee revenues will offset the negative impact of the decline in the size of our retained mortgage portfolio will depend on many factors, including: changes to guaranty fee pricing we may make in the future, including any directive we receive from FHFA to change our guaranty fee pricing; the size, composition and quality of our guaranty book of business; the life of the loans in our guaranty book of business; the size, composition and quality of our retained mortgage portfolio, including the pace at which we are required by our conservator to reduce the size of our portfolio; economic and housing market conditions, including changes in interest rates; our market share; and legislative and regulatory changes;
- Our belief that actions we have taken in recent years to improve our representation and warranty framework and help lenders reduce their repurchase risk relating to loans they deliver to us have significantly reduced uncertainty surrounding lenders' repurchase risk relating to loans they deliver to us, and our intention that these actions will encourage lenders to safely expand their lending to a wider range of qualified borrowers;
- Our intention to complete additional CAS transactions in 2015;
- Our expectation that we will continue engaging in economically sensible ways to expand our offerings of credit risk transfer transactions in the future;
- Our expectation that it will be a number of years before CSS will have sufficient operational capabilities to serve its intended purpose as a common securitization platform for us and Freddie Mac;
- Our expectation that the development of a single common security for Fannie Mae and Freddie Mac will be a multi-year initiative;
- Our belief that the development of a single common security for Fannie Mae and Freddie Mac would likely reduce, and could eliminate, the trading advantage Fannie Mae mortgage-backed securities have over Freddie Mac mortgage-backed securities and, if this were to occur, would negatively impact our ability to compete for mortgage assets in the secondary market, and therefore could adversely affect our results of operations;
- Our expectation that, despite steady demand and stable fundamentals at the national level, the multifamily sector may continue to exhibit below average fundamentals in certain local markets and with certain properties;
- The estimate that there will be approximately 340,000 new multifamily units completed in 2015;
- Our belief that the increase in the supply of multifamily units concentrated in a limited number of metropolitan areas in 2015 will result in a temporary slowdown in net absorption rates, occupancy levels and effective rents in those areas throughout 2015;
- Our expectation that overall national rental market supply and demand will remain in balance over the longer term, based on expected construction completions, expected obsolescence, positive household formation trends and expected increases in the population of 20- to 34-year olds, which is the primary age group that tends to rent multifamily housing;
- Our expectation that single-family mortgage loan serious delinquency and severity rates will continue their downward trend, but at a slower pace than in recent years;
- Our expectation that single-family serious delinquency and severity rates will remain high compared with pre-housing crisis levels because it will take some time for the remaining delinquent loans with high mark-to-market LTV ratios originated prior to 2009 to work their way through the foreclosure process;
- Our forecast that total originations in the U.S. single-family mortgage market in 2015 will increase from 2014 levels by approximately 7% from an estimated $1.19 trillion in 2014 to $1.28 trillion in 2015;
- Our forecast that the amount of originations in the U.S. single family mortgage market that are refinancings will increase from an estimated $516 billion in 2014 to $574 billion in 2015;
- Our expectation of a lower rate of home price appreciation in 2015 than in 2014;
- Our expectation of significant regional variation in the timing and rate of home price growth;

- Our expectation that our credit losses in 2015 will be higher than 2014 levels because we expect our approach to implementing the charge-off provisions of FHFA's Advisory Bulletin AB 2012-02 in 2015 will increase our credit losses for 2015 from what they otherwise would be;
- Our expectation that our credit losses will resume their downward trend beginning in 2016;
- Our expectation that, although our loss reserves have declined substantially from their peak and are expected to decline further, 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;
- Our expectation that uncertainty regarding the future of our company will continue;
- Our expectation that Congress will consider housing finance system reform in the current congressional session, including conducting hearings and considering legislation that would alter the housing finance system or the activities or operations of the GSEs;
- Our expectation that, for the vast majority of our delinquent single-family loans, we will continue to charge off the loan at the date of foreclosure or other liquidation event (such as a deed-in-lieu of foreclosure or a short sale) and that, for a small subset of delinquent loans deemed to be uncollectible prior to foreclosure by our historical data, we will classify them as "loss" and charge off the portion of the loan classified as "loss" prior to the date of foreclosure or other liquidation event, which given our current credit analytics and historical data, will be when the loans are excessively delinquent and the outstanding loan balance exceeds the fair value of the underlying property;
- Our expectation that our approach to adopting the charge-off provisions of FHFA's Advisory Bulletin AB 2012-02 on January 1, 2015 will result in a decrease in total loans held for investment of approximately $2 billion to reduce the recorded investment on the charged-off loans, and a corresponding decrease to our allowance for loan losses of approximately $2 billion to eliminate the allowance for loan losses associated with the charged-off loans;
- Our expectation that the adoption of FHFA's Advisory Bulletin AB 2012-02 will not have a material impact on our consolidated results of operations for the first quarter of 2015;
- Our expectation, based on FHFA's directive, that we will make our first allocation to HUD's Housing Trust Fund and Treasury's Capital Magnet Fund on or before February 29, 2016, based on the amount of our new business purchases in 2015;
- Our expectation that the final risk retention rule under the Dodd-Frank Act will not significantly change our current business practices;
- Our expectation that our placement into receivership would likely have a material adverse effect on holders of our common stock, preferred stock, debt securities and Fannie Mae MBS;
- Our belief that, if we are liquidated, it is unlikely that there would be sufficient funds remaining after payment of amounts to our creditors and to Treasury as holder of the senior preferred stock to make any distribution to holders of our common stock and other preferred stock;
- Our expectation that if there were several high-level employee departures at approximately the same time, our ability to conduct our business and our results of operations would likely be materially adversely affected;
- Our expectation that we will continue to devote significant resources to meeting FHFA's goals for our conservatorship;
- Our expectation that the execution of our strategic goals will contribute to an increase in our administrative expenses in 2015;
- Our expectation that the guaranty fees we collect and the expenses we incur under the TCCA will continue to increase in the future;
- Our expectation that we will continue to purchase loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity and other factors including the limit on the amount of mortgage assets that we may own pursuant to the senior preferred stock purchase agreement with Treasury and FHFA's portfolio plan requirements;
- Our belief that our liquidity contingency plans may be difficult or impossible to execute for a company of our size in our circumstances;

- Our belief that the amount of mortgage-related assets that we could successfully sell or borrow against in the event of a liquidity crisis or significant market disruption is substantially lower than the amount of mortgage-related assets we hold;
- Our intention to repay our short-term and long-term debt obligations as they become due primarily through proceeds from the issuance of additional debt securities;
- Our expectation that we may also use proceeds from our mortgage assets to pay our debt obligations;
- Our belief that continued federal government support of our business, as well as our status as a GSE, are essential to maintaining our access to debt funding;
- Our belief that changes or perceived changes in federal government support of our business or our status as a GSE could materially and adversely affect our liquidity, financial condition and results of operations;
- Our expectations regarding our credit ratings and their impact on us as set forth in "MD&A—Liquidity and Capital Management—Liquidity Management—Credit Ratings" and "Risk Factors";
- Our expectation that the slow pace of single-family foreclosures in some states will continue to negatively affect our foreclosure timelines, credit-related income (expense) and single-family serious delinquency rates, and will continue to adversely affect our business, results of operations, financial condition and net worth;
- Our expectation that we will not remediate the material weakness in our disclosure controls and procedures while we are under conservatorship;
- Our expectation that the ultimate performance of all our loans will be affected by borrower behavior, public policy and macroeconomic trends, including unemployment, the economy and home prices;
- Our expectation that the serious delinquency rates for single-family loans acquired in more recent years will be higher after the loans have aged, but will not be as high as the December 31, 2014 serious delinquency rates of loans acquired in 2005 through 2008;
- Our belief that we have limited exposure to credit losses on home equity conversion mortgages;
- Our expectation that loans we acquire under Refi Plus and HARP will perform better than the loans they replace, because they should either reduce the borrowers' monthly payments or provide more stable terms than the borrowers' old loans (for example, by refinancing into a mortgage with a fixed interest rate instead of an adjustable rate);
- Our expectation that the volume of refinancings under HARP will continue to decline, due to a decrease in the population of borrowers with loans that have high LTV ratios who are willing to refinance and would benefit from refinancing;
- Our expectation that our acquisitions of Alt-A mortgage loans (which are limited to refinancings of existing Fannie Mae loans) will continue to be minimal in future periods and the percentage of the book of business attributable to Alt-A will continue to decrease over time;
- Our expectation that the recent performance trends for our interest-only loans and negative-amortizing loans that have recently reset compared to those that are still in the initial period would not continue if interest rates rose significantly;
- Our expectation that the recent trend of a slower pace of declines in our single-family serious delinquency rates will continue;
- Our expectation that the number of our single-family loans in our book of business that are seriously delinquent will remain above pre-2008 levels for years;
- Our belief that the performance of our workouts will be highly dependent on economic factors, such as unemployment rates, household wealth and income, and home prices;
- Our belief that retaining special servicers to service loans using high-touch protocols will reduce our future credit losses on the transferred loan portfolio;
- Our expectation that we will enter into additional credit insurance risk transfer transactions in the future;
- Our expectation, given the stressed financial condition of some of our single-family lenders, that in some cases we will recover less than the amount the lender is obligated to provide us under our risk sharing arrangement with the lender;

- Our expectation that our institutional credit risk exposure to derivatives clearing organizations and certain of their members will increase substantially in the future as cleared derivative contracts comprise a larger percentage of our derivative instruments;
- Our expectation that the total amount we will receive under the terms of the Lehman Brothers Holdings, Inc. ("Lehman Brothers") Plan of Reorganization will constitute only a portion of the allowed amount;
- Our assumption that the guaranty fee income generated from our future business activity will largely replace the guaranty fee income lost due to mortgage prepayments;
- Our expectations regarding our role as HAMP program administrator, including how long we will continue in the role and amounts we will receive from Treasury pursuant to the role;
- Our plans and expectations relating to the distribution of benefits remaining under our terminated pension plans, including our expectations regarding the timing and financial impact of the distributions;
- Our belief that our valuation allowance related to our capital loss carryforwards will likely expire unused;
- Our expectation that we will conclude the audit of our federal income tax returns related to the 2009 and 2010 tax years with the IRS during 2015;
- Our expectation that we will receive full cash payment from only half of our non-governmental financial guarantor counterparties; and
- Our expectation that the reasonably possible loss or range of loss arising from the Comprehensive Investment Services vs. Mudd litigation will not have a material impact on our results of operations or financial condition.

Forward-looking statements reflect our management's expectations, forecasts or predictions of future conditions, events or results based on various assumptions and management's estimates of trends and economic factors in the markets in which we are active, as well as our business plans. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements. There are a number of factors that could cause actual conditions, events or results to differ materially from those described in the forward-looking statements contained in this report, including, but not limited to, the following: the uncertainty of our future; legislative and regulatory changes affecting us; the timing and level of, as well as regional variation in, home price changes; changes in interest rates, unemployment rates and other macroeconomic and housing market variables; our future guaranty fee pricing, including any directive from FHFA to change our guaranty fee pricing, and the impact of that pricing on our guaranty fee revenues and competitive environment; challenges we face in retaining and hiring qualified employees; our future serious delinquency rates; the deteriorated credit performance of many loans in our guaranty book of business; the conservatorship and its effect on our business; the investment by Treasury and its effect on our business; adverse effects from activities we undertake to support the mortgage market and help borrowers; actions we may be required to take by FHFA, as our conservator or as our regulator; our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers; a decrease in our credit ratings; limitations on our ability to access the debt capital markets; disruptions in the housing and credit markets; significant changes in modification and foreclosure activity; changes in borrower behavior; the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies; defaults by one or more institutional counterparties; resolution or settlement agreements we may enter into with our counterparties; our need to rely on third parties to fully achieve some of our corporate objectives; our reliance on mortgage servicers; changes in GAAP; guidance by the Financial Accounting Standards Board ("FASB"); future changes to our accounting policies; changes in the fair value of our assets and liabilities; operational control weaknesses; our reliance on models; future updates to our models, including the assumptions used by these models; the level and volatility of interest rates and credit spreads; changes in the fiscal and monetary policies of the Federal Reserve; changes in the structure and regulation of the financial services industry; credit availability; global political risks; natural disasters, terrorist attacks, pandemics or other major disruptive events; information security breaches; and those factors described in "Risk Factors," as well as the factors described in "Executive Summary—Outlook—Factors that Could Cause Actual Results to be Materially Different from our Estimates and Expectations."

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

Item 1A. Risk Factors
Refer to "MD&A—Risk Management" for more detailed descriptions of the primary risks to our business and how we seek to manage those risks.
The risks we face could materially adversely affect our business, results of operations, financial condition, liquidity and net worth, and could cause our actual results to differ materially from our past results or the results contemplated by forward-looking statements contained in this report. However, these are not the only risks we face. In addition to the risks we discuss below, we face risks and uncertainties not currently known to us or that we currently believe are immaterial.
RISKS RELATING TO OUR BUSINESS
The future of our company is uncertain.
There continues to be significant uncertainty regarding the future of our company, including how long the company will continue to exist in its current form, the extent of our role in the market, what form we will have, and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated and whether we will continue to exist following conservatorship. The conservatorship is indefinite in duration and the timing, conditions and likelihood of our emerging from conservatorship are uncertain. Termination of the conservatorship, other than in connection with a receivership, requires Treasury's consent under the senior preferred stock purchase agreement.
In 2011, the Administration released a report to Congress on ending the conservatorships of the GSEs and reforming America's housing finance market. The report provides that the Administration will work with FHFA to determine the best way to responsibly reduce Fannie Mae and Freddie Mac's role in the market and ultimately wind down both institutions. The report also addresses three options for a reformed housing finance system. The report does not state whether or how the existing infrastructure or human capital of Fannie Mae may be used in the establishment of such a reformed system. The report emphasizes the importance of proceeding with a careful transition plan and providing the necessary financial support to Fannie Mae and Freddie Mac during the transition period. In August 2013, the White House released a paper confirming that a core principle of the Administration's housing policy priorities is to wind down Fannie Mae and Freddie Mac through a responsible transition. In January 2015, the White House reaffirmed the Administration's view that housing finance reform should include ending Fannie Mae and Freddie Mac's business model.
In the last Congress, members of Congress considered several bills to reform the housing finance system, including bills that, among other things, would require Fannie Mae and Freddie Mac to be wound down after a period of time and place certain restrictions on Fannie Mae's and Freddie Mac's activities prior to being wound down. We expect that Congress will continue to hold hearings and consider legislation on the future status of Fannie Mae and Freddie Mac, including proposals that would result in Fannie Mae's liquidation or dissolution. Congress or FHFA may also consider legislation or regulation aimed at increasing the competition we face or reducing our market share. We cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation. See "Business—Housing Finance Reform" for more information about the Administration's report and paper, and Congressional proposals regarding housing finance reform.
Our dividend obligations on Treasury's investment result in our retaining a limited and decreasing amount of our net worth each year until 2018. Beginning in 2018, we will no longer retain any of our net worth.
As a result of the dividend provisions of the senior preferred stock and quarterly directives from our conservator, we are obligated to pay Treasury each quarter the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. This capital reserve amount is $1.8 billion for each quarterly dividend period in 2015 and decreases by $600 million annually until it reaches zero in 2018. Accordingly, our dividend obligations will result in our retaining a limited and decreasing amount of our net worth each year until 2018. Beginning in 2018, we will no longer retain any of our net worth, as the entire amount of our net worth at the end of each quarter will be required to be paid to Treasury.
Because we are permitted to retain only a limited and decreasing amount of capital reserves through 2017, we may not have sufficient reserves to avoid a net worth deficit if we experience a comprehensive loss in a future quarter. In addition, beginning in 2018, we are not permitted to retain any capital reserves against losses in subsequent quarters; therefore, if we have a comprehensive loss for a quarter we will also have a net worth deficit for that quarter. We have

experienced and expect to continue to experience volatility in our financial results from period to period due to a number of factors, particularly changes in market conditions that result in fluctuations in the estimated fair value of the financial instruments, such as derivatives and certain securities, that we mark to market through our earnings. Our credit-related income or expense also can vary substantially from period to period primarily due to changes in home prices, borrower payment behavior and economic conditions. In addition, as described in "Executive Summary—Outlook," we expect substantially lower earnings in future years than our earnings for 2014. Accordingly, although we expect to remain profitable on an annual basis for the foreseeable future, the expected volatility in our financial results, which may be significant from quarter to quarter, could result in a net worth deficit in a future quarter, particularly as our capital reserve approaches zero.

For any quarter for which we have a net worth deficit, we will be required to draw funds from Treasury under the senior preferred stock purchase agreement in order to avoid being placed into receivership. As of the date of this filing, the maximum amount of remaining funding under the agreement is $117.6 billion. If we were to draw additional funds from Treasury under the agreement in a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement.

Our regulator is authorized or required to place us into receivership under specified conditions, which would result in the liquidation of our assets. Amounts recovered from the liquidation may not be sufficient to repay the liquidation preference of any series of our preferred stock or to provide any proceeds to common shareholders.

FHFA is required to place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations for a period of 60 days after the filing deadline for our Form 10-K or Form 10-Q with the SEC. Although Treasury committed to providing us funds in accordance with the terms of the senior preferred stock purchase agreement, if we need funding from Treasury to avoid triggering FHFA's obligation, Treasury may not be able to provide sufficient funds to us within the required 60 days if it has exhausted its borrowing authority, if there is a government shutdown, or if the funding we need exceeds the amount available to us under the agreement. In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons set forth in the GSE Act, including if we are critically undercapitalized or if we are undercapitalized and have no reasonable prospect of becoming adequately capitalized.

A receivership would terminate the conservatorship. In addition to the powers FHFA has as our conservator, the appointment of FHFA as our receiver would terminate all rights and claims that our shareholders and creditors may have against our assets or under our charter arising from their status as shareholders or creditors, except for their right to payment, resolution or other satisfaction of their claims as permitted under the GSE Act. Unlike a conservatorship, the purpose of which is to conserve our assets and return us to a sound and solvent condition, the purpose of a receivership is to liquidate our assets and resolve claims against us.

To the extent we are placed into receivership and do not or cannot fulfill our guaranty to the holders of our Fannie Mae MBS, the MBS holders could become unsecured creditors of ours with respect to claims made under our guaranty, to the extent the mortgage collateral underlying the Fannie Mae MBS is insufficient to satisfy the claims of the MBS holders.

In the event of a liquidation of our assets, only after payment of the administrative expenses of the receiver and the immediately preceding conservator, the secured and unsecured claims against the company (including repaying all outstanding debt obligations), and the liquidation preference of the senior preferred stock, would any liquidation proceeds be available to repay the liquidation preference on any other series of preferred stock. Finally, only after the liquidation preference on all series of preferred stock is repaid would any liquidation proceeds be available for distribution to the holders of our common stock. We believe that in the event of a liquidation of our assets it is unlikely that there would be sufficient proceeds to make any distribution to holders of our preferred stock or common stock, other than to Treasury as a holder of our senior preferred stock.

Our business and results of operations may be materially adversely affected if we are unable to retain and recruit well-qualified employees. The limitations on our employee compensation put us at a disadvantage compared to many other companies in attracting and retaining employees.

Our business processes are highly dependent on the talents and efforts of our employees. The conservatorship, the uncertainty of our future, limitations on employee compensation and negative publicity concerning the GSEs have had and are likely to continue to have an adverse effect on our ability to retain and recruit well-qualified employees. Turnover in key management positions and challenges in integrating new management could harm our ability to manage our business effectively and ultimately adversely affect our financial performance.

Actions taken by Congress, FHFA and Treasury to date, or that may be taken by them or other government agencies in the future, have had, and may continue to have, an adverse effect on the retention and recruitment of senior executives, management and other employees. We are subject to significant restrictions on the amount and type of compensation we may pay our executives and other employees under conservatorship. For example, in April 2012, the STOCK Act was enacted, which includes a provision that prohibits senior executives at Fannie Mae and Freddie Mac from receiving bonuses during any period of conservatorship on or after the date of enactment of the law. In addition, we are unable to offer equity-based compensation. As a result, we have not been able to incent and reward excellent performance with compensation structures that provide upside potential to our executives, which places us at a disadvantage compared to many other companies in attracting and retaining executives.

In addition, the amount of compensation we pay our senior executives is significantly less than executives' compensation at many comparable companies. As discussed more fully in "Executive Compensation—Compensation Discussion and Analysis—Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data," our named executives' total target direct compensation under the 2014 executive compensation program in aggregate was substantially below the market median for comparable firms. Our Chief Executive Officer's annual total direct compensation is $600,000, which was more than 90% below the market median in 2014. While many of our executives have accepted below market compensation for the past several years, our inability to increase executive compensation to market levels for the foreseeable future puts us at greater risk of attrition, and also hampers our ability to recruit new executives. Moreover, our inability to offer market-based compensation makes succession planning very difficult, particularly for our Chief Executive Officer role.

Congress has considered other legislation in the past that would alter the compensation for Fannie Mae and Freddie Mac employees. In 2011, the Financial Services Committee of the House of Representatives approved a bill that would put our employees on a federal government pay scale. Although this legislation was not passed by the House or the Senate, if similar legislation were to become law, our employees could experience a sudden and sharp decrease in compensation, which would harm our ability to retain and recruit employees. In addition, the uncertainty of potential Congressional action with respect to housing finance reform, which may result in the wind-down of the company, negatively affects our ability to retain and recruit employees.

We face competition from within the financial services industry and from businesses outside of the financial services industry for qualified employees. Additionally, an improving economy has put additional pressures on turnover, as attractive opportunities have become available to our employees. Our competitors for talent are generally not subject to the same limitations on employee compensation. The constraints on our compensation could adversely affect our ability to attract qualified candidates. While we engage in succession planning for our senior management and other critical positions and have been able to fill a number of important positions internally, our inability to offer market-based compensation may limit our ability to attract and retain qualified employees below the senior executive level that could fill our senior executive level positions if there is an increase in turnover.

If we are unable to retain, promote and attract employees with the necessary skills and talent, we would face increased risks for operational failures. If there were several high-level departures at approximately the same time, our ability to conduct our business and our results of operations would likely be materially adversely affected.

Our business activities are significantly affected by the conservatorship and the senior preferred stock purchase agreement.

We are currently under the control of our conservator, FHFA, and we do not know when or how the conservatorship will terminate. As conservator, FHFA can direct us to enter into contracts or enter into contracts on our behalf, and generally has the power to transfer or sell any of our assets or liabilities. In addition, our directors do not have fiduciary duties to any person or entity except to the conservator. Accordingly, our directors 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 in making or approving a decision unless specifically directed to do so by the conservator.

We are subject to significant restrictions on our business activities during conservatorship. We may be prevented by our conservator from engaging in business activities or transactions that we believe would benefit our business and financial results. For example, we publish risk-based loan level price adjustment grids that specify the additional cash fees we charge at the time we initially acquire a loan based on the credit characteristics of the loan. These fees allow us to price appropriately for the credit risk we assume in providing our guaranty on the loans. We do not have the ability to implement changes to these pricing grids without the approval of FHFA. If the mix of our single-family loan acquisitions changes, and FHFA does not approve requested changes to our pricing grids in response to these changes, it could adversely affect our financial results and condition.

In addition, we may be required by our conservator to engage in activities that are operationally difficult, costly to implement or unprofitable, or that may adversely affect our financial results or the credit risk profile of our book of business. For example, in 2014, FHFA requested that we reduce our retained mortgage portfolio each year to 90% of the amount permitted under the senior preferred stock purchase agreement, which requires that we reduce our retained mortgage portfolio at a faster rate than previously required. This could result in the sale of assets at prices below the levels recorded in our financial statements or the sale of assets that may be more economical to hold, and will result in a faster decline in the revenues generated by our retained mortgage portfolio. In addition, as described in "Business—Our Charter and Regulation of Our

Activities—Potential Changes to Our Single-Family Guaranty Fee Pricing," FHFA announced in June 2014 that it was requesting public input on the guaranty fees that Fannie Mae and Freddie Mac charge lenders, and FHFA is currently reviewing and considering the public input that was received. Based on its review, FHFA may direct us to make changes to our guaranty fee pricing that could materially affect our financial results. If FHFA directs us to decrease our guaranty fee pricing, depending on the extent of the decrease, it could result in a significant decrease in our guaranty fee revenues in future periods. If FHFA directs us to increase our guaranty fee pricing, depending on the extent of the increase, it could result in some of our lender customers retaining lower credit risk loans for their portfolio instead of delivering the loans to us. This could lead to a decrease in our single-family business volume, negatively affect the credit risk profile of our new single-family acquisitions and adversely affect our financial results and condition.

Because we are under the control of our conservator, our business objectives may not be consistent with the investment objectives of our investors. FHFA has changed our business objectives significantly since we entered conservatorship, and could make additional changes at any time. In May 2014, FHFA released its 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac, which replaced FHFA's strategic goals identified in 2012. Actions we take to meet FHFA's goals and objectives could adversely affect our financial results. For example, FHFA's 2014 and 2015 conservatorship scorecards include objectives relating to the development of a single common security for Fannie Mae and Freddie Mac. We believe the development of a single common security would likely reduce, and could eliminate, the trading advantage Fannie Mae mortgage-backed securities have over Freddie Mac mortgage-backed securities. If this occurs, we believe it would negatively impact our ability to compete for mortgage assets in the secondary market, and therefore could adversely affect our results of operations. Our objectives and business activities may continue to change, possibly significantly, including in pursuit of our public mission and other non-financial objectives. Significant changes in our business objectives could adversely affect our financial results. Moreover, we are devoting significant resources to meeting FHFA's goals for our conservatorship and expect to continue to do so.

The senior preferred stock purchase agreement with Treasury includes a number of covenants that significantly restrict our business activities. We cannot, without the prior written consent of Treasury: pay dividends (except on the senior preferred stock); sell, issue, purchase or redeem Fannie Mae equity securities; sell, transfer, lease or otherwise dispose of assets in specified situations; engage in transactions with affiliates other than on arm's-length terms or in the ordinary course of business; issue subordinated debt; or incur indebtedness that would result in our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are allowed to own under the agreement. In deciding whether to consent to any request for approval it receives from us under the agreement, Treasury has the right to withhold its consent for any reason and is not required by the agreement to consider any particular factors, including whether or not management believes that the transaction would benefit the company. Pursuant to the senior preferred stock purchase agreement, the maximum allowable amount of mortgage assets we were permitted to own as of December 31, 2014 was $469.6 billion, and on each December 31 thereafter, our mortgage assets may not exceed 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 addition, as described above, FHFA has requested that we further cap our mortgage assets each year at 90% of the annual limit under our senior preferred stock purchase agreement with Treasury.

Actions taken by the conservator and the restrictions set forth in the senior preferred stock purchase agreement could adversely affect our business, results of operations, financial condition, liquidity and net worth.

A number of lawsuits have been filed against the U.S. government relating to the senior preferred stock purchase agreement and the conservatorship. See "Note 19, Commitments and Contingencies" and "Legal Proceedings" for a description of these lawsuits. We cannot predict the course or the outcome of these lawsuits, or the actions the U.S. government (including Treasury or FHFA) may take in response to any ruling or finding in any of these lawsuits. Accordingly, we cannot predict what impact, if any, these lawsuits will have on our business.

The conservatorship and investment by Treasury have had, and will continue to have, a material adverse effect on our common and preferred shareholders.

We do not know when or how the conservatorship will terminate. Moreover, even if the conservatorship is terminated, we remain subject to the terms of the senior preferred stock purchase agreement, senior preferred stock and warrant, which can only be canceled or modified with the consent of Treasury. The conservatorship and investment by Treasury have had, and will continue to have, material adverse effects on our common and preferred shareholders, including the following:

No voting rights during conservatorship. The rights and powers of our shareholders are suspended during the conservatorship. The conservatorship has no specified termination date. During the conservatorship, our common shareholders do not have the ability to elect directors or to vote on other matters unless the conservator delegates this authority to them.

Dividends to common and preferred shareholders, other than to Treasury, have been eliminated. Our conservator announced in September 2008 that we would not pay any dividends on the common stock or on any series of preferred stock, other than the senior preferred stock, while we are in conservatorship. In addition, under the terms of the senior preferred stock purchase agreement, dividends may not be paid to common or preferred shareholders (other than on the senior preferred stock) without the prior written consent of Treasury, regardless of whether we are in conservatorship.

Our future profits will effectively be distributed to Treasury. As described in a risk factor above, the terms of the senior preferred stock purchase agreement and the senior preferred stock ultimately require the payment of our entire net worth to Treasury. As a result, our net income is not available to common shareholders or preferred shareholders other than Treasury as holder of the senior preferred stock.

Liquidation preference of senior preferred stock is high and could increase. The senior preferred stock ranks prior to our common stock and all other series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and distributions upon liquidation. Accordingly, if we are liquidated, the senior preferred stock is entitled to its then-current liquidation preference, plus any accrued but unpaid dividends, before any distribution is made to the holders of our common stock or other preferred stock. The liquidation preference on the senior preferred stock is currently $117.1 billion and would increase if we draw on Treasury's funding commitment in any future quarters or if we do not pay dividends owed on the senior preferred stock. If we are liquidated, we believe it is unlikely that there would be sufficient funds remaining after payment of amounts to our creditors and to Treasury as holder of the senior preferred stock to make any distribution to holders of our common stock and other preferred stock.

Exercise of the Treasury warrant would substantially dilute investment of current shareholders. If Treasury exercises its warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis, the ownership interest in the company of our then existing common shareholders will be substantially diluted, and we would thereafter have a controlling shareholder.

No longer managed for the benefit of shareholders. Because we are in conservatorship, we are no longer managed with a strategy to maximize shareholder returns.

For additional description of the restrictions on us and the risks to our shareholders, see "Business—Conservatorship and Treasury Agreements."

Basel III and U.S. capital and liquidity rules could materially and adversely affect demand by banks for our debt and MBS securities in the future and otherwise could affect the future business practices of our customers and counterparties.

Basel III is a set of revised global regulatory standards developed by the Basel Committee on Banking Supervision establishing minimum bank capital and liquidity requirements. U.S. banking regulators have issued rules regarding new bank capital and liquidity requirements in accordance with Basel III that are expected to go into effect over the next few years. Although we are not subject to banking regulations, these new requirements could materially adversely affect demand by U.S. banks for our debt securities and MBS in the future, which could adversely affect the price of those securities and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

For example, in September 2014, U.S. banking regulators issued a final regulation setting minimum liquidity standards for large U.S. banks generally in accordance with Basel III standards. Under the final rule, U.S. banks subject to the standards are required to hold a minimum level of high-quality liquid assets based on projections of their short-term cash needs. The debt and mortgage-related securities of Fannie Mae and Freddie Mac are permitted to count toward only up to 40% of the banks' high-quality liquid asset requirement, and then only after applying a 15% discount to the market value of those securities. The final rule became effective January 1, 2015 and provides for a transition period. Banks subject to the rule are required to maintain a minimum liquidity coverage ratio of 80% beginning on January 1, 2015, 90% beginning on January 1, 2016 and 100% beginning on January 1, 2017. U.S. banks currently hold large amounts of our outstanding debt and MBS securities, and prior U.S. banking regulations did not limit the amount of these securities that banks were permitted to count toward their liquidity requirements. Accordingly, the implementation of this rule could materially adversely affect demand by banks for Fannie Mae debt securities and MBS in the future.

In addition, in April 2014, U.S. banking regulators issued a final rule for enhanced supplementary leverage ratio requirements applicable to the largest U.S. banks. The rule requires bank holding companies to maintain a minimum enhanced supplementary leverage ratio of more than 5% in order to avoid restrictions on capital distributions and discretionary bonus payments. Covered companies are required to report their supplementary leverage ratio starting January 1, 2015 and to comply with the enhanced supplementary leverage ratio requirement beginning on January 1, 2018. These higher leverage requirements may require large U.S. banks to hold more capital against the securities they hold, including Fannie Mae debt and MBS securities, which could adversely affect demand by these banks for our debt and MBS securities in the future.

Basel III's revisions to international capital requirements could limit some lenders' ability to count the value of their rights to service mortgage loans as assets in meeting their regulatory capital requirements, which may reduce the economic value of mortgage servicing rights. As a result, a number of our customers and counterparties may change their business practices, including reducing the amount of loans they service or exiting servicing altogether.

We may incur additional credit-related expenses, particularly in light of the poor credit performance of loans we acquired prior to 2009.

Some of the mortgage loans we acquired prior to 2009 have performed poorly, which increased our credit losses and credit-related expenses, and our risk of future credit losses and credit-related expenses, as a result of borrowers failing to make required payments of principal and interest on their mortgage loans. In addition, although home prices have improved in each of the last three years on a national basis, a portion of the loans in our single-family guaranty book of business continues to have an estimated mark-to-market LTV ratio greater than 100%, which increases the likelihood that either these borrowers will strategically default on their mortgage loans even if they have the ability to continue to pay the loans or that distressed homeowners will sell their homes in a "short sale" for significantly less than the unpaid amount of the loans. We present detailed information about the risk characteristics of our single-family conventional guaranty book of business in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management," and we present detailed information on our 2014 credit-related expenses, credit losses and results of operations in "MD&A—Consolidated Results of Operations." The credit performance of loans in our guaranty book of business, particularly those acquired prior to 2009, could deteriorate in the future, particularly if we experience national or regional declines in home prices, weakening economic conditions or high unemployment.

A failure in our operational systems or infrastructure, or those of third parties, could materially adversely affect our business, impair our liquidity, cause financial losses and harm our reputation.

Shortcomings or failures in our internal processes, people or systems could disrupt our business or have a material adverse effect on our risk management, liquidity, financial statement reliability, financial condition and results of operations. Such a failure could result in legislative or regulatory intervention or sanctions, liability to customers, financial losses, business disruptions and damage to our reputation. For example, our business is highly dependent on our ability to manage and process, on a daily basis, an extremely large number of transactions, many of which are highly complex, across numerous and diverse markets and in an environment in which we must adapt to changing external conditions. These transactions are subject to various legal, accounting and regulatory standards. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond our control, adversely affecting our ability to process these transactions. In addition, we rely on information provided by third parties in processing many of our transactions; that information may be incorrect or we may fail to properly manage or analyze it.

We rely upon business processes that are highly dependent on people, legacy technology and the use of numerous complex systems and models to manage our business and produce books and records upon which our financial statements are prepared. This reliance increases the risk that we may be exposed to financial, reputational or other losses as a result of inadequately designed internal processes or systems, or failed execution of our systems. While we continue to enhance our technology, operational controls and organizational structure in order to reduce our operational risk, these actions may not be effective to manage these risks and may create additional operational risk as we execute these enhancements. In addition, our increased use of third-party service providers for some of our business functions increases the risk that an operational failure by a third party will adversely affect us.

We also face the risk of operational failure, termination or capacity constraints of any of the clearing agents, exchanges, clearinghouses or other financial intermediaries we use to facilitate our securities and derivatives transactions. In recent years, there has been significant consolidation among clearing agents, exchanges and clearing houses. This consolidation and interconnectivity increases the risk of operational failure, on both an individual basis and an industry-wide basis, as disparate complex systems need to be integrated, often on an accelerated basis. Any such failure, termination or constraint could adversely affect our ability to effect transactions or manage our exposure to risk, and could have a significant adverse impact on our business, liquidity, financial condition, net worth and results of operations.

Additionally, nearly all of our employees in our primary locations, including the Washington, DC and Dallas, Texas metropolitan areas, work in relatively close proximity to one another. Notwithstanding the business continuity plans and facilities that we have in place, given that most of our facilities and employees are located in the Washington, DC and Dallas metropolitan areas, a catastrophic event such as a terrorist attack, natural disaster, extreme weather event or disease pandemic could overwhelm our recovery capabilities. Although we have built an out-of-region data center for disaster recovery in order to increase the geographic diversity of our business continuity plans, most of our employees are located in the Washington, DC and Dallas metropolitan areas. If a regional disruption occurs and our employees are not able to occupy our facilities, work remotely, or communicate with or travel to other locations, we may not be able to successfully implement our contingency plans, which could materially adversely affect our ability to conduct our business and lead to financial losses.

A breach of the security of our systems, or those of third parties with which we do business, including as a result of cyber attacks, could disrupt our business or result in the disclosure or misuse of confidential information, which could damage our reputation, increase our costs and cause losses.

Our operations rely on the secure receipt, processing, storage and transmission of confidential and other information in our computer systems and networks and with our business partners, including confidential or personal information that is subject to privacy laws, regulations or customer-imposed controls. Information security risks for large institutions like us have significantly increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions, and the increased sophistication and activities of organized crime, hackers, terrorists and other external parties, including foreign state-sponsored actors. From time to time we have been, and likely will continue to be, the target of attempted cyber attacks, computer viruses, malicious code, phishing attacks and other information security breaches. To date, we have not experienced any material losses relating to cyber attacks or other information security breaches, but we could suffer such losses in the future. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, our prominent size and scale and our role in the financial services industry, the outsourcing of some of our business operations, and the current global economic and political environment. As a result, we have increased our investments in the development and enhancement of controls, processes and practices designed to detect and prevent information security threats.

Although we take measures to protect the security of our computer systems, software and networks, our computer systems, software and networks may be vulnerable to cyber attack, breaches, unauthorized access, misuse, computer viruses or other malicious code and other events that could have a security impact. The occurrence of such an event could jeopardize or result in the unauthorized disclosure, gathering, monitoring, misuse, corruption, loss or destruction of our or our customers', our counterparties' or borrowers' confidential and other information processed and stored in, and transmitted through, our computer systems and networks, damage to our computers or systems, or otherwise cause interruptions or malfunctions in our, our customers', our counterparties' or third parties' operations. This could result in significant losses, loss of customers and business opportunities, reputational damage, violation of applicable privacy laws and other laws, litigation, regulatory fines, penalties or intervention, reimbursement or other compensatory costs, or otherwise adversely affect our business, financial condition or results of operations. In addition, we may be required to expend significant additional resources to modify our protective measures and to investigate and remediate vulnerabilities or other exposures arising from operational and security risks. We currently do not maintain insurance coverage relating to cybersecurity risks.

Third parties with which we do business may also be sources of cybersecurity or other technological risks. We outsource certain functions and these relationships allow for the storage and processing of our information, as well as customer, counterparty and borrower information. While we engage in actions to mitigate our exposure resulting from outsourcing, ongoing threats may result in unauthorized access, loss or destruction of data or other cybersecurity incidents with increased costs and consequences to us such as those described above.

Our implementation of FHFA directives and other initiatives may increase our operational risk and result in one or more significant deficiencies or material weaknesses in our internal control over financial reporting.

The magnitude of the many new initiatives we are undertaking, including as part of our effort to help build a sustainable housing finance system, may increase our operational risk. Some actions we have been directed to take by FHFA also present significant operational challenges for us, and we believe that implementing these directives will increase our operational risk and could result in one or more significant deficiencies or material weaknesses in our internal control over financial reporting in a future period. We are working with FHFA and Freddie Mac on a multi-year effort to build a common securitization platform to eventually replace some of our current securitization infrastructure. This initiative, in coordination with related internal infrastructure upgrades, is expected to result in significant changes to our current systems and operations, and involves a high degree of complexity. We are also currently working on implementing a number of other FHFA directives and initiatives that may increase our operational burdens and our costs.

While implementation of each individual initiative and directive creates operational challenges, implementing multiple initiatives and directives during the same time period significantly increases these challenges. Implementing these initiatives and directives requires a substantial time commitment from management and the employees responsible for implementing the changes, limiting the amount of time they can spend on other corporate priorities. In addition, some of these initiatives and directives require significant changes to our accounting methods and systems. Due to the operational complexity associated with these changes and the limited time periods for implementing them, we believe there is a significant risk that implementing these changes could result in one or more significant deficiencies or material weaknesses in our internal control over financial reporting in a future period. If this were to occur, we could experience material errors in our reported financial results. In addition, FHFA, Treasury, other agencies of the U.S. government or Congress may require us to take actions in the future that could further increase our operational risk.

We may undertake efforts that adversely affect our business, results of operations, financial condition, liquidity and net worth.

In conservatorship our business is no longer managed with a strategy to maximize shareholder returns while fulfilling our mission. In May 2014, FHFA released its 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac, which identifies three strategic goals that are described in "Business—Executive Summary—Helping to Build a Sustainable Housing Finance System." In pursuit of these or other goals prescribed by our conservator, we may take a variety of actions that could adversely affect our economic returns, possibly significantly, such as modifying loans to defer principal, lower the interest rate or extend the maturity; engaging in principal reduction; expanding our underwriting and eligibility requirements to increase access to mortgage credit; or issuing a single common GSE security. We are already taking some of these actions. These activities may have short- and long-term adverse effects on our business, results of operations, financial condition, liquidity and net worth.

Other agencies of the U.S. government or Congress also may ask us to undertake significant efforts to support the housing and mortgage markets, as well as struggling homeowners. They may also ask us to take actions in support of other goals. For example, in December 2011 Congress enacted the TCCA under which, at the direction of FHFA, we increased the guaranty fee on all single-family residential mortgages delivered to us by 10 basis points effective April 1, 2012. This fee increase helps offset the cost of a two-month extension of the payroll tax cut from January 1, 2012 through February 29, 2012. FHFA and Treasury advised us to remit this fee increase to Treasury with respect to all loans acquired by us on or after April 1, 2012 and before January 1, 2022, and to continue to remit these amounts to Treasury on and after January 1, 2022 with respect to loans we acquired before this date until those loans are paid off or otherwise liquidated.

We are also required by the GSE Act to undertake efforts in support of the housing market that could adversely affect our financial results and condition. For example, we are subject to housing goals under the GSE Act that require that a portion of the mortgage loans we acquire must be for low- and very-low income families, families in low-income census tracts and moderate-income families in minority census tracts or designated disaster areas. FHFA's proposed 2015 to 2017 housing goals include higher benchmarks for some of the goals than those that were applicable for 2014. In addition, the 2008 Reform Act created a new duty to serve underserved markets. We could be required to make changes to our business and our acquisitions in the future in response to this duty. Although FHFA has not yet published a final rule with respect to this requirement, FHFA has indicated that a proposed rulemaking on the duty to serve underserved markets is forthcoming and FHFA's 2015 conservatorship scorecard includes an objective for us to prepare to implement duty to serve requirements upon publication of a final rule. We may take actions to meet our housing goals and duty to serve obligations that could adversely affect our profitability. For example, we may acquire loans that offer lower expected returns on our investment than our other loan acquisitions and that may potentially increase our credit losses and credit-related expenses. If we do not meet our housing goals or duty to serve requirements, and FHFA finds that the goals or requirements were feasible, we may become subject to a housing plan that could require us to take additional steps that could have an adverse effect on our results of operations and financial condition. See "Business—Our Charter and Regulation of Our Activities—The GSE Act—Housing Goals and Duty to Serve Underserved Markets" for more information on our housing goals and duty to serve underserved markets.

Limitations on our ability to access the debt capital markets could have a material adverse effect on our ability to fund our operations and generate net interest income.

Our ability to fund our business depends primarily on our ongoing access to the debt capital markets. The level of net interest income generated by our retained mortgage portfolio assets depends on how much lower our cost of funds is compared with what we earn on our mortgage assets. Market concerns about matters such as the extent of government support for our business, the future of our business (including future profitability, future structure, regulatory actions and GSE status) and the creditworthiness of the U.S. government could cause a severe negative effect on our access to the unsecured debt markets, particularly for long-term debt. We believe that our ability in recent years to issue debt of varying maturities at attractive pricing resulted from federal government support of our business. As a result, we believe that our status as a GSE and continued federal government support is essential to maintaining our access to debt funding. Changes or perceived changes in federal government support of our business or our status as a GSE could materially and adversely affect our liquidity, financial condition and results of operations. There can be no assurance that the government will continue to support us, or that our current level of access to debt funding will continue. In addition, due to our reliance on the U.S. government's support, our access to debt funding also could be materially adversely affected by a change or perceived change in the creditworthiness of the U.S. government.

Future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, as well as our liquidity position. If we are unable to issue both short- and long-term debt securities at attractive rates and in amounts sufficient to operate our business and meet our obligations, it likely would interfere with the operation of our business and have a material adverse effect on our liquidity, results of operations, financial condition and net worth.

Our liquidity contingency plans may be difficult or impossible to execute during a liquidity crisis.

We believe that our liquidity contingency plans may be difficult or impossible to execute during a liquidity crisis. If we cannot access the unsecured debt markets, our ability to repay maturing indebtedness and fund our operations could be eliminated or significantly impaired. In this event, our alternative sources of liquidity—consisting of our cash and other investments portfolio and the unencumbered mortgage assets in our retained mortgage portfolio—may not be sufficient to meet our liquidity needs.

We believe that the amount of mortgage-related assets that we could successfully sell or borrow against in the event of a liquidity crisis or significant market disruption is substantially lower than the amount of mortgage-related assets we hold. Due to the large size of our portfolio of mortgage assets, current market conditions and the significant amount of distressed assets in our retained mortgage portfolio, there would likely be insufficient market demand for large amounts of these assets over a prolonged period of time, which would limit our ability to borrow against or sell these assets.

To the extent that we are able to obtain funding by pledging or selling mortgage-related securities as collateral, we anticipate that a discount would be applied that would reduce the value assigned to those securities. Depending on market conditions at the time, this discount could result in proceeds significantly lower than the current market value of these securities and could thereby reduce the amount of financing we obtain. In addition, our primary source of collateral is Fannie Mae MBS that we own. In the event of a liquidity crisis in which the future of our company is uncertain, counterparties may be unwilling to accept Fannie Mae MBS as collateral. As a result, we may not be able to sell or borrow against these securities in sufficient amounts to meet our liquidity needs.

A decrease in the credit ratings on our senior unsecured debt could have an adverse effect on our ability to issue debt on reasonable terms, and would likely do so if such a decrease were not based on a similar action on the credit ratings of the U.S. government. A decrease in our credit ratings also could trigger additional collateral requirements under our derivatives contracts.

Credit ratings on our senior unsecured debt, as well as the credit ratings of the U.S. government, are primary factors that could affect our borrowing costs and our access to the debt capital markets. Credit ratings on our debt are subject to revision or withdrawal at any time by the rating agencies. Actions by governmental entities impacting the support we receive from Treasury could adversely affect the credit ratings on our senior unsecured debt. As of February 12, 2015, our long-term debt was rated “AA+” by Standard & Poor’s Ratings Services (“S&P”), “Aaa” by Moody’s Investors Services (“Moody’s”) and “AAA” by Fitch Ratings Limited (“Fitch”).

Because we rely on the U.S. government for capital support, in recent years, when a rating agency has taken an action relating to the U.S. government’s credit rating, they have taken a similar action relating to our ratings at approximately the same time. S&P, Moody’s and Fitch have all indicated that they would likely lower their ratings on the debt of Fannie Mae and certain other government-related entities if they were to lower their ratings on the U.S. government.

We currently cannot predict whether one or more of these rating agencies will downgrade our debt ratings in the future, nor can we predict the potential impact. Although S&P’s downgrade of our credit rating from “AAA” to “AA+” in August 2011 has not increased our borrowing costs or limited our access to the debt capital markets to date, an additional reduction in our credit ratings could have a material adverse impact on our access to debt funding or on the cost of our debt funding, and would likely do so if it were not based on a similar action on the credit ratings of the U.S. government.

An additional reduction in our credit ratings may also trigger additional collateral requirements under our derivative contracts because a majority of our over-the-counter (“OTC”) derivative contracts contain provisions that require our senior unsecured debt to maintain a minimum credit rating from S&P and Moody’s. If our senior unsecured debt credit ratings were downgraded to established thresholds in our OTC derivative contracts, which range from A+ to BBB+, we could be required to provide additional collateral to or terminate transactions with certain counterparties. The aggregate fair value of all OTC derivatives with credit-risk-related contingent features that were in a net liability position as of December 31, 2014 was $2.6 billion, for which we posted collateral of $2.4 billion in the normal course of business. If our senior unsecured debt had been downgraded to AA or Aa1, or even to AA- or Aa2, we would not have been required to post any additional collateral under these agreements as of December 31, 2014. If all of the credit-risk-related contingency features underlying these agreements had been triggered, an additional $269 million would have been required either to be posted as collateral or to immediately settle our positions based on the individual agreements and our fair value position as of December 31, 2014. An additional reduction in our credit ratings also could cause derivatives clearing organizations or their members to demand that we post additional collateral for our cleared derivative contracts. Further, an additional reduction in our credit ratings may materially adversely affect our liquidity, our ability to conduct our normal business operations, our financial condition and our results of operations. Our credit ratings and ratings outlook are included in "MD&A—Liquidity and Capital Management—Liquidity Management—Credit Ratings."

One or more of our institutional counterparties may fail to fulfill their contractual obligations to us, resulting in financial losses, business disruption and decreased ability to manage risk.

We face the risk that one or more of our institutional counterparties may fail to fulfill their contractual obligations to us. Our primary exposures to institutional counterparty risk are with mortgage servicers that service the loans we hold in our retained mortgage portfolio or that back our Fannie Mae MBS; mortgage sellers and servicers that are obligated to repurchase loans from us or reimburse us for losses in certain circumstances; third-party providers of credit enhancement on the mortgage assets that we hold in our retained mortgage portfolio or that back our Fannie Mae MBS, including mortgage insurers, lenders with risk sharing arrangements, financial guarantors and reinsurers; issuers of investments held in our cash and other investments portfolio; and derivatives counterparties.

We may have multiple exposures to one counterparty as many of our counterparties provide several types of services to us. For example, our lender customers or their affiliates may also act as derivatives counterparties, mortgage servicers, custodial depository institutions or document custodians. Accordingly, if one of these counterparties were to become insolvent or otherwise default on its obligations to us, it could harm our business and financial results in a variety of ways.

An institutional counterparty may default in its obligations to us for a number of reasons, such as changes in financial condition that affect its credit rating, changes in its servicer rating, a reduction in liquidity, operational failures or insolvency. Although the liquidity and financial condition of some of our institutional counterparties continued to improve in 2014, there is still significant risk to our business of defaults by these counterparties. Counterparty defaults or limitations on their ability to do business with us could result in significant financial losses or hamper our ability to do business, which would adversely affect our business, results of operations, financial condition, liquidity and net worth.

We routinely execute a high volume of transactions with counterparties in the financial services industry. Many of the transactions we engage in with these counterparties expose us to credit risk relating to the possibility of a default by our counterparties. In addition, to the extent these transactions are secured, our credit risk may be exacerbated to the extent that the collateral we hold cannot be realized or can be liquidated only at prices too low to recover the full amount of our exposure. These losses could materially and adversely affect our business, results of operations, financial condition, liquidity and net worth.

We depend on our ability to enter into derivatives transactions in order to manage the duration and prepayment risk of our retained mortgage portfolio. If we lose access to our derivatives counterparties, it could adversely affect our ability to manage these risks, which could have a material adverse effect on our business, results of operations, financial condition and liquidity.

Our financial condition or results of operations may be adversely affected if mortgage servicers fail to perform their obligations to us.

We delegate the servicing of the mortgage loans in our guaranty book of business to mortgage servicers; we do not have our own servicing function. Functions performed by mortgage servicers on our behalf include collecting and delivering principal and interest payments, administering escrow accounts, monitoring and reporting delinquencies, performing default prevention activities and other functions. The inability of a mortgage servicer to perform these functions due to financial, operational, regulatory or other issues could negatively affect our ability to manage our book of business, delay or prevent our collection of amounts due to us or otherwise result in the failure to perform other servicing duties, resulting in financial losses. In addition, our servicers have an active role in our loss mitigation efforts, and a decline in their performance could affect our credit performance, including through missed opportunities for loan modifications.

In recent periods, non-depository servicers that specialize in servicing troubled loans have experienced rapid growth in their servicing portfolios, and now service a large portion of our loans. The rapid expansion of these servicers' servicing portfolios results in increased operational risk, which could negatively impact their ability to effectively manage their servicing portfolios. In addition, regulatory bodies have been reviewing the activities of some of our largest non-depository servicers.

If we replace a mortgage servicer, we likely would incur costs and potential increases in servicing fees and could also face operational risks. If a mortgage servicer counterparty fails, it could result in a temporary disruption in servicing and loss mitigation activities relating to the loans serviced by that mortgage servicer, particularly if there is a loss of experienced servicing personnel. We may also face challenges in transferring a large servicing portfolio.

Multifamily mortgage servicing is typically performed by the lenders who sell the mortgages to us. We are exposed to the risk that multifamily servicers could come under financial pressure, which could potentially result in a decline in the quality of the servicing they provide us.

We may incur losses as a result of claims under our mortgage insurance policies not being paid in full or at all.

We rely heavily on mortgage insurers to provide insurance against borrower defaults on single-family conventional mortgage loans with LTV ratios over 80% at the time of acquisition. Several of our mortgage insurer counterparties incurred losses in recent years, which increases the risk that these counterparties may fail to fulfill their obligations to pay in full our claims under insurance policies.

PMI Mortgage Insurance Co. (“PMI”), Triad Guaranty Insurance Corporation (“Triad”) and Republic Mortgage Insurance Company (“RMIC”) are under various forms of supervised control by their state regulators and are in run-off. A mortgage insurer that is in run-off continues to collect renewal premiums and process claims on its existing insurance business, but no longer writes new insurance, which increases the risk that the mortgage insurer will pay claims only in part or fail to pay claims at all under existing insurance policies. Entering run-off may close off a source of profits and liquidity that may have otherwise assisted a mortgage insurer in paying claims under insurance policies, and could also cause the quality and speed of its claims processing to deteriorate. PMI and Triad have been paying only a portion of policyholder claims and deferring the remaining portion. PMI is currently paying 67% of claims under its mortgage insurance policies in cash and is deferring the remaining 33%, and Triad is currently paying 75% of claims in cash and deferring the remaining 25%. It is uncertain whether PMI or Triad will be permitted in the future to pay any remaining deferred policyholder claims and/or increase or decrease the amount of cash they pay on claims. RMIC is no longer deferring payments on policyholder claims and has paid us its previously outstanding deferred payment obligations; however, RMIC has not paid us interest on its deferred payment obligations and remains in run-off and under the supervisory control of its state regulator. PMI, Triad and RMIC provided a combined $12.3 billion, or 11%, of our risk in force mortgage insurance coverage of our single-family guaranty book of business as of December 31, 2014.

From time to time we assess our mortgage insurer counterparties’ respective abilities to fulfill their obligations to us, and our loss reserves take into account this assessment. If our assessment indicates their ability to pay claims has deteriorated significantly or if our projected claim amounts have increased, it could result in an increase in our loss reserves and our credit losses.

Changes in the mortgage industry may negatively impact our business.

A number of our largest single-family mortgage seller and servicer counterparties have reduced or eliminated their purchases of mortgage loans from mortgage brokers and correspondent lenders. As a result, we have been acquiring an increasing portion of our business volume directly from, and a larger portion of our servicing is being performed by, smaller or non-depository financial institutions that may not have the same financial strength, liquidity or operational capacity as our larger depository financial institution counterparties.

Our top five lender customers in terms of single-family business acquisition volume, in the aggregate, accounted for approximately 33% of our single-family business acquisition volume in 2014, compared with approximately 42% in 2013. Our five largest single-family mortgage servicers, including their affiliates, serviced approximately 46% of our single-family guaranty book of business as of December 31, 2014, compared with approximately 49% as of December 31, 2013.

The potentially lower financial strength, liquidity and operational capacity of smaller or non-depository mortgage sellers and servicers may negatively affect their ability to satisfy their repurchase or compensatory fee obligations or to service the loans on our behalf. In addition, some of our non-depository mortgage servicer counterparties have grown significantly in recent years, which could negatively impact their ability to effectively manage their servicing portfolios and increase their operational risk. The decrease in the concentration of our business with large depository financial institutions could increase both our institutional counterparty credit risk and our mortgage credit risk, and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

The loss of business volume from a key lender customer could adversely affect our business and result in a decrease in our revenues, especially if we are unable to replace the business volume that customer provided to us.

Our ability to generate revenue from the purchase and securitization of mortgage loans depends on our ability to acquire a steady flow of mortgage loans from the originators of those loans. Although we have been acquiring an increasing portion of our single-family business volume directly from smaller financial institutions, we have continued to acquire a significant portion of our mortgage loans from several large mortgage lenders, with our top five lender customers in terms of single-family business acquisition volume, in the aggregate, accounting for approximately 33% of our single-family business acquisition volume in 2014. Accordingly, maintaining our current business relationships and business volumes with our top lender customers is important to our business. To the extent a key lender customer significantly reduces the volume or quality of mortgage loans that the lender delivers to us or that we are willing to buy from them, we could lose significant business volume that we might be unable to replace, which could adversely affect our business and result in a decrease in our revenues. In addition, a significant reduction in the volume of mortgage loans that we securitize could reduce the liquidity of Fannie Mae MBS, which in turn could have an adverse effect on their market value.

Our reliance on third parties to service our mortgage loans may impede our efforts to keep people in their homes and adversely affect the re-performance rate of loans we modify.

Mortgage servicers, or their agents and contractors, typically are the primary point of contact for borrowers on our loans. We rely on these mortgage servicers to identify and contact troubled borrowers as early as possible, to assess the situation and offer appropriate options for resolving the problem and to successfully implement a solution. Over the past few years, the demands placed on experienced mortgage loan servicers to service delinquent loans have increased significantly across the industry, straining servicer capacity. To the extent that mortgage servicers are hampered by limited resources or other factors, they may not be successful in conducting their servicing activities in a manner that fully accomplishes our objectives within the timeframe we desire. Further, our servicers have advised us that they have not been able to reach many of the borrowers who may need help with their mortgage loans even when repeated efforts have been made to contact the borrower.

For these reasons, our ability to actively manage the troubled loans that we own or guarantee, and to implement our homeownership assistance and foreclosure prevention efforts quickly and effectively, is limited by our reliance on our mortgage servicers. This reliance could have a material adverse effect on our business, results of operations and financial condition.

We expect the slow pace of single-family foreclosures in some states will continue to adversely affect our business, results of operations, financial condition and net worth.

The processing of foreclosures of single-family loans continues to be slow in a number of states, primarily as a result of the elevated level of foreclosures caused by the housing market downturn that began in 2006, changes in state foreclosure laws, and federal and state servicing requirements imposed by regulatory actions and legal settlements in recent years. The slow pace of foreclosures in some states has negatively affected our foreclosure timelines, credit-related income (expense) and single-family serious delinquency rates, and we expect they will continue to do so. We believe the slow pace of foreclosures in certain states is contributing to a slower recovery of those housing markets.

Challenges to the MERS® company, system and processes could pose operational, reputational and legal risks for us.

MERSCORP Holdings, Inc. ("MERSCORP") is a privately held company that maintains an electronic registry (the "MERS System") that tracks servicing rights and ownership of loans in the United States. Mortgage Electronic Registration Systems, Inc. ("MERS"), a wholly owned subsidiary of MERSCORP, can serve as a nominee for the owner of a mortgage loan and, in that role, become the mortgagee of record for the loan in local land records. Fannie Mae sellers and servicers may choose to use MERS as a nominee; however, we have prohibited servicers from initiating foreclosures on Fannie Mae loans in MERS's name. A large portion of the loans we own or guarantee are registered in MERS's name and the related servicing rights are tracked in the MERS System. The MERS System is widely used by participants in the mortgage finance industry. Along with a number of other organizations in the mortgage finance industry, we are a shareholder of MERSCORP.

Numerous legal challenges have been made disputing MERS's ability to initiate foreclosures, act as nominee in local land records, and/or assign mortgages or take other action on behalf of the loan owner. These challenges seek judicial relief ranging from money damages, fines and penalties to injunctive/declaratory relief seeking the prevention of mortgage assignments by MERS and/or the voiding of completed foreclosures in which MERS appeared in the chain of title. These challenges have focused public attention on MERS and on how loans are recorded in local land records. As a result, these challenges could negatively affect MERS's ability to serve as the mortgagee of record in some jurisdictions, which could cause additional costs and time in the recordation process and could negatively impact our interest in the loans. These challenges also could result in court decisions that substantially delay new or pending foreclosures, or void completed foreclosures in certain jurisdictions, which would require that we re-foreclose on the affected properties, thereby increasing our costs and lengthening the time it takes for us to foreclose on and dispose of the properties.

In addition, where MERS is the mortgagee of record, it must execute assignments of mortgages, affidavits and other legal documents in connection with foreclosure proceedings. In April 2011, federal banking regulators and FHFA announced that they were taking enforcement action against MERS and MERSCORP to address significant weaknesses in, among other things, oversight, management supervision and corporate governance at MERS and MERSCORP that were uncovered as part of the regulators' review of mortgage servicers' foreclosure processing. Failures by MERS or MERSCORP to apply prudent and effective process controls and to comply with legal and other requirements could pose counterparty, operational, reputational and legal risks for us. If investigations or new regulation or legislation restricts servicers' use of MERS, our counterparties may be required to record all mortgage transfers in land records, incurring additional costs and time in the recordation process. At this time, we cannot predict the ultimate outcome of these legal challenges to, or the enforcement action against, MERS and MERSCORP or the impact on our business, results of operations or financial condition.

Changes in accounting standards and policies can be difficult to predict and can materially impact how we record and report our financial results.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. From time to time, the FASB or the SEC changes the financial accounting and reporting standards or the policies that govern the preparation of our financial statements. In addition, FHFA provides guidance that affects our adoption or implementation of financial accounting or reporting standards. These changes can be difficult to predict and expensive to implement, and can materially impact how we record and report our financial condition and results of operations. We could be required to apply new or revised guidance retrospectively, which may result in the revision of prior period financial statements by material amounts. The implementation of new or revised accounting guidance could have a material adverse effect on our financial results or net worth and result in or contribute to the need for additional draws from Treasury under the senior preferred stock purchase agreement.

Material weaknesses in our internal control over financial reporting could result in errors in our reported results or disclosures that are not complete or accurate.

Management has determined that, as of the date of this filing, we have ineffective disclosure controls and procedures that result in a material weakness in our internal control over financial reporting. In addition, our independent registered public accounting firm, Deloitte & Touche LLP, has expressed an adverse opinion on our internal control over financial reporting because of the material weakness. Our ineffective disclosure controls and procedures and material weakness could result in errors in our reported results or disclosures that are not complete or accurate, which could have a material adverse effect on our business and operations.

Our material weakness relates specifically to the impact of the conservatorship on our disclosure controls and procedures. Because we are under the control of FHFA, some of the information that we may need to meet our disclosure obligations may be solely within the knowledge of FHFA. As our conservator, FHFA has the power to take actions without our knowledge that could be material to our shareholders and other stakeholders, and could significantly affect our financial performance or our continued existence as an ongoing business. Because FHFA currently functions as both our regulator and our conservator, there are inherent structural limitations on our ability to design, implement, test or operate effective disclosure controls and procedures relating to information within FHFA's knowledge. As a result, we have not been able to update our disclosure controls and procedures in a manner that adequately ensures the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws, including disclosures affecting our financial statements. Given the structural nature of this material weakness, we do not expect to remediate this weakness while we are under conservatorship. See "Controls and Procedures" for further discussion of management's conclusions on our disclosure controls and procedures and internal control over financial reporting.

In many cases, our accounting policies and methods, which are fundamental to how we report our financial condition and results of operations, require management to make judgments and estimates about matters that are inherently uncertain. Management also relies on models in making these estimates.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in applying many of these accounting policies and methods so that these policies and methods comply with GAAP and reflect management's judgment of the most appropriate manner to report our financial condition and results of operations. In some cases, management must select the appropriate accounting policy or method from two or more alternatives, any of which might be reasonable under the circumstances but might affect the amounts of assets, liabilities, revenues and expenses that we report. See "Note 1, Summary of Significant Accounting Policies" for a description of our significant accounting policies.

We have identified some of our accounting policies as being critical to the presentation of our financial condition and results of operations. These accounting policies are described in “MD&A—Critical Accounting Policies and Estimates.” We believe these policies are critical because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions.

Because our financial statements involve estimates for amounts that are very large, even a small change in the estimate can have a significant impact for the reporting period. For example, because our total loss reserves are so large, even a change that has a small impact relative to the size of our loss reserves can have a meaningful impact on our results for the quarter in which we make the change.

Due to the complexity of the critical accounting policies we have identified, our accounting methods relating to these policies involve substantial use of models. Models are inherently imperfect predictors of actual results because they are based on assumptions, including assumptions about future events. Our models may not include assumptions that reflect very positive or very negative market conditions and, accordingly, our actual results could differ significantly from those generated by our models. As a result of the above factors, the estimates that we use to prepare our financial statements, as well as our estimates of our future results of operations, may be inaccurate, perhaps significantly.

Failure of our models to produce reliable results may adversely affect our ability to manage risk and make effective business decisions.

We make significant use of quantitative models to measure and monitor our risk exposures and to manage our business. For example, we use models to measure and monitor our exposures to interest rate, credit and market risks, and to forecast credit losses. The information provided by these models is used in making business decisions relating to strategies, initiatives, transactions, pricing and products.

Models are inherently imperfect predictors of actual results because they are based on historical data and assumptions regarding factors such as future loan demand, borrower behavior, creditworthiness and home price trends. Other potential sources of inaccurate or inappropriate model results include errors in computer code, bad data, misuse of data, or use of a model for a purpose outside the scope of the model’s design. Modeling often assumes that historical data or experience can be relied upon as a basis for forecasting future events, an assumption that may be especially tenuous in the face of unprecedented events.

Given the challenges of predicting future behavior, management judgment is used at every stage of the modeling process, from model design decisions regarding core underlying assumptions, to interpreting and applying final model output. To control for these inherent imperfections, our primary models are vetted by an independent model risk management team within our Enterprise Risk Division.

When market conditions change quickly and in unforeseen ways, there is an increased risk that the model assumptions and data inputs for our models are not representative of the most recent market conditions. Under such circumstances, we must rely on management judgment to make adjustments or overrides to our models. A formal model update is typically an extensive process that involves basic research, testing, independent validation and production implementation. In a rapidly changing environment, it may not be possible to update existing models quickly enough to properly account for the most recently available data and events. Management adjustments to modeled results are applied within the confines of the governance structure provided by a combination of our model risk management team and our business, finance and risk committees.

If our models fail to produce reliable results on an ongoing basis, we may not make appropriate risk management decisions, including decisions affecting loan purchases, management of credit losses, guaranty fee pricing, asset and liability management and the management of our net worth. Any of these decisions could adversely affect our businesses, results of operations, liquidity, net worth and financial condition. Furthermore, strategies we employ to manage and govern the risks associated with our use of models may not be effective or fully reliable.

Changes in interest rates or our loss of the ability to manage interest rate risk successfully could adversely affect our financial results and condition, and increase interest rate risk.

We fund our operations primarily through the issuance of debt and invest our funds primarily in mortgage-related assets that permit mortgage borrowers to prepay their mortgages at any time. These business activities expose us to market risk, which is the risk of adverse changes in the fair value of financial instruments resulting from changes in market conditions. Our most significant market risks are interest rate risk and prepayment risk. We describe these risks in more detail in “MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management.” Changes in interest rates affect both the value of our mortgage assets and prepayment rates on our mortgage loans.

Changes in interest rates could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. Our ability to manage interest rate risk depends on our ability to issue debt instruments with a range of maturities and other features, including call provisions, at attractive rates and to engage in derivatives transactions. We must exercise judgment in selecting the amount, type and mix of debt and derivatives instruments that will most effectively manage our interest rate risk. The amount, type and mix of financial instruments that are available to us may not offset possible future changes in the spread between our borrowing costs and the interest we earn on our mortgage assets.

We mark to market changes in the estimated fair value of our derivatives through our earnings on a quarterly basis, but we do not similarly mark to market changes in some of the financial instruments that generate our interest rate risk exposures. As a result, changes in interest rates, particularly significant changes, can have a significant adverse effect on our earnings and net worth for the quarter in which the changes occur, depending on the nature of the changes and the derivatives we hold at that time. We have experienced significant fair value losses in some periods due to changes in interest rates, and we expect to continue to experience volatility from period to period in our financial results as a result of fair value losses or gains on our derivatives.

Changes in interest rates also can affect our credit losses. When interest rates increase, our credit losses from loans with adjustable payment terms may increase as borrower payments increase at their reset dates, which increases the borrower's risk of default, particularly for adjustable-rate loans with interest-only features. Rising interest rates may also reduce the opportunity for these borrowers to refinance into a fixed-rate loan. Similarly, many borrowers may have additional debt obligations, such as home equity lines of credit and second liens, that also have adjustable payment terms. If a borrower's payment on his or her other debt obligations increases due to rising interest rates or a change in amortization, it increases the risk that the borrower may default on a loan we own or guarantee.

Changes in spreads could materially impact our results of operations, net worth and the fair value of our net assets.

Spread risk or basis risk is the resulting impact of changes in the spread between our mortgage assets and our debt and derivatives we use to hedge our position. Changes in market conditions, including changes in interest rates, liquidity, prepayment and default expectations, and the level of uncertainty in the market for a particular asset class may cause fluctuations in spreads. Changes in mortgage spreads have contributed to significant volatility in our financial results in certain periods, due to fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings, and this could occur again in a future period. A widening of mortgage spreads could cause significant fair value losses, and could adversely affect our near-term financial results and net worth. We do not actively manage or hedge our spread risk after we purchase mortgage assets, other than through asset monitoring and disposition.

Our business is subject to laws and regulations that restrict our activities and operations, which may prohibit us from undertaking activities that management believes would benefit our business and limit our ability to diversify our business.

As a federally chartered corporation, we are subject to the limitations imposed by the Charter Act, extensive regulation, supervision and examination by FHFA and regulation by other federal agencies, including Treasury, HUD and the SEC. As a company under conservatorship, our primary regulator has management authority over us in its role as our conservator. We are also subject to other laws and regulations that affect our business, including those regarding taxation and privacy.

The Charter Act defines our permissible business activities. For example, we may not originate mortgage loans or purchase single-family loans in excess of the conforming loan limits, and our business is limited to the U.S. housing finance sector. In addition, as described in a previous risk factor, our business activities are subject to significant restrictions as a result of the conservatorship and the senior preferred stock purchase agreement. As a result of these limitations on our ability to diversify our operations, our financial condition and results of operations depend almost entirely on conditions in a single sector of the U.S. economy, specifically, the U.S. housing market. Weak or unstable conditions in the housing market, as we have seen in recent years, can therefore have a significant adverse effect on our results of operations, financial condition and net worth.

Our business and financial results could be materially adversely affected by legal or regulatory proceedings.

We are a party to various claims and other legal proceedings. We also have been, and in the future may be, involved in government investigations. We may be required to establish reserves and to make substantial payments in the event of adverse judgments or settlements of any such claims, investigations or proceedings, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. Any legal proceeding or governmental investigation, even if resolved in our favor, could result in negative publicity or cause us to incur significant legal and other expenses. In addition, certain of our former officers are involved in legal proceedings for which they may be entitled to reimbursement by us for costs and expenses of the proceedings.

Developments in, outcomes of, impacts of, and costs, expenses, settlements and judgments related to these legal proceedings and governmental investigations may differ from our expectations and exceed any amounts for which we have reserved or require adjustments to such reserves. In addition, responding to these matters could divert significant internal resources away from managing our business.

An active trading market in our equity securities may cease to exist, which would adversely affect the market price and liquidity of our common and preferred stock.

Our common stock and preferred stock are now traded exclusively in the over-the-counter market. We cannot predict the actions of market makers, investors or other market participants, and can offer no assurances that the market for our securities will be stable. If there is no active trading market in our equity securities, the market price and liquidity of the securities will be adversely affected.

Mortgage fraud could result in significant financial losses and harm to our reputation.

We use a process of delegated underwriting in which lenders make specific representations and warranties about the characteristics of the mortgage loans we purchase and securitize. As a result, we do not independently verify most borrower information that is provided to us. This exposes us to the risk that one or more of the parties involved in a transaction (the borrower, seller, broker, appraiser, title agent, lender or servicer) will engage in fraud by misrepresenting facts about a mortgage loan. Similarly, we rely on delegated servicing of loans and use of a variety of external resources to manage our REO. We have experienced financial losses resulting from mortgage fraud, including institutional fraud perpetrated by counterparties. In the future, we may experience additional financial losses or reputational damage as a result of mortgage fraud.

RISKS RELATING TO OUR INDUSTRY

Our business and financial results are affected by general economic conditions, particularly home prices and employment trends, and a deterioration of economic conditions or the financial markets may materially adversely affect our result of operations, net worth and financial condition.

Our business is significantly affected by the status of the U.S. economy, particularly home prices and employment trends. Although the U.S. economy has continued to gradually improve, economic growth and improvement in the housing market have been modest. A prolonged period of slow growth in the U.S. economy or any deterioration in general economic conditions or the financial markets could materially adversely affect our result of operations, net worth and financial condition. For example, if home prices decrease or the unemployment rate increases, it could result in significantly higher levels of credit losses and credit-related expense.

Global economic conditions can also adversely affect our business and financial results. Changes or volatility in market conditions resulting from deterioration in or uncertainty regarding global economic conditions can adversely affect the value of our assets, which could materially adversely affect our results of operations, net worth and financial condition. For example, weak economic conditions in Europe and concerns about the European banking system resulted in a significant decline in interest rates in the fourth quarter of 2014. This decline in interest rates contributed to the fair value losses on our derivatives in the fourth quarter of 2014. Volatility or uncertainty in global political conditions can also significantly affect economic conditions and the financial markets. We describe above the risks to our business posed by changes in interest rates and changes in spreads. In addition, as described above, future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, as well as our liquidity position.

A decline in activity in the U.S. housing market or increasing interest rates could lower our business volumes.

Our business volume is affected by the rate of growth in total U.S. residential mortgage debt outstanding and the size of the U.S. residential mortgage market. A decline in mortgage debt outstanding reduces the unpaid principal balance of mortgage loans available for us to securitize or purchase, which in turn could reduce our guaranty fee income and net interest income. Even if we were able to increase our share of the secondary mortgage market, it may not be sufficient to make up for a decline in the rate of growth in mortgage originations.

Mortgage interest rates also affect our business volume. Rising interest rates generally result in fewer mortgage originations, particularly for refinances. Interest rates increased significantly in the second half of 2013, which reduced our business volume in the second half of 2013 and in 2014. Interest rates subsequently declined in late 2014 and early 2015 to levels similar to mid-2013. If interest rates rise again, particularly if the increase is sudden and steep, it could significantly reduce our business volume. Significant reductions in our business volume could adversely affect our results of operations and financial condition.

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In recent years, the Federal Reserve has purchased a significant amount of mortgage-backed securities issued by us, Freddie Mac and Ginnie Mae. The Federal Reserve began to taper these purchases in January 2014 and concluded its asset purchase program in October 2014. In announcing the conclusion of its asset purchase program, the Federal Reserve stated that it is maintaining its existing policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities; therefore, it has continued to purchase a significant amount of agency mortgage-backed securities. Any change in the Federal Reserve's policy towards the reinvestment of principal payments of mortgage-backed securities, or possible future sales of mortgage-backed securities by the Federal Reserve, could result in increases in mortgage interest rates and adversely affect our business volume, which could adversely affect our results of operations and financial condition.

The Dodd-Frank Act and regulatory changes in the financial services industry may negatively impact our business.

The Dodd-Frank Act has significantly changed the regulation of the financial services industry. This legislation is affecting and will continue to affect many aspects of our business and could affect us in substantial and unforeseeable ways. The Dodd-Frank Act and related regulatory changes have required us to change certain business practices, limit the types of products we offer and incur additional costs. Additionally, implementation of this legislation has resulted in and will continue to result in increased supervision and more comprehensive regulation of our customers and counterparties in the financial services industry, which may have a significant impact on the business practices of our customers and counterparties, as well as on our counterparty credit risk. The Dodd-Frank Act's impact on our customers' and counterparties' business practices could indirectly adversely affect our business. For example, if our customers reduce the amount of their mortgage originations, it would adversely affect the number of mortgages available for us to purchase or guarantee.

Examples of aspects of the Dodd-Frank Act and related regulatory changes that have affected us or may affect us in the future include: rules requiring the clearing of certain derivatives transactions and margin and capital rules for uncleared derivative trades, which impose additional costs on us; the CFPB's "ability to repay" rule, which has limited the types of products we offer and could impact the volume of loans sold to us in the future; and the development of single-counterparty credit limit regulations, which could cause our customers to change their business practices. We could also be designated as a systemically important nonbank financial company subject to supervision and regulation by the Federal Reserve. If this were to occur, the Federal Reserve would have the authority to examine us and could impose stricter prudential standards on us, including risk-based capital requirements, leverage limits, liquidity requirements, single-counterparty exposure limits, resolution plan and credit exposure reporting requirements, overall risk management requirements, contingent capital requirements, enhanced public disclosures and short-term debt limits. We have not received any notification of possible designation as a systemically important financial institution.

In addition, the actions of Treasury, the Commodity Futures Trading Commission, the SEC, the FDIC, the Federal Reserve and international central banking authorities directly or indirectly impact financial institutions' cost of funds for lending, capital-raising and investment activities, which could increase our borrowing costs or make borrowing more difficult for us. Changes in monetary policy are beyond our control and difficult to anticipate.

Overall, these legislative and regulatory changes could affect us in substantial and unforeseeable ways and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

Legislative, regulatory or judicial actions could negatively impact our business, results of operations, financial condition or net worth.

Legislative, regulatory or judicial actions at the federal, state or local level could negatively impact our business, results of operations, financial condition or net worth. Legislative, regulatory or judicial actions could affect us in a number of ways, including by imposing significant additional costs on us and diverting management attention or other resources. For example, we could be affected by legislative or regulatory changes that expand the responsibilities and liabilities of servicers and assignees for maintaining vacant properties prior to foreclosure, which could increase our costs. We also could be affected by state laws and court decisions granting priority rights for homeowners associations in foreclosure proceedings, which could adversely affect our ability to recover our losses on affected loans. In addition, as described above, our business could be materially adversely affected by legislative and regulatory actions relating to housing finance reform or the financial services industry or by legal or regulatory proceedings.

The occurrence of a major natural or other disaster in the United States could negatively impact our credit losses and credit-related expenses, and could disrupt our business operations in the affected geographic area or nationally.

We conduct our business in the residential and multifamily mortgage markets and own or guarantee the performance of mortgage loans throughout the United States. The occurrence of a major natural or environmental disaster, terrorist attack, cyber attack, pandemic, or similar event (a "major disruptive event") in a regional geographic area of the United States could negatively impact our credit losses and credit-related expenses in the affected area or, depending on the nature of the event, nationally.

The occurrence of a major disruptive event could negatively impact a geographic area in a number of different ways, depending on the nature of the event. A major disruptive event that either damages or destroys residential or multifamily real estate securing mortgage loans in our book of business or negatively impacts the ability of borrowers to continue to make principal and interest payments on mortgage loans in our book of business could increase our delinquency rates, default rates and average loan loss severity of our book of business in the affected region or regions, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. While we attempt to create a geographically diverse mortgage credit book of business, there can be no assurance that a major disruptive event, depending on its magnitude, scope and nature, will not generate significant credit losses and credit-related expenses.

In addition, as described in a risk factor above, although we have business continuity plans and facilities in place, the occurrence of a catastrophic event could overwhelm our recovery capabilities, which could materially adversely affect our ability to conduct our business and lead to financial losses.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own our principal office, which is located at 3900 Wisconsin Avenue, NW, Washington, DC, as well as additional Washington, DC facilities at 3939 Wisconsin Avenue, NW and 4250 Connecticut Avenue, NW. We also own two office facilities in Herndon, Virginia, as well as two additional facilities located in Reston, Virginia and Urbana, Maryland. These owned facilities contain a total of approximately 1,459,000 square feet of space. We lease the land underlying the 4250 Connecticut Avenue building pursuant to a ground lease that automatically renews on July 1, 2029 for an additional 49 years unless we elect to terminate the lease by providing notice to the landlord of our decision to terminate at least one year prior to the automatic renewal date. In addition, we lease approximately 429,000 square feet of office space, including a conference center, at 4000 Wisconsin Avenue, NW, which is adjacent to our principal office. The lease term for the office and conference center at 4000 Wisconsin Avenue expires in April 2018. We also lease an additional approximately 170,000 square feet of office space at two other locations in Washington, DC and Virginia. We maintain approximately 715,000 square feet of office space in leased premises in Pasadena, California; Irvine, California; Atlanta, Georgia; Chicago, Illinois; Philadelphia, Pennsylvania; and three facilities in Dallas, Texas.

In January 2015, we entered into a lease for a future principal office to be built at 1150 15th Street, NW, Washington, DC. The lease provides that the building will be delivered in two phases in 2017 and 2018.

Item 3. Legal Proceedings

This item describes our material legal proceedings. We describe additional material legal proceedings in “Note 19, Commitments and Contingencies,” which is incorporated herein by reference. In addition to the matters specifically described or incorporated by reference in this item, we are involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that do not have a material impact on our business. Litigation claims and proceedings of all types are subject to many factors that generally cannot be predicted accurately.

We record reserves for legal claims when losses associated with those claims become probable and the amounts can be reasonably estimated. The actual costs of resolving legal claims may be substantially higher or lower than the amounts reserved for those claims. For matters where the likelihood or extent of a loss is not probable or cannot be reasonably estimated, we do not recognize in our consolidated financial statements the potential liability that may result from these matters. Except for matters that have been settled, we presently cannot determine the ultimate resolution of the matters described below or incorporated by reference into this item. If certain of these matters are determined against us, it could have a material adverse effect on our results of operations, liquidity and financial condition, including our net worth.

FHFA Private-Label Mortgage-Related Securities Litigation

In the third quarter of 2011, FHFA, as conservator, filed 16 lawsuits on behalf of both Fannie Mae and Freddie Mac against various financial institutions, their officers and affiliated and unaffiliated underwriters that were responsible for marketing and selling private-label mortgage-related securities to us. Fourteen of these lawsuits were resolved during 2013 and 2014, and two remain pending.

One of the remaining lawsuits is against Nomura Holding America Inc. and certain related entities and individuals, and is pending in the U.S. District Court for the Southern District of New York. The other remaining lawsuit is against The Royal

Bank of Scotland Group PLC and certain related entities and individuals, and is pending in the U.S. District Court for the District of Connecticut. Both lawsuits were filed on September 2, 2011. These two remaining lawsuits seek to recover losses we and Freddie Mac incurred on the private-label mortgage-related securities the defendants sold to us and Freddie Mac. The lawsuits allege that the defendants violated federal and state securities laws by making material misstatements and omissions regarding the characteristics of the loans underlying the securities in the offering documents for the securities that were sold to Fannie Mae and Freddie Mac. The complaints seek, among other things, rescission and recovery of consideration paid for the securities at issue in the lawsuits, monetary damages and interest.

Senior Preferred Stock Purchase Agreements Litigation

Between June 2013 and August 2014, several lawsuits were filed by preferred and common stockholders of Fannie Mae and Freddie Mac in the U.S. Court of Federal Claims, the U.S. District Court for the District of Columbia and the U.S. District Court for the Southern District of Iowa against the United States, Treasury and/or FHFA, challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac. Some of these lawsuits also contain claims against Fannie Mae and Freddie Mac. The legal claims being advanced by one or more of these lawsuits include challenges to the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendments to the agreements, as well as to FHFA's decision to require Fannie Mae and Freddie Mac to draw funds from Treasury in order to pay dividends to Treasury during conservatorship. The plaintiffs seek various forms of equitable and injunctive relief, including rescission of the August 2012 amendments, as well as damages. On September 30, 2014, the U.S. District Court for the District of Columbia dismissed all but one of the cases pending before that court. The plaintiffs in each of the dismissed cases have filed a notice of appeal. The plaintiffs in the case that was not dismissed by the court voluntarily dismissed their lawsuit on October 31, 2014. On February 3, 2015, the U.S. District Court for the Southern District of Iowa dismissed the single case pending before it. The matters where Fannie Mae is a named defendant are described below or in "Note 19, Commitments and Contingencies."

Fannie Mae is a nominal defendant in two actions filed against the United States in the U.S. Court of Federal Claims: Fisher v. United States of America, filed on December 2, 2013, and Rafter v. United States of America, filed on August 14, 2014. Plaintiffs in these cases allege that the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendment to the senior preferred stock purchase agreement constitute a taking of Fannie Mae's property without just compensation in violation of the U.S. Constitution. The Fisher plaintiffs are pursuing this claim derivatively on behalf of Fannie Mae, while the Rafter plaintiffs are pursing the claim directly against the United States. Plaintiffs in Rafter also allege a derivative claim that the government breached an implied contract with Fannie Mae's Board of Directors by implementing the net worth sweep dividend provisions. Plaintiffs in Fisher request just compensation to Fannie Mae in an unspecified amount. Plaintiffs in Rafter seek just compensation to themselves on their constitutional claim and payment of damages to Fannie Mae on their derivative claim for breach of an implied contract. The United States filed a motion to dismiss the Fisher case on January 23, 2014; however, the court has stayed proceedings in this case until discovery in a related case, Fairholme Funds v. United States, is complete and the court sets a date for the Fairholme plaintiffs to respond to the government's motion to dismiss filed in that case. In the Rafter case, the court has ordered the government to file a response to the complaint within sixty days after discovery is complete in the Fairholme Funds case.

LIBOR Lawsuit

On October 31, 2013, Fannie Mae filed a lawsuit in the U.S. District Court for the Southern District of New York against Barclays Bank PLC, UBS AG, The Royal Bank of Scotland Group PLC, The Royal Bank of Scotland PLC, Deutsche Bank AG, Credit Suisse Group AG, Credit Suisse International, Bank of America Corp., Bank of America, N.A., Citigroup Inc., Citibank, N.A., J.P. Morgan Chase & Co., J.P. Morgan Chase Bank, N.A., Coöperative Centrale Raiffeisen-Boerenleenbank B.A., the British Bankers Association ("BBA") and BBA LIBOR Ltd. alleging they manipulated LIBOR. On October 6, 2014, Fannie Mae filed an amended complaint alleging, among other things, that the banks submitted false borrowing costs to the BBA in order to suppress LIBOR. The amended complaint seeks compensatory and punitive damages based on claims for breach of contract, breach of the implied duty of good faith and fair dealing, unjust enrichment, fraud and conspiracy to commit fraud. The defendants filed motions to dismiss the lawsuit on November 5, 2014.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board under the ticker symbol “FNMA.” The transfer agent and registrar for our common stock is Computershare, P.O. Box 30170, College Station, TX 77845-3170.

Common Stock Data

The following table displays, for the periods indicated, the high and low prices per share of our common stock as reported in the Bloomberg Financial Markets service. These prices represent high and low trade prices. No dividends were declared on shares of our common stock during the periods indicated.

Quarter	High	Low
2013		
First Quarter	$1.47	$0.26
Second Quarter	5.44	0.68
Third Quarter	1.79	1.03
Fourth Quarter	3.50	1.31
2014		
First Quarter	$6.35	$2.76
Second Quarter	4.80	3.57
Third Quarter	4.64	2.54
Fourth Quarter	2.61	1.43

Dividends

Our payment of dividends is subject to the following restrictions:

Restrictions Relating to Conservatorship. Our conservator announced on September 7, 2008 that we would not pay any dividends on the common stock or on any series of preferred stock, other than the senior preferred stock. In addition, FHFA’s regulations relating to conservatorship and receivership operations prohibit us from paying any dividends while in conservatorship unless authorized by the Director of FHFA. The Director of FHFA directs us to make dividend payments on the senior preferred stock on a quarterly basis.

Restrictions Under Senior Preferred Stock Purchase Agreement. The senior preferred stock purchase agreement prohibits us from declaring or paying any dividends on Fannie Mae equity securities (other than the senior preferred stock) without the prior written consent of Treasury. In addition, in 2012 the terms of the senior preferred stock purchase agreement and the senior preferred stock were amended to ultimately require the payment of our entire net worth to Treasury. As a result, our net income is not available to common stockholders. For more information on the terms of the senior preferred stock purchase agreement and senior preferred stock, see “Business—Conservatorship and Treasury Agreements—Treasury Agreements—Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant.”

Additional Restrictions Relating to Preferred Stock. Payment of dividends on our common stock is also subject to the prior payment of dividends on our preferred stock and our senior preferred stock. Payment of dividends on all outstanding preferred stock, other than the senior preferred stock, is also subject to the prior payment of dividends on the senior preferred stock.

Statutory Restrictions. Under the GSE Act, FHFA has authority to prohibit capital distributions, including payment of dividends, if we fail to meet our capital requirements. If FHFA classifies us as significantly undercapitalized, approval of the Director of FHFA is required for any dividend payment. Under the GSE Act, we are not permitted to make a capital distribution if, after making the distribution, we would be undercapitalized, except the Director of FHFA may permit us to repurchase shares if the repurchase is made in connection with the issuance of additional shares or obligations in at least an equivalent amount and will reduce our financial obligations or otherwise improve our financial condition.

Holders

As of January 31, 2015, we had approximately 13,000 registered holders of record of our common stock. In addition, as of January 31, 2015, Treasury held a warrant giving it the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise.

Recent Sales of Unregistered Securities

Under the terms of our senior preferred stock purchase agreement with Treasury, we are prohibited from selling or issuing our equity interests, other than as required by (and pursuant to) the terms of a binding agreement in effect on September 7, 2008, without the prior written consent of Treasury. During the quarter ended December 31, 2014, we did not issue any equity securities.

Information about Certain Securities Issuances by Fannie Mae

Pursuant to SEC regulations, public companies are required to disclose certain information when they incur a material direct financial obligation or become directly or contingently liable for a material obligation under an off-balance sheet arrangement. The disclosure must be made in a current report on Form 8-K under Item 2.03 or, if the obligation is incurred in connection with certain types of securities offerings, in prospectuses for that offering that are filed with the SEC.

Because the securities we issue are exempted securities under the Securities Act of 1933, we do not file registration statements or prospectuses with the SEC with respect to our securities offerings. To comply with the disclosure requirements of Form 8-K relating to the incurrence of material financial obligations, we report our incurrence of these types of obligations either in offering circulars or prospectuses (or supplements thereto) that we post on our Web site or in a current report on Form 8-K that we file with the SEC, in accordance with a “no-action” letter we received from the SEC staff in 2004. In cases where the information is disclosed in a prospectus or offering circular posted on our Web site, the document will be posted on our Web site within the same time period that a prospectus for a non-exempt securities offering would be required to be filed with the SEC.

The Web site address for disclosure about our debt securities is www.fanniemae.com/debtsearch. From this address, investors can access the offering circular and related supplements for debt securities offerings under Fannie Mae’s universal debt facility, including pricing supplements for individual issuances of debt securities.

Disclosure about our obligations pursuant to some of the MBS we issue, some of which may be off-balance sheet obligations, can be found at www.fanniemae.com/mbsdisclosure. From this address, investors can access information and documents about our MBS, including prospectuses and related prospectus supplements.

We are providing our Web site address solely for your information. Information appearing on our Web site is not incorporated into this report.

Our Purchases of Equity Securities

We did not repurchase any of our equity securities during the fourth quarter of 2014.

Item 6. Selected Financial Data

The selected consolidated financial data displayed below are summarized from our results of operations for the five-year period ended December 31, 2014, as well as selected consolidated balance sheet data as of the end of each year within this five-year period. This data should be reviewed in conjunction with the audited consolidated financial statements and related notes and with the MD&A included in this annual report on Form 10-K.

	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Statement of operations data:					
Net revenues[1]	$25,855	$26,334	$22,988	$20,444	$17,493
Net income (loss) attributable to Fannie Mae	14,208	83,963	17,224	(16,855)	(14,014)
New business purchase data:					
New business purchases[2]	$409,834	$759,535	$867,387	$580,574	$625,282
Performance ratios:					
Net interest yield[3]	0.63 %	0.70 %	0.68 %	0.60 %	0.51 %
Credit loss ratio (in basis points)[4]	19.4 bps	14.7 bps	48.2 bps	61.3 bps	77.4 bps

	As of December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Balance sheet data:					
Investments in securities	$62,158	$68,939	$103,876	$151,780	$151,248
Mortgage loans, net of allowance[5]	3,019,494	3,026,240	2,949,406	2,898,621	2,923,720
Total assets	3,248,176	3,270,108	3,222,422	3,211,484	3,221,972
Short-term debt	106,572	74,449	108,716	151,725	157,243
Long-term debt	3,115,583	3,160,074	3,080,801	3,038,147	3,039,757
Total liabilities	3,244,456	3,260,517	3,215,198	3,216,055	3,224,489
Senior preferred stock	117,149	117,149	117,149	112,578	88,600
Preferred stock	19,130	19,130	19,130	19,130	20,204
Total Fannie Mae stockholders' equity (deficit)	3,680	9,541	7,183	(4,624)	(2,599)
Net worth surplus (deficit)	3,720	9,591	7,224	(4,571)	(2,517)

	As of December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Book of business data:					
Mortgage credit book of business[6]	$3,091,102	$3,136,765	$3,116,842	$3,127,634	$3,156,192
Guaranty book of business[7]	3,056,219	3,090,538	3,039,457	3,037,549	3,054,488
Credit quality:					
Total troubled debt restructurings on accrual status	$145,294	$141,227	$136,064	$108,797	$82,702
Total nonaccrual loans[8]	64,959	83,606	114,833	143,152	170,877
Total loss reserves	38,173	47,290	62,629	76,938	66,251
Total loss reserves as a percentage of total guaranty book of business	1.25 %	1.53 %	2.06 %	2.53 %	2.17 %
Total loss reserves as a percentage of total nonaccrual loans	58.76	56.56	54.54	53.75	38.77

(1) Consists of net interest income and fee and other income.

(2) New business purchases consist of single-family and multifamily whole mortgage loans purchased during the period and single-family and multifamily mortgage loans underlying lender swaps issued during the period.

(3) Calculated based on net interest income for the reporting period divided by the average balance of total interest-earning assets during the period, expressed as a percentage.

(4) Consists of (a) charge-offs, net of recoveries and (b) foreclosed property expense (income) for the reporting period (adjusted to exclude the impact of fair value losses resulting from credit-impaired loans acquired from MBS trusts) divided by the average guaranty book of business during the period, expressed in basis points. See "MD&A—Consolidated Results of Operations—Credit-Related Income—Credit Loss Performance Metrics" for a discussion of how our credit loss metrics are calculated.

(5) Mortgage loans consist solely of domestic residential real-estate mortgages.

(6) Refers to the sum of the unpaid principal balance of: (a) mortgage loans of Fannie Mae; (b) mortgage loans underlying Fannie Mae MBS; (c) non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio; and (d) other credit enhancements that we provide on mortgage assets.

(7) Reflects mortgage credit book of business less non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

(8) We generally classify single-family loans as nonaccrual when the payment of principal or interest on the loan is 60 days or more past due. Includes 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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read this MD&A in conjunction with our consolidated financial statements as of December 31, 2014 and related notes to the consolidated financial statements, and with "Business—Executive Summary." Please also see "Glossary of Terms Used in This Report."

This report contains forward-looking statements that are based upon management's current expectations and are subject to significant uncertainties and changes in circumstances. Please review "Business—Forward-Looking Statements" for more information on the forward-looking statements in this report and "Risk Factors" for a discussion of factors that could cause our actual results to differ, perhaps materially, from our forward-looking statements.

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 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."

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" for a discussion of the risks associated with the need for management to make judgments and estimates in applying our accounting policies and methods. We have identified three of our accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. These critical accounting policies and estimates are as follows:

- Fair Value Measurement
- Total Loss Reserves
- Deferred Tax Assets

Fair Value Measurement

The use of fair value to measure our assets and liabilities is fundamental to our financial statements and our fair value measurement is a critical accounting estimate because we account for and record a portion of our assets and liabilities at fair value. In determining fair value, we use various valuation techniques. We describe the valuation techniques and inputs used to determine the fair value of our assets and liabilities and disclose their carrying value and fair value in "Note 18, Fair Value."

The fair value accounting rules provide a three-level fair value hierarchy for classifying financial instruments. This hierarchy is based on whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. Each asset or liability is assigned to a level based on the lowest level of any input that is significant to its fair value measurement. The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities.

Level 3: Unobservable inputs.

The majority of the financial instruments that we report at fair value in our consolidated financial statements fall within the Level 2 category and are valued primarily utilizing inputs and assumptions that are observable in the marketplace, that can be derived from observable market data or that can be corroborated by recent trading activity of similar instruments with similar characteristics. For example, we generally request non-binding prices from at least three independent pricing services to estimate the fair value of our trading and available-for-sale securities at an individual security level. We use the average of these prices to determine the fair value.

In the absence of such information or if we are not able to corroborate these prices by other available, relevant market information, we estimate their fair values based on single source quotations from brokers or dealers or by using internal calculations or discounted cash flow techniques that incorporate inputs, such as prepayment rates, discount rates and

delinquency, default and cumulative loss expectations, that are implied by market prices for similar securities and collateral structure types. Because this valuation technique relies on significant unobservable inputs, the fair value estimation is classified as Level 3. The process for determining fair value using unobservable inputs is generally more subjective and involves a high degree of management judgment and assumptions. These assumptions may have a significant effect on our estimates of fair value, and the use of different assumptions as well as changes in market conditions could have a material effect on our results of operations or financial condition.

Fair Value Hierarchy—Level 3 Assets and Liabilities

The assets and liabilities that we have classified as Level 3 consist primarily of financial instruments for which there is limited market activity and therefore little or no price transparency. As a result, the valuation techniques that we use to estimate the fair value of Level 3 instruments involve significant unobservable inputs, which generally are more subjective and involve a high degree of management judgment and assumptions. Our Level 3 assets and liabilities consist of certain mortgage-backed securities and residual interests, certain mortgage loans, acquired property, certain long-term debt arrangements and certain highly structured, complex derivative instruments. We provide a detailed discussion of our Level 3 assets and liabilities, including the valuation techniques and significant unobservable inputs used to measure the fair value of these instruments, in “Note 18, Fair Value.”

Valuation Control Processes

We have control processes that are designed to ensure that our fair value measurements are appropriate and reliable, that they are based on observable inputs wherever possible and that our valuation approaches are consistently applied and the assumptions used are reasonable. Our control processes consist of a framework that provides for a segregation of duties and oversight of our fair value methodologies and valuations, as well as validation procedures. We provide a detailed discussion of our valuation control processes in “Note 18, Fair Value.”

Total Loss Reserves

Our total loss reserves consist of the following components:

- Allowance for loan losses;
- Allowance for accrued interest receivable;
- Reserve for guaranty losses; and
- Allowance for preforeclosure property tax and insurance receivable.

These components can be further allocated into our single-family and multifamily loss reserves.

We maintain an allowance for loan losses and an allowance for accrued interest receivable for loans classified as held for investment, including both loans we hold in our portfolio and loans held in consolidated Fannie Mae MBS trusts. We maintain a reserve for guaranty losses for loans held in unconsolidated Fannie Mae MBS trusts we guarantee and loans we have guaranteed under long-term standby commitments and other credit enhancements we have provided. We also maintain an allowance for preforeclosure property tax and insurance receivable on delinquent loans that is included in “Other assets” in our consolidated balance sheets. These amounts, which we collectively refer to as our total loss reserves, represent probable losses incurred related to loans in our guaranty book of business, including concessions granted to borrowers upon modifications of their loans, as of the balance sheet date.

The allowance for loan losses, allowance for accrued interest receivable and allowance for preforeclosure property tax and insurance receivable are valuation allowances that reflect an estimate of incurred credit losses related to our recorded investment in loans held for investment. The reserve for guaranty losses is a liability account in our consolidated balance sheets that reflects an estimate of incurred credit losses related to our guaranty to each unconsolidated Fannie Mae MBS trust that we will supplement amounts received by the Fannie Mae MBS trust as required to permit timely payments of principal and interest on the related Fannie Mae MBS. As a result, the guaranty reserve considers not only the principal and interest due on the loan at the current balance sheet date, but also an estimate of any additional interest payments due to the trust from the current balance sheet date until the point of loan acquisition or foreclosure. Our loss reserves consist of a specific loss reserve for individually impaired loans and a collective loss reserve for all other loans.

We have an established process, using analytical tools, benchmarks and management judgment, to determine our loss reserves. Our process for determining our loss reserves is complex and involves significant management judgment. Although our loss reserve process benefits from extensive historical loan performance data, this process is subject to risks and uncertainties, including a reliance on historical loss information that may not be representative of current conditions. We continually monitor prepayment, delinquency, modification, default and loss severity trends and periodically make changes in our historically developed assumptions and estimates as necessary to better reflect present conditions, including current trends in borrower risk and/or general economic trends, changes in risk management practices, and changes in public policy and the regulatory environment. We also consider the recoveries that we expect to receive on mortgage insurance and other loan-specific credit enhancements entered into contemporaneously with and in contemplation of a guaranty or loan purchase transaction, as such recoveries reduce the severity of the loss associated with defaulted loans.

We provide more detailed information on our accounting for the allowance for loan losses in "Note 1, Summary of Significant Accounting Policies."

Single-Family Loss Reserves

We establish a specific single-family loss reserve for individually impaired loans, which includes loans we restructure in TDRs, certain nonperforming loans in MBS trusts and acquired credit-impaired loans that have been further impaired subsequent to acquisition. The single-family loss reserve for individually impaired loans represents the majority of our single-family loss reserves due to the high volume of restructured loans. We typically measure impairment based on the difference between our recorded investment in the loan and the present value of the estimated cash flows we expect to receive, which we calculate using the effective interest rate of the original loan or the effective interest rate at acquisition for an acquired credit-impaired loan. However, when foreclosure is probable on an individually impaired loan, we measure impairment based on the difference between our recorded investment in the loan and the fair value of the underlying property, adjusted for the estimated discounted costs to sell the property and estimated insurance or other proceeds we expect to receive. We then allocate a portion of the reserve to interest accrued on the loans as of the balance sheet date.

We establish a collective single-family loss reserve for all other single-family loans in our single-family guaranty book of business using a model that estimates the probability of default of loans to derive an overall loss reserve estimate given multiple factors such as: origination year, mark-to-market LTV ratio, delinquency status and loan product type. The loss severity estimates we use in determining our loss reserves reflect current available information on actual events and conditions as of each balance sheet date, including current home prices. Our loss severity estimates do not incorporate assumptions about future changes in home prices. We do, however, use recent regional historical sales and appraisal information, including the sales of our own foreclosed properties, to develop our loss severity estimates for all loan categories. We then allocate a portion of the reserve to interest accrued on the loans as of the balance sheet date.

In the third quarter of 2014, we updated the model and the assumptions used to estimate cash flows for individually impaired single-family loans within our allowance for loan losses. In addition to incorporating recent loan performance, this update better captures regional variations in expected future cash flows, particularly with respect to expectations of future home prices. This update resulted in a decrease to our allowance for loan losses and an incremental benefit for credit losses of approximately $600 million.

Multifamily Loss Reserves

We establish a collective multifamily loss reserve for all loans in our multifamily guaranty book of business that are not individually impaired using an internal model that applies loss factors to loans in similar risk categories. Our loss factors are developed based on our historical default and loss severity experience. Management may also apply judgment to adjust the loss factors derived from our models, taking into consideration model imprecision and specific, known events, such as current credit conditions, that may affect the credit quality of our multifamily loan portfolio but are not yet reflected in our model-generated loss factors. We then allocate a portion of the reserve to interest accrued on the loans as of the balance sheet date.

We establish a specific multifamily loss reserve for multifamily loans that we determine are individually impaired. We identify multifamily loans for evaluation for impairment through a credit risk assessment process. As part of this assessment process, we stratify multifamily loans into different internal risk categories based on the credit risk inherent in each individual loan and management judgment. We categorize loan credit risk, taking into consideration available operating statements and expected cash flows from the underlying property, the estimated value of the property, the historical loan payment experience and current relevant market conditions that may impact credit quality. If we conclude that a multifamily loan is impaired, we measure the impairment based on the difference between our recorded investment in the loan and the fair value of the underlying property less the estimated discounted costs to sell the property and any lender loss sharing or other proceeds we expect to receive. When a multifamily loan is deemed individually impaired because we have modified it, we measure the impairment based on the difference between our recorded investment in the loan and the present value of expected cash flows discounted at the loan's original interest rate unless foreclosure is probable, at which time we measure impairment the same way we measure it for other individually impaired multifamily loans. We then allocate a portion of the reserve to interest accrued on the loans as of the balance sheet date.

Deferred Tax Assets

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

As of December 31, 2012, we had a valuation allowance against our deferred tax assets of $58.9 billion. After weighing all of the evidence, we determined that the positive evidence in favor of releasing the valuation allowance, particularly the evidence that was objectively verifiable, outweighed the negative evidence against releasing the allowance as of March 31, 2013. Therefore, we concluded that it was more likely than not that our deferred tax assets, except the deferred tax assets relating to capital loss carryforwards, would be realized. As a result, we released the valuation allowance on our deferred tax assets as of March 31, 2013, except for amounts that were expected to be released against income before federal income taxes for the remainder of the year. We recognized a benefit for federal income taxes of $58.3 billion in our consolidated statement of operations and comprehensive income for the year ended December 31, 2013 related to the release of the valuation allowance against our deferred tax assets, partially offset by our 2013 provision for federal income taxes, resulting in a net tax benefit of $45.4 billion in 2013.

As of December 31, 2014, we continued to conclude that the positive evidence in favor of the recoverability of our deferred tax assets outweighed the negative evidence and that it was more likely than not that our deferred tax assets, except the deferred tax assets relating to capital loss carryforwards, will be realized. The balance of our net deferred tax assets was $42.2 billion as of December 31, 2014, compared with net deferred tax assets of $47.6 billion as of December 31, 2013.

CONSOLIDATED RESULTS OF OPERATIONS

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

Table 7 displays a summary of our consolidated results of operations for the periods indicated.

Table 7: Summary of Consolidated Results of Operations

	For the Year Ended December 31,			Variance	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
	(Dollars in millions)				
Net interest income	$19,968	$22,404	$21,501	$(2,436)	$903
Fee and other income	5,887	3,930	1,487	1,957	2,443
Net revenues	25,855	26,334	22,988	(479)	3,346
Investment gains (losses), net	936	1,127	(226)	(191)	1,353
Fair value (losses) gains, net	(4,833)	2,959	(2,977)	(7,792)	5,936
Administrative expenses	(2,777)	(2,545)	(2,367)	(232)	(178)
Credit-related income					
Benefit for credit losses	3,964	8,949	852	(4,985)	8,097
Foreclosed property (expense) income	(142)	2,839	254	(2,981)	2,585
Total credit-related income	3,822	11,788	1,106	(7,966)	10,682
Other non-interest expenses[1]	(1,853)	(1,096)	(1,304)	(757)	208
Income before federal income taxes	21,150	38,567	17,220	(17,417)	21,347
(Provision) benefit for federal income taxes	(6,941)	45,415	—	(52,356)	45,415
Net income	14,209	83,982	17,220	(69,773)	66,762
Less: Net (income) loss attributable to noncontrolling interest	(1)	(19)	4	18	(23)

Net income attributable to Fannie Mae	$14,208	$83,963	$17,224	$(69,755)	$66,739
Total comprehensive income attributable to Fannie Mae	$14,738	$84,782	$18,843	$(70,044)	$65,939

(1) Consists of TCCA fees, debt extinguishment gains (losses), net, and other expenses, net.

We recognized income of $5.7 billion in both 2014 and 2013, and $1.9 billion in 2012, as a result of resolution agreements we reached relating to PLS sold to us, representation and warranty matters and compensatory fees. These amounts are included in net interest income, fee and other income, benefit for credit losses and foreclosed property (expense) income in our consolidated result of operations. We expect income from resolution agreements will be significantly lower in future years.

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 mortgage loans of consolidated trusts.

Table 8 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 9 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 8: Analysis of Net Interest Income and Yield

	For the Year Ended December 31,								
	2014			2013			2012		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	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	$286,042	$10,285	3.60 %	$326,399	$12,790	3.92 %	$370,455	$14,255	3.85 %
Mortgage loans of consolidated trusts	2,769,418	101,835	3.68	2,710,838	101,448	3.74	2,621,317	110,451	4.21
Total mortgage loans[1]	3,055,460	112,120	3.67	3,037,237	114,238	3.76	2,991,772	124,706	4.17
Mortgage-related securities	143,934	6,713	4.66	203,514	9,330	4.58	268,761	12,709	4.73
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(98,778)	(4,572)	4.63	(133,243)	(6,236)	4.68	(173,933)	(8,492)	4.88
Total mortgage-related securities, net	45,156	2,141	4.74	70,271	3,094	4.40	94,828	4,217	4.45
Non-mortgage securities[2]	35,184	34	0.10	41,484	42	0.10	50,282	71	0.14
Federal funds sold and securities purchased under agreements to resell or similar arrangements	33,631	32	0.10	61,644	68	0.11	38,708	73	0.19
Advances to lenders	3,454	78	2.26	5,115	107	2.09	6,220	123	1.98
Total interest-earning assets	$3,172,885	$114,405	3.61 %	$3,215,751	$117,549	3.66 %	$3,181,810	$129,190	4.06 %
Interest-bearing liabilities:									
Short-term debt	$86,866	$92	0.11 %	$95,098	$128	0.13 %	$102,877	$147	0.14 %
Long-term debt	398,876	8,508	2.13	498,735	10,263	2.06	561,280	11,925	2.12
Total short-term and long-term funding debt	485,742	8,600	1.77	593,833	10,391	1.75	664,157	12,072	1.82
Debt securities of consolidated trusts	2,824,638	90,409	3.20	2,783,622	90,990	3.27	2,697,592	104,109	3.86
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(98,778)	(4,572)	4.63	(133,243)	(6,236)	4.68	(173,933)	(8,492)	4.88

Total debt securities of consolidated trusts held by third parties	2,725,860	85,837	3.15	2,650,379	84,754	3.20	2,523,659	95,617	3.79
Total interest-bearing liabilities	$3,211,602	$94,437	2.94 %	$3,244,212	$95,145	2.93 %	$3,187,816	$107,689	3.38 %
Net interest income/net interest yield		$19,968	0.63 %		$22,404	0.70 %		$21,501	0.68 %

	As of December 31,		
	2014	2013	2012
Selected benchmark interest rates			
3-month LIBOR	0.26 %	0.25 %	0.31 %
2-year swap rate	0.90	0.49	0.39
5-year swap rate	1.77	1.79	0.86
30-year Fannie Mae MBS par coupon rate	2.83	3.61	2.23

(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 $1.8 billion, $2.8 billion and $4.0 billion for the years ended December 31, 2014, 2013 and 2012, respectively.

(2) Includes cash equivalents.

Table 9: Rate/Volume Analysis of Changes in Net Interest Income

	2014 vs. 2013			2013 vs. 2012		
	Total	Variance Due to:[1]		Total	Variance Due to:[1]	
	Variance	Volume	Rate	Variance	Volume	Rate
	(Dollars in millions)					
Interest income:						
Mortgage loans of Fannie Mae	$(2,505)	$(1,503)	$(1,002)	$(1,465)	$(1,722)	$257
Mortgage loans of consolidated trusts	387	2,171	(1,784)	(9,003)	3,673	(12,676)
Total mortgage loans	(2,118)	668	(2,786)	(10,468)	1,951	(12,419)
Total mortgage-related securities, net	(953)	(1,180)	227	(1,123)	(1,085)	(38)
Non-mortgage securities[2]	(8)	(6)	(2)	(29)	(11)	(18)
Federal funds sold and securities purchased under agreements to resell or similar arrangements	(36)	(28)	(8)	(5)	33	(38)
Advances to lenders	(29)	(37)	8	(16)	(23)	7
Total interest income	$(3,144)	$(583)	$(2,561)	$(11,641)	$865	$(12,506)
Interest expense:						
Short-term debt	(36)	(10)	(26)	(19)	(10)	(9)
Long-term debt	(1,755)	(2,118)	363	(1,662)	(1,297)	(365)
Total short-term and long-term funding debt	(1,791)	(2,128)	337	(1,681)	(1,307)	(374)
Total debt securities of consolidated trusts held by third parties	1,083	2,925	(1,842)	(10,863)	5,150	(16,013)
Total interest expense	$(708)	$797	$(1,505)	$(12,544)	$3,843	$(16,387)
Net interest income	$(2,436)	$(1,380)	$(1,056)	$903	$(2,978)	$3,881

(1) Combined rate/volume variances are allocated to both rate and volume based on the relative size of each variance.
(2) Includes cash equivalents.

Net interest income decreased in 2014 compared with 2013, primarily due to a decline in the average balance of our retained mortgage portfolio as we continued to reduce this portfolio pursuant to the requirements of our senior preferred stock purchase agreement with Treasury and FHFA's additional portfolio cap. The average balance of our retained mortgage portfolio was 19% lower in 2014 than in 2013. See "Business Segment Results—The Capital Markets Group's Mortgage Portfolio" for more information about our retained mortgage portfolio. The decrease in net interest income was partially offset by increased guaranty fee revenue, as loans with higher guaranty fees have become a larger part of our guaranty book of business. We recognize almost all of our guaranty fee revenue in net interest income due to the consolidation of the substantial majority of loans underlying our MBS trusts on our balance sheet.

Net interest yield decreased in 2014 compared with 2013 due to the decline in the percentage of net interest income from our retained mortgage portfolio, which has a higher net interest yield than the net interest yield from guaranty fees.

Net interest income increased in 2013 compared with 2012, primarily due to: (1) an increase in net amortization income related to mortgage loans and debt of consolidated trusts driven by an increase in prepayments; (2) higher guaranty fees, primarily due to the impact of an average increase in single-family guaranty fees of 10 basis points implemented during the fourth quarter of 2012 and the 10 basis point increase in single-family guaranty fees related to the TCCA implementation on April 1, 2012; and (3) and a reduction in interest income not recognized on nonaccrual mortgage loans. The increase in net interest income was partially offset by lower interest income on mortgage loans and securities held in our retained mortgage portfolio, primarily due to a decrease in their average balance. The average balance of our retained mortgage portfolio was 17% lower in 2013 than in 2012.

We initially recognize mortgage loans and debt of consolidated trusts in our consolidated balance sheets at fair value. We recognize the difference between: (1) the initial fair value of the consolidated trust's mortgage loans and debt and (2) the unpaid principal balance as cost basis adjustments in our consolidated balance sheets. We amortize cost basis adjustments, including premiums and discounts on mortgage loans and securities, as a yield adjustment over the contractual life of the loan or security as a component of net interest income. Net unamortized premiums on debt of consolidated trusts exceeded net unamortized premiums on the related mortgage loans of consolidated trusts by $29.3 billion as of December 31, 2014, compared with $25.0 billion as of December 31, 2013. This net premium position represents deferred revenue, which is amortized within net interest income. This deferred revenue primarily relates to upfront fees we receive from lenders for loans with greater credit risk and upfront payments we receive from lenders to adjust the monthly contractual guaranty fee rate on Fannie Mae MBS so that the pass-through coupon rate on the MBS is in a tradable increment of a whole or half percent.

We had $13.0 billion in net unamortized discounts and other cost basis adjustments on mortgage loans of Fannie Mae included in our consolidated balance sheets as of December 31, 2014, compared with $14.3 billion as of December 31, 2013. These discounts and other cost basis adjustments were primarily recorded upon the acquisition of credit-impaired loans and the extent to which we may record them as income in future periods will be based on the actual performance of the loans.

For a discussion of the interest income from the assets we have purchased and the interest expense from the debt we have issued, see the discussion of our net interest income in “Business Segment Results—Capital Markets Group Results.”

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 2014 compared with 2013 primarily due to an increase in income recognized as a result of settlement agreements resolving certain lawsuits relating to PLS sold to us from $2.2 billion in 2013 to $4.8 billion in 2014.

Investment Gains (Losses), Net

Investment gains (losses), net include gains and losses recognized from the sale of available-for-sale (“AFS”) securities, gains and losses recognized on the securitization of loans and securities from our retained mortgage portfolio, and net other-than-temporary impairments recognized on our investments. Investment gains decreased in 2014 compared with 2013 primarily due to a significantly lower volume of sales of non-agency mortgage-related securities in 2014 as compared with 2013. See “Business Segment Results—The Capital Markets Group’s Mortgage Portfolio” and “Consolidated Balance Sheet Analysis—Investments in Securities” for additional information on our mortgage-related securities portfolio.

Fair Value (Losses) Gains, Net

Table 10 displays the components of our fair value gains and losses.

Table 10: Fair Value (Losses) Gains, Net

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Risk management derivatives fair value (losses) gains attributable to:			
Net contractual interest expense accruals on interest rate swaps	$(1,062)	$(767)	$(1,430)
Net change in fair value during the period	(3,562)	3,546	(508)
Total risk management derivatives fair value (losses) gains, net	(4,624)	2,779	(1,938)
Mortgage commitment derivatives fair value (losses) gains, net	(1,140)	501	(1,688)
Total derivatives fair value (losses) gains, net	(5,764)	3,280	(3,626)
Trading securities gains, net	485	260	1,004
Other, net[1]	446	(581)	(355)
Fair value (losses) gains, net	$(4,833)	$2,959	$(2,977)

	As of December 31,		
	2014	2013	2012
5-year swap rate	1.77%	1.79%	0.86%
10-year swap rate	2.28%	3.09%	1.84%

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

We expect volatility from period to period in our financial results from a number of factors, particularly changes in market conditions that result in fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings. These instruments include derivatives and certain securities. The estimated fair value of our derivatives and securities may fluctuate substantially from period to period because of changes in interest rates, the yield curve, mortgage spreads and implied volatility, as well as activity related to these financial instruments. We use derivatives to manage the interest rate risk exposure of our net portfolio, which consists of our retained mortgage portfolio, cash and other investments portfolio, and our outstanding debt of Fannie Mae. Some of these financial instruments in our net portfolio are not recorded at fair value in our consolidated financial statements, and as a result we may experience accounting gains or losses due to changes in interest rates or other market conditions that may not be indicative of the economic interest rate risk exposure of our net portfolio.

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 purchase option-based risk management derivatives to economically hedge prepayment risk. In cases where options obtained through callable debt issuances are not needed for risk management derivative purposes, we may sell options in the over-the-counter derivatives market in order to offset the options obtained in the callable debt. Our principal purpose in using derivatives is to manage our aggregate interest rate risk profile within prescribed risk parameters. We generally use only derivatives that are relatively liquid and straightforward to value. We consider the cost of derivatives used in our management of interest rate risk to be an inherent part of the cost of funding and hedging our mortgage investments and economically similar to the interest expense that we recognize on the debt we issue to fund our mortgage investments.

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

The primary factors affecting the fair value of our risk management derivatives include the following:

- Changes in interest rates: Our derivatives, in combination with our issuances of debt securities, are intended to offset changes in the fair value of our mortgage assets. Mortgage assets tend to increase in value when interest rates decrease and, conversely, decrease in value when interest rates rise. Pay-fixed swaps decrease in value and receive-fixed swaps increase in value as swap rates decrease (with the opposite being true when swap rates increase). Because the composition of our pay-fixed and receive-fixed derivatives varies across the yield curve, the overall fair value gains and losses of our derivatives are sensitive to flattening and steepening of the yield curve.
- Implied interest rate volatility: Our derivatives portfolio includes option-based derivatives, which we purchase to economically hedge the prepayment option embedded in our mortgage investments and sell to offset the options obtained through callable debt issuances when those options are not needed for risk management purposes. A key variable in estimating the fair value of option-based derivatives is implied volatility, which reflects the market’s expectation of the magnitude of future changes in interest rates. Assuming all other factors are held equal, including interest rates, a decrease in implied volatility would reduce the fair value of our purchased options and an increase in implied volatility would increase the fair value of our purchased options, while having the opposite effect on the options that we have sold.
- Changes in our derivative activity: As interest rates change, we are likely to rebalance our portfolio to manage our interest rate exposure. As interest rates decrease, expected mortgage prepayments are likely to increase, which reduces the duration of our mortgage investments. In this scenario, we generally will rebalance our existing portfolio to manage this risk by adding receive-fixed swaps, which shortens the duration of our liabilities. Conversely, when interest rates increase and the duration of our mortgage assets increases, we are likely to add pay-fixed swaps, which have the effect of extending the duration of our liabilities. We use derivatives to rebalance our portfolio when the duration of our mortgage assets changes as the result of mortgage purchases or sales. We also use foreign-currency swaps to manage the foreign exchange impact of our foreign currency-denominated debt issuances.
- Time value of purchased options: Intrinsic value and time value are the two primary components of an option’s price. The intrinsic value is determined by the amount by which the market rate exceeds or is below the exercise, or strike rate, such that the option is in-the-money. The time value of an option is the amount by which the price of an option exceeds its intrinsic value. Time decay refers to the diminishing value of an option over time as less time remains to exercise the option.

We recognized risk management derivative fair value losses in 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 year. We recognized risk management derivative fair value gains in 2013 primarily as a result of increases in the fair value of our pay-fixed derivatives as longer-term swap rates increased during the year. We recognized risk management derivative fair value losses in 2012 primarily as a result of decreases in the fair value of our pay-fixed derivatives due to declines in swap rates during the year.

Because risk management derivatives are an important part of our interest rate risk management strategy, it is important to evaluate the impact of our derivatives in the context of our overall interest rate risk profile and in conjunction with the other mark-to-market gains and losses presented in Table 10. For additional information on our use of derivatives to manage interest rate risk, see "Risk Management—Market Risk Management, Including Interest Rate Risk Management—Interest Rate Risk Management."

Mortgage Commitment Derivatives Fair Value (Losses) Gains, Net

Certain commitments to purchase or sell mortgage-related securities and to purchase single-family mortgage loans are generally accounted for as derivatives. For open mortgage commitment derivatives, we include changes in their fair value in our consolidated statements of operations and comprehensive income. When derivative purchase commitments settle, we include the fair value of the commitment on the settlement date in the cost basis of the loan or security we purchase. When derivative commitments to sell securities settle, we include the fair value of the commitment on the settlement date in the cost basis of the security we sell. Purchases of securities issued by our consolidated MBS trusts are treated as extinguishments of debt; we recognize the fair value of the commitment on the settlement date as a component of debt extinguishment gains and losses. Sales of securities issued by our consolidated MBS trusts are treated as issuances of consolidated debt; we recognize the fair value of the commitment on the settlement date as a component of debt in the cost basis of the debt issued.

We recognized fair value losses on our mortgage commitments in 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 2013 primarily due to gains on commitments to sell mortgage-related securities driven by a decrease in prices as interest rates increased during the commitment period. We recognized fair value losses on our mortgage commitments in 2012 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.

Trading Securities Gains, Net

Gains from trading securities in 2014 were primarily driven by higher prices on our trading investments resulting from lower long-term interest rates, in addition to a narrowing of credit spreads on PLS.

Gains from trading securities in 2013 were primarily driven by higher prices on Alt-A and subprime PLS due to narrowing of credit spreads on these securities, as well as improvements in the credit outlook of certain financial guarantors of these securities. These gains were partially offset by losses on commercial mortgage-backed securities ("CMBS") and agency securities due to lower prices resulting from higher interest rates. Gains from our trading securities in 2012 were primarily driven by the narrowing of credit spreads on CMBS.

We provide additional information on our trading and available-for-sale securities in "Consolidated Balance Sheet Analysis—Investments in Securities."

Administrative Expenses

Administrative expenses increased in 2014 compared with 2013 driven by costs related to the execution of FHFA's 2014 conservatorship scorecard objectives and additional related initiatives. See "Executive Summary—Helping to Build a Sustainable Housing Finance System" for additional information on FHFA's conservatorship scorecard objectives and other initiatives. These costs more than offset reductions in our ongoing operating costs. We have terminated our defined benefit pension plans and expect to settle and distribute all benefits under these plans during 2015. We expect that upon settlement, all related amounts currently recognized in accumulated other comprehensive income will be reclassified to administrative expenses. We expect this reclassification will increase our administrative expenses and will be offset by an increase in other comprehensive income with no material impact to our total comprehensive income during 2015. We expect the execution of our strategic goals will also contribute to an increase in our administrative expenses in 2015.

Administrative expenses increased in 2013 compared with 2012 driven by costs related to the execution of FHFA's 2013 conservatorship scorecard objectives, as well as costs associated with FHFA's private-label mortgage-related securities litigation. These costs more than offset reductions in our ongoing operating costs.

Credit-Related Income

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

(Benefit) Provision for Credit Losses

Our total loss reserves provide for an estimate of credit losses incurred in our guaranty book of business, including concessions we granted borrowers upon modification of their loans. We establish our loss reserves through our provision for credit losses for losses that we believe have been incurred and will eventually be realized over time in our financial statements. When we reduce our loss reserves, we recognize a benefit for credit losses. When we determine that a loan is uncollectible, typically upon foreclosure, we recognize a charge-off against our loss reserves. We record recoveries of previously charged-off amounts as a reduction to charge-offs.

Table 11 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 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 11 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 11: Total Loss Reserves

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Allowance for loan losses	$35,541	$43,846
Reserve for guaranty losses	1,246	1,449
Combined loss reserves	36,787	45,295
Allowance for accrued interest receivable	723	1,156
Allowance for preforeclosure property taxes and insurance receivable	663	839
Total loss reserves	38,173	47,290
Fair value losses previously recognized on acquired credit-impaired loans(1)	9,864	11,316
Total loss reserves and fair value losses previously recognized on acquired credit-impaired loans	$48,037	$58,606

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

Table 12 displays changes in our combined loss reserves.

Table 12: Changes in Combined Loss Reserves

	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Changes in combined loss reserves:					
Beginning balance	$45,295	$60,026	$73,150	$61,879	$64,355
Adoption of consolidation accounting guidance	—	—	—	—	(10,527)
(Benefit) provision for credit losses	(3,964)	(8,949)	(852)	26,718	24,896
Charge-offs	(6,589)	(9,017)	(15,313)	(21,308)	(23,081)
Recoveries	1,436	2,627	1,856	5,277	3,082
Other[(1)]	609	608	1,185	584	3,154
Ending balance	$36,787	$45,295	$60,026	$73,150	$61,879
Allocation of combined loss reserves:					
Balance at end of each period attributable to:					
Single-family	$36,383	$44,705	$58,809	$71,512	$60,163
Multifamily	404	590	1,217	1,638	1,716
Total	$36,787	$45,295	$60,026	$73,150	$61,879
Single-family and multifamily combined loss reserves as a percentage of applicable guaranty book of business:					
Single-family	1.28 %	1.55 %	2.08 %	2.52 %	2.10 %
Multifamily	0.20	0.29	0.59	0.84	0.91
Combined loss reserves as a percentage of:					
Total guaranty book of business	1.20 %	1.47 %	1.97 %	2.41 %	2.03 %
Recorded investment in nonaccrual loans	56.63	54.20	52.31	51.15	36.23
Certain higher risk loan categories as a percentage of single-family combined loss reserves:					
2005-2008 loan vintages	81 %	84 %	85 %	88 %	91 %
Alt-A loans	25	26	27	29	30

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(1) Amounts represent the net activity recorded in our allowances for accrued interest receivable and preforeclosure property taxes and insurance receivable from borrowers. The (benefit) provision 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.

Our benefit or provision for credit losses continues to be a key driver of our results for each period presented. 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 mortgage insurer counterparties. See “Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management” for information on mortgage insurers. In addition, our benefit or provision for credit losses and our loss reserves can be impacted by updates to the models, assumptions and data used in determining our allowance for loan losses.

We recognized a benefit for credit losses in 2014 primarily due to increases in home prices of 4.7% in 2014. Higher home prices decrease the likelihood that loans will default and reduce the amount of credit loss on loans that do default, which impacts our estimate of losses and ultimately reduces our total loss reserves and provision for credit losses. In addition, mortgage interest rates declined in 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. In the third quarter of 2014, we updated the model and the assumptions used to estimate cash flows for individually impaired single-family loans within our allowance for loan losses, which resulted in a decrease to our allowance for loan losses and an incremental benefit for credit losses of approximately $600 million. For additional information, see "Critical Accounting Policies and Estimates—Total Loss Reserves."

We recognized a benefit for credit losses in 2013 primarily due to increases in home prices of 8.0% in 2013, as well as higher sales prices of our REO properties as a result of strong demand. In addition, in 2013, we updated the assumptions and data used to estimate our allowance for loan losses for individually impaired single-family loans, which resulted in a decrease to our allowance for loan losses and an incremental benefit for credit losses of approximately $2.2 billion in 2013.

We recognized a benefit for credit losses in 2012 primarily due to an increase in home prices in 2012, including the sales prices of our REO properties, and a continued reduction in the number of delinquent loans in our single family book of business.

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

Troubled Debt Restructurings and Nonaccrual Loans

Table 13 displays the composition of loans restructured in a TDR that are on accrual status and loans on nonaccrual status. The table includes the recorded investment of 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." For activity related to our single-family TDRs, see Table 41 in "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

Table 13: Troubled Debt Restructurings and Nonaccrual Loans

	As of December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
TDRs on accrual status:					
Single-family	$144,649	$140,512	$135,196	$107,991	$81,767
Multifamily	645	715	868	806	935
Total TDRs on accrual status	$145,294	$141,227	$136,064	$108,797	$82,702
Nonaccrual loans:					
Single-family	$64,136	$81,355	$112,555	$140,234	$169,775
Multifamily	823	2,209	2,206	2,764	1,013
Total nonaccrual loans	$64,959	$83,564	$114,761	$142,998	$170,788
Accruing on-balance sheet loans past due 90 days or more[1]	$585	$719	$3,580	$768	$896
	For the Year Ended December 31,				
	2014	2013	2012	2011	2010
	(Dollars in millions)				
Interest related to on-balance sheet TDRs and nonaccrual loans:					
Interest income forgone[2]	$5,945	$6,805	$7,554	$8,224	$8,185
Interest income recognized for the period[3]	6,139	5,915	6,442	6,598	7,995

(1) Includes loans that, as of the end of each period, are 90 days or more past due and continuing to accrue interest. The majority of these amounts consists of loans insured or guaranteed by the U.S. government and loans for which we have recourse against the seller in the event of a default. Amount as of December 31, 2012 includes loans of $2.8 billion which were repurchased by the lender in January 2013 pursuant to a resolution agreement.

(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.

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Foreclosed Property (Expense) Income

We recognized foreclosed property expense in 2014 compared with foreclosed property income in 2013 primarily due to a decrease in the amount of compensatory fee income recognized related to servicing matters and a decrease in the gains resulting from resolution agreements reached related to representation and warranty matters. Compensatory fees are amounts we charge our primary servicers to reimburse us for damages and losses related to certain violations of our Servicing Guide, which sets forth our policies and procedures related to servicing our single-family mortgages.

We recognized foreclosed property income in 2013 compared with foreclosed property expense in 2012 primarily due to the recognition of compensatory fee income in 2013 related to servicing matters, gains resulting from resolution agreements reached in 2013 related to representation and warranty matters, and an improvement in sales prices of dispositions of our REO properties.

Credit Loss Performance Metrics

Our credit-related (income) expense should be considered in conjunction with our credit loss performance metrics. Our credit loss performance metrics, however, are not defined terms within GAAP and may not be calculated in the same manner as similarly titled measures reported by other companies. Because management does not view changes in the fair value of our mortgage loans as credit losses, we adjust our credit loss performance metrics for the impact associated with our acquisition of credit-impaired loans from unconsolidated MBS trusts. We also exclude interest forgone on nonaccrual loans and TDRs, other-than-temporary impairment losses resulting from deterioration in the credit quality of our mortgage-related securities and accretion of interest income on acquired credit-impaired loans from credit losses. We believe that credit loss performance metrics may be useful to investors as the losses are presented as a percentage of our book of business and have historically been used by analysts, investors and other companies within the financial services industry. Moreover, by presenting credit losses with and without the effect of fair value losses associated with the acquisition of credit-impaired loans, investors are able to evaluate our credit performance on a more consistent basis among periods. Table 14 displays the components of our credit loss performance metrics as well as our single-family and multifamily initial charge-off severity rates.

Table 14: Credit Loss Performance Metrics

	For the Year Ended December 31,					
	2014		2013		2012	
	Amount	Ratio[1]	Amount	Ratio[1]	Amount	Ratio[1]
	(Dollars in millions)					
Charge-offs, net of recoveries	$5,153	16.8 bps	$6,390	20.9 bps	$13,457	44.2 bps
Foreclosed property expense (income)	142	0.5	(2,839)	(9.3)	(254)	(0.8)
Credit losses including the effect of fair value losses on acquired credit-impaired loans	5,295	17.3	3,551	11.6	13,203	43.4
Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property expense (income)[2]	637	2.1	953	3.1	1,446	4.8
Credit losses and credit loss ratio	$5,932	19.4 bps	$4,504	14.7 bps	$14,649	48.2 bps
Credit losses attributable to:						
Single-family	$5,978		$4,452		$14,392	
Multifamily [3]	(46)		52		257	
Total	$5,932		$4,504		$14,649	
Single-family initial charge-off severity rate [4]		19.60 %		24.22 %		30.71 %
Multifamily initial charge-off severity rate [4]		25.08 %		23.56 %		37.43 %

(1) Basis points are based on the 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) Negative credit losses are the result of recoveries on previously charged-off amounts.

(4) 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 increased in 2014 compared with 2013 primarily due to a lower level of recoveries resulting from repurchase and compensatory fee resolution agreements in 2014 compared with 2013. The amounts we recognized in 2013 pursuant to a

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number of these resolution agreements significantly reduced our credit losses in 2013. We recognized less income as a result of resolution agreements in 2014. This increase in our credit losses was partially offset by lower REO acquisitions in 2014, driven by lower delinquencies and the slow pace of foreclosures in certain areas of the country. For additional information on our single-family REO inventory, refer to "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

The decrease in credit losses in 2013 compared with 2012 was primarily due to the recognition of compensatory fee income in 2013 related to servicing matters and gains resulting from resolution agreements reached in 2013 related to representation and warranty matters. Also contributing to the decrease in credit losses in 2013 was an improvement in sales prices on dispositions of our REO properties and lower REO acquisitions primarily driven by lower delinquencies.

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

Table 15 displays concentrations of our single-family credit losses based on geography, credit characteristics and loan vintages.

Table 15: Credit Loss Concentration Analysis

	Percentage of Single-Family Conventional Guaranty Book of Business Outstanding[1]			Percentage of Single-Family Credit Losses[2]		
	As of December 31,			For the Year Ended December 31,		
	2014	2013	2012	2014	2013	2012
Geographical Distribution:						
California[3]	20 %	20 %	19 %	(1)%	5 %	18 %
Florida	6	6	6	33	29	21
Illinois	4	4	4	11	13	10
All other states	70	70	71	57	53	51
Select higher-risk product features[4]	22	23	22	51	55	54
Vintages:[5]						
2004 and prior	7	9	13	12	12	13
2005 - 2008	12	15	22	75	78	82
2009 - 2014	81	76	65	13	10	5

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

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

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

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

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

As shown in Table 15, the substantial majority of our credit losses in 2014 continued to be driven by loans originated in 2005 through 2008. We provide more detailed single-family credit performance information, including serious delinquency rates share and foreclosure activity, in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

Other Non-Interest Expenses

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

Other non-interest expenses decreased in 2013 compared with 2012 primarily due to increased gains from partnership investments and debt extinguishment gains in 2013 compared with debt extinguishment losses in 2012. These decreases in non-interest expenses were partially offset by an increase in TCCA fees in 2013.

Gains from partnership investments increased in 2013 compared with 2012 as the continued strength of national multifamily market fundamentals resulted in improved property-level operating performance and increased gains on the sale of investments.

Debt extinguishment gains in 2013 were primarily driven by an increase in interest rates in 2013 compared with debt extinguishment losses in 2012 driven by a decrease in interest rates in 2012.

TCCA fees increased in 2013 compared with 2012 due to an increase in the volume of loans in our single-family book of business subject to TCCA provisions.

Federal Income Taxes

We recognized a provision for federal income taxes of $6.9 billion in 2014. We recognized a benefit for federal income taxes of $58.3 billion in our consolidated statement of operations and comprehensive income for the year ended December 31, 2013 related to the release of the valuation allowance against our deferred tax assets, partially offset by our 2013 provision for federal income taxes, resulting in a net tax benefit of $45.4 billion in 2013. We did not recognize a provision or a benefit for federal income taxes in 2012.

BUSINESS SEGMENT RESULTS

We provide a more complete description of our business segments in “Business—Business Segments.” 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 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 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 consolidated results of operations. We describe the management reporting and allocation process used to generate our segment results and provide a reconciliation of our segment results to our consolidated results in “Note 13, Segment Reporting.”

In this section, we provide a comparative discussion of our segment results for the years ended December 31, 2014, 2013 and 2012. This section should be read together with our comparative discussion of our consolidated results of operations in “Consolidated Results of Operations.”

Single-Family Business Results

Table 16 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. Expenses and other items that impact income or loss primarily include credit-related income, net interest income (loss), TCCA fees and administrative expenses.

Table 16: Single-Family Business Results

	For the Year Ended December 31,			Variance	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
	(Dollars in millions)				
Net interest income (loss)[(1)]	$6	$205	$(790)	$(199)	$995
Guaranty fee income[(2)]	11,702	10,468	8,151	1,234	2,317
Credit-related income[(3)]	3,625	11,205	919	(7,580)	10,286
TCCA fees[(2)]	(1,375)	(1,001)	(238)	(374)	(763)
Other expenses[(4)]	(1,983)	(1,711)	(1,672)	(272)	(39)
Income before federal income taxes	11,975	19,166	6,370	(7,191)	12,796
(Provision) benefit for federal income taxes	(3,496)	29,110	(80)	(32,606)	29,190
Net income attributable to Fannie Mae	$8,479	$48,276	$6,290	$(39,797)	$41,986
Other key performance data:					
Securitization Activity/New Business					
Single-family Fannie Mae MBS issuances	$375,676	$733,111	$827,749		
Credit Guaranty Activity					
Average single-family guaranty book of business[(5)]	$2,867,787	$2,855,821	$2,843,718		
Single-family effective guaranty fee rate (in basis points)[(2)(6)]	40.8	36.7	28.7		
Single-family average charged guaranty fee on new acquisitions (in basis points)[(2)(7)]	62.9	57.4	39.9		
Single-family serious delinquency rate, at end of period[(8)]	1.89%	2.38%	3.29%		
Market					
Single-family mortgage debt outstanding, at end of period (total U.S. market)[(9)]	$9,855,232	$9,886,512	$9,982,578		
30-year mortgage rate, at end of period[(10)]	3.87%	4.48%	3.35%		

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(1) 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.

(2) Includes the impact of a 10 basis point guaranty fee increase implemented pursuant to the TCCA, the incremental revenue from which must be remitted to Treasury. The resulting revenue is included in guaranty fee income and the expense is recognized in "TCCA fees."

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

(4) Consists of investment gains (losses), net, fair value losses, net, losses from partnership investments, fee and other income, administrative expenses and other expenses.

(5) 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.

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

(7) 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.

(8) 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.

(9) Information labeled as of December 31, 2014 is as of September 30, 2014 and is based on the Federal Reserve's December 2014 mortgage debt outstanding release, the latest date for which the Federal Reserve has estimated mortgage debt outstanding for single-family residences. Prior period amounts may have been changed to reflect revised historical data from the Federal Reserve.

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

2014 compared with 2013

Pre-tax income decreased in 2014 compared with 2013 primarily due to a decrease in credit-related income, partially offset by an increase in guaranty fee income.

Our single-family credit-related income decreased in 2014 compared with 2013 primarily due to home prices increasing at a slower pace in 2014 as compared with 2013. In addition, 2013 single-family credit-related income benefited from foreclosed property income primarily due to the recognition of income related to compensatory fee arrangements. Our single-family credit-related income represents the substantial majority of our consolidated credit-related income reflected on our consolidated statements of operations and comprehensive income. See "Consolidated Results of Operations—Credit-Related Income" for more information on the drivers of our credit-related income.

Guaranty fee income and our effective guaranty fee rate increased in 2014 compared with 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.

TCCA fees increased in 2014 compared with 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 2014.

We recognized a provision for federal income taxes in 2014 compared with a benefit for federal income taxes in 2013. The benefit for federal income taxes in 2013 primarily represented the release in the first quarter of 2013 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 single-family acquisition volume and single-family Fannie Mae MBS issuances decreased significantly in 2014 compared with 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.

Our average charged guaranty fee on newly acquired single-family loans increased in 2014 compared with 2013 primarily as the result of an increase in loan level price adjustments charged on our acquisitions in 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 2013.

2013 compared with 2012

Pre-tax income increased in 2013 compared with 2012 primarily due to an increase in credit-related income and increased guaranty fee income combined with net interest income in 2013 compared with a net interest loss in 2012.

Our credit results for 2013 and 2012 were positively impacted by increases in home prices, which resulted in reductions in our loss reserves. The improvement in our credit results in 2013 as compared with 2012 was due in part to a decline in the number of delinquent loans in our single-family conventional guaranty book of business, as well as the recognition of compensatory fee income in 2013 related to servicing matters and gains resulting from resolution agreements reached in 2013 related to representation and warranty matters. In addition, in 2013, we updated the assumptions and data used to estimate our allowance for loan losses for individually impaired single-family loans to reflect faster prepayment and lower default expectations for these loans, which resulted in a decrease to our allowance for loan losses. The positive impact of these factors on our credit-related income in 2013 was partially offset by lower discounted cash flow projections on our individually impaired loans due to increasing mortgage interest rates in 2013.

Guaranty fee income increased in 2013 compared with 2012 due to the cumulative impact of price increases and higher amortization income on risk-based fees.

We recognized net interest income in 2013 compared with a net interest loss in 2012 primarily due to the reduction in the amount of interest income not recognized for nonaccrual mortgage loans as the population of delinquent loans declined, as well as a resolution agreement, which resulted in the recognition of unamortized cost basis adjustments on repurchased loans.

Net income in 2013 included a benefit for federal income taxes that primarily represents 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.

Multifamily Business Results

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

Table 17 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 affect income or loss primarily include credit-related income and administrative expenses.

Table 17: Multifamily Business Results

	For the Year Ended December 31,			Variance	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
	(Dollars in millions)				
Guaranty fee income	$1,297	$1,217	$1,040	$80	$177
Fee and other income	166	182	207	(16)	(25)
Gains from partnership investments[(1)]	299	498	123	(199)	375
Credit-related income[(2)]	197	583	187	(386)	396
Other expenses[(3)]	(338)	(335)	(250)	(3)	(85)
Income before federal income taxes	1,621	2,145	1,307	(524)	838
(Provision) benefit for federal income taxes	(158)	7,924	204	(8,082)	7,720
Net income attributable to Fannie Mae	$1,463	$10,069	$1,511	$(8,606)	$8,558
Other key performance data:					
Securitization Activity/New Business					
Multifamily new business volume[(4)]	$28,908	$28,752	$33,763		
Multifamily units financed from new business volume	446,000	507,000	559,000		
Multifamily Fannie Mae MBS issuances[(5)]	$31,997	$31,403	$37,738		
Multifamily Fannie Mae structured securities issuances (issued by Capital Markets group)	$12,040	$10,185	$10,084		
Multifamily Fannie Mae MBS outstanding, at end of period[(6)]	$167,010	$148,724	$128,477		
Credit Guaranty Activity					
Average multifamily guaranty book of business[(7)]	$200,150	$204,284	$199,797		
Multifamily effective guaranty fee rate (in basis points)[(8)]	64.8	59.6	52.1		
Multifamily credit loss ratio (in basis points)[(9)]	(2.3)	2.5	12.9		
Multifamily serious delinquency rate, at end of period	0.05%	0.10%	0.24%		
Percentage of multifamily guaranty book of business with credit enhancement, at end of period	93%	91%	90%		
Fannie Mae percentage of total multifamily mortgage debt outstanding, at end of period[(10)]	19%	20%	21%		
Portfolio Data					
Additional net interest income earned on Fannie Mae multifamily mortgage loans and MBS	$507	$709	$827		

(included in Capital Markets group's results)[11]			
Average Fannie Mae multifamily mortgage loans and Fannie Mae MBS in Capital Markets group's portfolio[12]	$49,677	$74,613	$98,025

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(1) Gains from partnership investments are included in other expenses in our 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.

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

(3) Consists of net interest losses, investment gains, net, administrative expenses and other expenses.

(4) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued (excluding portfolio securitizations), multifamily loans purchased, and credit enhancements provided during the period.

(5) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued during the period. Includes: (a) issuances of new MBS, (b) Fannie Mae portfolio securitization transactions of $3.4 billion, $2.9 billion and $4.4 billion for the years ended December 31, 2014, 2013 and 2012, respectively, and (c) conversions of adjustable-rate loans to fixed-rate loans and discount MBS (“DMBS”) to MBS of $3 million, $68 million and $215 million for the years ended December 31, 2014, 2013 and 2012, respectively.

(6) Includes $18.7 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 consolidated balance sheets as of December 31, 2014 and 2013, respectively.

(7) Our Multifamily guaranty book of business consists of (a) multifamily mortgage loans of Fannie Mae, (b) multifamily mortgage loans underlying Fannie Mae MBS, and (c) other credit enhancements that we provide on multifamily mortgage assets. It excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

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

(9) Calculated based on Multifamily segment credit losses divided by the average multifamily guaranty book of business, expressed in basis points. Negative credit losses are the result of recoveries on previously charged-off amounts.

(10) Includes mortgage loans and Fannie Mae MBS guaranteed by the Multifamily segment. Information labeled as of December 31, 2014 is as of September 30, 2014 and is based on the Federal Reserve’s September 2014 mortgage debt outstanding release, the latest date for which the Federal Reserve has estimated mortgage debt outstanding for multifamily residences. Prior period amounts may have been changed to reflect revised historical data from the Federal Reserve.

(11) 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.

2014 compared with 2013

Pre-tax income decreased in 2014 compared with 2013 primarily due to decreases in credit-related income and gains on partnership investments, partially offset by an increase in guaranty fee income.

Credit-related income decreased in 2014 compared with 2013 primarily as a result of smaller improvements in property valuations in 2014 compared with 2013, as well as improvements in loss severity trends in 2013.

Guaranty fee income increased in 2014 compared with 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.

Gains from partnership investments decreased in 2014 compared with 2013 primarily as a result of lower sales activity.

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

Multifamily new business volume in 2014 was consistent with 2013 levels. FHFA’s 2014 conservatorship scorecard included an objective to maintain the dollar volume of new multifamily business at or below the 2013 cap, excluding volume associated with affordable housing loans, as well as loans to small multifamily properties and loans to manufactured housing rental communities. Similar to the 2014 scorecard, the 2015 conservatorship scorecard includes a provision to maintain the dollar volume of new multifamily business at $30 billion or below, with the same exclusions as the 2014 scorecard.

2013 compared with 2012

Pre-tax income increased in 2013 compared with 2012 primarily due to increased guaranty fee income, increased credit-related income and increased gains from partnership investments.

Guaranty fee income increased in 2013 compared with 2012 as we continued to acquire loans with higher guaranty fees. 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.

Credit-related income increased in 2013 compared with 2012, primarily due to improvements in default and loss severity trends and improvements in property valuations.
Gains from partnership investments increased in 2013 compared with 2012 as the continued strength of national multifamily market fundamentals resulted in improved property-level operating performance and increased gains on the sale of investments.
Net income in 2013 included a benefit for federal income taxes that primarily represents 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. A benefit for federal income taxes in 2012 was driven by the utilization of tax credits related to LIHTC investments to offset our alternative minimum tax liability resulting from our projected 2012 taxable income.
Capital Markets Group Results
Table 18 displays the financial results of our Capital Markets group for the periods indicated. 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" and "Note 9, Derivative Instruments."
The primary sources of revenue for our Capital Markets group are net interest income and fee and other income. Expenses and other items that impact income or loss primarily include fair value gains and losses, investment gains and losses, allocated guaranty fee expense and administrative expenses.
Table 18: Capital Markets Group Results

	For the Year Ended December 31,			Variance	
	2014	2013	2012	2014 vs. 2013	2013 vs. 2012
	(Dollars in millions)				
Net interest income[1]	$7,243	$9,764	$13,241	$(2,521)	$(3,477)
Investment gains, net[2]	6,378	4,847	5,506	1,531	(659)
Fair value (losses) gains, net[3]	(5,476)	3,148	(3,041)	(8,624)	6,189
Fee and other income	4,894	3,010	717	1,884	2,293
Other expenses[4]	(1,638)	(1,627)	(2,098)	(11)	471
Income before federal income taxes	11,401	19,142	14,325	(7,741)	4,817
(Provision) benefit for federal income taxes	(3,287)	8,381	(124)	(11,668)	8,505
Net income attributable to Fannie Mae	$8,114	$27,523	$14,201	$(19,409)	$13,322

(1) Includes contractual interest income, excluding recoveries, on nonaccrual loans received from the Single-Family segment of $2.6 billion, $3.8 billion and $5.2 billion for the years ended December 31, 2014, 2013 and 2012, 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. Also includes net other-than-temporary impairments on 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 gains, net, administrative expenses, and other expenses. Gains or losses related to the extinguishment of debt issued by consolidated trusts are excluded from the Capital Markets group's results because purchases of securities are recognized as such.

2014 compared with 2013
Pre-tax income decreased in 2014 compared with 2013 primarily due to the recognition of fair value losses in 2014 compared with fair value gains recognized in 2013 and a decrease in net interest income. The decrease in pre-tax income in 2014 compared with 2013 was partially offset by increases in fee and other income and investment gains.

Fair value losses in 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 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 2014 compared with 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 and FHFA's additional portfolio cap. See "The Capital Markets Group's Mortgage Portfolio" for additional information on our retained mortgage portfolio.

We supplement our issuance of debt securities with derivative instruments to further reduce interest rate risk. The effect of these derivatives, in particular the periodic net interest expense accruals on interest rate swaps, is not reflected in the Capital Markets group's net interest income but is included in our results as a component of "Fair value (losses) gains, net" and is displayed in "Table 10: Fair Value (Losses) Gains, Net."

Fee and other income increased in 2014 compared with 2013 due to an increase in income recognized as a result of settlement agreements resolving certain lawsuits relating to PLS sold to us from $2.2 billion in 2013 to $4.8 billion in 2014.

Investment gains increased in 2014 compared with 2013 primarily due to higher gains on the sale of Fannie Mae MBS AFS securities as a result of a decline in interest rates in 2014. During 2013, we had lower gains on the sale of Fannie Mae MBS AFS securities due to an increase in interest rates in 2013.

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

2013 compared with 2012

Pre-tax income increased in 2013 compared with 2012 primarily due to fair value gains in 2013 compared with fair value losses in 2012, an increase in fee and other income and a decrease in net other-than-temporary impairments. These factors were partially offset by a decrease in net interest income and a decrease in investment gains.

Fair value gains in 2013 were primarily driven by fair value gains on our risk management derivatives.

Fee and other income increased in 2013 compared with 2012 primarily as a result of funds we received in 2013 pursuant to settlement agreements resolving certain lawsuits relating to PLS sold to us. In addition, we recognized higher yield maintenance fees in 2013 related to large multifamily loan prepayments during the year.

The decrease in net interest income in 2013 compared with 2012 was primarily due to a decrease in the balance of our retained mortgage-related assets as we continued to reduce our retained mortgage portfolio pursuant to the requirements of our senior preferred stock purchase agreement with Treasury. In addition, during 2013, we sold $21.7 billion of non-agency mortgage-related assets to meet an objective of FHFA's 2013 conservatorship scorecard.

Investment gains decreased in 2013 compared with 2012 primarily due to decreased gains on the sale of Fannie Mae MBS AFS securities and decreased gains on portfolio securitizations due to an increase in mortgage interest rates in 2013. The decrease in gains during 2013 was partially offset by a decrease in net other-than-temporary impairments and gains on sales of non-agency mortgage-related securities.

Net income in 2013 included a benefit for federal income taxes that primarily represents 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 were permitted to own as of December 31, 2014 was $469.6 billion and will be $399.2 billion as of December 31, 2015.

FHFA's 2014 conservatorship scorecard required us to submit a portfolio plan to FHFA outlining how we will meet, even under adverse conditions, the reductions in our portfolio required by our senior preferred stock purchase agreement with Treasury. In connection with this portfolio plan, in October 2014, FHFA requested that we cap our portfolio each year at 90% of the annual limit under our senior preferred stock purchase agreement with Treasury. FHFA's request noted that we may seek FHFA permission to increase this cap up to 95% of the annual limit under our senior preferred stock purchase agreement with Treasury upon written request and with a documented basis for exception, such as changed market conditions. To comply with FHFA's request, we submitted a revised portfolio plan in October 2014 and reduced our mortgage portfolio to $413.3 billion as of December 31, 2014, below the $422.7 billion cap requested by FHFA, and are required to reduce our mortgage portfolio to $359.3 billion as of December 31, 2015.

As we reduce the size of our retained mortgage portfolio, our revenues generated by our retained mortgage portfolio will decrease. For additional information on the terms of the senior preferred stock purchase agreement with Treasury, see "Business—Conservatorship and Treasury Agreements—Treasury Agreements."

Table 19 displays our Capital Markets group's mortgage portfolio activity based on unpaid principal balance.

Table 19: Capital Markets Group's Mortgage Portfolio Activity

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Mortgage loans:			
Beginning balance	$314,664	$371,708	$398,271
Purchases	153,430	232,582	261,463
Securitizations [1]	(131,576)	(207,437)	(211,455)
Liquidations and sales [2]	(50,908)	(82,189)	(76,571)
Mortgage loans, ending balance	285,610	314,664	371,708
Mortgage securities:			
Beginning balance	176,037	261,346	310,143
Purchases [3]	24,885	36,848	26,874
Securitizations [1]	131,576	207,437	211,455
Sales	(177,883)	(278,421)	(224,208)
Liquidations [2]	(26,912)	(51,173)	(62,918)
Mortgage securities, ending balance	127,703	176,037	261,346
Total Capital Markets group's mortgage portfolio	$413,313	$490,701	$633,054

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

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Table 20 displays the composition of the unpaid principal balance of the Capital Markets group's mortgage portfolio and our assessment of the liquidity of these assets. Our assessment is based on the liquidity within the markets in which the assets are traded, the issuer of the asset and the nature of the collateral underlying the asset. Our unsecuritized mortgage loans, PLS and other non-agency securities are considered less liquid. Fannie Mae securities that are collateralized by non-agency mortgage-related securities are also considered to be less liquid.

Table 20: Capital Markets Group's Mortgage Portfolio Composition

	As of December 31,					
	2014			2013		
	More Liquid	Less Liquid	Total	More Liquid	Less Liquid	Total
	(Dollars in millions)					
Mortgage loans:						
Single-family loans:						
Government insured or guaranteed	$—	$36,442	$36,442	$—	$39,399	$39,399
Conventional	—	225,800	225,800	—	237,501	237,501
Total single-family loans	—	262,242	262,242	—	276,900	276,900
Multifamily loans:						
Government insured or guaranteed	—	243	243	—	267	267
Conventional	—	23,125	23,125	—	37,497	37,497
Total multifamily loans	—	23,368	23,368	—	37,764	37,764
Total mortgage loans	—	285,610	285,610	—	314,664	314,664
Mortgage-related securities:						
Fannie Mae	80,377	12,442	92,819	116,356	13,485	129,841
Freddie Mac	6,368	—	6,368	8,124	—	8,124
Ginnie Mae	572	—	572	899	—	899
Alt-A private-label securities	—	7,745	7,745	—	11,153	11,153
Subprime private-label securities	—	8,913	8,913	—	12,322	12,322
CMBS	—	3,686	3,686	—	3,983	3,983
Mortgage revenue bonds	—	4,556	4,556	—	6,319	6,319
Other mortgage-related securities	—	3,044	3,044	—	3,396	3,396
Total mortgage-related securities[1]	87,317	40,386	127,703	125,379	50,658	176,037
Total Capital Markets group's mortgage portfolio	$87,317	$325,996	$413,313	$125,379	$365,322	$490,701

(1) The fair value of these mortgage-related securities was $133.5 billion and $179.5 billion as of December 31, 2014 and 2013, respectively.

The Capital Markets group's mortgage portfolio decreased 16% during 2014, primarily due to sales and liquidations outpacing purchases during 2014. Purchase activity declined in 2014 compared with 2013 primarily due to fewer loan purchases as a result of lower mortgage origination volume in 2014 compared with 2013. We also continued to reduce the size of our retained mortgage portfolio to comply with the requirement of our senior preferred stock purchase agreement with Treasury and FHFA's request to further cap our portfolio.

The loans we purchased in 2014 included $17.9 billion in delinquent loans we purchased from our single-family MBS trusts. We expect to continue purchasing loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity and other factors, including the limit on the amount of mortgage assets that we may own pursuant to the senior preferred stock purchase agreement and FHFA's portfolio plan requirements. As a result of purchasing these loans, an increasing portion of the Capital Markets group's mortgage portfolio is comprised of loans restructured in a TDR and nonaccrual loans. Table 21 displays the composition of loans restructured in a TDR that were on accrual status, loans on nonaccrual status and all other mortgage-related assets in our Capital Markets group's mortgage portfolio.

Table 21: Capital Markets Group's Mortgage Portfolio

	As of December 31,			
	2014		2013	
	Unpaid Principal Balance	Percent of Total	Unpaid Principal Balance	Percent of Total
	(Dollars in millions)			
TDRs on accrual status	$140,828	34 %	$136,237	28 %
Nonaccrual loans	58,597	14	75,006	15
All other mortgage-related assets	213,888	52	279,458	57
Total Capital Markets group's mortgage portfolio	$413,313	100 %	$490,701	100 %

CONSOLIDATED BALANCE SHEET ANALYSIS

We seek to structure the composition of our balance sheet and manage its size to comply with our regulatory requirements, to provide adequate liquidity to meet our needs, and to mitigate our interest rate risk and credit risk exposure. The major asset components of our consolidated balance sheets include our mortgage investments and our cash and other investments portfolio. We fund and manage the interest rate risk on these investments through the issuance of debt securities and the use of derivatives. Our debt securities and derivatives represent the major liability components of our consolidated balance sheets.

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

Table 22 displays a summary of our consolidated balance sheets.

Table 22: Summary of Consolidated Balance Sheets

	As of December 31, 2014	2013	Variance
	(Dollars in millions)		
Assets			
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	$52,973	$58,203	$(5,230)
Restricted cash	32,542	28,995	3,547
Investments in securities(1)	62,158	68,939	(6,781)
Mortgage loans:			
Of Fannie Mae	272,666	300,508	(27,842)
Of consolidated trusts	2,782,369	2,769,578	12,791
Allowance for loan losses	(35,541)	(43,846)	8,305
Mortgage loans, net of allowance for loan losses	3,019,494	3,026,240	(6,746)
Deferred tax assets, net	42,206	47,560	(5,354)
Other assets	38,803	40,171	(1,368)
Total assets	$3,248,176	$3,270,108	$(21,932)
Liabilities and equity			
Debt:			
Of Fannie Mae	$460,443	$529,434	$(68,991)
Of consolidated trusts	2,761,712	2,705,089	56,623
Other liabilities	22,301	25,994	(3,693)
Total liabilities	3,244,456	3,260,517	(16,061)
Senior preferred stock	117,149	117,149	—
Other(2)	(113,429)	(107,558)	(5,871)
Total equity	3,720	9,591	(5,871)
Total liabilities and equity	$3,248,176	$3,270,108	$(21,932)

(1) Includes $19.5 billion as of December 31, 2014 and $16.3 billion as of December 31, 2013 of U.S. Treasury securities that are included in our other investments portfolio, which we present in "Table 30: Cash and Other Investments Portfolio."

(2) Consists of 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, securities purchased under agreements to resell or similar arrangements, and investments in U.S. Treasury securities. See "Liquidity and Capital Management—Liquidity Management—Cash and Other Investments Portfolio" for additional information on our cash and other investments portfolio.

Restricted Cash

Restricted cash primarily includes unscheduled borrower payments received by the servicer or consolidated trusts due to be remitted to the MBS certificateholders in the subsequent month. Our restricted cash increased as of December 31, 2014 compared with the balance as of December 31, 2013, resulting from an increase in unscheduled payments received due to higher payoff volumes in December 2014 compared with December 2013.

Investments in Securities

Our investments in securities are classified in our consolidated balance sheets as either trading or available-for-sale and are measured at fair value. Table 23 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 or CMBS if the securities were labeled as such when issued. We have also invested in subprime private-label mortgage-related securities that we have resecuritized to include our guaranty (which we refer to as “wraps”).

Table 23: Summary of Mortgage-Related Securities at Fair Value

	As of December 31,		
	2014	2013	2012
	(Dollars in millions)		
Mortgage-related securities:			
Fannie Mae	$10,579	$12,443	$16,683
Freddie Mac	6,897	8,681	12,173
Ginnie Mae	642	995	1,188
Alt-A private-label securities	6,598	8,865	12,405
Subprime private-label securities	6,547	8,516	8,766
CMBS	3,912	4,324	22,923
Mortgage revenue bonds	4,745	5,821	8,517
Other mortgage-related securities	2,772	2,988	3,271
Total	$42,692	$52,633	$85,926

The decrease in mortgage-related securities at fair value in 2014 was primarily driven by sales and liquidations outpacing purchases. We continue to reduce the size of our retained mortgage portfolio to comply with the requirement of our senior preferred stock purchase agreement with Treasury and FHFA's request to further cap our portfolio. See "Business Segment Results—The Capital Markets Group's Mortgage Portfolio" for additional information related to the reduction in our retained mortgage portfolio.

See "Note 5, Investments in Securities" for additional information on our investments in mortgage-related securities, including the composition of our trading and available-for-sale securities at amortized cost and fair value and the gross unrealized gains and losses related to our available-for-sale securities as of December 31, 2014 and 2013.

Mortgage Loans

The mortgage loans reported in our consolidated balance sheets include loans owned by Fannie Mae and loans held in consolidated trusts and are classified as either held for sale or held for investment. The increase in the balance of mortgage loans, net of the allowance for loan losses, as of December 31, 2014 compared with the balance as of December 31, 2013 was primarily driven by an increase in mortgage loans held for investment due to securitization activity from our lender swap and portfolio securitization programs and a decrease in our allowance for loan losses.

For additional information on our mortgage loans, see "Note 3, Mortgage Loans," and for changes in our allowance for loan losses, see "Note 4, Allowance for Loan Losses." For additional information on the mortgage loan purchase and sale activities reported by our Capital Markets group, see "Business Segment Results—Capital Markets Group Results."

The decrease in our allowance for loan losses during 2014 was primarily due to the recognition of a benefit for credit losses and a decline in the number of seriously delinquent single-family loans. The number of our seriously delinquent single-family loans declined 21% to approximately 330,000 as of December 31, 2014 from approximately 419,000 as of December 31, 2013. The reduction in the number of delinquent loans was due to home retention solutions, foreclosure alternatives, completed foreclosures and improved loan payment performance. For additional information on our seriously delinquent single-family conventional loans, see "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Problem Loan Management—Problem Loan Statistics." For information on our benefit for credit losses, see "Consolidated Results of Operations—Credit-Related Income—(Benefit) Provision for Credit Losses."

Debt

Debt of Fannie Mae is the primary means of funding our mortgage investments. Debt of consolidated trusts represents the amount of Fannie Mae MBS issued from consolidated trusts and held by third-party certificateholders. 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.

The decrease in debt of Fannie Mae in 2014 was primarily driven by lower funding needs, as our retained mortgage portfolio decreased. The increase in the balance of debt of consolidated trusts during 2014 was primarily driven by sales of Fannie Mae

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MBS, which are accounted for as reissuances of debt of consolidated trusts in our consolidated balance sheets, since the MBS certificate ownership is transferred from us to a third party.

Stockholders' Equity

Our net equity decreased as of December 31, 2014 compared with December 31, 2013 due to the payment of senior preferred stock dividends to Treasury during the year, partially offset by comprehensive income recognized during the year.

LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity Management

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

Our treasury function is responsible for implementing our liquidity and contingency planning strategies. See "Liquidity Risk Management Practices and Contingency Planning" for a discussion of our liquidity contingency plans. Also see "Risk Factors" for a description of the risks associated with our liquidity risk and liquidity contingency planning.

Primary Sources and Uses of Funds

Our primary source of funds is proceeds from the issuance of short-term and long-term debt securities. Accordingly, our liquidity depends largely on our ability to issue unsecured debt in the capital markets. Our status as a GSE and federal government support of our business continue to be essential to maintaining our access to the unsecured debt markets.

In addition to funding we obtain from the issuance of debt securities, our other sources of cash include:

- principal and interest payments received on mortgage loans, mortgage-related securities and non-mortgage investments we own;
- proceeds from the sale of mortgage-related securities, mortgage loans and non-mortgage assets, including proceeds from the sales of foreclosed real estate assets;
- guaranty fees received on Fannie Mae MBS;
- payments received from mortgage insurance counterparties and other providers of credit enhancement;
- net receipts on derivative instruments;
- receipt of cash collateral; and
- borrowings under a secured intraday funding line of credit and borrowings against mortgage-related securities and other investment securities we hold pursuant to repurchase agreements and loan agreements.

Our primary funding needs include:

- the repayment of matured, redeemed and repurchased debt;
- the purchase of mortgage loans (including delinquent loans from MBS trusts), mortgage-related securities and other investments;
- interest payments on outstanding debt;
- dividend payments made to Treasury pursuant to the senior preferred stock purchase agreement;
- net payments on derivative instruments;
- the pledging of collateral under derivative instruments;
- administrative expenses;
- losses incurred in connection with our Fannie Mae MBS guaranty obligations;
- payments of federal income taxes; and
- payments of TCCA fees to Treasury.

Liquidity Risk Management Practices and Contingency Planning

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. See "Risk Factors" for a discussion of factors that could adversely affect our liquidity.

We conduct liquidity contingency planning to prepare for an event in which our access to the unsecured debt markets becomes limited. We plan for alternative sources of liquidity that are designed to allow us to meet our cash obligations without relying upon the issuance of unsecured debt for specific periods of time.

Our liquidity management policies and practices require that we maintain:

- a portfolio of highly liquid securities to cover a minimum of 30 calendar days of net cash needs, assuming no access to the short- and long-term unsecured debt markets;
- within our cash and other investment portfolio a daily balance of U.S. Treasury securities and/or cash with the Federal Reserve Bank of New York that has a redemption amount of at least 50% of our average projected 30-day cash needs over the previous three months; and
- a liquidity profile that meets or exceeds our projected 365-day net cash needs by supplementing liquidity holdings with unencumbered agency mortgage securities.

As of December 31, 2014, we were in compliance with each of the liquidity risk management policies and practices set forth above.

We run routine operational testing of our ability to rely upon mortgage and U.S. Treasury collateral to obtain financing. We enter into relatively small repurchase agreements in order to confirm that we have the operational and systems capability to do so. In addition, we have provided collateral in advance to a number of clearing banks in the event we seek to enter into repurchase agreements in the future. We do not, however, have committed repurchase agreements with specific counterparties, as historically we have not relied on this form of funding. As a result, our use of such facilities and our ability to enter into them in significant dollar amounts may be challenging in a stressed market environment. See "Risk Factors" for the risks associated with our ability to fund operations.

See "Cash and Other Investments Portfolio" and "Unencumbered Mortgage Portfolio" for further discussions of our alternative sources of liquidity if our access to the debt markets were to become limited.

While our liquidity contingency planning attempts to address stressed market conditions and our status under conservatorship and Treasury arrangements, we believe that our liquidity contingency plans may be difficult or impossible to execute for a company of our size in our circumstances. See "Risk Factors" for a description of the risks associated with our liquidity contingency planning.

Debt Funding

We separately present the debt from consolidations ("debt of consolidated trusts") and the debt issued by us ("debt of Fannie Mae") in our consolidated balance sheets and in the debt tables below. Our discussion regarding debt funding in this section focuses on the debt of Fannie Mae. 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.

We have a diversified funding base of domestic and international investors. Purchasers of our debt securities are geographically diversified and include fund managers, commercial banks, pension funds, insurance companies, foreign central banks, corporations, state and local governments, and other municipal authorities.

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

Fannie Mae Debt Funding Activity

Table 24 displays the activity in debt of Fannie Mae. This activity excludes the debt of consolidated trusts and intraday loans. The reported amounts of debt issued and paid off during the period represent the face amount of the debt at issuance and redemption, respectively. Activity for short-term debt of Fannie Mae relates to borrowings with an original contractual maturity of one year or less while activity for long-term debt of Fannie Mae relates to borrowings with an original contractual maturity of greater than one year.

Table 24: Activity in Debt of Fannie Mae

	For the Year Ended December 31,					
	2014		2013		2012	
	(Dollars in millions)					
Issued during the period:						
Short-term:						
Amount	$213,683		$216,475		$246,092	
Weighted-average interest rate	0.08	%	0.11	%	0.12	%
Long-term:						
Amount	$45,805		$138,404		$255,902	
Weighted-average interest rate	1.79	%	1.07	%	1.26	%
Total issued:						
Amount	$259,488		$354,879		$501,994	
Weighted-average interest rate	0.38	%	0.49	%	0.70	%
Paid off during the period:[1]						
Short-term:						
Amount	$180,920		$249,357		$287,624	
Weighted-average interest rate	0.09	%	0.12	%	0.12	%
Long-term:						
Amount	$148,186		$192,861		$334,564	
Weighted-average interest rate	1.80	%	1.72	%	1.88	%
Total paid off:						
Amount	$329,106		$442,218		$622,188	
Weighted-average interest rate	0.86	%	0.82	%	1.06	%

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(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 in 2014 compared with 2013 primarily due to lower funding needs as our retained mortgage portfolio decreased. Redemptions of callable debt decreased in 2014 compared with 2013 due to higher average interest rates.

Many factors could affect the amount, mix and cost of our debt funding, reduce demand for our debt securities, increase our liquidity or roll-over risk, or have a material adverse impact on our liquidity, financial condition and results of operations, including:

- changes or perceived changes in federal government support of our business;
- our status as a GSE;
- future changes or disruptions in the financial markets;
- a change or perceived change in the creditworthiness of the U.S. government, due to our reliance on the U.S. government’s support; or
- a downgrade in our credit ratings.

We believe that continued federal government support of our business, as well as our status as a GSE, are essential to maintaining our access to debt funding. See “Risk Factors” for a discussion of the risks we face relating to: (1) the uncertain

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future of our company; (2) our reliance on the issuance of debt securities to obtain funds for our operations and the relative cost to obtain these funds; (3) our liquidity contingency plans; and (4) our credit ratings. Also see "Business—Housing Finance Reform" for more information on GSE reform.

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 23% as of December 31, 2014 compared with 14% as of December 31, 2013. For information on our outstanding debt maturing within one year, including the current portion of our long-term debt, as a percentage of our total debt, see "Maturity Profile of Outstanding Debt of Fannie Mae." In addition, the weighted-average interest rate on our long-term debt, based on its original contractual maturity, increased to 2.24% as of December 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 under the senior preferred stock purchase agreement on December 31 of the immediately preceding calendar year. Our debt limit under the senior preferred stock purchase agreement was reduced to $663.0 billion in 2014. As of December 31, 2014, our aggregate indebtedness totaled $464.5 billion, which was $198.5 billion below our debt limit. Our debt limit in 2015 is $563.6 billion. 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 25 displays information as of the dates indicated on our outstanding short-term and long-term debt based on its original contractual terms.

Table 25: Outstanding Short-Term Borrowings and Long-Term Debt[1]

	As of December 31,					
	2014			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]	—	$50	— %	—	$—	— %
Short-term debt:						
Fixed-rate:						
Discount notes	—	$105,012	0.11 %	—	$71,933	0.12 %
Foreign exchange discount notes	—	—	—	—	362	1.07
Total short-term debt of Fannie Mae		105,012	0.11		72,295	0.13
Debt of consolidated trusts	—	1,560	0.09	—	2,154	0.09
Total short-term debt		$106,572	0.11 %		$74,449	0.13 %
Long-term debt:						
Senior fixed:						
Benchmark notes and bonds	2015 - 2030	$173,010	2.41 %	2014 - 2030	$212,234	2.45 %
Medium-term notes[3]	2015 - 2024	114,556	1.42	2014 - 2023	161,445	1.28
Foreign exchange notes and bonds	2021 - 2028	619	5.44	2021 - 2028	682	5.41
Other	2015 - 2038	32,322	4.63	2014 - 2038	38,444 (5)	4.99
Total senior fixed		320,507	2.29		412,805	2.24
Senior floating:						
Medium-term notes[3]	2015 - 2019	24,469	0.15	2014 - 2019	38,441	0.20
Connecticut Avenue Securities[4]	2023 - 2024	6,041	2.97	2023	689	3.81
Other[5]	2020 - 2037	363	8.71	2020 - 2037	266	8.52
Total senior floating		30,873	0.81		39,396	0.32
Subordinated fixed:						
Qualifying subordinated	—	—	—	2014	1,169	5.27
Subordinated debentures	2019	3,849	9.93	2019	3,507	9.92
Total subordinated fixed		3,849	9.93		4,676	8.76
Secured borrowings[6]	2021 - 2022	202	1.90	2021 - 2022	262	1.86
Total long-term debt of Fannie Mae		355,431	2.24		457,139	2.14
Debt of consolidated trusts[5]	2015 - 2054	2,760,152	3.02	2014 - 2053	2,702,935	3.26
Total long-term debt		$3,115,583	2.93 %		$3,160,074	3.10 %
Outstanding callable debt of Fannie Mae[7]		$114,990	1.79 %		$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 outstanding amounts include fair value gains and losses associated with debt that we elected to carry at fair value. Reported amounts for total debt of Fannie Mae include unamortized discounts and premiums, other cost basis adjustments and fair value adjustments of $4.1 billion and $4.9 billion as of December 31, 2014 and 2013, respectively. The unpaid principal balance of outstanding debt of Fannie Mae, which excludes unamortized discounts, premiums and other cost basis

adjustments, and debt of consolidated trusts, totaled $464.6 billion and $534.3 billion as of December 31, 2014 and 2013, respectively.

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

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

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

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

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

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

Table 26 below displays additional information for each category of our short-term borrowings.

Table 26: Outstanding Short-Term Borrowings[1]

	2014						
	As of December 31			Average During the Year			
	Outstanding	Weighted-Average Interest Rate		Outstanding[2]	Weighted-Average Interest Rate		Maximum Outstanding[3]
	(Dollars in millions)						
Federal funds purchased and securities sold under agreements to repurchase	$50	—	%	$28	—	%	$ 273
Total short-term debt of Fannie Mae	$105,012	0.11	%	$86,839	0.11	%	$ 114,741
	2013						
	As of December 31			Average During the Year			
	Outstanding	Weighted-Average Interest Rate		Outstanding[2]	Weighted-Average Interest Rate		Maximum Outstanding[3]
	(Dollars in millions)						
Federal funds purchased and securities sold under agreements to repurchase	$—	—	%	$15	—	%	$ 218
Total short-term debt of Fannie Mae	$72,295	0.13	%	$95,082	0.13	%	$ 128,419
	2012						
	As of December 31			Average During the Year			
	Outstanding	Weighted-Average Interest Rate		Outstanding[2]	Weighted-Average Interest Rate		Maximum Outstanding[3]
	(Dollars in millions)						
Federal funds purchased and securities sold under agreements to repurchase	$—	—	%	$18	—	%	$ 490
Total short-term debt of Fannie Mae	$105,233	0.16	%	$102,859	0.14	%	$ 152,502

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

(2) Average amount outstanding has been calculated using daily balances.

(3) Maximum outstanding represents the highest daily outstanding balance during the year.

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Maturity Profile of Outstanding Debt of Fannie Mae

Table 27 displays the maturity profile, as of December 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 37% as of December 31, 2014 and 31% as of December 31, 2013. The weighted-average maturity of our outstanding debt that is maturing within one year was 131 days as of December 31, 2014, compared with 151 days as of December 31, 2013.

Table 27: Maturity Profile of Outstanding Debt of Fannie Mae Maturing Within One Year[1]

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(1) Includes unamortized discounts, premiums and other cost basis adjustments.

Table 28 displays the maturity profile, as of December 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 redemption within one year. The weighted-average maturity of our outstanding debt maturing in more than one year was approximately 61 months as of December 31, 2014 and approximately 59 months as of December 31, 2013.

Table 28: Maturity Profile of Outstanding Debt of Fannie Mae Maturing in More Than One Year[1]

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(1) Includes unamortized discounts, premiums and other cost basis adjustments.

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.

Contractual Obligations

Table 29 displays, by remaining maturity, our future cash obligations related to our long term debt, announced calls, operating leases, purchase obligations and other material noncancelable contractual obligations as of December 31, 2014.

Table 29: Contractual Obligations

	Payment Due by Period as of December 31, 2014				
	Total	Less than 1 Year	1 to <3 Years	3 to 5 Years	More than 5 Years
	(Dollars in millions)				
Long-term debt obligations[1]	$355,431	$64,655	$138,317	$80,016	$72,443
Contractual interest on long-term obligations[2]	47,197	6,779	10,660	6,730	23,028
Operating lease obligations[3]	109	39	59	8	3
Purchase obligations:					
Mortgage commitments[4]	56,333	56,333	—	—	—
Other purchase obligations[5]	470	209	225	36	—
Other liabilities reflected in the consolidated balance sheet[6]	479	398	67	5	9
Total contractual obligations	$460,019	$128,413	$149,328	$86,795	$95,483

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(1) Represents the carrying amount of our long-term debt assuming payments are made in full at maturity. Amounts exclude $2.8 trillion in long-term debt from consolidations. Amounts include a net unamortized discount, fair value adjustments and other cost basis adjustments of $4.1 billion.

(2) Excludes contractual interest on long-term debt from consolidations.

(3) Includes certain premises and equipment leases.

(4) Includes on- and off-balance sheet commitments to purchase mortgage loans and mortgage-related securities.

(5) Includes only unconditional purchase obligations that are subject to a cancellation penalty for certain telecom services, software and computer services, and other agreements. Excludes arrangements that may be canceled without penalty. Amounts also include off-balance sheet commitments for the unutilized portion of lending agreements entered into with multifamily borrowers.

(6) Excludes risk management derivative transactions that may require cash settlement in future periods and our obligations to stand ready to perform under our guarantees relating to Fannie Mae MBS and other financial guarantees, because the amount and timing of payments under these arrangements are generally contingent upon the occurrence of future events. For a description of the amount of our on- and off-balance sheet Fannie Mae MBS and other financial guarantees as of December 31, 2014, see "Off-Balance Sheet Arrangements." Includes cash received as collateral, unrecognized tax benefits and future cash payments due under our contractual obligations to fund LIHTC and other partnerships that are unconditional and legally binding, which are included in our consolidated balance sheets under "Other liabilities."

Equity Funding

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 uncertainty regarding our future, we effectively no longer have access to equity funding except through draws under the senior preferred stock purchase agreement. For a description of the funding available and the covenants under the senior preferred stock purchase agreement, see "Business—Conservatorship and Treasury Agreements—Treasury Agreements."

Cash and Other Investments Portfolio

Our cash and other investments portfolio decreased in 2014. The balance of our cash and other investments portfolio fluctuates based on changes in our cash flows, overall liquidity in the fixed income markets and our liquidity risk management policies and practices. See "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Counterparty Credit Exposure of Investments Held in our Cash and Other Investments Portfolio" for additional information on the risks associated with the assets in our cash and other investments portfolio.

Table 30 displays information on the composition of our cash and other investments portfolio.

Table 30: Cash and Other Investments Portfolio

	As of December 31,		
	2014	2013	2012
	(Dollars in millions)		
Cash and cash equivalents	$22,023	$19,228	$21,117
Federal funds sold and securities purchased under agreements to resell or similar arrangements	30,950	38,975	32,500
U.S. Treasury securities	19,466	16,306	17,950
Total cash and other investments	$72,439	$74,509	$71,567

Unencumbered Mortgage Portfolio

Another potential source of liquidity in the event our access to the unsecured debt market becomes impaired is the unencumbered mortgage assets in our retained mortgage portfolio, which could be sold or used as collateral for secured borrowing. We believe that the amount of mortgage-related assets that we could successfully sell or borrow against in the event of a liquidity crisis or significant market disruption is substantially lower than the amount of mortgage-related assets we hold. Our ability to sell whole loans from our retained mortgage portfolio is limited due to the credit-related issues of these loans, as well as operational constraints. See "Risk Factors" for a discussion of the limitations on our ability to successfully sell or borrow against the unencumbered mortgage assets in our retained mortgage portfolio in the event of a liquidity crisis.

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. S&P, Moody's and 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” for a discussion of the risks to our business

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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 31 displays the credit ratings issued by the three major credit rating agencies as of February 12, 2015.

Table 31: Fannie Mae Credit Ratings

	As of February 12, 2015		
	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 (for Long-Term Senior Debt and Subordinated Debt)	Stable (for Long-Term Senior Debt and Preferred Stock)	Stable (for AAA rated Long-Term Issuer Default Ratings)

We have no covenants in our existing debt agreements that would be violated by a downgrade in our credit ratings. However, in connection with certain derivatives counterparties, we could be required to provide additional collateral to or terminate transactions with certain counterparties in the event that our senior unsecured debt ratings are downgraded. The amount of additional collateral required depends on the contract and is usually a fixed incremental amount, the market value of the exposure, or both. See "Note 9, Derivative Instruments" and "Risk Factors" for additional information on collateral we would be required to provide to our derivatives counterparties in the event of downgrades in our credit ratings.

Cash Flows

Year ended December 31, 2014. Cash and cash equivalents increased by $2.8 billion from $19.2 billion as of December 31, 2013 to $22.0 billion as of December 31, 2014. This increase in the balance was primarily driven by cash inflows from: (1) the sale of Fannie Mae MBS, (2) proceeds from repayments of loans of Fannie Mae, (3) the sale of our REO inventory, (4) proceeds from the sale and liquidation of mortgage-related securities and (5) proceeds from resolution and settlement agreements related to PLS sold to us.

Partially offsetting these cash inflows were cash outflows from: (1) the redemption of funding debt, which outpaced issuances, due to lower funding needs, (2) the payment of dividends to Treasury under our senior preferred stock purchase agreement and (3) the acquisition of delinquent loans out of MBS trusts.

Year Ended December 31, 2013. Cash and cash equivalents decreased by $1.9 billion from $21.1 billion as of December 31, 2012 to $19.2 billion as of December 31, 2013. This decrease in the balance was primarily driven by cash outflows from: (1) the payment of dividends to Treasury under our senior preferred stock purchase agreement, (2) payments to redeem debt, which outpaced issuances due to lower funding needs as we reduced our retained mortgage portfolio and (3) the acquisitions of delinquent loans out of MBS trusts.

Partially offsetting these cash outflows were cash inflows from: (1) the sale of Fannie Mae MBS, (2) proceeds from repayments of loans of Fannie Mae, (3) proceeds from the sale and liquidation of mortgage-related securities, (4) the sale of our REO inventory and (5) proceeds from resolution and settlement agreements related to representation and warranty, compensatory fees and PLS sold to us.

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. We report the deficit of our core capital over statutory minimum capital and GAAP net worth in our periodic reports on Form 10-Q and Form 10-K, and FHFA also reports them on its website. FHFA is not reporting our critical, risk-based capital or subordinated debt levels during the conservatorship. For information on our minimum capital requirements see "Note 15, Regulatory Capital Requirements."

Dodd-Frank Act—FHFA Rule Regarding Stress Testing

See "Business—Our Charter and Regulation of Our Activities—The Dodd-Frank Act—Stress Testing" for a description of FHFA's final rule implementing the Dodd-Frank Act's stress test requirements for Fannie Mae, Freddie Mac and the FHLBs.

Capital Activity

We are effectively unable to raise equity capital from private sources at this time and, therefore, are reliant on the funding available under the senior preferred stock purchase agreement to address any net worth deficit.

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 December 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 December 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. If we were to draw additional funds from Treasury under the agreement in a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement. For additional information, see "Business—Conservatorship and Treasury Agreements—Treasury Agreements—Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant—Senior Preferred Stock Purchase Agreement."

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment under the senior preferred stock purchase agreement. Moreover, we are not permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock except in limited circumstances. The limited circumstances under which Treasury's funding commitment will terminate and under which we can pay down the liquidation preference of the senior preferred stock are described in "Business—Conservatorship and Treasury Agreements—Treasury Agreements."

Dividends

Our fourth quarter 2014 dividend of $4.0 billion was declared by FHFA and subsequently paid by us on December 31, 2014, bringing our senior preferred stock dividends paid in 2014 to $20.6 billion. 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 was $3.0 billion for dividend periods in 2013, decreased to $2.4 billion for dividend periods in 2014, and to $1.8 billion for dividend periods in 2015 and will continue to be reduced by $600 million each year until it reaches zero on January 1, 2018. For each dividend period beginning in 2018, the dividend amount will be the entire amount of our net worth, if any, as of the end of the immediately preceding fiscal quarter. Based on the terms of the senior preferred stock, we expect to pay Treasury a dividend for the first quarter of 2015 of $1.9 billion by March 31, 2015. The Director of FHFA directs us to make dividend payments on the senior preferred stock on a quarterly basis.

See "Risk Factors" 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" for more information on the terms of the senior preferred stock and our senior preferred stock purchase agreement with Treasury.

OFF-BALANCE SHEET ARRANGEMENTS

We enter into certain business arrangements to facilitate our statutory purpose of providing liquidity to the secondary mortgage market and to reduce our exposure to interest rate fluctuations. Some of these arrangements are not recorded in our consolidated balance sheets or may be recorded in amounts different from the full contract or notional amount of the transaction, depending on the nature or structure of, and accounting required to be applied to, the arrangement. These arrangements are commonly referred to as “off-balance sheet arrangements” and expose us to potential losses in excess of the amounts recorded in our consolidated balance sheets.

Our off-balance sheet arrangements result primarily from the following:

- our guaranty of mortgage loan securitization and resecuritization transactions over which we do not have control;
- other guaranty transactions;
- liquidity support transactions; and
- partnership interests.

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 $31.7 billion as of December 31, 2014 and $44.3 billion as of December 31, 2013.

For more information on the mortgage loans underlying both our on- and off-balance sheet Fannie Mae MBS, as well as whole mortgage loans that we own, see “Risk Management—Credit Risk Management.”

Partnership Investment Interests

For partnership investments where we have determined that we are the primary beneficiary, we have consolidated these investments and recorded all of the partnership assets and liabilities in our consolidated balance sheets. Our partnership investments primarily consist of investments in affordable rental and for-sale housing partnerships. The carrying value of our partnership investments, including those we have consolidated, totaled $721 million as of December 31, 2014, compared with $809 million as of December 31, 2013.

LIHTC Partnership Interests

In most instances, we are not the primary beneficiary of our LIHTC partnership investments, and therefore our consolidated balance sheets reflect only our investment in the LIHTC partnership, rather than the full amount of the LIHTC partnership’s assets and liabilities. FHFA informed us in 2009 that, after consultation with Treasury, generally we are not authorized to sell or transfer our LIHTC partnership interests. Some exceptions to this rule exist in very limited circumstances and, in most cases, only with FHFA consent. In 2009, we reduced the carrying value of our LIHTC partnership investments to zero, as we no longer had both the intent and ability to sell or otherwise transfer our LIHTC investments for value. However, we still have an obligation to fund our LIHTC partnership investments and have recorded such obligation as a liability in our financial statements. We did not make any LIHTC investments in 2014, other than pursuant to existing prior commitments.

Treasury Housing Finance Agency Initiative

During 2009, we entered into a memorandum of understanding with Treasury, FHFA and Freddie Mac pursuant to which we agreed to provide assistance to state and local housing finance agencies (“HFAs”) through two primary programs, which together comprise what we refer to as the HFA initiative.

In November 2011, we entered into an Omnibus Consent to HFA Initiative Program Modifications with Treasury, Freddie Mac and FHFA pursuant to which the parties agreed to specified modifications to the HFA initiative programs, including a three-year extension of the expiration date for the temporary credit and liquidity facilities (“TCLFs”) from December 2012 to December 2015. See “Certain Relationships and Related Transactions, and Director Independence—Transactions with Related Persons—Transactions with Treasury—Treasury Housing Finance Agency Initiative” for a discussion of the HFA initiative.

Pursuant to the TCLF program that we describe in “Related Parties” in “Note 1, Summary of Significant Accounting Policies,” Treasury has purchased participation interests in TCLFs provided by us and Freddie Mac to the HFAs. These facilities create a credit and liquidity backstop for the HFAs. Our outstanding commitments under the TCLF program totaled $390 million as of December 31, 2014 and $821 million as of December 31, 2013.

Multifamily Bond Credit Enhancement Liquidity Commitments

Our total outstanding liquidity commitments to advance funds for securities backed by multifamily housing revenue bonds totaled $12.3 billion as of December 31, 2014 and $13.0 billion as of December 31, 2013. These commitments require us to advance funds to third parties that enable them to repurchase tendered bonds or securities that are unable to be remarketed. We hold cash and cash equivalents in our cash and other investments portfolio in excess of these commitments to advance funds.

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. Our risk management framework is intended to provide the basis for the principles that govern our risk management activities.

- Credit Risk. Credit risk is the potential for financial loss resulting from the failure of a borrower or institutional counterparty to honor its financial or contractual obligations, resulting in a potential loss of earnings or cash flows. In regards to financial securities or instruments, credit risk is the risk of not receiving principal, interest or any other financial obligation on a timely basis, for any reason. Credit risk exists primarily in our mortgage credit book of business and derivatives portfolio.
- Market Risk. Market risk is the exposure generated by adverse changes in the value of financial instruments caused by a change in market prices or interest rates. Two significant market risks we face and actively manage are interest rate risk and liquidity risk. Interest rate risk is the risk of changes in our long-term earnings or in the value of our assets due to fluctuations in interest rates. Liquidity risk is our potential inability to meet our funding obligations in a timely manner.
- Operational Risk. Operational risk is the loss resulting from inadequate or failed internal processes, people, systems or from external events.

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 "Business—Housing Finance Reform" and in "Risk Factors." 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, legal, regulatory and compliance, reputational, technological and cybersecurity, 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. These risks are typically brought to the attention of our Management Committee, our Board of Directors or one or more of the Board's committees and, in some cases, FHFA for discussion.

Another risk that can impact our financial condition, earnings and cash flow is model risk, which is defined as the potential for model errors to adversely affect the company. This occurs because of our use of modeled estimations of future economic environments, borrower behavior and valuation methodologies. See "Risk Factors" for a discussion of the risks associated with our reliance on models.

Our risk management framework and governance structure are intended to provide comprehensive controls and ongoing management of the major risks inherent in our business activities. Our ability to identify, assess, mitigate and control, and report and monitor risk is crucial to our safety and soundness.

- Risk Identification. Risk identification is the process of finding, recognizing and describing risk. The identification of risk facilitates effective risk management by achieving awareness of the sources, impact and magnitude of risk.
- Risk Assessment. We assess risk using a variety of methodologies, such as calculation of potential losses from loans and stress tests relating to interest rate sensitivity. When we assess risk, we look at metrics such as frequency, severity, concentration, correlation, volatility and loss. Information obtained from these assessments is reviewed on a regular basis to ensure that our risk assumptions are reasonable and reflect our current positions.
- Risk Mitigation & Control. We proactively develop appropriate mitigation strategies to prevent excessive risk exposure, address risks that exceed established tolerances and address risks that create unanticipated business impact. Mitigation strategies and controls can be in the form of reduction, transference, acceptance or avoidance of the

identified risk. We also manage risk through four control elements that are designed to work in conjunction with each other: (1) risk policies, (2) risk limits, (3) delegations of authority and (4) risk committees.

- Risk Reporting & Monitoring. Our business units actively monitor emerging and identified risks that are taken when executing our strategies. Risks and concerns are reported to the appropriate level of management to ensure that the necessary action is taken to mitigate the risk.

We manage risk by using a "three lines of defense" structure. The first line of defense is the active management of risk by the business unit. Each business unit is charged with conforming to the risk guidelines, risk appetite, risk policies and limits approved by the Board of Directors, the Board's Risk Policy & Capital Committee and the executive-level Management Committee. The second line of defense is the Enterprise Risk Management division, which is responsible for ensuring compliance with the risk framework and independently reporting on risk management issues and performance, and the Compliance division, which is responsible for developing policies and procedures to help ensure that Fannie Mae and its employees comply with the law, our code of conduct and all regulatory obligations. The third line of defense is the Internal Audit group, which is responsible for ensuring all parties are performing the actions for which they are accountable and for identifying any omissions or potential process improvements. Enterprise Risk Management reports independently to the Board's Risk Policy & Capital Committee and Internal Audit reports independently to the Board's Audit Committee.

Enterprise Risk Governance

Our enterprise risk management structure consists of the Board of Directors, executive leadership, including the Chief Risk Officer, Deputy Chief Risk Officer and Chief Credit Officer, and the Enterprise Risk Management division, designated officers responsible for managing our financial risks, business unit chief risk officers and risk management committees. This structure is designed to encourage a culture of accountability within the divisions and promote effective risk management throughout the company.

Our organizational structure and risk management framework work in conjunction with each other to identify risk-related trends with respect to customers, products or portfolios and external events and to develop appropriate strategies to mitigate emerging and identified risks.

Under our enterprise risk management framework, each business unit is responsible for managing its risks but is subject to a governance and oversight process that includes independent oversight functions, management-level risk committees and Board-level engagement.

Board of Directors

The Risk Policy & Capital Committee of the Board, pursuant to its Charter, assists the Board in overseeing our management of risk and recommends for Board approval enterprise risk governance policy and limits. In addition, the Audit Committee reviews the system of internal controls that we rely upon to provide reasonable assurance of compliance with our enterprise risk management processes.

The Board of Directors delegates day-to-day management responsibilities to the Chief Executive Officer who then further delegates this responsibility among the company's business unit heads, including the Chief Risk Officer and the Chief Compliance Officer. Risk management oversight authority, including responsibility for setting appropriate controls such as limits and policies, is delegated to the Chief Risk Officer, who then delegates certain levels of risk management oversight authority to our Chief Credit Officer and to the chief risk officers of each business unit or functional risk area (for example, model and operational risk). Management-level business risk committees serve in an advisory capacity to those officers to whom risk management authority has been delegated. In addition, certain activities require the approval of our conservator. See "Directors, Executive Officers and Corporate Governance—Corporate Governance—Conservatorship and Delegation of Authority to Board of Directors" for information about these activities.

Enterprise Risk Management Division

Our Enterprise Risk Management division reports directly to the Chief Risk Officer who reports directly to the Chief Executive Officer. The Chief Risk Officer also reports independently to the Board's Risk Policy & Capital Committee and may be removed only upon Board approval. Enterprise Risk Management is responsible for the identification of emerging risks, the monitoring and reporting of risk within the existing policies and limits, and independent oversight of risk management across the company.

Risk Committees

We use our management-level risk committees as a forum for discussing emerging risks, risk mitigation strategies and communication across business lines. Risk committees enhance the risk management framework by reinforcing our risk management culture and providing accountability for the resolution of key risk issues and decisions. Each business risk committee is chaired by the head of the business unit. In addition, the business unit chief risk officer can be designated as the committee co-chair or as a member of the committee who is responsible for the oversight of the risks discussed. Committees are also populated with key business and risk leaders from the respective business units.

The primary management-level business risk committees include the Asset Liability Committee, the Enterprise Risk Committee, the Model Oversight Committee and the Operational Risk Committee, as well as specific committees for each line of business. Executive-level risk discussions are held primarily by the Operating Committee, which consists of members of our executive management. On a periodic basis, the Chief Risk Officer prepares a detailed summary of current and emerging risks, compliance with risk limits and other risk reports, and reports on these matters to both the Operating Committee and the Risk Policy & Capital Committee of the Board. The Chief Risk Officer also reports periodically on other topics to the Risk Policy & Capital Committee of the Board, as appropriate.

Internal Audit

Our Internal Audit group, under the direction of the Chief Audit Executive, provides an objective assessment of the design and execution of our internal control system, including our management systems, risk governance and policies and procedures. The Chief Audit Executive reports directly and independently to the Audit Committee of the Board of Directors, and audit personnel are compensated based on objectives set for the group by the Audit Committee rather than corporate financial results or goals. The Chief Audit Executive reports administratively to the Chief Executive Officer and may be removed only upon approval by the Board’s Audit Committee. Internal audit activities are designed to provide reasonable assurance that resources are safeguarded; that significant financial, managerial and operating information is complete, accurate and reliable; and that employee actions comply with our policies and applicable laws and regulations.

Compliance and Ethics

The Compliance and Ethics division, under the direction of the Chief Compliance Officer, is dedicated to developing and maintaining policies and procedures to help ensure that Fannie Mae and its employees comply with the law, our Code of Conduct and all regulatory obligations. The Chief Compliance Officer reports directly to our Chief Executive Officer and independently to the Audit Committee of the Board of Directors, and Compliance and Ethics personnel are compensated on objectives set for the group by the Audit Committee of the Board of Directors rather than corporate financial results or goals. The Chief Compliance Officer may be removed only upon Board approval. The Chief Compliance Officer is responsible for overseeing our compliance activities; developing and promoting a code of ethical conduct; evaluating and investigating any allegations of misconduct; and overseeing and coordinating regulatory reporting and examinations.

Credit Risk Management

We are generally subject to two types of credit risk: mortgage credit risk and institutional counterparty credit risk. The metrics used to measure credit risk are generated using internal models. Our internal models require numerous assumptions and there are inherent limitations in any methodology used to estimate macroeconomic factors such as home prices, unemployment and interest rates, and their impact on borrower behavior. When market conditions change rapidly and dramatically, the assumptions of our models may no longer accurately capture or reflect the changing conditions. Management periodically makes judgments about the appropriateness of the risk assessments indicated by the models. See “Risk Factors” for a discussion of the risks associated with our use of models.

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. See “Glossary of Terms Used in This Report” for more detail.

Mortgage Credit Book of Business

Table 32 displays the composition of our mortgage credit book of business based on unpaid principal balance. Our single-family mortgage credit book of business accounted for 93% of our mortgage credit book of business as of December 31, 2014 and 2013.

Table 32: Composition of Mortgage Credit Book of Business

	As of December 31, 2014			December 31, 2013		
	Single-Family	Multifamily	Total	Single-Family	Multifamily	Total
	(Dollars in millions)					
Mortgage loans and Fannie Mae MBS[(1)]	$2,837,211	$187,300	$3,024,511	$2,862,306	$183,891	$3,046,197
Unconsolidated Fannie Mae MBS, held by third parties[(2)]	11,660	1,267	12,927	12,430	1,314	13,744
Other credit guarantees[(3)]	4,033	14,748	18,781	15,183	15,414	30,597
Guaranty book of business	$2,852,904	$203,315	$3,056,219	$2,889,919	$200,619	$3,090,538
Agency mortgage-related securities[(4)]	6,932	8	6,940	8,992	32	9,024
Other mortgage-related securities[(5)]	19,973	7,970	27,943	27,563	9,640	37,203
Mortgage credit book of business	$2,879,809	$211,293	$3,091,102	$2,926,474	$210,291	$3,136,765
Guaranty Book of Business Detail:						
Conventional Guaranty Book of Business[(6)]	$2,795,666	$201,763	$2,997,429	$2,827,169	$198,906	$3,026,075
Government Guaranty Book of Business[(7)]	$57,238	$1,552	$58,790	$62,750	$1,713	$64,463

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

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

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

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

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

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

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

New business purchases consist of single-family and multifamily whole mortgage loans purchased during the period and single-family and multifamily mortgage loans underlying lender swaps issued during the period. New business purchases were $409.8 billion for the year ended December 31, 2014 and $759.5 billion for the year ended December 31, 2013.

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 December 31, 2014 and 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” for a discussion of the risk that we could experience mortgage fraud as a result of this reliance on lender representations.

Single-Family Mortgage Credit Risk Management

Our strategy in managing single-family mortgage credit risk consists of four primary components: (1) our acquisition and servicing policies along with our underwriting and servicing standards, including the use of credit enhancements;

(2) portfolio diversification and monitoring; (3) management of problem loans; and (4) REO management. These approaches may increase our expenses and may not be effective in reducing our credit-related expense or credit losses. We provide information on our credit-related income and credit losses in "Consolidated Results of Operations—Credit-Related Income."

In evaluating our single-family mortgage credit risk, we closely monitor changes in housing and economic conditions and the impact of those changes on the credit risk profile and performance of our single-family mortgage credit book of business. We regularly review and provide updates to our underwriting standards and eligibility guidelines that take into consideration changing market conditions. The credit risk profile of our single-family mortgage credit book of business is influenced by, among other things, the credit profile of the borrower, features of the loan, such as the loan product type and the type of property securing the loan, the housing market and the general economy. We focus more on those loans that we believe pose a higher risk of default, which typically have been loans associated with higher mark-to-market LTV ratios, loans to borrowers with lower FICO credit scores and certain higher risk loan product categories, such as Alt-A loans. 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.

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. We provide information on non-Fannie Mae mortgage-related securities held in our portfolio in "Note 5, Investments in Securities."

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. As part of our regular evaluation of Desktop Underwriter, we conduct periodic examinations of the underlying risk assessment models and recalibrate the models based on actual loan performance and market assumptions to improve Desktop Underwriter's ability to effectively analyze risk. Subject to our prior approval, we also may purchase and securitize mortgage loans that have been underwritten using other automated underwriting systems, as well as manually underwritten mortgage loans that meet our stated underwriting requirements or meet agreed-upon standards that differ from our standard underwriting and eligibility criteria.

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. The result of many of these changes is reflected in the substantially improved risk profile of our single-family loan acquisitions since 2009. We periodically make updates to Desktop Underwriter for underwriting and eligibility changes and changes to our Selling Guide, which sets forth our policies and procedures related to selling single-family mortgages to us.

Our proprietary appraisal analysis application, Collateral Underwriter™, is now available to our lenders. This tool may be used by lenders to analyze appraisals against Fannie Mae's database of appraisals and market data before the loan is delivered to us by providing an overall risk score and detailed messaging to highlight specific aspects of the appraisal that may warrant further attention. Collateral Underwriter will be integrated with Desktop Underwriter to incorporate into a lender's existing underwriting process. Using Collateral Underwriter allows the lender to assess the appraisal and address any issues prior to delivery of the loan to us, which helps lenders mitigate repurchase risk resulting from appraisal representations and warranties.

Table 33 below displays information regarding the credit characteristics of the loans in our single-family conventional guaranty book of business by acquisition period.

Table 33: Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period

	As of December 31, 2014							
	% of Single-Family Conventional Guaranty Book of Business[(1)]		Current Estimated Mark-to-Market LTV Ratio[(2)]		Current Estimated Mark-to-Market LTV Ratio >100%[(3)]		Serious Delinquency Rate[(4)]	
2009-2014 acquisitions, excluding HARP and other Refi Plus loans	62	%	60	%	*	%	0.24	%
HARP loans[(5)]	11		86		19		1.04	

Other Refi Plus loans[6]	8		51		*		0.37	
2005-2008 acquisitions	12		81		22		8.17	
2004 and prior acquisitions	7		48		2		3.28	
Total Single-Family Book of Business	100	%	64	%	5	%	1.89	%

	As of December 31, 2013							
	% of Single-Family Conventional Guaranty Book of Business[(1)]		Current Estimated Mark-to-Market LTV Ratio[(2)]		Current Estimated Mark-to-Market LTV Ratio >100%[(3)]		Serious Delinquency Rate[(4)]	
2009-2013 acquisitions, excluding HARP and other Refi Plus loans	57	%	61	%	*	%	0.23	%
HARP loans[(5)]	11		91		25		0.84	
Other Refi Plus loans[(6)]	9		53		*		0.31	
2005-2008 acquisitions	15		86		27		9.32	
2004 and prior acquisitions	8		50		3		3.52	
Total Single-Family Book of Business	100	%	67	%	7	%	2.38	%

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* 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 December 31, 2014 and 2013.

(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 applicable period divided by the estimated current value of the properties, which we calculate using an internal valuation model that estimates periodic changes in home value. Excludes loans for which this information is not readily available.

(3) The current estimated mark-to-market LTV ratio greater than 100% is based on the unpaid principal balance of the loans with mark-to-market LTV ratios greater than 100% for each category as of the end of the applicable period divided by the aggregate unpaid principal balance of loans for each category in our single-family conventional guaranty book of business as of December 31, 2014 and 2013.

(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 December 31, 2014 serious delinquency rates of loans acquired in 2005 through 2008.

(5) HARP loans, which we began to acquire in 2009, have LTV ratios at origination in excess of 80%. In the fourth quarter of 2012, we revised our presentation of the data to reflect all loans under our Refi Plus program with LTV ratios at origination in excess of 80% as HARP loans. Previously we did not reflect loans that were backed by second homes or investor properties as HARP loans.

(6) Other Refi Plus loans, which we began to acquire in 2009, includes all other Refi Plus loans that are not HARP loans.

Beginning with loans delivered in 2013, and in conjunction with our new representation and warranty framework that is discussed below, we have made changes in our quality control process that move the primary focus of our quality control reviews from the time a loan defaults to shortly after the loan is delivered to us. We have implemented new tools to help identify loans delivered to us that may not have met our underwriting or eligibility guidelines and use these tools to help select discretionary and random samples of performing loans for quality control reviews shortly after delivery. Our quality control includes reviewing and recording underwriting defects noted in the file, and determining if the loan met our underwriting and eligibility guidelines. We also use these reviews to provide lenders with earlier feedback on underwriting defects. We derive an eligibility defect rate from our random reviews, which represents the proportion of loans in the sample population with underwriting defects that would make them potentially ineligible for delivery to us. The eligibility defect rate does not necessarily indicate how well the loans will ultimately perform. Instead, we use it to estimate the percentage of loans we acquired that potentially had a significant error in the underwriting process.

As of February 12, 2015, the eligibility defect rate for our single-family non-Refi Plus loan acquisitions in 2013 was 1.52%. Because of enhancements to the sampling methodology of our random reviews that we implemented in 2013, the eligibility defect rate for our 2013 loan acquisitions is not directly comparable to the “significant findings rate” we reported on our acquisitions in prior periods. We continue to work with lenders to reduce the number of defects identified.

We continue to actively pursue our contractual rights associated with outstanding repurchase requests. Failure by a mortgage seller or servicer to repurchase a loan or to otherwise make us whole for our losses may result in the imposition of certain sanctions including, but not limited to:

- requiring the posting of collateral,
- denying transfer of servicing requests or denying pledged servicing requests,
- modifying or suspending any contract or agreement with a lender, or
- suspending or terminating a lender or imposing some other formal sanction on a lender.

If we are unable to resolve our repurchase requests, either through collection or additional remedies, we will not recover the losses we have recognized on the associated loans. The unpaid principal balance of our outstanding repurchase requests was

$1.0 billion as of December 31, 2014, compared with $1.5 billion as of December 31, 2013. The amount of our outstanding repurchase requests is based on the unpaid principal balance of the loans underlying the repurchase requests and does not reflect the actual amount we have requested from the mortgage sellers or servicers, or the amount we ultimately believe we are going to collect, because in some cases we allow mortgage sellers or servicers to remit payment to make us whole for our losses, which is less than the unpaid principal balance of the loan.

As of December 31, 2014, 0.33% of the $728.6 billion of unpaid principal balance of single-family loans acquired in 2013 had been subject to a repurchase request, compared with 0.18% of the $2.70 trillion of unpaid principal balance of single-family loans acquired between 2009 and 2012 and 3.75% of the $2.33 trillion of unpaid principal balance of single-family loans acquired between 2005 and 2008. We believe the slightly higher percentage of repurchase requests for our 2013 acquisitions as compared with our 2009 to 2012 acquisitions is due to the new tools we implemented in 2013 that have improved our ability to identify loans with underwriting defects, as well as our shift in the primary focus of our quality control reviews from the time a loan defaults to shortly after the loan is delivered to us. We substantially completed our up-front loan reviews for potential underwriting defects on the loans we acquired in 2013 by the end of 2014. We will continue to review loans acquired beginning in 2009 for underwriting defects if a loan defaults and has not previously been reviewed and, for loans acquired beginning in 2013, if it has not already met the criteria for repurchase relief.

Representation and Warranty Framework

Our representation and warranty framework for single-family mortgage loans delivered on or after January 1, 2013, which is part of FHFA's seller-servicer contract harmonization initiative, seeks to provide lenders a higher degree of certainty and clarity regarding their repurchase exposure and liability on future deliveries, as well as consistency around repurchase timelines and remedies. Under the framework, lenders are relieved of repurchase liability for loans that meet specific payment history requirements and other eligibility requirements. For example, a lender would not be required to repurchase a mortgage loan in breach of certain underwriting and eligibility representations and warranties if the borrower has made timely payments for 36 months following the delivery date (or, for Refi Plus loans, including HARP loans, for 12 months following the delivery date), and the loan meets other specified eligibility requirements. Certain representations and warranties are "life of loan" representations and warranties, meaning that no relief from their enforcement is available to lenders regardless of the number of payments made by a borrower. Examples of life of loan representations and warranties include, but are not limited to, a lender's representation and warranty that it has originated the loan in compliance with applicable laws and that the loan conforms to our charter requirements.

In May 2014, at FHFA's direction, we and Freddie Mac announced changes to our representation and warranty framework effective for single-family mortgage loans delivered on or after July 1, 2014. The primary changes to the framework consisted of relaxing the 36-month timely payment history requirement to permit two instances of 30-day delinquency and adding an alternative path to relief if there is a satisfactory conclusion of a quality control review.

In November 2014, we and Freddie Mac announced additional changes and clarifications to our representation and warranty framework effective for single-family mortgage loans delivered on or after January 1, 2013, except for loans for which Fannie Mae has issued a repurchase request prior to November 20, 2014. The primary change to the framework was a significance test for post-relief date remedies related to misrepresentations or data inaccuracies. Under the significance test, we clarified that we will only seek repurchase on these loans if we would not have purchased the loans had we known the accurate information at the time of delivery. In addition, for whole loans delivered after November 20, 2014, and mortgage loans delivered into MBS with pool issue dates on or after December 1, 2014, we will only seek repurchase of a loan for failure to comply with applicable laws if we determine the failure to comply with laws could be expected to impair our rights under the note or mortgage, the failure to comply with laws could be expected to impose assignee liability on Fannie Mae, or if one of a specified list of laws or regulations is or may have been violated. All other remedies are unaffected by this change.

We continue to work with FHFA to identify opportunities to enhance our framework to provide the mortgage finance industry with more certainty and clarity regarding selling representation and warranty obligations.

As of December 31, 2014, approximately 29% of the outstanding loans in our single-family conventional guaranty book of business were acquired under the new representation and warranty framework, compared with 20% as of December 31, 2013. Table 34 below displays information regarding the relief status of single-family conventional loans, based on payment history, delivered to us beginning in 2013 under the new representation and warranty framework.

Table 34: Representation and Warranty Status of Single-Family Conventional Loans Acquired in 2013-2014

	As of December 31, 2014					
	Refi Plus		Non-Refi Plus		Total	
	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans
	(Dollars in millions)					
Single-family conventional loans that:						
Obtained relief	$141,393	927,345	$—	—	$141,393	927,345
Remain eligible for relief	47,154	319,830	781,590	3,733,863	828,744	4,053,693
Are not eligible for relief	2,686	16,890	9,043	44,387	11,729	61,277
Total outstanding loans acquired under the new representation and warranty framework	$191,233	1,264,065	$790,633	3,778,250	$981,866	5,042,315

	As of December 31, 2013					
	Refi Plus		Non-Refi Plus		Total	
	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans
	(Dollars in millions)					
Single-family conventional loans that:						
Obtained relief	$—	—	$—	—	$—	—
Remain eligible for relief	158,025	1,000,147	537,887	2,460,012	695,912	3,460,159
Are not eligible for relief	802	4,844	515	2,582	1,317	7,426
Total outstanding loans acquired under the new representation and warranty framework	$158,827	1,004,991	$538,402	2,462,594	$697,229	3,467,585

As of December 31, 2014, approximately 18% of loans acquired under the new representation and warranty framework had obtained relief. Providing lenders with relief from repurchasing loans for breaches of certain representations and warranties on loans acquired beginning in 2013 that meet specified eligibility requirements shifts some of the risk of non-compliance with our requirements back to us. However, we believe that we have taken appropriate steps to mitigate this risk, including moving the primary focus of our quality control reviews to shortly after the time the loans are delivered to us. We also retain the right to review any defaulted loans that were not previously reviewed and have not obtained relief, in addition to retaining the right to review all loans for any violations of life of loan representations and warranties.

Credit Enhancements

As discussed in "Business—Our Charter and Regulation of Our Activities—Charter Act," our charter generally requires credit enhancement on any single-family conventional mortgage loan that we purchase or securitize if it has an LTV ratio over 80% at the time of purchase. However, under HARP, we allow our borrowers who have mortgage loans with current LTV ratios above 80% to refinance their mortgages without obtaining new mortgage insurance in excess of what was already in place. See "Credit Profile Summary—HARP and Refi Plus Loans" below for more discussion of HARP and its impact on our single-family conventional business volume and guaranty book of business.

Borrower-paid primary mortgage insurance is the most common type of credit enhancement in our single-family guaranty book of business. Primary mortgage insurance transfers varying portions of the credit risk associated with a mortgage loan to a third-party insurer. In order for us to receive a payment in settlement of a claim under a primary mortgage insurance policy, the insured loan must be in default and the borrower's interest in the property that secured the loan must have been extinguished, generally in a foreclosure action. The claims process for primary mortgage insurance typically takes three to six months after title to the property has been transferred.

Mortgage insurers may also provide pool mortgage insurance, which is insurance that applies to a defined group of loans. Pool mortgage insurance benefits typically are based on actual loss incurred and are subject to an aggregate loss limit. Under some of our pool mortgage insurance policies, we are required to meet specified loss deductibles before we can recover under

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the policy. We typically collect claims under pool mortgage insurance three to six months after disposition of the property that secured the loan. For a discussion of our aggregate mortgage insurance coverage as of December 31, 2014 and 2013, see "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Credit Guarantors—Mortgage Insurers."

Risk-Sharing Transactions

FHFA's 2014 conservatorship scorecard included an objective to transact credit risk transfers on single-family mortgages with at least $90 billion of unpaid principal balance, adjusted for the amount of credit risk transferred. Our primary method of achieving this objective was through the issuance of CAS, which transfer some of the credit risk associated with losses on the underlying mortgage loans to investors in these securities. During 2014, we issued $5.8 billion in CAS, transferring some of the credit risk on single-family mortgages with an unpaid principal balance of $222.2 billion. In addition to our CAS offerings, we executed additional types of credit risk sharing transactions in 2014. For information on our credit risk transfer transaction with a panel of reinsurers, see "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Credit Guarantors—Reinsurers."

In a CAS transaction, we create a reference pool consisting of recently acquired single-family mortgage loans included in our single-family guaranty book of business in our consolidated balance sheet. We then create a hypothetical securitization structure with notional credit risk positions, or tranches (e.g., first loss, mezzanine and senior). We receive cash and issue CAS (which relate to the mezzanine loss position) to investors, which we recognize as "Debt of Fannie Mae" in our consolidated balance sheet.

We are obligated to make payments of principal and interest on the CAS, and we recognize the interest paid as "Long-term debt interest expense" in our consolidated statements of operations and comprehensive income. The principal balance of the CAS is reduced as a result of principal liquidations of loans in the reference pool or when certain specified credit events (such as a loan becoming 180 days delinquent) occur on the loans in the reference pool. In turn, these credit events may reduce the total amount of payments we ultimately make on the CAS. However, principal reductions will first occur on the first loss position, which is retained by us, until it is fully reduced before the CAS begin participating in reductions to the principal balances. As the reference pools underlying CAS issued to date consist of recently acquired single-family mortgage loans (loans in the reference pools underlying the 2014 transactions were acquired between October 2012 and August 2013), we have recognized minimal credit losses on loans in these reference pools to date.

Table 35 displays the credit risk transferred to third parties and retained by Fannie Mae pursuant to our 2013 and 2014 CAS transactions.

Table 35: Credit Risk Transferred Pursuant to CAS Issuances

	At Issuance					As of December 31, 2014
	Retained by Fannie Mae			Transferred to Third Parties		
	First Loss Position	Mezzanine Loss Position	Senior Loss Position	Mezzanine Loss Position	Total Reference Pool	Total Outstanding Reference Pool[1]
	(Dollars in millions)					
2014 CAS issuances:						
CAS 2014 C01	$88	$41	$28,430	$750	$29,309	$27,400
CAS 2014 C02	231	98	58,889	1,600	60,818	57,972
CAS 2014 C03	301	138	75,734	2,050	78,223	75,557
CAS 2014 C04	225	78	52,122	1,449	53,874	53,401
Total 2014 CAS issuances	$845	$355	$215,175	$5,849	$222,224	$214,330
Prior year CAS issuances:						
CAS 2013 C01	80	47	25,954	675	26,756	24,433

Total CAS issuances	$925	$402	$241,129	$6,524	$248,980	$238,763	
Total outstanding reference pool as a percentage of single-family conventional guaranty book of business						8.54	%

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(1) Includes $6.2 billion outstanding for the mezzanine loss tranche transferred to third parties as of December 31, 2014.

FHFA's 2015 conservatorship scorecard includes an objective that we transact credit risk transfers on reference pools of single-family mortgages with an unpaid principal balance of at least $150 billion in 2015, with this unpaid principal balance requirement to be reviewed periodically and adjusted as necessary to reflect market conditions. In meeting this target, we must utilize at least two types of risk transfer structures.

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. In some cases, we may decide to significantly reduce our participation in riskier loan product categories. We also review the payment performance of loans in order to help identify potential problem loans early in the delinquency cycle and to guide the development of our loss mitigation strategies.

The profile of our guaranty book of business is comprised of the following key loan attributes:

- LTV ratio. LTV ratio is a strong predictor of credit performance. The likelihood of default and the gross severity of a loss in the event of default are typically lower as the LTV ratio decreases. This also applies to the estimated mark-to-market LTV ratios, particularly those over 100%, as this indicates that the borrower's mortgage balance exceeds the property value.
- Product type. Certain loan product types have features that may result in increased risk. Generally, intermediate-term, fixed-rate mortgages exhibit the lowest default rates, followed by long-term, fixed-rate mortgages. Historically, adjustable-rate mortgages ("ARMs"), including negative-amortizing and interest-only loans, and balloon/reset mortgages have exhibited higher default rates than fixed-rate mortgages, partly because the borrower's payments rose, within limits, as interest rates changed.
- Number of units. Mortgages on one-unit properties tend to have lower credit risk than mortgages on two-, three- or four-unit properties.
- Property type. Certain property types have a higher risk of default. For example, condominiums generally are considered to have higher credit risk than single-family detached properties.
- Occupancy type. Mortgages on properties occupied by the borrower as a primary or secondary residence tend to have lower credit risk than mortgages on investment properties.
- Credit score. Credit score is a measure often used by the financial services industry, including our company, to assess borrower credit quality and the likelihood that a borrower will repay future obligations as expected. A higher credit score typically indicates lower credit risk.
- Loan purpose. Loan purpose refers to how the borrower intends to use the funds from a mortgage loan—either for a home purchase or refinancing of an existing mortgage. Cash-out refinancings have a higher risk of default than either mortgage loans used for the purchase of a property or other refinancings that restrict the amount of cash returned to the borrower.
- Geographic concentration. Local economic conditions affect borrowers' ability to repay loans and the value of collateral underlying loans. Geographic diversification reduces mortgage credit risk.
- Loan age. We monitor year of origination and loan age, which is defined as the number of years since origination. Credit losses on mortgage loans typically do not peak until the third through six years following origination; however, this range can vary based on many factors, including changes in macroeconomic conditions and foreclosure timelines.

Table 36 displays our single-family conventional business volumes and our single-family conventional guaranty book of business, based on certain key risk characteristics that we use to evaluate the risk profile and credit quality of our single-family loans.

Table 36: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business[1]

	Percent of Single-Family Conventional Business Volume[2] For the Year Ended December 31,						Percent of Single-Family Conventional Guaranty Book of Business[3][4] As of December 31,					
	2014		2013		2012		2014		2013		2012	
Original LTV ratio:[5]												
<= 60%	16	%	22	%	25	%	21	%	22	%	23	%
60.01% to 70%	12		14		15		14		15		15	
70.01% to 80%	40		35		35		38		38		39	
80.01% to 90%[6]	13		10		9		11		10		10	
90.01% to 100%[6]	16		12		8		11		10		10	
100.01% to 125%[6]	2		4		5		3		3		2	
Greater than 125%[6]	1		3		3		2		2		1	
Total	100	%	100	%	100	%	100	%	100	%	100	%
Weighted average	77	%	76	%	75	%	75	%	74	%	73	%
Average loan amount	$202,834		$204,750		$213,515		$159,997		$160,357		$157,512	
Estimated mark-to-market LTV ratio:[7]												
<= 60%							42	%	38	%	28	%
60.01% to 70%							19		19		15	
70.01% to 80%							18		19		22	
80.01% to 90%							10		11		13	
90.01% to 100%							6		6		9	
100.01% to 125%							4		5		8	
Greater than 125%							1		2		5	
Total							100	%	100	%	100	%
Weighted average							64	%	67	%	75	%
Product type:												
Fixed-rate:[8]												
Long-term	78	%	76	%	74	%	74	%	72	%	72	%
Intermediate-term	17		22		23		17		18		17	
Interest-only	—		*		*		1		1		1	
Total fixed-rate	95		98		97		92		91		90	
Adjustable-rate:												
Interest-only	*		*		*		2		2		3	
Other ARMs	5		2		3		6		7		7	
Total adjustable-rate	5		2		3		8		9		10	
Total	100	%	100	%	100	%	100	%	100	%	100	%
Number of property units:												
1 unit	97	%	97	%	98	%	97	%	97	%	97	%
2-4 units	3		3		2		3		3		3	
Total	100	%	100	%	100	%	100	%	100	%	100	%
Property type:												
Single-family homes	90	%	90	%	91	%	91	%	91	%	91	%
Condo/Co-op	10		10		9		9		9		9	
Total	100	%	100	%	100	%	100	%	100	%	100	%
Occupancy type:												
Primary residence	87	%	87	%	89	%	88	%	88	%	89	%
Second/vacation home	4		4		4		4		4		4	

Investor	9	9	7	8	8	7
Total	100 %	100 %	100 %	100 %	100 %	100 %

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	Percent of Single-Family Conventional Business Volume[2] For the Year Ended December 31,			Percent of Single-Family Conventional Guaranty Book of Business[3][4] As of December 31,		
	2014	2013	2012	2014	2013	2012
FICO credit score at origination:						
< 620[9]	1 %	1 %	1 %	3 %	3 %	3 %
620 to < 660	6	4	2	5	5	6
660 to < 700	13	10	7	12	12	12
700 to < 740	21	18	16	19	19	20
>= 740	59	67	74	61	61	59
Total	100 %	100 %	100 %	100 %	100 %	100 %
Weighted average	744	753	761	744	744	742
Loan purpose:						
Purchase	52 %	30 %	21 %	31 %	28 %	28 %
Cash-out refinance	16	14	14	20	21	24
Other refinance	32	56	65	49	51	48
Total	100 %	100 %	100 %	100 %	100 %	100 %
Geographic concentration:[10]						
Midwest	15 %	14 %	16 %	15 %	15 %	15 %
Northeast	15	17	17	19	19	19
Southeast	20	20	19	22	22	23
Southwest	20	17	16	16	16	16
West	30	32	32	28	28	27
Total	100 %	100 %	100 %	100 %	100 %	100 %
Origination year:						
< = 2005				10 %	13 %	18 %
2006				3	3	5
2007				4	5	7
2008				2	3	5
2009				6	7	11
2010				9	10	13
2011				10	11	15
2012				24	26	26
2013				21	22	—
2014				11	—	—
Total				100 %	100 %	100 %

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

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

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

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

(4) Our single-family conventional guaranty book of business includes jumbo-conforming and high-balance loans that represented approximately 5% of our single-family conventional guaranty book of business as of December 31, 2014, 2013 and 2012. See “Business—Our Charter and Regulation of Our Activities—Charter Act—Loan Standards” and “Credit Profile Summary—Jumbo-Conforming and High-Balance Loans” for information on our loan limits.

(5)

The original LTV ratio generally is based on the original unpaid principal balance of the loan divided by the appraised property value reported to us at the time of acquisition of the loan. Excludes loans for which this information is not readily available.

(6) We purchase loans with original LTV ratios above 80% as part of our mission to serve the primary mortgage market and provide liquidity to the housing finance system. Except as permitted under HARP, our charter generally requires primary mortgage insurance or other credit enhancement for loans that we acquire that have an LTV ratio over 80%.

(7) The aggregate estimated mark-to-market LTV ratio is based on the unpaid principal balance of the loan as of the end of each reported period divided by the estimated current value of the property, which we calculate using an internal valuation model that estimates periodic changes in home value. Excludes loans for which this information is not readily available.

(8) Long-term fixed-rate consists of mortgage loans with maturities greater than 15 years, while intermediate-term fixed-rate loans have maturities equal to or less than 15 years. Loans with interest-only terms are included in the interest-only category regardless of their maturities.

(9) Loans acquired after 2009 with FICO credit scores below 620 consist primarily of the refinance of existing loans under our Refi Plus initiative.

(10) Midwest consists of IL, IN, IA, MI, MN, NE, ND, OH, SD and WI. Northeast consists of CT, DE, ME, MA, NH, NJ, NY, PA, PR, RI, VT and VI. Southeast consists of AL, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA and WV. Southwest consists of AZ, AR, CO, KS, LA, MO, NM, OK, TX and UT. West consists of AK, CA, GU, HI, ID, MT, NV, OR, WA and WY.

Credit Profile Summary

Overview

Our acquisition of loans with original LTV ratios over 80% increased to 32% in 2014, compared with 29% in 2013. This increase was primarily due to an increase in our acquisitions of home purchase mortgage loans, which increased to 52% in 2014, compared with 30% in 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 59% in 2014, compared with 67% in 2013. Our acquisition of loans with FICO credit scores at origination of less than 700 increased to 20% in 2014, compared with 15% in 2013. The weighted average FICO credit score at origination of our acquisitions decreased to 744 in 2014, compared with 753 in 2013.

Although our acquisitions in 2014 included a greater proportion of loans with higher LTV ratios or lower FICO credit scores compared with our acquisitions in 2013, our acquisitions in 2014 continued to have a strong credit profile with a weighted average original LTV ratio of 77% and a weighted average FICO credit score of 744. The average original LTV ratio of single-family loans we acquired in 2014, excluding HARP loans, was 75%, compared with 102% for HARP loans. The weighted average FICO credit score at origination of the single-family mortgage loans we acquired in 2014, excluding HARP loans, was 746, compared with 704 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, FHA and VA, the percentage of loan originations representing refinancings, changes in interest rates, our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers, government policy, market and competitive conditions, and the volume and characteristics of HARP loans we acquire in the future. We expect the ultimate performance of all our loans will be affected by borrower behavior, public policy and macroeconomic trends, including unemployment, the economy and home prices. In addition, if lender customers retain more of the higher-quality loans they originate, it could negatively affect the credit profile of our new single-family acquisitions. We discuss our efforts to increase access to mortgage credit for creditworthy borrowers in "Business—Executive Summary—Single-Family Guaranty Book of Business—Recently Acquired Single-Family Loans."

HARP and Refi Plus Loans

Since 2009, we have offered HARP under our Refi Plus initiative, which was designed to expand refinancing opportunities for borrowers who may otherwise be unable to refinance their mortgage loans due to a decline in home values. HARP offers 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 that have note dates prior to June 2009 with current LTV ratios greater than 80% to refinance their mortgages without obtaining new mortgage insurance in excess of what is already in place. Accordingly, HARP loans have LTV ratios at origination in excess of 80%. HARP loans cannot (1) be an adjustable-rate mortgage loan, if the initial fixed period is less than five years; (2) have an interest only feature, which permits the payment of interest without a payment of principal; (3) be a balloon mortgage loan; or (4) have the potential for negative amortization. In April 2013, FHFA announced the extension of the ending date for HARP to December 31, 2015.

The loans we acquire under HARP have higher LTV ratios than we would otherwise permit, greater than 100% in some cases. Since 2012, we have permitted HARP loans with LTV ratios greater than 125% for fixed-rate loans of eligible borrowers. In addition to the high LTV ratios that characterize HARP loans, some borrowers for HARP and Refi Plus loans may also have lower FICO credit scores and may provide less documentation than we would otherwise require. As of December 31, 2014, HARP loans, which constituted 11% of our single-family book of business, had a weighted average FICO credit score at origination of 731 compared with 744 for loans in our single-family book of business overall.

Loans we acquire under Refi Plus and HARP represent refinancings of loans that are already in our guaranty book of business. The credit risk associated with the newly acquired loans essentially replaces the credit risk on the loans that we already held prior to the refinancing. These loans have higher risk profiles and higher serious delinquency rates than the other loans we have acquired since the beginning of 2009. However, we expect these loans will perform better than the loans they replace because HARP and Refi Plus loans should either reduce the borrowers' monthly payments or provide more stable terms than the borrowers' old loans (for example, by refinancing into a mortgage with a fixed interest rate instead of an adjustable rate).

The percentage of our acquisitions that are refinanced loans, including loans acquired under our Refi Plus initiative, which includes HARP, has continued to decline. HARP loans constituted approximately 6% of our total single-family acquisitions in 2014, compared with approximately 14% of total single-family acquisitions in 2013 and 16% in 2012. We expect the volume of refinancings under HARP to continue to decline, due to a decrease in the population of borrowers with loans that have high LTV ratios who are willing to refinance and would benefit from refinancing.

For information on the serious delinquency rates and current mark-to-market LTV ratios as of December 31, 2014 and 2013 of single-family loans we acquired under HARP and Refi Plus, compared with other single-family loans we have acquired, see "Table 33: Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period."

Alt-A Loans

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

We do not rely solely on our classifications of loans as Alt-A to evaluate the credit risk exposure relating to these loans in our single-family conventional guaranty book of business. For more information about the credit risk characteristics of loans in our single-family guaranty book of business, see "Table 36: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business," "Note 3, Mortgage Loans" and "Note 16, Concentrations of Credit Risk."

Our exposure to Alt-A loans included in our single-family conventional guaranty book of business, based on the classification criteria described in this section, does not include (1) our investments in private-label mortgage-related securities backed by Alt-A loans or (2) resecuritizations, or wraps, of private-label mortgage-related securities backed by Alt-A mortgage loans that we have guaranteed. See "Note 5, Investments in Securities" for more information on our exposure to private-label mortgage-related securities backed by Alt-A loans. 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 have classified a mortgage loan as Alt-A if and only if the lender that delivered the loan to us classified the loan as Alt-A, based on documentation or other features. The unpaid principal balance of Alt-A loans included in our single-family conventional guaranty book of business of $116.6 billion as of December 31, 2014, represented approximately 4% of our single-family conventional guaranty book of business.

Jumbo-Conforming and High-Balance Loans

The outstanding unpaid principal balance of our jumbo-conforming and high-balance loans was $145.0 billion, or 5.2% of our single-family conventional guaranty book of business as of December 31, 2014 compared with $142.3 billion, or 5.0% of our single-family conventional guaranty book of business as of December 31, 2013. The standard conforming loan limit for a one-unit property was $417,000 in 2014 and 2013. From 2008 to 2011, our loan limits were higher in specified high-cost areas, reaching as high as $729,750 for one-unit properties; however, our loan limits for loans originated after September 30, 2011 decreased in specified high-cost areas to an amount not to exceed $625,500 for one-unit properties. Our current loan limits apply to all new acquisitions; therefore, we cannot refinance any of our existing loans that are above our current loan limits. See "Business—Our Charter and Regulation of Our Activities—Charter Act—Loan Standards" for additional information on our loan limits.

Reverse Mortgages

The outstanding unpaid principal balance of reverse mortgage loans and Fannie Mae MBS backed by reverse mortgage loans in our guaranty book of business was $44.7 billion as of December 31, 2014 and $48.0 billion as of December 31, 2013. Since December 2010, we ceased acquisitions of newly originated reverse mortgages. The principal balance of our reverse mortgage loans could increase over time, as each month the scheduled and unscheduled payments, interest, mortgage insurance premium, servicing fee and default-related costs accrue to increase the unpaid principal balance. The majority of these loans are home equity conversion mortgages insured by the federal government through FHA. Because home equity conversion mortgages are insured by the federal government, we believe that we have limited exposure to credit losses on these loans.

Mortgage Rate Resets

Adjustable-rate mortgages ("ARMs") are mortgage loans with an interest rate that adjusts periodically over the life of the mortgage based on changes in a specified index. Interest-only loans allow the borrower to pay only the monthly interest due, and none of the principal, for a fixed term. The majority of our interest-only loans are ARMs. Our negative-amortizing loans are ARMs that allow the borrower to make monthly payments that are less than the interest actually accrued for the period. The unpaid interest is added to the principal balance of the loan, which increases the outstanding loan balance. ARMs represented approximately 8% of our single-family conventional guaranty book of business as of December 31, 2014.

Rate reset modifications are mortgage loans we have modified with terms that include a reduction in the borrowers' interest rate that is fixed for an initial period and is followed by one or more annual interest rate increases in the future. The majority of our rate reset modifications are performing HAMP modifications with fixed interest rates for an initial five year period followed by one or more annual interest rate increases, of up to one percent per year, until the mortgage rate reaches the prevailing market rate at the time of modification.

Table 37 displays information for ARMs, rate reset modifications and fixed-rate interest-only loans in our single-family guaranty book of business, aggregated by product type and categorized by the year of their next scheduled contractual reset date. The contractual reset is either an adjustment to the loan's interest rate or a scheduled change to the loan's monthly payment to begin to reflect the payment of principal. The timing of the actual reset dates may differ from those presented due to a number of factors, including refinancing or exercising of other provisions within the terms of the mortgage.

Table 37: Single-Family Adjustable-Rate Mortgage and Rate Reset Modifications by Year[(1)]

	Reset Year						
	2015	2016	2017	2018	2019	Thereafter	Total
	(Dollars in millions)						
ARMs—Amortizing	$34,933	$6,669	$7,175	$9,537	$14,240	$20,511	$93,065
ARMs—Interest Only	28,879	1,188	1,500	1,046	1,081	2,274	35,968
ARMs—Negative Amortizing	3,791	154	2	—	—	—	3,947
Rate Reset Modifications	50,122	19,166	8,684	5,957	4,123	151	88,203
Fixed-Rate Interest Only	486	2,534	4,913	1,021	50	314	9,318

(1) Excludes loans for which there is not an additional reset for the remaining life of the loan.

We have not observed a materially different performance trend for interest-only loans or negative-amortizing loans that have recently reset as compared to those that are still in the initial period. We believe the current performance trend is the result of the current low interest rate environment and do not expect this trend to continue if interest rates rise significantly. We discuss interest rate resets for modifications in "Problem Loan Management—Loan Workout Metrics" below.

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.

We seek to improve the servicing of our delinquent loans through a variety of means, including improving our communications with and training of our servicers, directing servicers to contact borrowers at an earlier stage of delinquency and improve their telephone communications with borrowers, and holding our servicers accountable for following our requirements. In 2011, we issued new standards for mortgage servicers regarding the management of delinquent loans, default prevention and foreclosure time frames under FHFA's directive to align GSE policies for servicing delinquent mortgages. The new standards, reinforced by new incentives and compensatory fees, require servicers to take a more consistent approach for homeowner communications, loan modifications and other workouts, and, when necessary, foreclosures.

In addition to the new standards, we took other steps to improve the servicing of our delinquent loans, which included transferring servicing on loan populations that include loans with higher-risk characteristics to special servicers with which we have worked to develop high-touch protocols for servicing these loans. We believe retaining special servicers to service these loans using high-touch protocols will reduce our future credit losses on the transferred loan portfolio. We continue to work with some of our servicers to test and implement high-touch servicing protocols designed for managing higher-risk loans, which include lower ratios of loans per servicer employee, beginning borrower outreach strategies earlier in the delinquency cycle and establishing a single point of contact for distressed borrowers.

The efforts of our mortgage servicers are critical in keeping people in their homes and preventing foreclosures. We continue to work with our servicers to implement our foreclosure prevention initiatives effectively and to find ways to enhance our workout protocols and their workflow processes.

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

Table 38 displays the delinquency status of loans in our single-family conventional guaranty book of business (based on number of loans) and changes in the balance of seriously delinquent loans in our single-family conventional guaranty book of business.

Table 38: Delinquency Status and Activity of Single-Family Conventional Loans

	As of December 31,		
	2014	2013	2012
Delinquency status:			
30 to 59 days delinquent	1.47 %	1.64 %	1.96 %
60 to 89 days delinquent	0.43	0.49	0.66
Seriously delinquent (“SDQ”)	1.89	2.38	3.29
Percentage of SDQ loans that have been delinquent for more than 180 days	70 %	73 %	72 %
Percentage of SDQ loans that have been delinquent for more than two years	34	36	30

	For the Year Ended December 31,		
	2014	2013	2012
Single-family SDQ loans (number of loans):			
Beginning balance	418,837	576,591	690,911
Additions	306,464	378,027	512,618
Removals:			
Modifications and other loan workouts	(118,860)	(157,336)	(165,489)
Liquidations	(151,586)	(226,976)	(279,838)
Cured or less than 90 days delinquent	(125,265)	(151,469)	(181,611)
Total removals	(395,711)	(535,781)	(626,938)
Ending balance	329,590	418,837	576,591

Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010. The decrease in our serious delinquency rate is primarily the result of home retention solutions, foreclosure alternatives and completed foreclosures, improved loan payment performance, as well as our acquisition of loans with stronger credit profiles since the beginning of 2009. Loans we acquired since 2009 comprised 81% of our single-family guaranty book of business and had a serious delinquency rate of 0.36% as of December 31, 2014.

Although our single-family serious delinquency rate has decreased, the pace of declines in our single-family serious delinquency rate has slowed in recent months and we expect this trend to continue. Our single-family serious delinquency rate and the period of time that loans remain seriously delinquent continue to be negatively impacted by the length of time required to complete a foreclosure in some states. High levels of foreclosures, changes in state foreclosure laws, new federal and state servicing requirements imposed by regulatory actions and legal settlements, and the need for servicers to adapt to these changes have lengthened the time it takes to foreclose on a mortgage loan in a number of states, particularly in New York, Florida and New Jersey. Longer foreclosure timelines result in these loans remaining in our book of business for a longer time, which has caused our serious delinquency rate to decrease more slowly in the last few years than it would have if the pace of foreclosures had been faster. We believe the slow pace of foreclosures in certain areas of the country will continue to negatively affect our single-family serious delinquency rates, foreclosure timelines and credit-related income (expense). Other factors such as the pace of loan modifications, 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.

Certain higher-risk loan categories, such as Alt-A loans and loans with higher mark-to-market LTV ratios, and our 2005 through 2008 loan vintages continue to exhibit higher than average delinquency rates and/or account for a higher share of our credit losses. Our 2005 to 2008 loan vintages represented approximately 51% of the loans added to our seriously delinquent loan population in 2014. 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 39 displays the serious delinquency rates for, and the percentage of our total seriously delinquent single-family conventional loans represented by, the specified loan categories. We also include information for our loans in California, as this state accounts for a large share of our single-family conventional guaranty book of business. The reported categories are not mutually exclusive.

Table 39: Single-Family Conventional Seriously Delinquent Loan Concentration Analysis

	As of December 31,								
	2014			2013			2012		
	Percentage of Book Outstanding	Percentage of Seriously Delinquent Loans[1]	Serious Delinquency Rate	Percentage of Book Outstanding	Percentage of Seriously Delinquent Loans[1]	Serious Delinquency Rate	Percentage of Book Outstanding	Percentage of Seriously Delinquent Loans[1]	Serious Delinquency Rate
States:									
California	20 %	5 %	0.70 %	20 %	6 %	0.98 %	19 %	7 %	1.69 %
Florida	6	15	4.42	6	19	6.89	6	21	10.06
Illinois	4	6	2.36	4	6	3.12	4	6	4.70
New Jersey	4	10	5.78	4	8	6.25	4	7	6.92
New York	5	10	4.17	5	9	4.42	6	7	4.70
All other states	61	54	1.52	61	52	1.85	61	52	2.56
Product type:									
Alt-A	4	18	7.77	5	19	9.23	6	20	11.36
Vintages[2]:									
2004 and prior	7	28	3.26	9	27	3.50	13	27	3.61
2005	3	12	6.18	4	13	7.26	5	14	7.79
2006	3	16	9.61	3	18	11.26	5	19	12.15
2007	4	23	10.79	5	25	12.18	7	26	12.99
2008	2	8	6.27	3	8	6.69	5	9	6.63
2009	6	3	1.00	7	3	0.98	11	2	0.88
2010	9	3	0.59	10	2	0.56	13	2	0.48
2011	10	2	0.42	11	2	0.34	15	1	0.22
2012	24	3	0.27	26	2	0.17	26	*	0.04
2013	21	2	0.22	22	*	0.04	—	—	—
2014	11	*	0.04	—	—	—	—	—	—
Estimated mark-to-market LTV ratio:									
<= 60%	42	23	0.88	38	19	0.97	28	12	1.08
60.01% to 70%	19	12	1.36	19	11	1.47	15	8	1.84
70.01% to 80%	18	14	1.75	19	13	1.90	22	11	1.86
80.01% to 90%	10	14	3.04	11	14	3.53	13	12	3.50
90.01% to 100%	6	12	4.59	6	12	5.53	9	12	5.37
Greater than 100%	5	25	10.98	7	31	12.22	13	45	13.42
Credit enhancement:									
Credit enhanced	16	27	3.47	15	27	4.75	14	28	7.09
Non-credit enhanced	84	73	1.62	85	73	2.00	86	72	2.70

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

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

(2) 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 December 31, 2014 serious delinquency rates of loans acquired in 2005 through 2008.

Loan Workout Metrics

We continue to work with our servicers to implement our home retention and foreclosure prevention initiatives. Loan modifications involve changes to the original mortgage terms such as product type, interest rate, amortization term, maturity date and/or unpaid principal balance. For many of our modifications, we will ultimately collect less than the contractual amount due under the original loan. Other resolutions and modifications may result in our receiving the full amount due, or certain installments due, under the loan over a period of time that is longer than the period of time originally provided for under the terms of the loan. 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. Our primary loan modification initiatives include HAMP, a modification initiative under the Making Home Affordable Program, and our proprietary standard and streamlined modification initiatives. The number of HAMP-eligible borrowers has declined in recent years and completed HAMP modifications represented only 14% of our modifications completed in 2014. After a servicer determines that the borrower's hardship is not temporary in nature, we require that servicers first evaluate borrowers for eligibility under a workout option before considering foreclosure. Not all borrowers facing foreclosure will be eligible for a modification. We work with servicers to ensure that borrowers who do not qualify for a modification or who fail to successfully complete the required trial period are provided with alternative home retention options or a foreclosure prevention alternative.

Program guidance for the majority of our modifications, including HAMP, directs servicers either to cancel or to convert trial modifications to permanent modifications after three or four timely payments, depending on the borrower's circumstances. During 2014, we completed approximately 123,000 modifications representing 75% of the trials initiated in the 12 month period ending September 30, 2014, compared with 160,000 completed modifications in 2013 representing 80% of the trials initiated in the 12 month period ending September 30, 2013. As of December 31, 2014, there were approximately 40,400 borrowers in the trial modification period.

In addition, we continue to focus on foreclosure alternatives for borrowers who are unable to retain their homes. 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. 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 to sell the home prior to foreclosure in a short sale, whereby the borrower sells the home for less than the full amount owed to Fannie Mae under the mortgage loan. 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 2014, we received net sales proceeds from our short sale transactions equal to 72% of the loans' unpaid principal balance, compared with 67% in 2013. The existence of a second lien may limit our ability to provide borrowers with loan workout options, particularly those that are part of our foreclosure prevention efforts; however, we are not required to contact a second lien holder to obtain their approval prior to providing a borrower with a loan modification.

Table 40 displays statistics on our single-family loan workouts that were completed, by type. These statistics include loan modifications but do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as TDRs, or repayment or forbearance plans that have been initiated but not completed.

Table 40: Statistics on Single-Family Loan Workouts

	For the Year Ended December 31,					
	2014		2013		2012	
	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans
	(Dollars in millions)					
Home retention strategies:						
Modifications	$20,686	122,823	$28,801	160,007	$30,640	163,412
Repayment plans and forbearances completed[1]	986	7,309	1,594	12,022	3,298	23,329
Total home retention strategies	21,672	130,132	30,395	172,029	33,938	186,741
Foreclosure alternatives:						
Short sales	4,795	23,188	9,786	46,570	15,916	73,528
Deeds-in-lieu of foreclosure	1,786	11,292	2,504	15,379	2,590	15,204
Total foreclosure alternatives	6,581	34,480	12,290	61,949	18,506	88,732
Total loan workouts	$28,253	164,612	$42,685	233,978	$52,444	275,473
Loan workouts as a percentage of single-family guaranty book of business	0.99 %	0.94 %	1.48 %	1.33 %	1.85 %	1.57 %

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(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.

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

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.

The majority of our home retention strategies, including trial modifications and loans to certain borrowers who received bankruptcy relief, are classified as TDRs upon initiation.

Table 41 displays the unpaid principal balance of loans post-modification related to our single-family TDRs. For more information on the impact of TDRs, see "Note 3, Mortgage Loans."

Table 41: Single-Family Troubled Debt Restructuring Activity

	For the Year Ended December 31,		
	2014	2013	2012
	(Dollars in millions)		
Beginning balance	$200,507	$207,405	$177,484
New TDRs	19,050	26,320	54,032
Foreclosures[1]	(10,484)	(13,192)	(13,752)
Payoffs[2]	(7,658)	(16,054)	(6,992)
Other[3]	(4,116)	(3,972)	(3,367)
Ending balance	$197,299	$200,507	$207,405

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(1) Consists of foreclosures, deeds-in-lieu of foreclosure, short sales and third-party sales.

(2) Consists of full borrower payoffs and repurchases of loans that were successfully resolved through payment by mortgage sellers and servicers.

(3) Primarily includes monthly principal payments.

Table 42 displays the percentage of our single-family loan modifications completed during 2013 and 2012 that were current or paid off one year after modification, as well as the percentage of our single-family loan modifications completed during 2012 that were current or paid off two years after modification.

Table 42: Percentage of Single-Family Loan Modifications That Were Current or Paid Off at One and Two Years Post-Modification(1)

	2013				2012			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
One Year Post-Modification								
HAMP modifications	83 %	83 %	84 %	83 %	82 %	82 %	81 %	79 %
Non-HAMP modifications	71	71	72	73	74	74	72	70
Total	73	73	74	75	76	76	75	73
Two Years Post-Modification								
HAMP modifications					81 %	80 %	80 %	78 %
Non-HAMP modifications					72	72	71	71
Total					74	74	75	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.

Approximately 55% of our performing loan modifications include a reduction in the borrower's interest rate that is fixed for an initial period and may be followed by one or more annual interest rate increases. The majority of these modifications with rate resets are scheduled to have their first interest rate resets in 2015. These interest rate increases could adversely affect the performance of these modifications. See "Table 37: Single-Family Adjustable-Rate Mortgage and Rate Reset Modifications by Year" in "Credit Portfolio Summary—Mortgage Rate Resets" for additional information on the timing of these initial interest rate resets.

There is significant uncertainty regarding the ultimate long term success of our 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" 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 43 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 43: Single-Family Foreclosed Properties

	For the Year Ended December 31,		
	2014	2013	2012
Single-family foreclosed properties (number of properties):			
Beginning of period inventory of single-family foreclosed properties (REO)[1]	103,229	105,666	118,528
Acquisitions by geographic area:[2]			
Midwest	26,013	39,113	50,583
Northeast	15,337	13,235	12,008
Southeast	48,647	57,090	58,411
Southwest	13,437	18,923	28,541
West	13,203	16,023	24,936
Total properties acquired through foreclosure[1]	116,637	144,384	174,479
Dispositions of REO	(132,803)	(146,821)	(187,341)
End of period inventory of single-family foreclosed properties (REO)[1]	87,063	103,229	105,666
Carrying value of single-family foreclosed properties (dollars in millions)	$9,745	$10,334	$9,505
Single-family foreclosure rate[3]	0.67%	0.82%	0.99%

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

(2) See footnote 10 to "Table 36: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business" for states included in each geographic region.

(3) Estimated based on the 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 lengthy foreclosure timelines in a number of states, have resulted in a reduction in the number of REO acquisitions and fewer dispositions in 2014 compared with 2013 and 2012.

Neighborhood stabilization is a core principle in our approach to managing our REO inventory. As a result, we seek to keep properties in good condition and, where appropriate, repair them to make them more marketable. Our goal is to obtain the highest price possible for the properties we sell. Additionally, before we market our foreclosed properties, we may choose to repair them in order to maximize the sales price and increase the likelihood that an owner occupant will purchase. The percentage of properties we repair prior to marketing has increased as a result of market demand and our continued focus on stabilizing neighborhoods and increasing opportunities for owner occupants to purchase. We repaired approximately 67,000 properties from our single-family REO inventory at an average cost of approximately $7,900 per property during 2014 and repaired approximately 66,000 properties at an average cost of approximately $6,700 per property during 2013 compared with repairs of approximately 84,000 properties at an average cost of approximately $6,100 per property during 2012.

Repairing REO properties increases sales to owner occupants and increases financing options for REO buyers. In addition, we encourage homeownership through our First Look™ marketing period. During this First Look period, owner occupants, some nonprofit organizations and public entities may submit offers and purchase properties without competition from investors. Approximately 75,000 of the 133,000 single-family properties we sold in 2014 were purchased by owner occupants, nonprofit organizations or public entities.

We currently lease properties to tenants who occupied the properties before we acquired them into our REO inventory and to eligible borrowers who executed a deed-in-lieu of foreclosure, which can minimize disruption by providing additional time to find alternate housing, help stabilize local communities, provide us with rental income, and support our compliance with federal and state laws protecting tenants in foreclosed properties. As of December 31, 2014, over 1,300 tenants leased our REO properties.

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 44 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 44: Single-Family Foreclosed Property Status

	Percent of Single-Family Foreclosed Properties As of December 31,					
	2014		2013		2012	
Available-for-sale	28	%	33	%	28	%
Offer accepted[(1)]	17		14		17	
Appraisal stage[(2)]	13		17		10	
Unable to market:						
Occupied status[(3)]	12		10		14	
Redemption status[(4)]	7		9		11	
Properties being repaired	13		9		7	
Rental property[(5)]	2		3		5	
Other	8		5		8	
Total unable to market	42		36		45	
Total	100	%	100	%	100	%

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(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.

Table 45 displays the proportionate share of foreclosures as compared with their share of our single-family guaranty book of business for the states that have a higher concentration of foreclosures. Table 45 also displays this information for California, as this state accounts for a large share of our single-family conventional guaranty book of business.

Table 45: Single-Family Acquired Property Concentration Analysis

	As of December 31, 2014		For the Year Ended 2014		As of December 31, 2013		For the Year Ended 2013		As of December 31, 2012		For the Year Ended 2012	
	Percentage of Book Outstanding[(1)]		Percentage of Properties Acquired by Foreclosure[(2)]		Percentage of Book Outstanding[(1)]		Percentage of Properties Acquired by Foreclosure[(2)]		Percentage of Book Outstanding[(1)]		Percentage of Properties Acquired by Foreclosure[(2)]	
States:												
Florida	6	%	24	%	6	%	21	%	6	%	14	%
Illinois	4		7		4		9		4		8	
California	20		5		20		4		19		9	

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

(2) Calculated based on the number of properties acquired through foreclosure or deed-in-lieu of foreclosure during the period for each category divided by the total number of properties acquired through foreclosure during the same period.

Multifamily Mortgage Credit Risk Management

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

Multifamily Acquisition Policy and Underwriting Standards

Our Multifamily business is responsible for pricing and managing the credit risk on multifamily mortgage loans we purchase and on Fannie Mae MBS backed by multifamily loans (whether held in our retained mortgage portfolio or held by third parties), with oversight from our Enterprise Risk Management division. Our primary multifamily delivery channel is the Delegated Underwriting and Servicing, or DUS®, program, which consists of large financial institutions and independent mortgage lenders. Multifamily loans that we purchase or that back Fannie Mae MBS are either underwritten by a Fannie Mae-approved lender or subject to our underwriting review prior to closing, depending on the product type, loan size, market and/or other factors. Loans delivered to us by DUS lenders and their affiliates represented 94% of our multifamily guaranty book of business as of December 31, 2014, compared with 93% as of December 31, 2013 and 88% as of December 31, 2012.

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

Table 46: Multifamily Lender Risk-Sharing

	As of December 31,	
	2014	2013
Lender risk-sharing:		
DUS	85 %	80 %
Non-DUS negotiated	3	5
No recourse to the lender	12	15

Our maximum potential loss recovery from lenders under current risk-sharing agreements represented over 20% of the unpaid principal balance of our multifamily guaranty book of business as of December 31, 2014. These risk-sharing agreements not only transfer credit risk, but also better align our interest with that of the lender.

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

Table 47 displays original LTV ratio and DSCR metrics for our multifamily guaranty book of business.

Table 47: Multifamily Guaranty Book of Business Key Risk Characteristics

	As of December 31,		
	2014	2013	2012
Weighted average original LTV ratio	66 %	66 %	66 %
Original LTV ratio greater than 80%	3	3	4
Original DSCR less than or equal to 1.10	8	7	8

Multifamily Portfolio Diversification and Monitoring

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

We and our lenders monitor the performance and risk characteristics of our multifamily loans and the underlying properties on an ongoing basis throughout the life of the loan at the loan, property and portfolio levels. We track credit risk characteristics to determine the loan credit quality indicator, which are the internal risk categories and are further discussed in “Note 3, Mortgage Loans.” The credit risk characteristics we use to help determine the internal risk categories include the physical condition of the property, delinquency status, the relevant local market and economic conditions that may signal changing risk or return profiles, and other risk factors. For example, in addition to capitalization rates, we closely monitor the rental payment trends and vacancy levels in local markets to identify loans that merit closer attention or loss mitigation actions. We manage our exposure to refinancing risk for multifamily loans maturing in the next several years. We have a team that proactively manages upcoming loan maturities to minimize losses on maturing loans. This team assists lenders and borrowers with timely and appropriate refinancing of maturing loans with the goal of reducing defaults and foreclosures related to loans maturing in the near term. The primary asset management responsibilities for our multifamily loans are performed by our DUS and other multifamily lenders. We periodically evaluate these lenders’ and our other third party service providers’ performance for compliance with our asset management criteria.

As part of our ongoing credit risk management process, we require lenders to provide quarterly and annual financial updates for the loans where we are contractually entitled to receive such information. We closely monitor loans with an estimated current DSCR below 1.0, as that is an indicator of heightened default risk. The percentage of loans in our multifamily guaranty book of business, calculated based on unpaid principal balance, with a current DSCR less than 1.0 was approximately 3% as of December 31, 2014 and 4% as of December 31, 2013. Our estimates of current DSCRs are based on the latest available income information for these properties. Although we use the most recently available results from our multifamily borrowers, there is a lag in reporting, which typically can range from 3 to 6 months, but in some cases may be longer.

Multifamily Problem Loan Management and Foreclosure Prevention

We periodically refine our underwriting standards in response to market conditions and implement proactive portfolio management and monitoring which are each designed to keep credit losses and delinquencies to a low level relative to our multifamily guaranty book of business. The multifamily serious delinquency rate decreased from 0.10% as of December 31, 2013 to 0.05% as of December 31, 2014.

REO Management

Table 48 displays our held for sale multifamily REO activity.

Table 48: Multifamily Foreclosed Properties

	For the Year Ended December 31,		
	2014	2013	2012
Multifamily foreclosed properties held for sale (number of properties):			
Beginning of period inventory of multifamily foreclosed properties (REO)	118	128	260
Total properties acquired through foreclosure	42	105	164
Transfers (from) to held for sale[1]	(1)	43	(44)
Dispositions of REO	(97)	(158)	(252)
End of period inventory of multifamily foreclosed properties (REO)	62	118	128
Carrying value of multifamily foreclosed properties (dollars in millions)	$349	$632	$331

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

The low level of foreclosure activity in 2014 reflects the stability of national multifamily market fundamentals.

Institutional Counterparty Credit Risk Management

We rely on our institutional counterparties to provide services and credit enhancements that are critical to our business. Institutional counterparty credit risk is the risk that our institutional counterparties may fail to fulfill their contractual obligations to us. Defaults by a counterparty with significant obligations to us could result in significant financial losses to us.

We have exposure primarily to the following types of institutional counterparties:

- mortgage sellers and/or servicers that service the loans we hold in our retained mortgage portfolio or that back our Fannie Mae MBS and that are obligated to repurchase loans from us or reimburse us for losses in certain circumstances;
- credit guarantors that provide credit enhancements on the mortgage assets that we hold in our retained mortgage portfolio or that back our Fannie Mae MBS, including mortgage insurers, financial guarantors, reinsurers and lenders with risk sharing arrangements;
- custodial depository institutions that hold principal and interest payments for Fannie Mae portfolio loans and MBS certificateholders, as well as collateral posted by derivatives counterparties, mortgage sellers and mortgage servicers;
- the financial institutions that issue the investments held in our cash and other investments portfolio;
- derivatives counterparties;
- mortgage originators, investors and dealers;
- debt security dealers; and
- document custodians.

We routinely enter into a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, mortgage lenders and commercial banks, and mortgage insurers, resulting in a significant credit concentration with respect to this industry. We also have significant concentrations of credit risk with particular counterparties. Many of our institutional counterparties provide several types of services for us. For example, many of our lender customers or their affiliates act as mortgage sellers, mortgage servicers, derivatives counterparties, custodial depository institutions or document custodians on our behalf.

Although the liquidity and financial condition of some of our institutional counterparties continued to improve in 2014, there is still significant risk to our business of defaults by these counterparties due to bankruptcy or receivership, lack of liquidity, insufficient capital, operational failure or other reasons.

In the event of a bankruptcy or receivership of one of our counterparties, we may be required to establish our ownership rights to the assets these counterparties hold on our behalf to the satisfaction of the bankruptcy court or receiver, which could result in a delay in accessing these assets causing a decline in their value. In addition, if we are unable to replace a defaulting counterparty that performs services that are critical to our business with another counterparty, it could adversely affect our ability to conduct our operations. See “Risk Factors” for further discussion of the risks to our business posed by our counterparties’ failure to fulfill their obligations to us.

Mortgage Sellers and Servicers

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

Mortgage servicers collect mortgage and escrow payments from borrowers, pay taxes and insurance costs from escrow accounts, monitor and report delinquencies, and perform other required activities on our behalf. We have minimum standards and financial requirements for mortgage servicers. For example, we require mortgage servicers to collect and retain a sufficient level of servicing fees to reasonably compensate a replacement mortgage servicer in the event of a servicing contract breach. In addition, we perform periodic on-site and financial reviews of our mortgage servicers and monitor their financial and portfolio performance as compared to peers and internal benchmarks. We work with our largest mortgage servicers to establish performance goals and monitor performance against the goals, and our servicing consultants work with mortgage servicers to improve servicing results and compliance with our Servicing Guide.

We likely would incur costs and potential increases in servicing fees and could also face operational risks if we replace a mortgage servicer. If a mortgage servicer defaults, it could result in a temporary disruption in servicing and loss mitigation activities relating to the loans serviced by that mortgage servicer, particularly if there is a loss of experienced servicing personnel. We may also face challenges in transferring a large servicing portfolio.

Pursuant to FHFA’s 2014 conservatorship scorecard and at FHFA’s direction, we worked with both FHFA and Freddie Mac to develop a set of proposed new minimum financial eligibility requirements for approved single-family sellers and servicers. These newly proposed eligibility requirements align the minimum financial requirements for mortgage sellers and servicers to do business with Fannie Mae and Freddie Mac, and include net worth, capital ratio and liquidity criteria for our mortgage sellers and servicers. These proposed eligibility requirements were published on January 30, 2015 with a request for industry feedback. FHFA has indicated that it anticipates the proposed minimum financial requirements will be finalized in the second quarter of 2015, and will be effective six months after they are finalized.

Our five largest single-family mortgage servicers, including their affiliates, serviced approximately 46% of our single-family guaranty book of business as of December 31, 2014, compared with approximately 49% as of December 31, 2013. Our largest mortgage servicer is Wells Fargo Bank, N.A., which, together with its affiliates, serviced approximately 18% of our single-family guaranty book of business as of December 31, 2014, compared with approximately 19% as of December 31, 2013. As of December 31, 2014 and 2013, one additional mortgage servicer, JPMorgan Chase Bank, N.A., with its affiliates, serviced over 10% of our single-family guaranty book of business.

Our ten largest multifamily mortgage servicers, including their affiliates, serviced approximately 67% of our multifamily guaranty book of business as of December 31, 2014, compared with approximately 65% as of December 31, 2013. Wells Fargo Bank, N.A. serviced over 10% of our multifamily guaranty book of business as of December 31, 2014 and 2013. As of December 31, 2014, one additional mortgage servicer, Walker & Dunlop, LLC, serviced over 10% of our multifamily guaranty book of business.

We have seen an increasing shift in our servicing book from depository financial institution servicers to non-depository servicers. As of December 31, 2014, 13% of our total single-family guaranty book of business, including 32% of our delinquent single-family loans, were serviced by our three largest non-depository servicers, compared with 12% of our total single-family guaranty book of business, including 31% of our delinquent single-family loans, as of December 31, 2013. These three servicers' growth in recent years is due to acquisitions from both depository and other non-depository servicers. The shift from depository to non-depository servicers poses additional risks to us because non-depository servicers may have a greater reliance on third-party sources of liquidity and may, in the event of significant increases in delinquent loan volumes, have less financial capacity to advance funds on our behalf or satisfy repurchase requests or compensatory fee obligations. In addition, the rapid expansion of these servicers' servicing portfolios results in increased operational risk, which could negatively impact their ability to effectively manage their servicing portfolios. In addition, regulatory bodies have been reviewing the activities of some of our largest non-depository servicers. See "Risk Factors" for a discussion of the risks of our reliance on servicers.

Because we delegate the servicing of our mortgage loans to mortgage servicers and do not have our own servicing function, mortgage servicers' lack of appropriate process controls or the loss of business from a significant mortgage servicer counterparty could pose significant risks to our ability to conduct our business effectively. Many of our largest mortgage servicer counterparties continue to reevaluate the effectiveness of their process controls. Many mortgage servicers are also subject to federal and state regulatory actions and legal settlements that require the mortgage servicers to correct foreclosure process deficiencies and improve their servicing and foreclosure practices. This has contributed to extended foreclosure timelines and, therefore, additional holding costs for us, such as property taxes and insurance, repairs and maintenance, and valuation adjustments due to home price changes. See "Risk Factors" for a discussion of risks relating to the slow pace of foreclosures in some states.

Our five largest single-family mortgage sellers, including their affiliates, accounted for approximately 33% of our single-family business acquisition volume in 2014, compared with approximately 42% in 2013. Our largest mortgage seller is Wells Fargo Bank, N.A., which, together with its affiliates, accounted for approximately 12% of our single-family business acquisition volume in 2014, compared with approximately 20% in 2013. A number of our largest single-family mortgage seller counterparties have reduced or eliminated their purchases of mortgage loans from mortgage brokers and correspondent lenders in recent years, resulting in a decline in our single-family mortgage seller concentration. As a result, we are acquiring a greater portion of our business volume directly from non-depository and smaller depository financial institutions that may not have the same financial strength or operational capacity as our largest mortgage seller counterparties. We could be required to absorb losses on defaulted loans that a failed mortgage seller is obligated to repurchase from us if we determine there was an underwriting eligibility breach. See "Risk Factors" for a discussion of the risks to our business due to changes in the mortgage industry.

Risk management steps we have taken or may take to mitigate our risk to mortgage sellers and servicers with whom we have significant counterparty exposure include guaranty of obligations by higher-rated entities, reduction or elimination of exposures, reduction or elimination of certain business activities, transfer of exposures to third parties, receipt of collateral and suspension or termination of the selling and servicing relationship.

We are exposed to the risk that a mortgage seller and servicer or another party involved in a mortgage loan transaction will engage in mortgage fraud by misrepresenting the facts about the loan. We have experienced significant financial losses in the past and may experience significant financial losses and reputational damage in the future as a result of mortgage fraud. See "Risk Factors" for a discussion of the risks to our business as a result of mortgage fraud.

If we determine that a mortgage loan did not meet our underwriting or eligibility requirements, loan representations or warranties were violated or a mortgage insurer rescinded coverage, then our mortgage sellers and/or servicers are obligated to either repurchase the loan or foreclosed property, reimburse us for our losses or provide other remedies. If the collateral property relating to such a loan has been foreclosed upon and we have accepted an offer from a third party to purchase the property, or if a loan is in the process of being liquidated or has been liquidated, we require the mortgage seller or servicer to reimburse us for our losses. We may consider additional facts and circumstances when determining whether to require a mortgage seller or servicer to reimburse us for our losses instead of repurchasing the related loan or foreclosed property. On an economic basis, we are made whole for our losses regardless of whether the mortgage seller or servicer repurchases the loan or reimburses us for our losses. We consider the anticipated benefits from these types of recoveries when we establish our allowance for loan losses. We refer to our demands that mortgage sellers and servicers meet these obligations collectively as repurchase requests. In addition, we charge our primary servicers compensatory fees for certain servicing violations to reimburse us for the related damages. Compensatory fees may be assessed for a variety of servicing violations, including, without limitation, delays in foreclosing, liquidating, reporting, processing claims or remitting funds.

Mortgage sellers and servicers may not meet the terms of their repurchase obligations, and we may be unable to recover on all outstanding loan repurchase obligations resulting from their breaches of contractual obligations. Failure by a significant mortgage seller or servicer, or a number of mortgage sellers or servicers, to fulfill repurchase obligations to us could result in an increase in our credit losses and credit-related expense, and have an adverse effect on our results of operations and financial condition. In addition, actions we take to pursue our contractual remedies could increase our costs, reduce our revenues, or otherwise have an adverse effect on our results of operations or financial condition. As of December 31, 2014 and 2013, in estimating our allowance for loan losses, we assumed no benefit from repurchase demands due to us from mortgage sellers or servicers that, in our view, lacked the financial capacity to honor their contractual obligations. The unpaid principal balance of our outstanding repurchase requests was $1.0 billion as of December 31, 2014, compared with $1.5 billion as of December 31, 2013. For a discussion of our repurchase requests, see "Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards."

As described in "Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards—Representation and Warranty Framework," we implemented a new representation and warranty framework on January 1, 2013. Under the framework, we no longer require repurchase for loans that have breaches of certain selling representations and warranties if they have met specified criteria for relief.

Credit Guarantors

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

Mortgage Insurers

We are generally required, pursuant to our charter, to obtain credit enhancements on single-family conventional mortgage loans that we purchase or securitize with LTV ratios over 80% at the time of purchase. We use several types of credit enhancements to manage our single-family mortgage credit risk, including primary and pool mortgage insurance coverage. Table 49 displays our risk in force for mortgage insurance coverage on single-family loans in our guaranty book of business and our insurance in force for our mortgage insurer counterparties. The table includes our top ten mortgage insurer counterparties, which provided over 99% of our total mortgage insurance coverage on single-family loans in our guaranty book of business as of December 31, 2014 and 2013. In addition, for our mortgage insurer counterparties not approved to write new business, we have provided the percentage of their claims payments the counterparties are currently deferring based on direction of state regulators, referred to as their deferred payment obligation. Both our risk in force and our insurance in force increased in 2014 primarily due to the increase in our acquisition of loans with LTV ratios greater than 80%, which generally are required to carry mortgage insurance. As of December 31, 2014, approximately 1% of our total risk in force mortgage insurance coverage was pool insurance and approximately 2% of our total insurance in force mortgage insurance coverage was pool insurance. As of

December 31, 2013, approximately 1% of our total risk in force mortgage insurance coverage was pool insurance and approximately 3% of our total insurance in force mortgage insurance coverage was pool insurance.

Table 49: Mortgage Insurance Coverage

	Risk in Force[1] As of December 31,		Insurance in Force[2] As of December 31,		Deferred Payment Obligation %[3]
	2014	2013	2014	2013	
	(Dollars in millions)				
Counterparty:[4]					
Approved:[5]					
United Guaranty Residential Insurance Co.	$25,018	$22,096	$96,906	$86,936	
Radian Guaranty, Inc.	24,284	22,435	95,845	89,644	
Mortgage Guaranty Insurance Corp.	22,184	21,000	86,069	82,823	
Genworth Mortgage Insurance Corp.	15,477	14,602	61,408	58,475	
Essent Guaranty, Inc.	6,637	4,394	27,679	17,748	
Arch Mortgage Insurance Co.[6]	3,049	2,868	12,267	11,825	
National Mortgage Insurance Corp.	468	109	6,286	5,142	
Others	185	165	1,092	960	
Total approved	97,302	87,669	387,552	353,553	
Not approved:[5]					
PMI Mortgage Insurance Co.[7]	5,895	7,123	23,655	29,034	33 %
Republic Mortgage Insurance Co.[7][8]	4,796	5,801	19,393	23,970	— [8]
Triad Guaranty Insurance Corp.[7]	1,585	1,908	5,858	7,523	25 %
Others	12	15	57	72	
Total not approved	12,288	14,847	48,963	60,599	
Total	$109,590	$102,516	$436,515	$414,152	
Total as a percentage of single-family guaranty book of business	4 %	4 %	15 %	14 %	

(1) Risk in force is generally the maximum potential loss recovery under the applicable mortgage insurance policies in force and is based on the loan level insurance coverage percentage and, if applicable, any aggregate pool loss limit, as specified in the policy.

(2) Insurance in force represents the unpaid principal balance of single-family loans in our guaranty book of business covered under the applicable mortgage insurance policies.

(3) Deferred payment obligation represents the percentage of cash payments on policyholder claims being deferred as directed by the insurer's respective regulator in the state of domicile as of December 31, 2014.

(4) Insurance coverage amounts provided for each counterparty may include coverage provided by consolidated affiliates and subsidiaries of the counterparty.

(5) "Approved" mortgage insurers are counterparties approved to write new insurance with us. "Not approved" mortgage insurers are counterparties that are no longer approved to write new insurance with us.

(6) In January 2014, we approved the acquisition of CMG Mortgage Insurance Company and its affiliates by Arch U.S. MI Holdings, Inc. CMG Mortgage Insurance Company has since changed its name to Arch Mortgage Insurance Company in Wisconsin, its state of domicile.

(7) These mortgage insurers are under various forms of supervised control by their state regulators and are in run-off.

(8) Effective July 1, 2014, the terms of RMIC's order regarding its deferred payment arrangements changed to no longer defer payments on policyholder claims and to increase its cash payments to 100%. In addition, RMIC paid us amounts equivalent to its outstanding deferred payment obligations to bring payment on our claims to 100%.

We manage our exposure to mortgage insurers by maintaining eligibility requirements that an insurer must meet to become a qualified mortgage insurer. We require a certification and supporting documentation annually from each mortgage insurer and perform periodic reviews of mortgage insurers to confirm compliance with eligibility requirements and to evaluate their management, control and underwriting practices. Our monitoring of the mortgage

insurers includes in-depth financial reviews and stress analyses of the insurers’ portfolios and capital adequacy.
On June 24, 2014, we announced the implementation of new mortgage insurance master primary policies. Loans delivered to us with application dates on or after October 1, 2014 that require primary mortgage insurance must be insured under one of the new policies. These policies provide the terms of coverage under which loans having LTV ratios greater than 80% are insured. These new master policies also provide specific timelines for mortgage insurers to review and pay claims, and

include terms for when mortgage insurers must sunset certain rescission rights. Finalization of these new policies helped us meet one of our 2014 conservatorship scorecard goals.

On July 10, 2014, FHFA posted for public input proposed revisions by Fannie Mae and Freddie Mac to their eligibility standards for approved private mortgage insurers. The proposed standards include enhanced financial requirements, including risk-based and minimum asset standards, and are designed to ensure that mortgage insurers have sufficient liquid assets to pay all claims under a hypothetical future stress scenario. The proposed standards also set forth enhanced operational performance expectations and define remedial actions that may be imposed should an approved mortgage insurer fail to comply with the revised requirements. In addition, Fannie Mae and Freddie Mac have established a framework and timelines for existing approved mortgage insurers to come into compliance with the new standards while they continue to insure new business eligible for delivery to us. FHFA, along with Fannie Mae and Freddie Mac, are continuing to review the public input provided on the proposed revisions to the eligibility standards for approved private mortgage insurers.

Although the financial condition of our primary mortgage insurer counterparties currently approved to write new business continued to improve during 2014, there is still risk that these counterparties may fail to fulfill their obligations to pay our claims under insurance policies. In addition, as shown in "Table 49: Mortgage Insurance Coverage," three of our top mortgage insurer counterparties—PMI, RMIC and Triad—are currently under various forms of supervised control by their state regulators and are in run-off, which increases the risk that these counterparties will pay claims only in part or fail to pay claims at all under existing insurance policies. If we determine that it is probable that we will not collect all of our claims from one or more of our mortgage insurer counterparties, or if we have already made that determination but our estimate of the shortfall increases, it could result in an increase in our loss reserves, which could adversely affect our earnings, liquidity, financial condition and net worth. See "Risk Factors" for a discussion of the risks to our business of claims under our mortgage insurance policies not being paid in full or at all, including the risks associated with our three mortgage insurance counterparties that are in run-off.

When we estimate the credit losses that are inherent in our mortgage loans and under the terms of our guaranty obligations we also consider the recoveries that we will receive on primary mortgage insurance, as mortgage insurance recoveries would reduce the severity of the loss associated with defaulted loans. We evaluate the financial condition of our mortgage insurer counterparties and adjust the contractually due recovery amounts to ensure that only probable losses as of the balance sheet date are included in our loss reserve estimate. As a result, if our assessment of one or more of our mortgage insurer counterparties' ability to fulfill their respective obligations to us worsens, it could result in an increase in our loss reserves.

The following table displays the amount by which our estimated benefit from mortgage insurance as of December 31, 2014 and 2013 reduced our total loss reserves as of those dates.

Table 50: Estimated Mortgage Insurance Benefit

	As of December 31,	
	2014	2013
	(Dollars in millions)	
Contractual mortgage insurance benefit	$4,409	$6,751
Less: Collectibility adjustment[1]	290	431
Estimated benefit included in total loss reserves	$4,119	$6,320

(1) Represents an adjustment that reduces the contractual benefit for our assessment of our mortgage insurer counterparties' inability to fully pay the contractual mortgage insurance claims.

During 2014, we experienced an improvement in the credit profile of our single-family book of business, which resulted in a decrease in the contractual benefit we expect to receive from mortgage insurers. Our remaining collectibility adjustment is primarily due to the two mortgage insurers who are currently deferring a percentage of their claim payments at the direction of state regulators. For loans that are collectively evaluated for impairment, we estimate the portion of our loss that we expect to recover from each of our mortgage insurance counterparties, the contractual mortgage insurance coverage, and an estimate of each counterparty's resources available to pay claims to us. An analysis by our Counterparty Risk group determines whether, based on all the information available to us, any counterparty is considered probable to fail to meet their obligations in the next 30 months. This period is consistent with the amount of time over which claims related to losses incurred today are expected to be paid in the normal course of business. If this analysis finds a failure of a counterparty is probable, we then reserve for the shortfall between projected claims and estimated resources available to pay claims to us. For loans with delayed foreclosure timelines, where we expect the counterparty to meet its obligations beyond 30 months, we extend the time frame used to evaluate the mortgage insurer's claims-paying ability to a long-term forecast and use that long-term expected claims-paying ability to determine the reserve amount, if any.

For loans that have been determined to be individually impaired and measured for impairment using a cash flow analysis, we calculate a net present value of the expected cash flows for each loan to determine the level of impairment, which is included in our allowance for loan losses. These expected cash flow projections include proceeds from mortgage insurance that are based on the expected ability of the counterparties to pay the claims as incurred through time, including those counterparties that are operating under deferred payment obligation arrangements. For loans that have been determined to be individually impaired and are deemed probable of foreclosure, the reserve is determined using the process for loans that are collectively evaluated for impairment; we expect these claims to be paid in the normal course of business.

As described above, our methodologies for individually and collectively impaired loans differ as required by GAAP, but both consider the ability of our counterparties to pay their obligations in a manner that is consistent with each impairment methodology. As the loans individually assessed for impairment using a cash flow analysis considers the life of the loan, we use the expected claims-paying ability of counterparties through time to adjust the loss severity in our estimates of future cash flows. As the loans collectively assessed for impairment look only to the probable payments we would receive associated with our probable losses, we use the noted shortfall, or haircut, to adjust the loss severity. For counterparties under deferred payment obligation arrangements, the estimated mortgage insurance benefits are determined based on the long-term claims-paying ability of each counterparty.

When an insured loan held in our retained mortgage portfolio subsequently goes into foreclosure, we charge off the loan, eliminating any previously-recorded loss reserves, and record REO and a mortgage insurance receivable for the claim proceeds deemed probable of recovery, as appropriate. However, if a mortgage insurer rescinds, cancels or denies insurance coverage, the initial receivable becomes due from the mortgage seller or servicer. We had outstanding receivables of $1.4 billion recorded in "Other assets" in our consolidated balance sheets as of December 31, 2014 and $2.1 billion as of December 31, 2013 related to amounts claimed on insured, defaulted loans excluding government insured loans. Of this amount, $269 million as of December 31, 2014 and $402 million as of December 31, 2013 was due from our mortgage sellers or servicers. We assessed the total outstanding receivables for collectibility, and they are recorded net of a valuation allowance of $799 million as of December 31, 2014 and $655 million as of December 31, 2013. The valuation allowance reduces our claim receivable to the amount which is considered probable of collection as of December 31, 2014 and 2013.

Financial Guarantors

We are the beneficiary of non-governmental financial guarantees on non-agency securities held in our retained mortgage portfolio and on non-agency securities that have been resecuritized to include a Fannie Mae guaranty and sold to third parties. The total unpaid principal balance of guaranteed non-agency securities in our retained mortgage portfolio was $4.6 billion and $5.6 billion as of December 31, 2014 and 2013. See "Note 16, Concentrations of Credit Risk—Financial Guarantors" for a further discussion of our exposure to financial guarantors.

We are also the beneficiary of financial guarantees included in securities issued by Freddie Mac, the federal government and its agencies that totaled $19.2 billion as of December 31, 2014 and $22.5 billion as of December 31, 2013.

Reinsurers

In December 2014, we executed a credit insurance risk transfer ("CIRT™") transaction that shifted a portion of the credit risk on a reference pool of loans with an unpaid principal balance of approximately $6.4 billion to a panel of reinsurers. In this transaction, Fannie Mae retains risk on the initial $32 million of losses on the loans and then is covered for any additional losses up to approximately $193 million in excess of the losses retained by Fannie Mae. Loans with LTV ratios over 80 percent that are included in the reference pool are already covered by primary mortgage insurance. The CIRT transaction provides supplemental coverage for losses that exceed those covered by primary mortgage insurance. This transaction counted towards a 2014 conservatorship scorecard goal to complete a variety of credit risk sharing transactions. We anticipate we will enter into additional CIRT transactions in the future.

Lenders with Risk Sharing

We enter into risk sharing agreements with lenders pursuant to which the lenders agree to bear all or some portion of the credit losses on the covered loans. Our maximum potential loss recovery from lenders under these risk sharing agreements on single-family loans was $8.9 billion as of December 31, 2014, compared with $10.7 billion as of December 31, 2013. As of December 31, 2014, 47% of our maximum potential loss recovery on single-family loans was from three lenders, compared with 52% as of December 31, 2013. Our maximum potential loss recovery from lenders under risk sharing agreements on DUS and non-DUS multifamily loans was $41.7 billion as of December 31, 2014, compared with $39.4 billion as of

December 31, 2013. As of December 31, 2014 and 2013, 32% of our maximum potential loss recovery on multifamily loans was from three DUS lenders.

The percentage of single-family recourse obligations from lenders with investment grade credit ratings (based on the lower of S&P, Moody's and Fitch ratings) was 49% as of December 31, 2014, compared with 55% as of December 31, 2013. The recourse obligations from lender counterparties rated below investment grade was 23% as of December 31, 2014, compared with 21% as of December 31, 2013. The remaining recourse obligations were from lender counterparties that were not rated by rating agencies, which was 28% as of December 31, 2014, compared with 24% as of December 31, 2013. Given the stressed financial condition of some of our single-family lenders, we expect in some cases we will recover less than the amount the lender is obligated to provide us under our risk sharing arrangement with them. Depending on the financial strength of the counterparty, we may require a lender to pledge collateral to secure its recourse obligations.

As noted above in "Multifamily Mortgage Credit Risk Management—Multifamily Acquisition Policy and Underwriting Standards," our primary multifamily delivery channel is our DUS program, which is comprised of lenders that range from large depositories to independent non-bank financial institutions. As of December 31, 2014, approximately 36% of the unpaid principal balance of loans in our multifamily guaranty book of business serviced by our DUS lenders was from institutions with an external investment grade credit rating or a guaranty from an affiliate with an external investment grade credit rating, compared with approximately 37% as of December 31, 2013. Given the recourse nature of the DUS program, the lenders are bound by eligibility standards that dictate, among other items, minimum capital and liquidity levels, and the posting of collateral at a highly rated custodian to secure a portion of the lenders' future obligations. We actively monitor the financial condition of these lenders to help ensure the level of risk remains within our standards and to ensure required capital levels are maintained and are in alignment with actual and modeled loss projections.

Custodial Depository Institutions

A total of $33.2 billion in deposits for single-family payments were received and held by 269 institutions during the month of December 2014 and a total of $34.6 billion in deposits for single-family payments were received and held by 284 institutions during the month of December 2013. Of these total deposits, 93% as of December 31, 2014, compared with 94% as of December 31, 2013, were held by institutions rated as investment grade by S&P, Moody's and Fitch. Our transactions with custodial depository institutions are concentrated. Our six largest custodial depository institutions held 83% of these deposits as of December 31, 2014, compared with 86% as of December 31, 2013.

We evaluate our custodial depository institutions to determine whether they are eligible to hold deposits on our behalf based on requirements specified in our Servicing Guide. If a custodial depository institution were to fail while holding remittances of borrower payments of principal and interest due to us in our custodial account, we would be an unsecured creditor of the depository for balances in excess of the deposit insurance protection and might not be able to recover all of the principal and interest payments being held by the depository on our behalf, or there might be a substantial delay in receiving these amounts. If this were to occur, we would be required to replace these amounts with our own funds to make payments that are due to Fannie Mae MBS certificateholders. Accordingly, the insolvency of one of our principal custodial depository counterparties could result in significant financial losses to us. During the month of December 2014, approximately $2.4 billion, or 7%, of our total deposits for single-family payments received and held by these institutions was in excess of the deposit insurance protection limit compared with approximately $1.7 billion, or 5%, during the month of December 2013. These amounts can vary as they are calculated based on individual payments of mortgage borrowers and we must estimate which borrowers are paying their regular principal and interest payments and other types of payments, such as prepayments from refinancing or sales.

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

Our cash and other investments portfolio consists of cash and cash equivalents, securities purchased under agreements to resell or similar arrangements and U.S. Treasury securities. Our cash and other investment counterparties are primarily financial institutions and the Federal Reserve Bank. See "Liquidity and Capital Management—Liquidity Management—Cash and Other Investments Portfolio" for more detailed information on our cash and other investments portfolio.

As of December 31, 2014, our cash and other investments portfolio totaled $72.4 billion and included $19.5 billion of U.S. Treasury securities. As of December 31, 2013, our cash and other investments portfolio totaled $74.5 billion and included $16.3 billion of U.S. Treasury securities. As of December 31, 2014, we held a total of $2.0 billion short-term unsecured deposits with two financial institutions that had a short-term credit rating of A-1 from S&P (or its equivalent), based on the lowest credit rating issued by S&P, Moody's and Fitch, and no other unsecured positions other than U.S. Treasury securities, compared with $1.0 billion at one such institution as of December 31, 2013. The remaining amounts in our cash and other investment portfolio other than U.S. Treasury securities were primarily composed of securities purchased under agreements to resell or similar arrangements.

We monitor the credit risk position of our cash and other investments portfolio. If one of these counterparties fails to meet its obligations to us under the terms of the investments, it could result in financial losses to us and have a material adverse effect on our earnings, liquidity, financial condition and net worth.

Derivative Counterparty Credit Exposure

Our derivative counterparty credit exposure relates principally to interest rate derivative contracts. We are exposed to the risk that a counterparty in a derivative transaction will default on payments due to us, which may require us to seek a replacement derivative from a different counterparty. This replacement may be at a higher cost, or we may be unable to find a suitable replacement. Historically, our risk management derivative transactions have been made pursuant to bilateral contracts with a specific counterparty governed by the terms of an International Swaps and Derivatives Association Inc. master agreement. Pursuant to regulations implementing the Dodd-Frank Act that became effective June 10, 2013, we are required to submit certain categories of new interest rate swaps to a derivatives clearing organization. We refer to our derivative transactions made pursuant to bilateral contracts as our OTC derivative transactions and our derivative transactions accepted for clearing by a derivatives clearing organization as our cleared derivative transactions.

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

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

Our institutional credit risk exposure to derivatives clearing organizations and certain of their members will increase substantially in the future as cleared derivative contracts comprise a larger percentage of our derivative instruments.

We estimate our exposure to credit loss on derivative instruments by calculating the replacement cost, on a present value basis, to settle at current market prices all outstanding derivative contracts in a net gain position at the counterparty level where the right of legal offset exists.

The fair value of derivatives in a gain position is included in our consolidated balance sheets in "Other assets." Table 51 below displays our credit exposure on outstanding risk management derivative instruments in a gain position.

Table 51: Credit Loss Exposure of Risk Management Derivative Instruments

	As of December 31,							
	2014				2013			
	OTC	Cleared	Other(1)	Total	OTC	Cleared	Other(1)	Total
	(Dollars in millions)							
Credit loss exposure(2)	$267	$1	$27	$295	$1,087	$1,475	$28	$2,590
Less: Collateral held(3)	267	1	—	268	1,038	1,382	—	2,420
Exposure net of collateral	$—	$—	$27	$27	$49	$93	$28	$170

(1) Primarily consists of mortgage insurance contracts accounted for as derivatives.

(2) Represents the exposure to credit loss on derivative instruments, which we estimate using the fair value of all outstanding derivative contracts in a gain position. Credit loss exposure for cleared derivative transactions as of December 31, 2013 does not reflect netting of derivative assets and liabilities where we have enforceable master netting arrangements.

(3)

Represents cash and non-cash collateral posted by our counterparties to us. Does not include collateral held in excess of exposure. We reduce the value of non-cash collateral in accordance with the counterparty arrangements to ensure recovery of any loss through the disposition of the collateral.

As of December 31, 2014 and 2013, we had sixteen counterparties with whom we may transact OTC derivatives transactions, all of which had enforceable master netting arrangements. We had outstanding notional amounts with all these counterparties and the highest concentration by our total outstanding notional amount was approximately 11% as of December 31, 2014 and 14% as of December 31, 2013.

See "Note 9, Derivative Instruments" and "Note 17, Netting Arrangements" for additional information on our derivative contracts as of December 31, 2014 and 2013.

Mortgage Originators, Investors and Dealers

We are routinely exposed to pre-settlement risk through the purchase or sale of closed mortgage loans and mortgage-related securities with mortgage originators, mortgage investors and mortgage dealers. The risk is the possibility that the counterparty will be unable or unwilling to either deliver mortgage assets or compensate us for the cost to cancel or replace the transaction. We manage this risk by determining position limits with these counterparties, based upon our assessment of their creditworthiness, and by monitoring and managing these exposures.

Debt Security Dealers

The credit risk associated with dealers that commit to place our debt securities is that they will fail to honor their contracts to take delivery of the debt, which could result in delayed issuance of the debt through another dealer. We manage these risks by establishing approval standards, monitoring our exposure positions and monitoring changes in the credit quality of dealers.

Document Custodians

We use third-party document custodians to provide loan document certification and custody services for some of the loans that we purchase and securitize. In many cases, our lender customers or their affiliates also serve as document custodians for us. Our ownership rights to the mortgage loans that we own or that back our Fannie Mae MBS could be challenged if a lender intentionally or negligently pledges or sells the loans that we purchased or fails to obtain a release of prior liens on the loans that we purchased, which could result in financial losses to us. When a lender or one of its affiliates acts as a document custodian for us, the risk that our ownership interest in the loans may be adversely affected is increased, particularly in the event the lender were to become insolvent. We mitigate these risks through legal and contractual arrangements with these custodians that identify our ownership interest, as well as by establishing qualifying standards for document custodians and requiring removal of the documents to our possession or to an independent third-party document custodian if we have concerns about the solvency or competency of the document custodian.

Other

We filed claims as a creditor in the bankruptcy case of Lehman Brothers, which filed for bankruptcy in September 2008. In January 2014, we resolved our outstanding unsecured bankruptcy claims against Lehman Brothers for an allowed amount of $2.15 billion. As of December 31, 2014, we had received distributions totaling $634 million pursuant to the Lehman Brothers plan of reorganization, representing approximately 29% of the allowed amount. We may receive additional distributions in the future, but under the terms of the Lehman Brothers plan of reorganization, we expect that the total amount we will receive will constitute only a portion of the $2.15 billion allowed amount. Due to the uncertainty of future payments, we recognize income in our consolidated statement of operations related to these claims upon notification of a claim payout.

Market Risk Management, Including Interest Rate Risk Management

We are subject to market risk, which includes interest rate risk, spread risk and liquidity risk. These risks arise from our mortgage asset investments. Interest rate risk is the risk of loss in value or expected future earnings that may result from changes to interest rates. Spread risk or basis risk is the resulting impact of changes in the spread between our mortgage assets and our debt and derivatives we use to hedge our position. Liquidity risk is the risk that we will not be able to meet our funding obligations in a timely manner.

Interest Rate Risk Management

Our goal is to manage market risk to be neutral to movements in interest rates and volatility, subject to model constraints and prevailing market conditions. We employ an integrated interest rate risk management strategy that allows for informed risk taking within pre-defined corporate risk limits. Decisions regarding our strategy in managing interest rate risk are based upon our corporate market risk policy and limits that are established by our Chief Market Risk Officer and our Chief Risk Officer and are subject to review and approval by our Board of Directors. Our Capital

Markets Group has primary responsibility for executing our interest rate risk management strategy.

We have actively managed the interest rate risk of our "net portfolio," which is defined below, through the following techniques: (1) asset selection and structuring (that is, by identifying or structuring mortgage assets with attractive prepayment and other risk characteristics); (2) issuing a broad range of both callable and non-callable debt instruments; and (3) using interest-rate derivatives. We have not actively managed or hedged our spread risk or basis risk, which would include the impact of changes in the spread between our mortgage assets and debt (referred to as mortgage-to-debt spreads) after we purchase mortgage assets, other than through asset monitoring and disposition. For mortgage assets in our portfolio that we intend to hold to maturity to realize the contractual cash flows, we accept period-to-period volatility in our financial performance attributable to changes in mortgage-to-debt spreads that occur after our purchase of mortgage assets. See "Risk Factors" for a discussion of the risks to our business posed by changes in interest rates or the loss of our ability to successfully manage interest risk.

We monitor current market conditions, including the interest rate environment, to assess the impact of these conditions on individual positions and our overall interest rate risk profile. In addition to qualitative factors, we use various quantitative risk metrics in determining the appropriate composition of our retained mortgage portfolio, our investments in non-mortgage securities and relative mix of debt and derivatives positions in order to remain within pre-defined risk tolerance levels that we consider acceptable. We regularly disclose two interest rate risk metrics that estimate our overall interest rate exposure: (1) fair value sensitivity to changes in interest rate levels and the slope of the yield curve and (2) duration gap.

The metrics used to measure our interest rate exposure are generated using internal models. Our internal models, consistent with standard practice for models used in our industry, require numerous assumptions. There are inherent limitations in any methodology used to estimate the exposure to changes in market interest rates. The reliability of our prepayment estimates and interest rate risk metrics depends on the availability and quality of historical data for each of the types of securities in our net portfolio. When market conditions change rapidly and dramatically, as they did during the financial market crisis of late 2008, the assumptions of our models may no longer accurately capture or reflect the changing conditions. On a continuous basis, management makes judgments about the appropriateness of the risk assessments indicated by the models. See "Risk Factors" for a discussion of the risks associated with our reliance on models to manage risk.

Sources of Interest Rate Risk Exposure

The primary source of our interest rate risk is the composition of our net portfolio. Our net portfolio consists of our retained mortgage portfolio assets; cash and other investment portfolio; our outstanding debt of Fannie Mae that is used to fund the retained mortgage portfolio assets and cash and other investment portfolio; mortgage commitments and risk management derivatives. Risk management derivatives along with our debt instruments are used to manage interest rate risk.

Our performing mortgage assets consist mainly of single-family and multifamily mortgage loans. For single-family loans, borrowers have the option to prepay at any time before the scheduled maturity date or continue paying until the stated maturity. Given this prepayment option held by the borrower, we are exposed to uncertainty as to when or at what rate prepayments will occur, which affects the length of time our mortgage assets will remain outstanding and the timing of the cash flows related to these assets. This prepayment uncertainty results in a potential mismatch between the timing of receipt of cash flows related to our assets and the timing of payment of cash flows related to our liabilities.

Changes in interest rates, as well as other factors, influence mortgage prepayment rates and duration and also affect the value of our mortgage assets. When interest rates decrease, prepayment rates on fixed-rate mortgages generally accelerate because borrowers usually can pay off their existing mortgages and refinance at lower rates. Accelerated prepayment rates have the effect of shortening the duration and average life of the fixed-rate mortgage assets we hold in our net portfolio. In a declining interest rate environment, existing mortgage assets held in our net portfolio tend to increase in value or price because these mortgages are likely to have higher interest rates than new mortgages, which are being originated at the then-current lower interest rates. Conversely, when interest rates increase, prepayment rates generally slow, which extends the duration and average life of our mortgage assets and results in a decrease in value.

Although the fair value of our guaranty assets and our guaranty obligations is highly sensitive to changes in interest rates and the market's perception of future credit performance, we do not actively manage the change in the fair value of our guaranty business that is attributable to changes in interest rates. We do not believe that periodic changes in fair value due to movements in interest rates are the best indication of the long-term value of our guaranty business because these changes do not take into account future guaranty business activity.

Interest Rate Risk Management Strategy

Our goal for managing the interest rate risk of our net portfolio is to be neutral to movements in interest rates and volatility. This involves asset selection and structuring of our liabilities to match and offset the interest rate characteristics of our retained mortgage portfolio and our investments in non-mortgage securities. Our strategy consists of the following principal elements:

- Debt Instruments. We issue a broad range of both callable and non-callable debt instruments to manage the duration and prepayment risk of expected cash flows of the mortgage assets we own.
- Derivative Instruments. We supplement our issuance of debt with derivative instruments to further reduce duration and prepayment risks.
- Monitoring and Active Portfolio Rebalancing. We continually monitor our risk positions and actively rebalance our portfolio of interest rate-sensitive financial instruments to maintain a close match between the duration of our assets and liabilities.

Debt Instruments

Historically, the primary tool we have used to fund the purchase of mortgage assets and manage the interest rate risk implicit in our mortgage assets is the variety of debt instruments we issue. The debt we issue is a mix that typically consists of short- and long-term, non-callable and callable debt. The varied maturities and flexibility of these debt combinations help us in reducing the mismatch of cash flows between assets and liabilities in order to manage the duration risk associated with an investment in long-term fixed-rate assets. Callable debt helps us manage the prepayment risk associated with fixed-rate mortgage assets because the duration of callable debt changes when interest rates change in a manner similar to changes in the duration of mortgage assets. See "Liquidity and Capital Management—Liquidity Management—Debt Funding" for additional information on our debt activity.

Derivative Instruments

Derivative instruments also are an integral part of our strategy in managing interest rate risk. Derivative instruments may be privately negotiated contracts, which are often referred to as over-the-counter derivatives, or they may be listed and traded on an exchange. When deciding whether to use derivatives, we consider a number of factors, such as cost, efficiency, the effect on our liquidity, results of operations and our overall interest rate risk management strategy. The derivatives we use for interest rate risk management purposes fall into these broad categories:

- Interest rate swap contracts. An interest rate swap is a transaction between two parties in which each agrees to exchange, or swap, interest payments. The interest payment amounts are tied to different interest rates or indices for a specified period of time and are generally based on a notional amount of principal. The types of interest rate swaps we use include pay-fixed swaps, receive-fixed swaps and basis swaps.
- Interest rate option contracts. These contracts primarily include pay-fixed swaptions, receive-fixed swaptions, cancelable swaps and interest rate caps. A swaption is an option contract that allows us or a counterparty to enter into a pay-fixed or receive-fixed swap at some point in the future.
- Foreign currency swaps. These swaps convert debt that we issue in foreign denominated currencies into U.S. dollars. We enter into foreign currency swaps only to the extent that we issue foreign currency debt.
- Futures. These are standardized exchange-traded contracts that either obligate a buyer to buy an asset at a predetermined date and price or a seller to sell an asset at a predetermined date and price. The types of futures contracts we enter into include Eurodollar, U.S. Treasury and swaps.

We use interest rate swaps, interest rate options and futures, in combination with our issuance of debt securities, to better match the duration of our assets with the duration of our liabilities. We are generally an end user of derivatives; our principal purpose in using derivatives is to manage our aggregate interest rate risk profile within prescribed risk parameters. We generally only use derivatives that are relatively liquid and straightforward to value. We use derivatives for four primary purposes:

(1) As a substitute for notes and bonds that we issue in the debt markets;
(2) To achieve risk management objectives not obtainable with debt market securities;
(3) To quickly and efficiently rebalance our portfolio; and
(4) To hedge foreign currency exposure.

Decisions regarding the repositioning of our derivatives portfolio are based upon current assessments of our interest rate risk profile and economic conditions, including the composition of our retained mortgage portfolio, our investments in non-mortgage securities and relative mix of our debt and derivative positions, the interest rate environment and expected trends.

Measurement of Interest Rate Risk

Below we present two quantitative metrics that provide estimates of our interest rate risk exposure: (1) fair value sensitivity of our net portfolio to changes in interest rate levels and slope of yield curve; and (2) duration gap. The metrics presented are calculated using internal models that require standard assumptions regarding interest rates and future prepayments of principal over the remaining life of our securities. These assumptions are derived based on the characteristics of the underlying structure of the securities and historical prepayment rates experienced at specified interest rate levels, taking into account current market conditions, the current mortgage rates of our existing outstanding loans, loan age and other factors. On a continuous basis, management makes judgments about the appropriateness of the risk assessments and will make adjustments as necessary to properly assess our interest rate exposure and manage our interest rate risk. The methodologies used to calculate risk estimates are periodically changed on a prospective basis to reflect improvements in the underlying estimation process.

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

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

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

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

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

Duration Gap

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

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

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

Results of Interest Rate Sensitivity Measures

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

Table 52 displays the pre-tax market value sensitivity of our net portfolio to changes in the level of interest rates and the slope of the yield curve as measured on the last day of each period presented. In addition, the table also provides the daily average, minimum, maximum and standard deviation values for duration gap and for the most adverse market value impact on the net portfolio to changes in the level of interest rates and the slope of the yield curve for the three months ended December 31, 2014 and 2013.

The sensitivity measures displayed in Table 52, which we disclose on a quarterly basis pursuant to a disclosure commitment with FHFA, are an extension of our monthly sensitivity measures. There are three primary differences between our monthly sensitivity disclosure and the quarterly sensitivity disclosure presented below: (1) the quarterly disclosure is expanded to include the sensitivity results for larger rate level shocks of plus or minus 100 basis points; (2) the monthly disclosure reflects the estimated pre-tax impact on the market value of our net portfolio calculated based on a daily average, while the quarterly disclosure reflects the estimated pre-tax impact calculated based on the estimated financial position of our net portfolio and the market environment as of the last business day of the quarter; and (3) the monthly disclosure shows the most adverse pre-tax impact on the market value of our net portfolio from the hypothetical interest rate shocks, while the quarterly disclosure includes the estimated pre-tax impact of both up and down interest rate shocks.

Table 52: Interest Rate Sensitivity of Net Portfolio to Changes in Interest Rate Level and Slope of Yield Curve[1]

	As of December 31,[2]	
	2014	2013
	(Dollars in billions)	
Rate level shock:		
-100 basis points	$0.4	$0.1
-50 basis points	0.1	0.0
+50 basis points	(0.1)	(0.1)
+100 basis points	(0.1)	(0.5)
Rate slope shock:		
-25 basis points (flattening)	0.0	0.0
+25 basis points (steepening)	(0.0)	0.0

	For the Three Months Ended December 31, 2014[3]		
	Duration Gap	Rate Slope Shock 25 bps	Rate Level Shock 50 bps
		Exposure	
	(In months)	(Dollars in billions)	
Average	0.1	$0.1	$0.0
Minimum	(0.3)	0.0	—
Maximum	0.5	0.1	0.1
Standard deviation	0.2	0.0	0.0

	For the Three Months Ended December 31, 2013[3]		
	Duration Gap	Rate Slope Shock 25 bps	Rate Level Shock 50 bps
		Exposure	
	(In months)	(Dollars in billions)	
Average	(0.2)	$0.0	$0.2
Minimum	(0.6)	0.0	0.1
Maximum	0.3	0.1	0.2
Standard deviation	0.2	0.0	0.0

(1) Computed based on changes in U.S. LIBOR interest rates swap curve.
(2) Measured on the last day of each period presented.
(3) Computed based on daily values during the period presented.

The market value sensitivity of our net portfolio varies across a range of interest rate shocks depending upon the duration and convexity profile of our net portfolio. The average duration gap was 0.1 months for the last three months of 2014, which is consistent with the average duration gap for the last three months of 2013. Because the effective duration gap of our net portfolio was close to zero months in the periods presented, convexity risk was the primary driver of the market value sensitivity of our net portfolio in those periods.

A majority of the interest rate risk associated with our mortgage-related securities and loans is hedged with our debt issuances, which include callable debt. We use derivatives to help manage the residual interest rate risk exposure between our assets and liabilities. Derivatives have enabled us to keep our interest rate risk exposure at consistently low levels in a wide range of interest-rate environments. Table 53 displays an example of how derivatives impacted the net market value exposure for a 50 basis point parallel interest rate shock.

Table 53: Derivative Impact on Interest Rate Risk (50 Basis Points)[1]

	As of December 31,	
	2014	2013
	(Dollars in billions)	
Before derivatives	$(1.9)	$(0.3)
After derivatives	(0.1)	(0.1)
Effect of derivatives	1.8	0.1

(1) Measured on the last day of each period presented.

Liquidity Risk Management

See "Liquidity and Capital Management—Liquidity Management" for a discussion on how we manage liquidity risk.

Operational Risk Management

Operational risk is the risk resulting from a failure in our operational systems or infrastructure, or those of third parties, including as a result of cyber attacks, that could materially adversely affect our business, impair our liquidity, cause financial losses and harm our reputation. Our operations rely on the secure processing, storage and transmission of confidential or personal information that is subject to privacy laws, regulations or customer-imposed controls. Information security risks for large institutions like us have significantly increased in recent years and from time to time we have been, and likely will continue to be, the target of attempted cyber attacks and other information security breaches. We take measures to protect the security of our computer systems, software and networks. These risks are an unavoidable result of being in business, and managing these risks is part of our business activities. We continue to enhance our risk-conscious culture, in which all employees are expected to identify, discuss, manage and remediate potential and actual operational risk. To date, we have not experienced any material losses relating to cyber attacks or other information security breaches. See "Risk Factors" for additional discussion of cybersecurity risks to our business.

Our corporate operational risk framework is based on the OFHEO/FHFA Enterprise Guidance on Operational Risk Management, published September 23, 2008. We have made a number of enhancements to our operational risk management efforts including our business process focus, policies and framework. Our framework is intended to provide a methodology to identify, assess, mitigate, control and monitor operational risks by embedding the concepts of operational risk in the day-to-day activities of individuals across the company. Included in this framework is a requirement for a system to track and report operational risk incidents. The framework also includes a methodology for business owners to conduct risk and control self assessments to self identify potential operational risks and points of execution failure, the effectiveness of associated controls, and document corrective action plans to close identified deficiencies. The success of our operational risk effort will depend on the consistent execution of the operational risk programs and the timely remediation of high operational risk issues. To quantify our operational risk exposure, we rely on the Basel Standardized approach, which is based on a percentage of gross income.

While each business unit is responsible for managing its operational risk, our Operational Risk Management group provides the business units and process owners with the tools, techniques, expertise and guiding principles to assist them in prudent management of their operational risk exposure. Operational risk lead teams, comprised of centralized resources within our Enterprise Risk Management division, are aligned with each of our primary business units as well as with our corporate functions such as finance and legal. Each risk lead reports to the Vice President and Chief Risk Officer of Operational Risk, who reports directly to the Executive Vice President and Chief Risk Officer. The Operational Risk Committee provides an additional governance forum for managing operational risk.

See "Risk Factors" for more information regarding our operational risk and "Risk Management" for more information regarding our governance of operational risk management.

Management of Business Resiliency

Our business resiliency program is designed to provide reasonable assurance for continuity of critical business operations in the event of disruptions caused by the loss of facilities, technology or personnel. We recently built an out-of-region data center for disaster recovery in order to increase the geographic diversity of our business continuity plans. This data center became operational in the fourth quarter of 2014. Despite the planning, testing and preparation of back up venues that we engage in, a catastrophic event may still result in a significant business disruption and financial losses. See "Risk Factors" for a discussion of the risks to our business relating to a catastrophic event that could disrupt our business.

Non-Mortgage Related Fraud Risk

Our anti-fraud program provides a framework for managing non-mortgage related fraud risk. The program is designed to provide reasonable assurance for the prevention and detection of non-mortgage related fraudulent activity. However, because fraudulent activity requires the intentional circumvention of the internal control structure, the efforts of the program may not always prevent, or immediately detect, instances of such activity.

IMPACT OF FUTURE ADOPTION OF NEW ACCOUNTING GUIDANCE

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

GLOSSARY OF TERMS USED IN THIS REPORT

Terms used in this report have the following meanings, unless the context indicates otherwise.

An "Acquired credit-impaired loan" refers to a loan we have acquired for which there is evidence of credit deterioration since origination and for which it is probable we will not be able to collect all of the contractually due cash flows. We record our net investment in such loans at the lower of the acquisition cost of the loan or the estimated fair value of the loan at the date of acquisition. Typically, loans we acquire from our unconsolidated MBS trusts pursuant to our option to purchase upon default meet these criteria. Because we acquire these loans from our MBS trusts at par value plus accrued interest, to the extent the par value of a loan exceeds the estimated fair value at the time we acquire the loan, we record the related fair value loss as a charge against the "Reserve for guaranty losses."

"Alt-A mortgage loan" or "Alt-A loan" generally refers to a mortgage loan originated under a lender's program offering reduced or alternative documentation than that required for a full documentation mortgage loan but may also include other alternative product features. As a result, Alt-A mortgage loans have a higher risk of default than non-Alt-A mortgage loans. We classify certain loans as Alt-A so that we can discuss our exposure to Alt-A loans in this Form 10-K and elsewhere. However, there is no universally accepted definition of Alt-A loans. In reporting our Alt-A exposure, we have classified mortgage loans as Alt-A if and only if the lenders that delivered the mortgage loans to us classified the loans as Alt-A, based on documentation or other product features. We have loans with some features that are similar to Alt-A mortgage loans that we have not classified as Alt-A because they do not meet our classification criteria. We do not rely solely on our classifications of loans as Alt-A to evaluate the credit risk exposure relating to these loans in our single-family conventional guaranty book of business. For more information about the credit risk characteristics of loans in our single-family guaranty book of business, see "Risk Management—Credit Risk Management—Mortgage Credit Risk Management—Single-Family Mortgage Credit Risk Management," "Note 3, Mortgage Loans" and "Note 6, Financial Guarantees." We have classified private-label mortgage-related securities held in our retained mortgage portfolio as Alt-A if the securities were labeled as such when issued. For more information on the Alt-A loans and securities in our mortgage credit book of business, see "Note 16, Concentrations of Credit Risk."

"Business volume" or "new business acquisitions" refers to the sum in any given period of the unpaid principal balance of: (1) the mortgage loans and mortgage-related securities we purchase for our retained mortgage portfolio; (2) the mortgage loans we securitize into Fannie Mae MBS that are acquired by third parties; and (3) credit enhancements that we provide on our mortgage assets. It excludes mortgage loans we securitize from our portfolio and the purchase of Fannie Mae MBS for our retained mortgage portfolio.

"Buy-ups" refer to upfront payments we make to lenders to adjust the monthly contractual guaranty fee rate on a Fannie Mae MBS so that the pass-through coupon rate on the MBS is in a more easily tradable increment of a whole or half percent.

"Buy-downs" refer to upfront payments we receive from lenders to adjust the monthly contractual guaranty fee rate on a Fannie Mae MBS so that the pass-through coupon rate on the MBS is in a more easily tradable increment of a whole or half percent.

"Charge-off" refers to loan amounts written off as uncollectible bad debts. These loan amounts are removed from our consolidated balance sheet and charged against our loss reserves when the balance is deemed uncollectible, which is generally at foreclosure.

"Connecticut Avenue Securities" refers to a type of debt structure that allows Fannie Mae to transfer a portion of the credit risk from loan reference pools, consisting of certain single-family mortgage loans in our single-family guaranty book of business in our consolidated balance sheets, to third-party investors.
"Conventional mortgage" refers to a mortgage loan that is not guaranteed or insured by the U.S. government or its agencies, such as the VA, the FHA or the Rural Development Housing and Community Facilities Program of the Department of Agriculture.
"Credit enhancement" refers to 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.
"Duration" refers to the sensitivity of the value of a financial instrument to changes in interest rates. The duration of a financial instrument is the expected percentage change in its value in the event of a change in interest rates of 100 basis points.
"Guaranty book of business" refers to the sum of the unpaid principal balance of: (1) mortgage loans of Fannie Mae; (2) mortgage loans underlying Fannie Mae MBS; and (3) other credit enhancements that we provide on mortgage assets. It excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.
"Implied volatility" refers to the market's expectation of the magnitude of future changes in interest rates.
"Interest rate swap" refers to a transaction between two parties in which each agrees to exchange payments tied to different interest rates or indices for a specified period of time, generally based on a notional principal amount. An interest rate swap is a type of derivative.
"HARP loans" refer to loans we have acquired through the Obama Administration's Home Affordable Refinance Program® ("HARP®"), which allows eligible Fannie Mae borrowers with high LTV ratio loans to refinance into more sustainable loans.
"LIHTC partnerships" refer to low-income housing tax credit limited partnerships or limited liability companies.
"Loans," "mortgage loans" and "mortgages" refer to both whole loans and loan participations, secured by residential real estate, cooperative shares or by manufactured housing units.
"Mortgage assets," when referring to our assets, refers to both mortgage loans and mortgage-related securities we hold in our retained mortgage portfolio. For purposes of the senior preferred stock purchase agreement, the definition of mortgage assets is based on the unpaid principal balance of such assets and does not reflect market valuation adjustments, allowance for loan losses, impairments, unamortized premiums and discounts and the impact of our consolidation of variable interest entities. We disclose the amount of our mortgage assets for purposes of the senior preferred stock purchase agreement on a monthly basis under the caption "Gross Mortgage Portfolio" in our Monthly Summaries, which are available on our Web site and announced in a press release.
"Mortgage-backed securities" or "MBS" refers generally to securities that represent beneficial interests in pools of mortgage loans or other mortgage-related securities. These securities may be issued by Fannie Mae or by others.
"Mortgage credit book of business" refers to the sum of the unpaid principal balance of: (1) mortgage loans of Fannie Mae; (2) mortgage loans underlying Fannie Mae MBS; (3) non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio; and (4) other credit enhancements that we provide on mortgage assets.
"Multifamily mortgage loan" refers to a mortgage loan secured by a property containing five or more residential dwelling units.
"Notional amount" refers to the hypothetical dollar amount in an interest rate swap transaction on which exchanged payments are based. The notional amount in an interest rate swap transaction generally is not paid or received by either party to the transaction, or generally perceived as being at risk. The notional amount is typically significantly greater than the potential market or credit loss that could result from such transaction.
"Option-adjusted spread" refers to the incremental expected return between a security, loan or derivative contract and a benchmark yield curve (typically, U.S. Treasury securities, LIBOR and swaps or agency debt securities). The option-adjusted spread provides explicit consideration of the variability in the security's cash flows across multiple interest rate scenarios resulting from any options embedded in the security, such as prepayment options. For example, the option-adjusted spread of a mortgage that can be prepaid by the homeowner without penalty is typically lower

than a nominal yield spread to the same benchmark because the option-adjusted spread reflects the exercise of the prepayment option by the homeowner, which lowers the expected return of the mortgage investor. In other words, option-adjusted spread for mortgage loans is a risk-adjusted spread after consideration of the prepayment risk in mortgage loans. The market convention for mortgages is typically to quote their option-adjusted spread to swaps. The option-adjusted spread of our debt and derivative instruments are also frequently quoted to swaps. The option-adjusted spread of our net mortgage assets is therefore the combination of these two spreads to swaps and is the option-adjusted spread between our assets and our funding and hedging instruments.

"Outstanding Fannie Mae MBS" refers to the total unpaid principal balance of Fannie Mae MBS that is held by third-party investors and held in our retained mortgage portfolio.

"Pay-fixed swap" refers to an interest rate swap trade under which we pay a predetermined fixed rate of interest based upon a set notional amount and receive a variable interest payment based upon a stated index, with the index resetting at regular intervals over a specified period of time. These contracts generally increase in value as interest rates rise and decrease in value as interest rates fall.

"Private-label securities" or "PLS" refers to mortgage-related securities issued by entities other than agency issuers Fannie Mae, Freddie Mac or Ginnie Mae.

"Receive-fixed swap" refers to an interest rate swap trade under which we make a variable interest payment based upon a stated index, with the index resetting at regular intervals, and receive a predetermined fixed rate of interest based upon a set notional amount and over a specified period of time. These contracts generally increase in value as interest rates fall and decrease in value as interest rates rise.

"Recorded investment for held-for-investment loans" refers to loans at the unpaid principal balance, net of unamortized premiums and discounts, other cost basis adjustments, and accrued interest receivable.

"Refi Plus Loans" refers to loans we acquire 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. Refi Plus has no limits on maximum LTV ratio and provides mortgage insurance flexibilities for loans with LTV ratios greater than 80%.

"REMIC" or "Real Estate Mortgage Investment Conduit" refers to a type of mortgage-related security in which interest and principal payments from mortgages or mortgage-related securities are structured into separately traded securities.

"REO" refers to real-estate owned by Fannie Mae because we have foreclosed on the property or obtained the property through a deed-in-lieu of foreclosure.

"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).

"Severity rate" or "loss severity rate" refers to a measure of the amounts that will not be recovered in the event a loan defaults. Severity rates generally reflect charge-offs as a percentage of unpaid principal balance. Additional items may be taken into account in calculating severity rates. For example, the numerator may reflect items such as foreclosed property expenses, taxes and insurance, and expected recoveries from mortgage insurance, while the denominator may reflect items such as purchased interest, basis, and selling costs.

"Single-class Fannie Mae MBS" refers to Fannie Mae MBS where the investors receive principal and interest payments in proportion to their percentage ownership of the MBS issue.

"Single-family mortgage loan" refers to a mortgage loan secured by a property containing four or fewer residential dwelling units.

"Structured Fannie Mae MBS" refers to Fannie Mae MBS that are resecuritizations of other Fannie Mae MBS.

"Subprime mortgage loan" generally refers to a mortgage loan made to a borrower with a weaker credit profile than that of a prime borrower. As a result of the weaker credit profile, subprime borrowers have a higher likelihood of default than prime borrowers. Subprime mortgage loans were typically originated by lenders specializing in this type of business or by subprime divisions of large lenders, using processes unique to subprime loans. We classify certain loans as subprime so that we can discuss our exposure to subprime loans in this Form 10-K and elsewhere. However, there is no universally accepted definition of subprime loans. In reporting our subprime exposure, we have classified mortgage loans as subprime if and only if the loans were 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. We have loans with some features that are similar to subprime mortgage loans that we have not classified as subprime because they do not meet our classification criteria. We do not rely solely on our classifications of loans as subprime to evaluate the credit risk exposure relating to these loans in our single-family conventional guaranty book of business. We are 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 private-label mortgage-related securities held in our retained mortgage portfolio as subprime if the securities were labeled as such when issued. For more information on the subprime securities in our mortgage credit book of business, see "Note 5, Investments in Securities."

"Swaption" refers to an option that gives the option buyer the right, but not the obligation, to enter into an interest rate swap on a future date with the option seller on terms specified on the date the parties agreed to the swaption.

"TCCA fees" refers to the expense recognized as a result of the 10 basis point increase in guaranty fees on all single-family residential mortgages delivered to us on or after April 1, 2012 pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, which we remit to Treasury on a quarterly basis.

"Total loss reserve" consists of allowance for loan losses, allowance for accrued interest receivable, allowance for preforeclosure property taxes and insurance receivables and reserve for guaranty losses. Our total loss reserve reflects our estimate of the probable losses we have incurred in our guaranty book of business, including concessions we granted borrowers upon modification of their loans.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Information about market risk is set forth in "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management."

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements and notes thereto are included elsewhere in this annual report on Form 10-K as described below in "Exhibits and Financial Statement Schedules."

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

OVERVIEW

We are required under applicable laws and regulations to maintain controls and procedures, which include disclosure controls and procedures as well as internal control over financial reporting, as further described below.

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Disclosure controls and procedures refer to controls and other procedures designed to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as in effect as of December 31, 2014, the end of the period covered by this report. As a result of management's evaluation, our Chief

Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of December 31, 2014 or as of the date of filing this report.

Our disclosure controls and procedures were not effective as of December 31, 2014 or as of the date of filing this report because they did not adequately ensure the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws. As a result, we were not able to rely upon the disclosure controls and procedures that were in place as of December 31, 2014 or as of the date of this filing, and we continue to have a material weakness in our internal control over financial reporting. This material weakness is described in more detail below under "Management's Report on Internal Control Over Financial Reporting—Description of Material Weakness." Based on discussions with FHFA and the structural nature of this material weakness, we do not expect to remediate this material weakness while we are under conservatorship.

MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

Overview

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting, as defined in rules promulgated under the Exchange Act, is a process designed by, or under the supervision of, our Chief Executive Officer and Chief Financial Officer and effected by our Board of Directors, management and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

Internal control over financial reporting includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with GAAP, and that our receipts and expenditures are being made only in accordance with authorizations of our management and our Board of Directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on our financial statements.

Internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives because of its inherent limitations. Internal control over financial reporting is a process that involves human diligence and compliance and is subject to lapses in judgment and breakdowns resulting from human failures. Internal control over financial reporting also can be circumvented by collusion or improper override. Because of such limitations, there is a risk that material misstatements may not be prevented or detected on a timely basis by internal control over financial reporting. However, these inherent limitations are known features of the financial reporting process, and it is possible to design into the process safeguards to reduce, though not eliminate, this risk.

Our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2014. In May 2013, the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") published an updated Internal Control-Integrated Framework and related illustrative documents. This updated 2013 framework superseded COSO's previous 1992 framework effective December 15, 2014. We adopted the 2013 framework in December 2014. Accordingly, in making its assessment of the effectiveness of our internal control over financial reporting as of December 31, 2014, management used the criteria established in the 2013 framework.

Management's assessment of our internal control over financial reporting as of December 31, 2014 identified a material weakness, which is described below. Because of this material weakness, management has concluded that our internal control over financial reporting was not effective as of December 31, 2014 or as of the date of filing this report.

Our independent registered public accounting firm, Deloitte & Touche LLP, has issued an audit report on our internal control over financial reporting, expressing an adverse opinion on the effectiveness of our internal control over financial reporting as of December 31, 2014. This report is included below.

Description of Material Weakness

The Public Company Accounting Oversight Board's Auditing Standard No. 5 defines a material weakness as a deficiency or a combination of deficiencies in internal control over financial reporting, such that there is a reasonable possibility that a

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material misstatement of the company's annual or interim financial statements will not be prevented or detected on a timely basis.

Management has determined that we continued to have the following material weakness as of December 31, 2014 and as of the date of filing this report:

- Disclosure Controls and Procedures. We have been under the conservatorship of FHFA since September 6, 2008. Under the 2008 Reform Act, FHFA is an independent agency that currently functions as both our conservator and our regulator with respect to our safety, soundness and mission. Because of the nature of the conservatorship under the 2008 Reform Act, which places us under the "control" of FHFA (as that term is defined by securities laws), some of the information that we may need to meet our disclosure obligations may be solely within the knowledge of FHFA. As our conservator, FHFA has the power to take actions without our knowledge that could be material to our shareholders and other stakeholders, and could significantly affect our financial performance or our continued existence as an ongoing business. Although we and FHFA attempted to design and implement disclosure policies and procedures that would account for the conservatorship and accomplish the same objectives as a disclosure controls and procedures policy of a typical reporting company, there are inherent structural limitations on our ability to design, implement, test or operate effective disclosure controls and procedures. As both our regulator and our conservator under the 2008 Reform Act, FHFA is limited in its ability to design and implement a complete set of disclosure controls and procedures relating to Fannie Mae, particularly with respect to current reporting pursuant to Form 8-K. Similarly, as a regulated entity, we are limited in our ability to design, implement, operate and test the controls and procedures for which FHFA is responsible.

Due to these circumstances, we have not been able to update our disclosure controls and procedures in a manner that adequately ensures the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws, including disclosures affecting our consolidated financial statements. As a result, we did not maintain effective controls and procedures designed to ensure complete and accurate disclosure as required by GAAP as of December 31, 2014 or as of the date of filing this report. Based on discussions with FHFA and the structural nature of this weakness, we do not expect to remediate this material weakness while we are under conservatorship.

MITIGATING ACTIONS RELATING TO MATERIAL WEAKNESS

As described above under "Management's Report on Internal Control Over Financial Reporting—Description of Material Weakness," we continue to have a material weakness in our internal control over financial reporting relating to our disclosure controls and procedures. However, we and FHFA have engaged in the following practices intended to permit accumulation and communication to management of information needed to meet our disclosure obligations under the federal securities laws:

- FHFA has established the Division of Conservatorship, which is intended to facilitate operation of the company with the oversight of the conservator.
- We have provided drafts of our SEC filings to FHFA personnel for their review and comment prior to filing. We also have provided drafts of external press releases, statements and speeches to FHFA personnel for their review and comment prior to release.
- FHFA personnel, including senior officials, have reviewed our SEC filings prior to filing, including this annual report on Form 10-K for the year ended December 31, 2014 ("2014 Form 10-K"), and engaged in discussions regarding issues associated with the information contained in those filings. Prior to filing our 2014 Form 10-K, FHFA provided Fannie Mae management with a written acknowledgment that it had reviewed the 2014 Form 10-K, and it was not aware of any material misstatements or omissions in the 2014 Form 10-K and had no objection to our filing the 2014 Form 10-K.
- The Director of FHFA and our Chief Executive Officer have been in frequent communication, typically meeting on at least a bi-weekly basis.
- FHFA representatives attend meetings frequently with various groups within the company to enhance the flow of information and to provide oversight on a variety of matters, including accounting, credit and market risk management, external communications and legal matters.
- Senior officials within FHFA's Office of the Chief Accountant have met frequently with our senior finance executives regarding our accounting policies, practices and procedures.

In view of these activities, we believe that our consolidated financial statements for the year ended December 31, 2014 have been prepared in conformity with GAAP.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

Management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, whether any changes in our internal control over financial reporting that occurred during our last fiscal quarter have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. There have been no changes in our internal control over financial reporting since September 30, 2014 that management believes have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To Fannie Mae:

We have audited the internal control over financial reporting of Fannie Mae and consolidated entities (in conservatorship) (the “Company”) as of December 31, 2014, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company’s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on that risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis. The following material weakness has been identified and included in management’s assessment:

- Disclosure Controls and Procedures—The Company’s disclosure controls and procedures did not adequately ensure the accumulation and communication to management of information known to the Federal Housing Finance Agency that is needed to meet their disclosure obligations under the federal securities laws as they relate to financial reporting.

This material weakness was considered in determining the nature, timing, and extent of audit tests applied in our audit of the consolidated financial statements as of and for the year ended December 31, 2014, of the Company and this report does not affect our report on such financial statements.

In our opinion, because of the effect of the material weakness identified above on the achievement of the objectives of the control criteria, the Company has not maintained effective internal control over financial reporting as of December 31, 2014, based on the criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2014, of the Company and our report dated February 20, 2015, expressed an unqualified opinion on those financial statements and included an explanatory paragraph regarding the Company's dependence upon the continued support from various agencies of the United States Government, including the United States Department of Treasury and the Company's conservator and regulator, the Federal Housing Finance Agency.

/s/ Deloitte & Touche LLP
McLean, Virginia
February 20, 2015

Item 9B. Other Information

In September 2014, Terence W. Edwards, our Executive Vice President and Chief Operating Officer, notified us that he plans to leave the company during the first half of 2015. On February 18, 2015, Mr. Edwards notified us that his departure will be effective on April 10, 2015.

Our Board of Directors approved a change to the retirement provisions for our executive compensation program for 2015 and future years. See "Executive Compensation—Compensation Discussion and Analysis—Retirement Provisions for the 2015 Executive Compensation Program," which is incorporated herein by reference, for a description of this change.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

DIRECTORS

Our current directors are listed below. They have provided the following information about their principal occupation, business experience and other matters. Upon FHFA's appointment as our conservator on September 6, 2008, FHFA succeeded to all rights, titles, powers and privileges of any director of Fannie Mae with respect to Fannie Mae and its assets.

As discussed in more detail below under "Corporate Governance—Conservatorship and Delegation of Authority to Board of Directors," FHFA, as conservator, appointed an initial group of directors to our Board following our entry into conservatorship, delegated to the Board certain authority, including the authority to appoint directors to subsequent vacancies subject to conservator review, and defined the term of service of directors during conservatorship. The Nominating & Corporate Governance Committee evaluates the qualifications of individual directors on an annual basis. In its assessment of current directors and evaluation of potential candidates for director, the Nominating & Corporate Governance Committee considers, among other things, whether the Board as a whole possesses meaningful experience, qualifications and skills in the following subject areas: business; finance; capital markets; accounting; risk management; public policy; mortgage lending, real estate, low-income housing and/or homebuilding; technology; and the regulation of financial institutions. See "Corporate Governance—Composition of Board of Directors" below for further information on the factors the Nominating & Corporate Governance Committee considers in evaluating and selecting board members.

Amy E. Alving, 52, served as Chief Technology Officer and Senior Vice President at Science Applications International Corporation ("SAIC"), an engineering and technology applications company, from December 2007 to September 2013. Dr. Alving's prior positions include director of the Special Projects Office at the Defense Advanced Research Projects Agency, White House Fellow, and tenured faculty member at the University of Minnesota. Dr. Alving is currently a member of the Board of Directors of Pall Corporation, where she serves as a member of the Audit Committee and the Nominating/Governance Committee. In addition, she is a member of the Defense Science Board. Dr. Alving has been a Fannie Mae director since October 2013. Dr. Alving serves as a member of the Nominating & Corporate Governance Committee, the Risk Policy & Capital Committee and the Strategic Initiatives Committee.

The Nominating & Corporate Governance Committee concluded that Dr. Alving should serve as a director due to her extensive experience in business, risk management, public policy matters and technology, which she gained in the positions described above.

William Thomas Forrester, 66, served as Chief Financial Officer of The Progressive Corporation from 1999 until his retirement in March 2007, and he served in a variety of senior financial and operating positions with Progressive prior to that time. Prior to joining The Progressive Corporation in 1984, Mr. Forrester was with Price Waterhouse LLP, a major public accounting firm, from 1976 to 1984. Mr. Forrester was previously a member of the Board of Directors of Alterra Capital Holdings Limited, from May 2010 to May 2013, where he served on the Audit and Risk Management Committee and the Underwriting Committee. He previously was also a member of the Board of Directors of The Navigators Group, Inc. from December 2006 to May 2012, where he served as Chair of the Audit Committee and also as a member of the Finance and Compensation Committees. Mr. Forrester has been a Fannie Mae director since December 2008. Mr. Forrester serves as Chair of the Audit Committee and is also a member of the Risk Policy & Capital Committee, the Strategic Initiatives Committee and the Executive Committee.

The Nominating & Corporate Governance Committee concluded that Mr. Forrester should continue to serve as a director due to his extensive experience in business, finance, accounting and risk management, which he gained in the positions described above.

Brenda J. Gaines, 65, served as President and Chief Executive Officer of Diners Club North America, a subsidiary of Citigroup, from October 2002 until her retirement in April 2004. She served as President, Diners Club North America, from February 1999 to September 2002. From 1988 until her appointment as President, she held various positions within Diners Club North America, Citigroup and Citigroup's predecessor corporations. She also served as Deputy Chief of Staff for the Mayor of the City of Chicago from 1985 to 1987 and as Chicago Commissioner of Housing from 1983 to 1985. Ms. Gaines also has over 12 years of experience with the Department of Housing and Urban Development, including serving as Deputy Regional Administrator from 1980 to 1981. Ms. Gaines is currently a member of the Board of Directors of AGL Resources Inc., where she serves as a member of both the Audit Committee and the Nominating, Governance and Corporate Responsibility Committee, and Tenet Healthcare Corporation, where she serves as a member of both the Compensation Committee and the Quality, Compliance & Ethics Committee. She previously was a member of the Board of Directors of NICOR, Inc. from April 2006 to December 2011, where she served on the Corporate Governance Committee, and Office Depot, Inc. from February 2002 to August 2013, where she served as a member of both the Audit Committee and the Corporate Governance and Nominating Committee. Ms. Gaines initially became a Fannie Mae director in September 2006, before we were put into conservatorship, and FHFA appointed Ms. Gaines to Fannie Mae's Board in December 2008. Ms. Gaines serves as Chair of the Compensation Committee and is also a member of the Audit Committee and the Executive Committee.

The Nominating & Corporate Governance Committee concluded that Ms. Gaines should continue to serve as a director due to her extensive experience in business, finance, accounting, risk management, public policy matters, real estate, low-income housing and the regulation of financial institutions, which she gained in the positions described above.

Charlynn Goins, 72, is an attorney. Ms. Goins served as the Chairperson of the New York Community Trust from 2009 to 2014, and she remains on its Board as Chairperson Emerita. Ms. Goins previously served as a director of AXA Financial Inc. from September 2006 to December 2012, where she served as a member of the Organization and Compensation Committee. Ms. Goins served as Chairperson of the Board of Directors of New York City Health and Hospitals Corporation, from June 2004 to October 2008. She also served on the Board of Trustees of The Mainstay Funds, New York Life Insurance Company's retail family of funds, from June 2001 through July 2006 and on the Board of Directors of The Community's Bank from February 2001 through June 2004. Ms. Goins was a Senior Vice President of Prudential Financial, Inc. (formerly, Prudential Securities, Inc.) from 1990 to 1997. Ms. Goins has been a Fannie Mae director since December 2008. Ms. Goins serves as Chair of the Nominating & Corporate Governance Committee and is also a member of the Strategic Initiatives Committee and the Executive Committee.

The Nominating & Corporate Governance Committee concluded that Ms. Goins should continue to serve as a director due to her extensive experience in business, finance, public policy matters and the regulation of financial institutions, which she gained in the positions described above.

Frederick B. "Bart" Harvey III, 65, retired in March 2008 from his role as chairman of the Board of Trustees of Enterprise Community Partners and Enterprise Community Investment, providers of development capital and technical expertise to create affordable housing and rebuild communities. Enterprise is a national non-profit that raises funds from the private sector to finance homes primarily for low and very low income people. Enterprise has also pioneered "green" affordable housing with its EnterpriseGreen Communities initiative. Mr. Harvey was Enterprise's chief executive officer from 1993 to 2007. He joined Enterprise in 1984, and a year later became vice chairman. Before joining Enterprise, Mr. Harvey served for 10 years in various domestic and international positions with Dean Witter Reynolds (now Morgan Stanley), leaving as Managing Director of Corporate Finance. Mr. Harvey was a member of the Board of Directors of the Federal Home Loan Bank of Atlanta from 1996 to 1999, a director of the National Housing Trust from 1990 to 2008, and also served as an executive committee member of the National Housing Conference from 1999 to 2008. Mr. Harvey initially became a Fannie Mae director in August 2008, before we were put into conservatorship, and FHFA appointed Mr. Harvey to Fannie Mae's Board in December 2008. Mr. Harvey serves as a member of the Nominating & Corporate Governance Committee and the Risk Policy & Capital Committee.

The Nominating & Corporate Governance Committee concluded that Mr. Harvey should continue to serve as a director due to his extensive experience in business, finance, capital markets, risk management, public policy matters,

real estate, low-income housing and homebuilding, which he gained in the positions described above.
Robert H. Herz, 61, serves as President of Robert H. Herz LLC, providing consulting services on financial reporting and other matters. He previously served as a senior advisor to and as a member of the Advisory Board of Workiva Inc. (formerly WebFilings LLC), a provider of financial reporting software, from February 2011 to December 2014. From July 2002 to September 2010, Mr. Herz was Chairman of the Financial Accounting Standards Board, or FASB. He was also a part-time member of the International Accounting Standards Board, or IASB, from January 2001 to June 2002. He was a partner in PricewaterhouseCoopers LLP from 1985 until his retirement in 2002. He serves on the Accounting Standards Oversight

Council of Canada, as a member of the Standing Advisory Group of the Public Company Accounting Oversight Board, as a member of the Board of Directors of the Sustainability Accounting Standards Board, on the Leadership Board of the Manchester Business School in England, on the Advisory Council of AccountAbility, as Trustee of the Kessler Foundation and as an executive in residence at the Columbia Business School. Mr. Herz is currently a member of the Board of Directors of Morgan Stanley, where he serves as Chair of the Audit Committee, and he is a member of the Board of Directors of Workiva Inc. Mr. Herz has been a Fannie Mae director since June 2011. Mr. Herz serves as a member of the Audit Committee and the Nominating & Corporate Governance Committee.
The Nominating & Corporate Governance Committee concluded that Mr. Herz should continue to serve as a director due to his extensive experience in accounting, business, finance, capital markets, risk management and the regulation of financial institutions, which he gained in the positions described above.
Timothy J. Mayopoulos, 55, has been President and Chief Executive Officer of Fannie Mae since June 2012. He previously served as Fannie Mae's Executive Vice President, Chief Administrative Officer, General Counsel and Corporate Secretary from September 2010 to June 2012, and as Fannie Mae's Executive Vice President, General Counsel and Corporate Secretary from April 2009 to September 2010. Before joining Fannie Mae, Mr. Mayopoulos was Executive Vice President and General Counsel of Bank of America Corporation from January 2004 to December 2008. He was Managing Director and General Counsel, Americas of Deutsche Bank AG's Corporate and Investment Bank from January 2002 to January 2004. He was Managing Director and Senior Deputy General Counsel, Americas of Credit Suisse First Boston from November 2000 to May 2001, and Managing Director and Associate General Counsel of Donaldson, Lufkin & Jenrette, Inc. from May 1996 to November 2000. Mr. Mayopoulos was previously in private law practice at Davis Polk & Wardwell and served in the Office of the Independent Counsel during the Whitewater investigation. Mr. Mayopoulos is currently a member of the Board of Directors of Science Applications International Corporation ("SAIC"), where he serves as a member of the Audit Committee and the Nominating and Corporate Governance Committee. Mr. Mayopoulos has been a Fannie Mae director since June 2012. He is a member of the Executive Committee.
Mr. Mayopoulos serves as a member of our Board of Directors pursuant to an FHFA order that specifies that our Chief Executive Officer will serve as a member of the Board. In addition, the Nominating and Corporate Governance Committee concluded that Mr. Mayopoulos should continue to serve as a director due to his extensive experience in business, finance, risk management, public policy, mortgage lending and the regulation of financial institutions, which he gained in the positions described above.
Diane C. Nordin, 56, served as a partner of Wellington Management Company, LLP, a private asset management company, from December 1995 to December 2011, and originally joined Wellington in 1991. She served in many global leadership roles at Wellington, most notably as head of Fixed Income, Vice Chair of the Compensation Committee and Audit Chair of the Wellington Management Trust Company. Ms. Nordin spent over three decades in the investment business, having previously been employed by Fidelity Investments and Putnam Investments. Ms. Nordin is a Chartered Financial Analyst. Following her retirement from the asset management industry, Ms. Nordin served as an Advanced Leadership Initiative Fellow at Harvard University from December 2011 to December 2012. Ms. Nordin currently serves as a Trustee of Wheaton College, where she is an Executive Committee and Audit Committee member and Chair of the Investment Committee. She is also a Director of the Appalachian Mountain Club, where she is Chair of the Investment and Audit Committees, and a Foundation Board Member of the Massachusetts College of Art and Design. Ms. Nordin has been a Fannie Mae director since November 2013. Ms. Nordin serves as a member of the Audit Committee and the Compensation Committee.
The Nominating & Corporate Governance Committee concluded that Ms. Nordin should serve as a director due to her extensive experience in business, finance, capital markets, mortgage securities investment and regulation of financial institutions, which she gained in the positions described above.
Egbert L. J. Perry, 59, is the Chairman and Chief Executive Officer of The Integral Group LLC. Founded in 1993 by Mr. Perry, Integral is a real estate development, advisory and investment management company based in Atlanta. Mr. Perry has over 35 years of experience as a real estate professional, including work in urban development, developing and investing in mixed-income, mixed-use communities, affordable/work force housing and commercial real estate projects in markets across the country. Mr. Perry currently serves as Chair of the Advisory Board of the

Penn Institute for Urban Research and as a long-time trustee of the University of Pennsylvania. Mr. Perry also served from 2002 through 2008 as a director of the Federal Reserve Bank of Atlanta. Mr. Perry has been a Fannie Mae director since December 2008 and Chairman of Fannie Mae's Board since March 2014. Mr. Perry is Chair of the Executive Committee.

The Nominating & Corporate Governance Committee concluded that Mr. Perry should continue to serve as a director due to his extensive experience in business, finance, accounting, risk management, real estate, low-income housing and homebuilding, which he gained in the positions described above.

Jonathan Plutzik, 60, has served as Chairman of Betsy Ross Investors, LLC since August 2005. He also has served as President of the Jonathan Plutzik and Lesley Goldwasser Family Foundation Inc. since January 2003. Mr. Plutzik served as Non-Executive Chairman of the Board of Directors at Firaxis Games from June 2002 to December 2005. Before that, he served from 1978 to June 2002 in various positions with Credit Suisse First Boston, retiring in June 2002 from his role as Vice Chairman. Mr. Plutzik has been a Fannie Mae director since November 2009. Mr. Plutzik is Chair of the Strategic Initiatives Committee and is a member of the Compensation Committee, the Executive Committee and the Risk Policy & Capital Committee.

The Nominating & Corporate Governance Committee concluded that Mr. Plutzik should continue to serve as a director due to his extensive experience in business, finance, capital markets, risk management, mortgage lending and the regulation of financial institutions, which he gained in the positions described above.

David H. Sidwell, 61, served as Executive Vice President and Chief Financial Officer of Morgan Stanley from March 2004 to October 2007, when he retired. From 1984 to March 2004, Mr. Sidwell worked for JPMorgan Chase & Co. in a variety of financial and operating positions, most recently as Chief Financial Officer of JPMorgan Chase's investment bank from January 2000 to March 2004. Prior to joining JP Morgan in 1984, Mr. Sidwell was with Price Waterhouse LLP, a major public accounting firm, from 1975 to 1984. Mr. Sidwell is currently a member of the Board of Directors and Senior Independent Director of UBS AG, where he serves as Chair of the Risk Committee and a member of the Governance & Nominating Committee. He is also a member of the Board of Directors of Ace Limited, where he serves as a member of the Audit Committee. He previously was a member of the Board of Directors of MSCI Inc. from November 2007 through September 2008, where he served as Chair of the Audit Committee and a member of the Nominating and Corporate Governance Committee. Mr. Sidwell served as a Trustee of the International Accounting Standards Committee Foundation from January 2007 until his term ended in December 2012. Mr. Sidwell has been a Fannie Mae director since December 2008. Mr. Sidwell is Chair of the Risk Policy & Capital Committee and a member of the Compensation Committee and the Executive Committee.

The Nominating & Corporate Governance Committee concluded that Mr. Sidwell should continue to serve as a director due to his extensive experience in business, finance, capital markets, accounting, risk management and the regulation of financial institutions, which he gained in the positions described above.

CORPORATE GOVERNANCE

Conservatorship and Delegation of Authority to Board of Directors

On September 6, 2008, the Director of FHFA appointed FHFA as our conservator in accordance with the GSE Act. Upon its appointment, the conservator immediately succeeded to all rights, titles, powers and privileges of Fannie Mae, and of any shareholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and succeeded to the title to the books, records and assets of any other legal custodian of Fannie Mae. As a result, our Board of Directors no longer had the power or duty to manage, direct or oversee our business and affairs.

In November 2008, FHFA, as conservator, reconstituted our Board of Directors and directed us regarding the function and authorities of the Board of Directors. FHFA delegated to our Board of Directors and management the authority to conduct our day-to-day operations, subject to the direction of the conservator. FHFA's delegation of authority to the Board became effective in December 2008, when FHFA appointed nine Board members to serve in addition to the Board Chairman, who was appointed by FHFA in September 2008. Pursuant to FHFA's delegation of authority to the Board, the Board is responsible for carrying out normal Board functions, but is required to ensure that management has obtained the review and approval of FHFA as conservator before taking action in the areas described below. The delegation of authority will remain in effect until modified or rescinded by the conservator. The conservatorship has no specified termination date. The directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, where required, of the conservator. Our directors have no fiduciary duties to any person or entity except to the conservator. Accordingly, our directors 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.

In connection with FHFA's delegation of authority to the Board, in November 2008, FHFA instructed the Board to consult with and obtain FHFA's approval before taking action in certain specified areas. In November 2012, FHFA revised and replaced these prior instructions to the Board. Pursuant to the 2012 instructions, FHFA increased the number of matters that require conservator approval before we may take action. Since 2012, FHFA has slightly modified the 2012 instructions. As

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modified, FHFA's 2012 instructions require the Board to oversee that management consult with and obtain the written approval of the conservator before taking action in the following areas:

- engaging in redemptions or repurchases of our subordinated debt, except as may be necessary to comply with the senior preferred stock purchase agreement;
- increases in Board risk limits, material changes in accounting policy, and reasonably foreseeable material increases in operational risk;
- matters that relate to the conservator's powers, our conservatorship status, or the legal effect of the conservatorship on contracts;
- retention and termination of external auditors and law firms serving as consultants to the Board;
- agreements relating to litigation, claims, regulatory proceedings or tax-related matters where the value of the claim exceeds a specified threshold, including related matters that aggregate to more than the threshold;
- alterations or changes to the terms of the master agreement between us and one of our top five single-family sellers or top five single-family servicers that are not otherwise mandated by FHFA and that will materially alter the business relationship between the parties;
- the termination of a contract between us and one of our top five single-family sellers or top five single-family servicers, other than an expiration pursuant to its terms;
- actions that in the reasonable business judgment of management, at the time that the action is to be taken, are likely to cause significant reputational risk to us or result in substantial negative publicity;
- creation of any subsidiary or affiliate, or entering into a substantial transaction with a subsidiary or affiliate, except for the creation of, or a transaction with, a subsidiary or affiliate undertaken in the ordinary course of business;
- setting or increasing the compensation or benefits payable to members of the Board of Directors;
- entering into new compensation arrangements or increasing amounts or benefits payable under existing compensation arrangements of executives at the senior vice president level and above, and other executives as FHFA may deem necessary to successfully execute its role as conservator;
- any establishment or modification by us of performance management processes for executives at the senior vice president level and above and any executives designated as "officers" pursuant to Section 16 of the Exchange Act, including the establishment or modification of a conservator scorecard;
- establishing the annual operating budget; and
- matters that require the approval of or consultation with Treasury under the senior preferred stock purchase agreement. See "Note 14, Equity" for a list of matters that require the approval of Treasury under the senior preferred stock purchase agreement.

The 2012 instructions state that, in regards to the matters described above, the Board should review and approve these matters before they are submitted to the conservator for approval. FHFA's instructions also require the company to notify FHFA of planned changes in business processes or operations, so that FHFA may participate in decision-making as FHFA determines appropriate. For more information on the conservatorship, refer to "Business—Conservatorship and Treasury Agreements—Conservatorship."

Composition of Board of Directors

In November 2008, FHFA directed that our Board should have a minimum of nine and not more than thirteen directors. There is a non-executive Chairman of the Board, and our Chief Executive Officer is the only corporate officer serving as a director. Our initial directors were appointed by the conservator and subsequent vacancies have been and may continue to be filled by the Board, subject to review by the conservator. Each director serves on the Board until the earlier of (1) resignation or removal by the conservator or (2) the election of a successor director at an annual meeting of shareholders.

Fannie Mae's bylaws provide that each director holds office for the term for which he or she was elected or appointed and until his or her successor is chosen and qualified or until he or she dies, resigns, retires or is removed from office in accordance with applicable law or regulation, whichever occurs first. Under the Charter Act, each director is elected or appointed for a term ending on the date of our next annual shareholders' meeting. As noted above, however, the conservator appointed the initial directors to our Board, delegated to the Board the authority to appoint directors to subsequent vacancies subject to conservator review, and defined the term of service of directors during conservatorship.

Under the Charter Act, our Board shall at all times have as members at least one person from each of the homebuilding, mortgage lending and real estate industries, and at least one person from an organization that has represented consumer or community interests for not less than two years or one person who has demonstrated a career commitment to the provision of housing for low-income households. It is the policy of the Board that a substantial majority of Fannie Mae's directors will be independent, in accordance with the standards adopted by the Board. In addition, our Corporate Governance guidelines provide that the Board, as a group, must be knowledgeable in business, finance, capital markets, accounting, risk management, public policy, mortgage lending, real estate, low-income housing, homebuilding, regulation of financial institutions, technology and any other areas that may be relevant to the safe and sound operation of Fannie Mae. In addition to expertise in the areas noted above, our Corporate Governance Guidelines specify that the Nominating & Corporate Governance Committee will seek out Board members who possess the highest personal values, judgment, and integrity, and who have an understanding of the regulatory and policy environment in which Fannie Mae does business. The Committee also considers whether a prospective candidate for the Board has the ability to attend meetings and fully participate in the activities of the Board.

The Nominating & Corporate Governance Committee also considers diversity when evaluating the composition of the Board. Our Corporate Governance Guidelines specify that the Nominating & Corporate Governance Committee is committed to considering minorities, women and individuals with disabilities in the identification and evaluation process of prospective candidates. The Guidelines also specify that the Committee will seek out Board members who represent diversity in ideas, perspectives, gender, race, and disability. These provisions of our Corporate Governance Guidelines implement FHFA regulations that require the company to implement and maintain policies and procedures that, among other things, encourage the consideration of diversity in nominating or soliciting nominees for positions on our Board.

The Nominating & Corporate Governance Committee evaluates the qualifications and performance of current directors on an annual basis. Factors taken into consideration by the Committee in making this evaluation include:

- a director's contribution to the effective functioning of the corporation;
- any change in the director's principal area of responsibility with his or her company or his or her retirement from the company;
- whether the director continues to bring relevant experience to the Board;
- whether the director has the ability to attend meetings and fully participate in the activities of the Board;
- whether the director has developed any relationships with Fannie Mae or another organization, or other circumstances have arisen, that might make it inappropriate for the director to continue serving on the Board;
- the director's age and length of service on the Board; and
- the director's particular experience, qualifications, attributes and skills.

Information regarding the particular experience, qualifications, attributes and skills of each of our current directors is provided above under "Directors."

Board Leadership Structure

We have had a non-executive Chairman of the Board since 2004. FHFA examination guidance and our Corporate Governance Guidelines require separate Chairman of the Board and Chief Executive Officer positions and require that the Chairman of the Board be an independent director. Our Board is also structured so that all but one of our directors, our Chief Executive Officer, are independent. A non-executive Chairman structure enables non-management directors to raise issues and concerns for Board consideration without immediately involving management and is consistent with the Board's emphasis on independent oversight, as well as our conservator's directives.

Our Board has six standing committees: the Audit Committee, the Compensation Committee, the Executive Committee, the Nominating & Corporate Governance Committee, the Risk Policy & Capital Committee, and the Strategic Initiatives Committee. The Board and the standing Board committees function in accordance with their designated duties and with the authorities as set forth in federal statutes, regulations and FHFA examination and policy guidance, Delaware law (for corporate governance purposes) and in Fannie Mae's bylaws and applicable charters of Fannie Mae's Board committees. Such duties or authorities may be modified by the conservator at any time.

The Board oversees risk management primarily through the Risk Policy & Capital Committee. This Committee oversees management's risk-related policies, including receiving, reviewing and discussing with management presentations and analyses on corporate level risk policies and limits, performance against these policies and limits, and the sufficiency of risk management capabilities. For more information on the Board's role in risk oversight, see "MD&A—Risk Management—Enterprise Risk Governance—Board of Directors."

Corporate Governance Information, Committee Charters and Codes of Conduct

Our Corporate Governance Guidelines, as well as the charters for our Board's Audit Committee, Compensation Committee, Nominating & Corporate Governance Committee, Risk Policy & Capital Committee, and Strategic Initiatives Committee, are posted on our Web site, www.fanniemae.com, under "Governance" in the "About Us" section of our Web site. Our Executive Committee does not have a written charter. The responsibilities, duties and authorities of the Executive Committee are set forth in our bylaws, which are also posted on our Web site, www.fanniemae.com, under "Governance" in the "About Us" section of our Web site.

We have a Code of Conduct that is applicable to all officers and employees and a Code of Conduct and Conflicts of Interest Policy for Members of the Board of Directors. Our Code of Conduct also serves as the code of ethics for our Chief Executive Officer and senior financial officers required by the Sarbanes-Oxley Act of 2002 and implementing regulations of the SEC. We have posted these codes on our Web site, www.fanniemae.com, under "Governance" in the "About Us" section of our Web site. We intend to disclose any changes to or waivers from these codes that apply to any of our executive officers or directors by posting this information on our Web site.

Although our equity securities are no longer listed on the New York Stock Exchange ("NYSE"), we are required by FHFA's corporate governance regulations and examination guidance for corporate governance, compensation practices and accounting practices to follow specified NYSE corporate governance requirements relating to, among other things, the independence of our Board members and the charters, independence, composition, expertise, duties and other requirements of our Board Committees.

Audit Committee Membership

Our Board has a standing Audit Committee consisting of Mr. Forrester, who is the Chair, Ms. Gaines, Mr. Herz and Ms. Nordin, all of whom are independent under the requirements of independence set forth in FHFA's corporate governance regulations (which requires the standard of independence adopted by the NYSE), Fannie Mae's Corporate Governance Guidelines and other SEC rules and regulations applicable to audit committees. The Board has determined that Mr. Forrester, Ms. Gaines, Mr. Herz and Ms. Nordin each have the requisite experience to qualify as an "audit committee financial expert" under the rules and regulations of the SEC and has designated each of them as such.

Executive Sessions

Our non-management directors meet regularly in executive sessions without management present. Our Board of Directors reserves time for executive sessions at every regularly scheduled Board meeting. The non-executive Chairman of the Board, Mr. Perry, presides over these sessions.

Communications with Directors or the Audit Committee

Interested parties wishing to communicate any concerns or questions about Fannie Mae to the non-executive Chairman of the Board or to our non-management directors individually or as a group may do so by electronic mail addressed to "board@fanniemae.com," or by U.S. mail addressed to Board of Directors, c/o Office of the Corporate Secretary, Fannie Mae, Mail Stop 1H-2S/05, 3900 Wisconsin Avenue NW, Washington, DC 20016-2892. Communications may be addressed to a specific director or directors, including Mr. Perry, the Chairman of the Board, or to groups of directors, such as the independent or non-management directors.

Interested parties wishing to communicate with the Audit Committee regarding accounting, internal accounting controls or auditing matters may do so by electronic mail addressed to "auditcommittee@fanniemae.com," or by U.S. mail addressed to Audit Committee, c/o Office of the Corporate Secretary, Fannie Mae, Mail Stop 1H-2S/05, 3900 Wisconsin Avenue NW, Washington, DC 20016-2892.

The Office of the Corporate Secretary is responsible for processing all communications to a director or directors. Communications that are deemed by the Office of the Corporate Secretary to be commercial solicitations, ordinary course customer inquiries or complaints, incoherent or obscene are not forwarded to directors.

Director Nominations; Shareholder Proposals

During the conservatorship, FHFA, as conservator, has all powers of the shareholders and Board of Directors of Fannie Mae. As a result, under the GSE Act, Fannie Mae's common shareholders no longer have the ability to recommend director nominees or elect the directors of Fannie Mae or bring business before any meeting of shareholders pursuant to the procedures in our bylaws. We currently do not plan to hold an annual meeting of shareholders in 2015. For more information on the conservatorship, refer to "Business—Conservatorship and Treasury Agreements—Conservatorship."

EXECUTIVE OFFICERS

Our current executive officers who are not also members of the Board of Directors are listed below. They have provided the following information about their principal occupation, business experience and other matters.

David C. Benson, 55, has been Executive Vice President and Chief Financial Officer since April 2013. Mr. Benson previously served as Executive Vice President—Capital Markets, Securitization & Corporate Strategy from September 2012 to April 2013 and as Executive Vice President—Capital Markets from April 2009 to September 2012. He also served as Treasurer from June 2010 to January 2012. Mr. Benson previously served as Fannie Mae's Executive Vice President—Capital Markets and Treasury from August 2008 to April 2009, as Fannie Mae's Senior Vice President and Treasurer from March 2006 to August 2008, and as Fannie Mae's Vice President and Assistant Treasurer from June 2002 to February 2006. Prior to joining Fannie Mae in 2002, Mr. Benson was Managing Director in the fixed income division of Merrill Lynch & Co. From 1988 through 2002, he served in several capacities at Merrill Lynch in the areas of risk management, trading, debt syndication and e-commerce based in New York and London.

Pascal Boillat, 48, has been Senior Vice President and Head of Operations and Technology since August 2012 and began acting as Head of Operations and Technology in July 2012. Mr. Boillat previously served as Fannie Mae's Senior Vice President and Chief Information Officer from October 2009 to July 2012. Prior to joining Fannie Mae, Mr. Boillat was Managing Director of Operations Technology at Citigroup from September 2004 to October 2009.

Andrew J. Bon Salle, 49, has been Executive Vice President—Single-Family Business since December 2014. Prior to that time, he served as Executive Vice President—Single-Family Underwriting, Pricing, and Capital Markets, from April 2013 to December 2014. Mr. Bon Salle previously served as Fannie Mae's Senior Vice President and Head of Underwriting and Pricing from May 2011 to April 2013, Senior Vice President—Capital Markets from March 2006 to May 2011, and as Fannie Mae's Vice President—Portfolio Management from November 2000 to February 2006. Mr. Bon Salle held the positions of Director, Finance from December 1996 to November 2000 and of Manager, Early Funding Programs from March 1994 to December 1996. Mr. Bon Salle joined Fannie Mae in September 1992 as a senior capital markets analyst.

Brian P. Brooks, 45, has been Executive Vice President, General Counsel and Corporate Secretary since November 2014. Prior to joining Fannie Mae, Mr. Brooks was Vice Chairman of OneWest Bank N.A., from May 2011 to November 2014, where he served as chief legal officer. Previously, Mr. Brooks was a partner at the law firm of O'Melveny & Myers LLP, where he served from February 2008 through January 2011 as managing partner of the Washington, D.C. office and from February 2010 through April 2011 as group leader of the firm's financial services practice.

Joy C. Cianci, 52, has been Senior Vice President of Credit Portfolio Management since September 2014. Ms. Cianci has served in various roles at Fannie Mae for over 20 years. She served as Senior Vice President—Making Home Affordable and Foreclosure Prevention from September 2012 to September 2014 and as Senior Vice President—Making Home Affordable from June 2010 to September 2012. Ms. Cianci was Senior Vice President—Giving and Community Outreach from December 2009 to June 2010, having previously served as Vice President in Fannie Mae's Office of Community & Charitable Giving, from July 2007 to December 2009, and as Vice President in Fannie Mae's Housing and Community Development division, from April 2006 to July 2007. Ms. Cianci served as Vice President in various roles in our Single-Family division and in our former eBusiness division, from January 2004 to April 2006. Prior to that time, she served as a Director in our eBusiness division and in our Legal Division. Ms. Cianci joined Fannie Mae in June 1993 as counsel.

Terence W. Edwards, 59, has been Executive Vice President and Chief Operating Officer since September 2013, responsible most recently for oversight of various strategic initiatives and for work in connection with the common securitization platform. Mr. Edwards has notified us that he plans to leave the company in April 2015. Prior to September 2014, when he first notified us of his plans to leave the company, Mr. Edwards was also responsible for Fannie Mae's credit portfolio management organization and for overseeing Fannie Mae's work in developing and integrating to a common securitization platform. Mr. Edwards served as Fannie Mae's Executive Vice President—Credit Portfolio Management from September 2009, when he joined Fannie Mae, to September 2013. Prior to joining Fannie Mae, Mr. Edwards served as the President and

Chief Executive Officer of PHH Corporation, a leading outsource provider of mortgage and fleet management services, from January 2005 to June 2009. Mr. Edwards was also a member of the Board of Directors of PHH Corporation during that time. Prior to PHH Corporation's spin-off from Cendant Corporation (now known as Avis Budget Group, Inc.) in January 2005, Mr. Edwards served as President and Chief Executive Officer of Cendant Mortgage Corporation (now known as PHH Mortgage Corporation), a subsidiary of Cendant Corporation, beginning in February 1996. Mr. Edwards had previously served in other executive roles at PHH Corporation, which he joined in 1980.

Jeffery R. Hayward, 59, Executive Vice President and Head of Multifamily, has served as Head of Multifamily since January 2012, first as Senior Vice President and, since December 2014, as Executive Vice President. Mr. Hayward has served in various roles at Fannie Mae for over 25 years. He previously served as Fannie Mae's Senior Vice President—National Servicing Organization from April 2010 to January 2012. He also served as Senior Vice President of Community Lending in Fannie Mae's Multifamily division from May 2004 to April 2010. Prior to that time, Mr. Hayward served as both a Senior Vice President and a Vice President in Fannie Mae's Single-Family division, including as Senior Vice President in the National Business Center from November 2001 to May 2004, as Vice President for Single-Family Business Strategy from November 1999 to November 2001, as Vice President for Asset Management Services from August 1998 to November 1999 and as Vice President for Quality Control and Operations from January 1996 to August 1998. Mr. Hayward also served as Vice President for Risk Management from June 1993 to January 1996. Before that, he served as Director, Loan Acquisition from October 1992 to June 1993, as Director, Marketing from December 1989 to September 1992, and as Senior Negotiator from July 1988 to December 1989. Mr. Hayward joined the company in April 1987 as a senior MBS representative.

John R. Nichols, 52, has been Executive Vice President and Chief Risk Officer since August 2011. Mr. Nichols previously served as Fannie Mae's Senior Vice President and Interim Chief Risk Officer from March 2011 to August 2011. He also served as Fannie Mae's Senior Vice President and Capital Markets Chief Risk Officer from November 2010 to June 2011. Prior to joining Fannie Mae, Mr. Nichols was Managing Director of BlackRock from February 2005 to October 2010.

Zachary Oppenheimer, 55, has been Senior Vice President and Head of Customer Engagement since May 2011. Mr. Oppenheimer previously served as Fannie Mae's Senior Vice President and Chief Acquisition Officer from August 2009 to May 2011, and as Senior Vice President, Single-Family Mortgage Business from November 1998 through August 2009. Mr. Oppenheimer was Vice President of Marketing from April 1991 through November 1998. He held the positions of Director, Sales and Marketing from June 1988 to April 1991, of Director, MBS from May 1987 to June 1988, of MBS Manager from August 1985 to May 1987, and of Senior Sales Representative from October 1984 to August 1985. Mr. Oppenheimer joined Fannie Mae in August 1983 as an associate quality control representative.

Under our bylaws, each executive officer holds office until his or her successor is chosen and qualified or until he or she dies, resigns, retires or is removed from office, whichever occurs first.

Section 16(a) Beneficial Ownership Reporting Compliance

Our directors and officers file with the SEC reports on their ownership of our stock and on changes in their stock ownership. Based on a review of forms filed during 2014 or with respect to 2014 and on written representations from our directors and officers, we believe that all of our directors and officers timely filed all required reports and reported all transactions reportable during 2014.

Item 11. Executive Compensation

COMPENSATION DISCUSSION AND ANALYSIS

Named Executives for 2014

This Compensation Discussion and Analysis focuses on compensation decisions relating to our Chief Executive Officer, our Chief Financial Officer, and our next three most highly compensated executive officers during 2014. We refer to these individuals as our named executives. For 2014, our named executives were:

- Timothy J. Mayopoulos, President and Chief Executive Officer;
- David C. Benson, Executive Vice President and Chief Financial Officer;
- Andrew J. Bon Salle, Executive Vice President—Single-Family Business;
- Terence W. Edwards, Executive Vice President and Chief Operating Officer; and

• John R. Nichols, Executive Vice President and Chief Risk Officer.

This Compensation Discussion and Analysis describes our executive compensation program that was in effect for 2014. A change to our executive compensation program effective for 2015 is described under "Retirement Provisions for the 2015 Executive Compensation Program."

Executive Summary

Due to our conservatorship status and other legal requirements discussed under "Chief Executive Officer Compensation and 2014 Executive Compensation Program—Impact of Conservatorship and Other Legal Requirements," FHFA, our conservator and regulator, has significant oversight and approval rights over our executive compensation arrangements and determinations. In March 2012, FHFA announced and directed us to implement a compensation program for our named executives, which it developed in consultation with Treasury. We refer to our compensation arrangements for 2014 with our named executives other than our Chief Executive Officer as the "2014 executive compensation program." Our 2014 compensation arrangements are based upon the structure of our compensation program that FHFA announced in March 2012, which included the following features:

- Compensation for the Chief Executive Officer was sharply reduced from historical levels. Since January 1, 2013, our Chief Executive Officer's total target direct compensation has consisted solely of a base salary of $600,000.
- Named executives other than our Chief Executive Officer receive two principal elements of compensation: base salary and deferred salary. These elements are described under "Chief Executive Officer Compensation and 2014 Executive Compensation Program—Elements of 2014 Executive Compensation Program—Direct Compensation." Base salary is paid on a bi-weekly basis, and deferred salary is paid on a quarterly basis after a one-year deferral. There are two components to deferred salary: a fixed portion that is subject to reduction if an executive leaves the company within one year following the end of the performance year, and an at-risk portion. One half of the at-risk portion is subject to reduction based on corporate performance against goals for 2014 set by the conservator, referred to as the 2014 conservatorship scorecard, and the other half of the at-risk portion is subject to reduction based on individual performance, taking into account corporate performance against goals established by the Board of Directors, referred to as the 2014 Board of Directors' goals.
- Named executives do not receive bonuses or any form of equity or performance-based long-term incentives as a component of annual compensation.

While reducing pay levels to conserve taxpayer resources was an important objective of FHFA's redesign of our executive compensation program in 2012, we and FHFA understand that this objective must be balanced against our need to attract and retain able and experienced executives to prudently manage our $3.1 trillion book of business and enable the company to be an effective steward of taxpayer resources. Under the leadership of our experienced executives, including our named executives, the company achieved net income of $14.2 billion in 2014. The company completed all of the corporate goals in the 2014 conservatorship scorecard within its control, and in January 2015 FHFA determined that the portion of 2014 at-risk deferred salary subject to performance against these goals would be paid at 100% of target. The goals in the 2014 conservatorship scorecard related to the following objectives:

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

The company also completed in all material respects the 2014 Board of Directors' goals. Based on its assessment of the company's performance in January 2015, the Compensation Committee recommended and the Board determined that management should be credited with 100% performance of the goals as a result of management's significant achievements. The 2014 Board of Directors' goals were:

- Achieve key financial targets;
- Acquire and manage a profitable, high-quality book of new business from 2009 forward;
- Serve the housing market by being a major source of liquidity, effectively managing our legacy book of business and assisting troubled borrowers;
- Improve the company's risk, control and compliance environment; and
- Improve the company's capabilities, infrastructure and efficiency.

See “Determination of 2014 Compensation” for more information on the company’s performance against the FHFA objectives and the 2014 Board of Directors’ goals.

Chief Executive Officer Compensation and 2014 Executive Compensation Program

Overview

FHFA has advised us that the design of our executive compensation program was intended to fulfill, and to balance, three primary objectives:

- Maintain Reduced Pay Levels to Conserve Taxpayer Resources. A primary objective of the structure of our executive compensation program is to establish reduced pay levels given our conservatorship status.
- Attract and Retain Executive Talent. Another primary objective of the 2014 executive compensation program is to attract and retain executive talent with the specialized skills and knowledge necessary to effectively manage a large financial services company. Executives with these qualifications are needed for the company to continue to fulfill its important role in providing liquidity to the mortgage market and supporting the housing market, as well as to prudently manage our $3.1 trillion book of business and enable the company to be an effective steward of the government’s and taxpayers’ support. We face competition from both within the financial services industry and from businesses outside of this industry for qualified executives. The Compensation Committee and the Board regularly consider and discuss with FHFA the level of our executives’ compensation and whether changes are needed to attract or retain executives.
- Reduce Pay if Goals Are Not Achieved. To support FHFA’s goals for our conservatorship and encourage performance in furtherance of these goals, 30% of each named executive’s total target direct compensation (other than the Chief Executive Officer’s) consists of “at-risk” deferred salary. At-risk deferred salary is subject to reduction based on corporate performance against the conservatorship scorecard and an assessment of individual performance that takes into account the company’s performance against the Board of Directors’ goals.

The current levels of our executive compensation put pressure on our ability to attract and retain executive talent. As discussed in “Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data,” our named executives’ total target direct compensation under the 2014 executive compensation program in aggregate was substantially below the market median for comparable firms, and more than 90% below the market median in the case of our Chief Executive Officer. Our inability to offer market-based compensation hinders our succession planning, particularly for our Chief Executive Officer role. See “Risk Factors” for a discussion of the risks associated with executive retention and succession planning.

Impact of Conservatorship and Other Legal Requirements

As discussed in “Business—Conservatorship and Treasury Agreements—Conservatorship,” we have been under the conservatorship of FHFA since September 2008. The conservatorship has had a significant impact on the compensation received by our named executives, as well as the process by which executive compensation is determined. Regulatory and other legal requirements affecting our executive compensation program and policies include the following:

- Our directors serve on behalf of FHFA and exercise their authority subject to the direction of FHFA. More information about the role of our directors is described in “Directors, Executive Officers and Corporate Governance—Corporate Governance—Conservatorship and Delegation of Authority to Board of Directors.”
- While we are in conservatorship, FHFA, as our conservator, has retained the authority to approve and to modify both the terms and amount of any executive compensation. FHFA has directed that management consult with and obtain FHFA’s written approval before entering into new compensation arrangements or increasing amounts or benefits payable under existing compensation arrangements of executives at the senior vice president level and above, and other executives as FHFA may deem necessary to successfully execute its role as conservator. FHFA has also directed that management consult with and obtain FHFA’s written approval before establishing or modifying performance management processes for executives at the senior vice president level and above and any executives designated as “officers” pursuant to Section 16 of the Exchange Act.
- During the conservatorship, FHFA, as our conservator, has all powers of the shareholders. Accordingly, we have not held shareholders’ meetings since entering into conservatorship, nor have we held any shareholder advisory votes on executive compensation.

- FHFA, as our regulator, must approve any termination benefits we offer to our named executives and certain other officers identified by FHFA.

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- Under the terms of the senior preferred stock purchase agreement with Treasury, we may not enter into any new compensation arrangements with, or increase amounts or benefits payable under existing compensation arrangements of, any named executives or executive officers without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury.
- Under the terms of the senior preferred stock purchase agreement, we may not sell or issue any equity securities without the prior written consent of Treasury, other than as required by the terms of any binding agreement in effect on the date of the senior preferred stock purchase agreement. This effectively eliminates our ability to offer stock-based compensation.
- Pursuant to the STOCK Act and related regulations issued by FHFA, the named executives are prohibited from receiving bonuses during any period of conservatorship on or after the April 4, 2012 enactment of the law.
- Our Charter Act provides that Fannie Mae has the power to pay compensation to our executives that the Board of Directors determines is reasonable and comparable with compensation for employment in other similar businesses, including other publicly held financial institutions or major financial services companies, involving similar duties and responsibilities. As described under "Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data," our named executives' total target direct compensation under the 2014 executive compensation program in aggregate is substantially below the market median for comparable firms. The Charter Act also provides that a significant portion of our executive officers' potential compensation must be based on the company's performance. Except for our Chief Executive Officer, 30% of each named executive's total target direct compensation consists of "at-risk" deferred salary, which is subject to reduction based on performance.

Elements of 2014 Executive Compensation Program

Direct Compensation

The table below summarizes the principal elements, objectives and key features of our 2014 executive compensation program for our named executives other than our Chief Executive Officer, whose direct compensation for 2014 consisted solely of $600,000 in base salary. All elements of our named executives' direct compensation are paid in cash.

Compensation Element	Form	Primary Compensation Objectives	Key Features
Base Salary	Fixed cash payments, which are paid during the year on a bi-weekly basis.	Attract and retain named executives by providing a fixed level of current cash compensation.	Base salary reflects each named executive's level of responsibility and experience, as well as individual performance over time. Base salary is capped at $500,000 for all of our executive officers other than our Chief Executive Officer and Chief Financial Officer.
Deferred Salary	Deferred salary is earned in bi-weekly installments over the course of the performance year, and is paid in quarterly installments in March, June, September and December of the following year. Interest accrues on deferred salary at one-half of the one-year Treasury Bill rate in effect on the last business day immediately preceding the year in which the deferred salary is earned. There are two elements of deferred salary: • a fixed portion that is subject to reduction if an executive leaves the company within one year following the end of the performance year; and • an at-risk portion that is subject to reduction based on corporate and individual performance.	Fixed Deferred Salary Retain named executives.	Earned but unpaid fixed deferred salary is subject to reduction if a named executive leaves the company within one year following the end of the performance year. The amount of earned but unpaid fixed deferred salary received by the named executive will be reduced by 2% for each full or partial month by which the executive's separation date precedes January 31 of the second year following the performance year.
		At-Risk Deferred Salary Retain named executives and encourage them to achieve corporate and individual performance objectives.	Equal to 30% of each named executive's total target direct compensation. Half of at-risk deferred salary is subject to reduction based on corporate performance against the 2014 conservatorship scorecard as determined by FHFA. The remaining half of at-risk deferred salary is subject to reduction based on individual performance as determined by the Board of Directors, with FHFA's review, taking into account corporate performance against the 2014 Board of Directors' goals. There is no potential for at-risk deferred salary to be paid out at greater than 100% of target; at-risk deferred salary is subject only to reduction.

Employee Benefits

Our employee benefits are a fundamental part of our 2014 executive compensation program, and serve as an important tool in attracting and retaining senior executives. We describe the employee benefits available in 2014 to our named executives in the table below. We provide more detail on our retirement plans available to our named executives under "Compensation Tables—Pension Benefits" and "Compensation Tables—Nonqualified Deferred Compensation."

Benefit	Form	Primary Objective
401(k) Plan ("Retirement Savings Plan")	A tax-qualified defined contribution plan (401(k) plan) available to our employee population as a whole. All of the named executives are eligible to participate in this plan.	Attract and retain named executives by providing retirement savings in a tax-efficient manner.
Non-qualified Deferred Compensation ("Supplemental Retirement Savings Plan")	The Supplemental Retirement Savings Plan is an unfunded, non-tax-qualified defined contribution plan. The plan supplements our tax-qualified defined contribution plan by providing benefits to participants whose annual eligible earnings exceed the IRS limit on eligible compensation for 401(k) plans. In connection with our termination of our defined benefit pension plan, for a limited time we are providing additional benefits under this plan for employees close to retirement who meet age and length of service criteria. All of the named executives are eligible to participate in this plan. Mr. Benson is eligible for the additional benefits for employees meeting age and length of service criteria.	Attract and retain named executives by providing additional retirement savings.
Health, Welfare and Other Benefits	In general, the named executives are eligible for the same benefits available to our employee population as a whole, including our medical insurance plans, life insurance program and matching charitable gifts program. The named executives are also eligible to participate in our voluntary supplemental long-term disability plan, which is available to many of our employees.	Provide for the well-being of the named executive and his or her family.

Prior to 2014, we maintained a tax-qualified defined benefit pension plan that was generally available to employees before participation in the plan was frozen in 2007, as well as two non-tax-qualified supplemental plans. In 2013, these plans were amended to cease benefits accruals and were subsequently terminated. See "Compensation Tables—Pension Benefits" for more information on the payments Mr. Benson and Mr. Bon Salle, the only named executives who participated in these plans, will receive under them.

The perquisites we provided to all of our named executives in aggregate in 2014 did not exceed $1,000.

Severance Benefits

We have not entered into agreements with any of our named executives that entitle the executive to severance benefits. Under the 2014 executive compensation program, a named executive is entitled to receive a specified portion of his or her earned but unpaid deferred salary if his or her employment is terminated for any reason other than for cause. See "Compensation Tables—Potential Payments Upon Termination or Change-in-Control" for information on compensation that we may pay to a named executive in certain circumstances in the event the executive's employment is terminated.

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Determination of 2014 Compensation

Summary of 2014 Compensation Actions

The table below displays the 2014 compensation targets compared to actual amounts for each of our named executives. This table is presented on a different basis from, and is not intended to replace, the Summary Compensation Table required under applicable SEC rules, which is included below under "Compensation Tables—Summary Compensation Table for 2014, 2013 and 2012."

Named Executive	2014 Base Salary Rate ($)	2014 Fixed Deferred Salary ($)	2014 Corporate Performance-Based At-Risk Deferred Salary ($)		2014 Individual Performance-Based At-Risk Deferred Salary ($)		Total ($)	
			Target	Actual	Target	Actual	Target	Actual
Timothy Mayopoulos President and Chief Executive Officer	600,000	—	—	—	—	—	600,000	600,000
David Benson Executive Vice President and Chief Financial Officer	600,000	1,500,000	450,000	450,000	450,000	450,000	3,000,000	3,000,000
Andrew Bon Salle[(1)] Executive Vice President—Single-Family Business	476,233	860,385	286,154	286,154	286,154	286,154	1,908,926	1,908,926
Terence Edwards Executive Vice President and Chief Operating Officer	500,000	1,264,000	378,000	378,000	378,000	359,100	2,520,000	2,501,100
John Nichols Executive Vice President and Chief Risk Officer	450,000	950,000	300,000	300,000	300,000	285,000	2,000,000	1,985,000

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(1) Effective December 14, 2014, in connection with his promotion to Executive Vice President—Single-Family Business and as approved by FHFA, Mr. Bon Salle's annual base salary rate increased from $475,000 to $500,000, his fixed deferred salary increased from an annual rate of $855,000 to an annual rate of $1,110,000, and his at-risk deferred salary target increased from an annual target of $570,000 to an annual target of $690,000.

Assessment of Corporate Performance on 2014 Conservatorship Scorecard

Overview

In May 2014, FHFA announced the 2014 conservatorship scorecard, a set of corporate performance objectives and related targets for 2014. The elements of the 2014 conservatorship scorecard are shown below under "FHFA Assessment." The 2014 conservatorship scorecard provides the implementation roadmap for FHFA's strategic plan for Fannie Mae and Freddie Mac. See "Business—Executive Summary—Helping to Build a Sustainable Housing Finance System" for a description of FHFA's strategic goals for the Enterprises. FHFA developed these objectives and related targets with input from management and the Board of Directors. Half of each named executive's 2014 at-risk deferred salary, or 15% of their overall 2014 total target direct compensation, was subject to reduction based on FHFA's assessment of the company's performance against the 2014 conservatorship scorecard.

As part of the 2014 conservatorship scorecard, FHFA determined that, for all scorecard items, the company's performance would be assessed based on the following criteria:

- The extent to which Fannie Mae conducts initiatives in a safe and sound manner consistent with FHFA's expectations for all activities;
- The extent to which the outcomes of Fannie Mae's activities support a competitive, resilient, and liquid secondary mortgage market to the benefit of homeowners and renters;

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- The extent to which Fannie Mae conducts initiatives with the appropriate consideration for diversity and inclusion consistent with FHFA's expectations for all activities;
- Cooperation and collaboration with FHFA, Common Securitization Solutions, LLC, Freddie Mac, the industry, and other stakeholders as appropriate; and
- The quality, thoroughness, creativity, effectiveness, and timeliness of Fannie Mae's work products.

FHFA Assessment

In early 2015, FHFA reviewed and assessed our performance against the 2014 conservatorship scorecard, with input from management and the Compensation Committee. FHFA determined that the company had a successful year and met or exceeded all of the 2014 conservatorship scorecard objectives. FHFA did note that improvements could be made in some areas so that results are delivered more quickly and efficiently and that more focus could have yielded better results on some of the data initiatives and on the sales of retained portfolio assets unrelated to litigation. FHFA determined that, in light of the overall results achieved in a period of uncertainty and transition, the portion of 2014 at-risk deferred salary based on corporate-performance would be paid at 100% of target.

The table below sets forth the 2014 conservatorship scorecard and a summary of FHFA's assessment of the company's achievement of the scorecard objectives and targets.

Objectives and Weighting	Summary of Performance
Maintain in a safe and sound manner, foreclosure prevention activities and credit availability for new and refinanced mortgages to foster liquid, efficient, competitive and resilient national housing finance markets—40% weight	
The Enterprises are to: Work to increase access to mortgage credit for creditworthy borrowers, consistent with the full extent of applicable credit requirements and risk-management practices through: • Continuing to improve the Representations and Warranties Framework for originations; • Providing additional clarity regarding servicing Representations and Warranties and remedies for poor performance, including compensatory fees; • Providing transparency regarding servicer eligibility standards; • Assessing and developing plans to encourage greater participation by small lenders, rural lenders, and state and local Housing Finance Agencies.	The objective was achieved. The company's activities to encourage lenders to originate loans across the full range of credit eligibility for borrowers meeting credit requirements included: providing additional clarity regarding seller and servicer representations and warranties; working to make new and improved quality control tools available to lenders; conducting increased outreach to lenders and other industry stakeholders to increase awareness of Fannie Mae's available products and programs; working to clarify the company's financial requirements for servicers; and changing the company's eligibility requirements to increase the maximum LTV ratio for loans to first-time home buyers from 95% to 97%. For more information on these activities, see "Business—Executive Summary—Single-Family Guaranty Book of Business—Providing Targeted Access to Credit Opportunities for Creditworthy Borrowers."
Continue to undertake key loss mitigation and foreclosure prevention activities, including: • Analyzing and pursing opportunities to encourage take-up by currently HARP-eligible borrowers; • Assessing and developing additional plans for loss mitigation strategies, including those for the post-HAMP marketplace; • Developing and implementing a plan for targeted non-performing loan sales and Real Estate Owned property sales that facilitate neighborhood stabilization, especially in hardest hit markets.	The objective was achieved. In 2014, Fannie Mae conducted research, analysis and outreach to identify factors that discouraged eligible borrowers from participating in HARP and undertook a number of actions to encourage participation, including developing new ways to reach potentially eligible borrowers, lowering costs for certain borrowers, and reaching out to lenders to clarify borrower eligibility in certain cases. The company also undertook a number of initiatives related to loss mitigation, including new product development and working on an enhancement to HAMP to provide additional borrower incentives. Additionally, Fannie Mae

	collaborated with FHFA and Freddie Mac on an initiative that involves working with housing partners to stabilize neighborhoods that have been hardest hit by the housing downturn, promoting strategies to help delinquent borrowers avoid foreclosure and for more efficient disposition of foreclosed properties. The program was piloted in Detroit in 2014 and is scheduled to be piloted in Chicago in 2015.
Continue to develop approaches to reduce borrower, and therefore Enterprise, costs for Lender Placed Insurance (LPI).	The objective was achieved. Fannie Mae continued to work in 2014 with its servicers and with FHFA on approaches to reducing borrower costs for LPI.

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Objectives and Weighting	Summary of Performance
Maintain the dollar volume of new multifamily business for each Enterprise at or below the 2013 caps, excluding: • Affordable housing loans, loans to small multifamily properties and loans to manufactured housing rental communities.	The objective was achieved. The company provided $28.9 billion in liquidity to the multifamily market in 2014, compared to a $30.4 billion cap.
Reduce taxpayer risk through increasing the role of private capital in the mortgage market—30% weight	
Single Family: • Each Enterprise will transact credit risk transfers on single family mortgages with at least $90 billion of unpaid principal balances adjusted for the amount of credit risk transferred; • Each Enterprise must utilize at least one transaction type in addition to the Freddie Mac Structured Agency Credit Risk (STACR®) or the Fannie Mae Connecticut Avenue Securities (CAS) structures (e.g. insurance, upfront credit risk transfers, and senior/subordinated securitizations): FHFA will provide some extra Scorecard credit for the substantial completion of R&D efforts in this space; FHFA will provide more extra Scorecard credit for completing any additional types of transactions beyond the first two.	The objective was achieved. The company issued $5.8 billion in CAS in 2014, transferring some of the credit risk on single-family mortgages with an unpaid principal balance of $222.2 billion. See "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Risk Sharing Transactions." The company also engaged in several additional transaction types including, in December 2014, a credit insurance risk transfer ("CIRT™") transaction that shifted a portion of the credit risk on a reference pool of loans with an unpaid principal balance of approximately $6.4 billion to a panel of reinsurers, as discussed in "MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Credit Guarantors—Reinsurers."
Multifamily: • The Enterprises are to assess the economics and feasibility of adopting additional types of risk transfer structures and of increasing the amount of risk transferred in current risk transfer structures (risk is broadly defined to include, but is not limited to, credit, counterparty or aggregation risk).	The objective was achieved. Fannie Mae conducted an assessment of the economics and feasibility of adopting additional types of multifamily mortgage credit risk transfer structures and submitted the assessment to FHFA.
Retained Portfolio: • The Enterprises shall submit to FHFA within 60 days retained portfolio plans that meet, even under adverse conditions, the annual Senior Preferred Stock Purchase Agreement (PSPA) requirements and the $250 billion PSPA cap by December 31, 2018: The plans should focus on reducing less liquid assets; Any sales should be economically sensible transactions that consider impacts to the market and neighborhood stability.	The objective was achieved. Fannie Mae submitted a portfolio plan to FHFA in July 2014 outlining how the company will meet, even under adverse conditions, the reductions in its portfolio required by the senior preferred stock purchase agreement with Treasury. In October 2014, FHFA requested that the company revise the portfolio plan to cap the portfolio each year at 90% of the annual limit under the senior preferred stock purchase agreement. The company submitted a revised portfolio plan in October 2014 and reduced its mortgage portfolio to $413.3 billion as of December 31, 2014, below the $422.7 billion cap requested by FHFA. See "MD&A—Business Segment Results—The Capital Markets Group's Mortgage Portfolio" for more information about Fannie Mae's mortgage portfolio.
The Enterprises are to finalize mortgage insurance Master Policies and enhanced eligibility requirements.	To the extent that this objective was within management's control, the objective was achieved. The company announced the implementation of new mortgage insurance master primary policies in 2014. Also in 2014, FHFA posted for public input

proposed revisions by Fannie Mae and Freddie Mac to their eligibility standards for approved private mortgage insurers. FHFA, Fannie Mae and Freddie Mac are continuing to review the public input provided on the proposed revisions to the eligibility standards for approved private mortgage insurers. For more information on these policies and requirements, see "MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Credit Guarantors—Mortgage Insurers."

Objectives and Weighting	Summary of Performance
Build a new single-family securitization infrastructure for use by the Enterprises and adaptable for use by other participants in the secondary market in the future—30% weight	
The Enterprises are to:	
Continue working with FHFA, each other and Common Securitization Solutions, LLC to build and test the Common Securitization Platform (“CSP”) and continue the implementation of required changes to the Enterprises’ related systems and operations for integration into the CSP. The Enterprises’ work on CSP should incorporate the following design principles: • Focus on the functions necessary for current Enterprise single family securitization activities; • Include the development of the operational and system capabilities necessary to issue a single (common) security for the Enterprises; and • Allow the option for the integration of additional market participants in a future system.	The objective was achieved. Fannie Mae continued to work with FHFA, Freddie Mac and Common Securitization Solutions, LLC on building and testing the common securitization platform, as well as on implementing required changes to Fannie Mae’s systems and operations to integrate with the CSP. See “Business—Housing Finance Reform—Conservator Developments” for more information on the progress of the common securitization platform initiative.
Identify key components, features and standards needed for a single (common) security in the CSP. Assess key issues and begin to address these issues: • Continue to explore other shorter-term changes that may improve market liquidity in the Agency MBS market.	The objective was achieved. Fannie Mae worked with FHFA and Freddie Mac on a Request for Input published by FHFA in August 2014 on the proposed structure for a single security and engaging in follow up and outreach activities. See “Business—Housing Finance Reform—Conservator Developments” for more information on the single common security.
Provide active support for mortgage data standardization initiatives: • Servicing Data and Technology Initiative. Engage with FHFA and the industry to identify current and anticipated mortgage servicing data and technology gaps in order to explore technology improvements and expand data standardization. • The Uniform Closing Disclosure Dataset (UCD) initiative. Develop a standardized dataset to support the Consumer Financial Protection Bureau’s Integrated Mortgage Disclosure Regulation and Closing Disclosure; Create a strategy for the collection and use of the UCD dataset; and Publish an industry announcement of the UCD dataset, as well as a timeline for the collection of the data. • Uniform Loan Application Dataset. Reassess loan application data needs; Update the physical format of the Uniform Residential Loan Application, and Demonstrate progress towards creating a draft Uniform Loan Application Dataset specification.	The objective was achieved. Fannie Mae actively supported these mortgage data standardization initiatives, which are designed to improve the accuracy and quality of loan data through the mortgage lifecycle with the development and implementation of the uniform data standards for single-family mortgages. Fannie Mae’s activities in this area included: participating in and supporting significant outreach activities with FHFA and Freddie Mac in connection with the Servicing Data and Technology Initiative; working with Freddie Mac on the UCD by providing the industry a standardized dataset specification and supporting documents in March 2014 and announcing the plans and timeline for the collection of UCD in December 2014; and, coordinating with Freddie Mac, conducting industry outreach, developing a draft Uniform Loan Application Dataset specification and other activities in support of the Uniform Loan Application Dataset initiative.

Assessment by Board of Directors of Company Performance

In April 2014, the Board established the 2014 Board of Directors’ goals, which are presented in the table below. Performance against these goals was a factor the Board considered in determining the individual performance of the named executives for purposes of the individual performance-based component of the named executives’ 2014 at-risk deferred salary. The Board did not assign any relative weight to the goals.

In late 2014 and early 2015, the Compensation Committee reviewed performance against the 2014 Board of Directors' goals and related metrics. In connection with the Compensation Committee's review, management provided the Compensation Committee with a report assessing management's performance against the goals, which was reviewed for accuracy by our Internal Audit group. The Compensation Committee considered management's assessment of its performance against the goals and also discussed with the Chief Executive Officer the performance of the company and of each named executive (other than the Chief Executive Officer).

The Compensation Committee noted in its review that management's achievements with respect to the 2014 Board of Directors' goals were accomplished in a complicated and evolving operating environment, at a time when management was continuing to implement major organizational changes, designing and implementing changes to the company's systems and operations to integrate with the common securitization platform and running the company's business at a high level. The Committee also favorably recognized management's efforts to address any issues with the 2014 Board of Directors' goals on an ongoing basis, which allowed management to identify and resolve problems throughout the year.

In January 2015, following its review of management's and the company's performance in 2014, and after discussions among all independent members of the Board of Directors, the Compensation Committee recommended and the Board determined that the individual component of the 2014 at-risk deferred salary should be funded at the 100% level as a result of management's significant achievements. The Compensation Committee also provided FHFA with its assessment of management's performance against the 2014 Board of Directors' goals and its qualitative assessment of management's performance against the 2014 conservatorship scorecard objectives. See "Assessment of 2014 Individual Performance" below for information regarding the review by the Compensation Committee and the Board of the named executives' individual performance in establishing the individual performance-based component of 2014 at-risk deferred salary.

The table below presents our 2014 Board of Directors' goals and related metrics, and the assessment of achievement against these goals and metrics.

Goals and Related Metrics	Performance Against Goal/Metric
Goal 1: Achieve key financial targets. Expenses. Take all appropriate management action to ensure managed expenses do not exceed 2014 Plan of $2,590 million. Treasury draws. Take all appropriate management action to ensure there are no draws from Treasury for 2014.	Achieved this goal. The company's managed expenses were $2,464 million in 2014, $126 million below the 2014 Plan. (Managed expenses exclude $313 million in costs related primarily to extraordinary litigation and the company's efforts to integrate its systems with the CSP, as well as expense reimbursements relating to its work with Common Securitization Solutions, LLC and certain costs primarily in connection with negotiating resolution agreements relating to its private-label mortgage-related securities.) The company's net worth has been positive at the end of each quarter of 2014 and, accordingly, Fannie Mae has not drawn funds from Treasury for 2014.
Goal 2: Acquire and manage a profitable, high quality book of new business from 2009 forward. Manage within risk limits. Ensure businesses are managed within board risk limits as approved and modified from time to time by the Board of Directors, including timely remediation of instances where limits are exceeded and with Board approval for exceptions.	Achieved this goal. Fannie Mae continued to achieve strong credit performance in 2014. The company acquired single-family loans with strong credit profiles and executed on its strategies for reducing single-family credit losses. See "Business—Executive Summary—Single-Family Guaranty Book of Business" for information on the credit performance of Fannie Mae's single-family loans. Fannie Mae's multifamily new business volume in 2014 also reflected loans with a solid credit profile.

Goals and Related Metrics	Performance Against Goal/Metric
Goal 3: Serve the housing market by being a major source of liquidity, effectively managing the legacy book and assisting troubled borrowers. Seriously delinquent loans. Reduce the number of seriously delinquent single-family loans below 300,000 by the end of 2014. Assisting troubled borrowers/MHA Program. Meet our obligations as program administrator under the Financial Agency Agreement with Treasury in support of Making Home Affordable ("MHA") program. Provide liquidity. Be a major provider of liquidity. Expand access. Develop a plan to expand accessibility and affordability of Fannie Mae products to more moderate and low income households in a responsible and sustainable way.	Achieved this goal in all material respects. Fannie Mae's achievements on this goal included: • The number of seriously delinquent loans in Fannie Mae's single-family conventional guaranty book of business was 329,590 as of December 31, 2014. While the final count exceeded 300,000, the company made significant progress, with a net reduction of 89,247 seriously delinquent single-family loans in 2014. • The company met its program administrator obligations under its financial agency agreement with Treasury, which included deploying technology releases related to the MHA system of record, overseeing borrower outreach events in hard hit communities, administering incentive payments, supporting policy implementation and industry trainings, and overseeing program call centers. • Fannie Mae provided approximately $434 billion in liquidity to the mortgage market in 2014 through its purchases and guarantees of loans and securities. This liquidity enabled borrowers to complete approximately 937,000 mortgage refinancings and approximately 887,000 home purchases, and provided financing for approximately 446,000 units of multifamily housing. • The company's activities to expand accessibility and affordability of Fannie Mae products to more moderate and low income households in a responsible and sustainable way included changing the company's eligibility requirements to increase the maximum LTV ratio for loans to first-time home buyers from 95% to 97%. For more information on this change and Fannie Mae's other activities to expand access, see "Business—Executive Summary—Single-Family Guaranty Book of Business—Providing Targeted Access to Credit Opportunities for Creditworthy Borrowers."
Goal 4: Improve the company's risk, control and compliance environment. Resolve controls issues. Resolve all high priority internal audit issues and risk and control matters identified by the Federal Housing Finance Agency ("FHFA") within established timeframes or mutually acceptable extensions. Prevent new controls issues. Prevent new SOX material weaknesses and significant deficiencies. Remediation plans and responses. Submit remediation plans and responses to FHFA-identified risk and control matters within established timeframes.	Achieved this goal. Fannie Mae improved its risk, control and compliance environment in 2014. The company's accomplishments in this area included: accomplishing all ERM goals, including improving enterprise risk management by implementing an enhanced economic capital framework and risk appetite for measuring and managing the company's business activities, including modeling, reporting, policies and governance; and making substantial progress on its initiatives to replace the company's securities accounting and capital markets

Reduce repeat "needs improvement" and "unsatisfactory" internal audit reports. Reduce the percentage of repeat "needs improvement" and "unsatisfactory" internal audit reports. Enterprise Risk Management ("ERM") goals. Accomplish the 2014 ERM goals as reviewed by the Board's Risk Policy and Capital Committee. Compliance. Resolve all compliance action items within established timeframes or mutually acceptable extensions. Safety and soundness. Make substantial progress on the following safety and soundness initiatives in accordance with the 2014 Investment Plan as reviewed and modified from time to time by the Board's Strategic Initiatives Committee: • Replacing our securities accounting and capital markets infrastructure; and • Transforming the structure and function of our data centers.	infrastructure, and to transform the structure and function of its data centers to increase capacity and strengthen its infrastructure.

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Goals and Related Metrics	Performance Against Goal/Metric
Goal 5: Improve the company's capabilities, infrastructure and efficiency. Investment plan. Make substantial progress on the following high priority projects in accordance with the 2014 Investment Plan as reviewed and modified from time to time by the Strategic Initiatives Committee: • Undertaking critical projects to change the company's systems and operations to integrate with the CSP; and • Preparing our multifamily business and infrastructure for the future. Human Capital. Develop Integrated Human Capital Plan that aligns to key enterprise priorities and enables an inclusive culture. Deliver plan to the Board's Compensation Committee in July, and deliver all 2014 milestones by year-end.	Achieved this goal. Fannie Mae made significant progress in its efforts to make required changes to its systems and operations to integrate with the CSP. The company made significant progress in preparing its multifamily business and infrastructure for the future. The company also developed an Integrated Human Capital Plan, which is an integrated Human Resources approach that supports Fannie Mae's business and financial priorities from a human capital perspective and focuses on risk mitigation, workforce and talent planning, compensation and benefits, and employee engagement.

Assessment of 2014 Individual Performance

Overview. For each named executive other than the Chief Executive officer, half of the executive's 2014 at-risk deferred salary was subject to reduction based on individual performance in 2014.

The Board of Directors assessed the Chief Executive Officer's performance with input from the Compensation Committee and from the Chief Executive Officer regarding his accomplishments. In approving compensation for each named executive, the Compensation Committee and the Board considered the Chief Executive Officer's recommendation and assessment of each executive's performance and contribution to the company's achievement of the 2014 conservatorship goals and the 2014 Board of Directors' goals. The amount of individual performance-based at-risk deferred salary for 2014 for each named executive is presented in the table above in "Summary of 2014 Compensation Actions."

Timothy Mayopoulos, President and Chief Executive Officer. In evaluating Mr. Mayopoulos' performance, the Board acknowledged Mr. Mayopoulos' strong leadership in 2014 and his significant contributions to the company's numerous accomplishments. For example, the company met all of its 2014 conservatorship scorecard objectives within its control and all of the 2014 Board of Directors' goals in all material respects in a complicated and evolving operating environment, at a time when management was continuing to implement major organizational changes, designing and implementing changes to the company's systems and operations to integrate with the common securitization platform and running the company's business at a high level. The company was profitable in 2014, with net income of $14.2 billion, while continuing to acquire loans with a strong credit profile and providing access to affordable mortgage credit. The company undertook initiatives to help prepare its business and infrastructure for changes in the U.S. housing finance system and to help ensure its safety and soundness during conservatorship. The company also redesigned its approach to succession planning to feature an enterprise-wide view of senior talent, enhancing management's ability to effectively address a variety of succession issues. In addition, in 2014 the company focused on strengthening customer relationships and improving its business efficiency, including launching an initiative to improve the company's front-end business capabilities to make customers' interactions with the company simpler and more efficient. Because Mr. Mayopoulos' total target direct compensation consists solely of base salary, with no additional performance-based component, the Board of Directors' assessment of his performance in 2014 did not affect his compensation.

David Benson, Executive Vice President and Chief Financial Officer. In recommending and determining Mr. Benson's individual performance-based at-risk deferred salary, the Chief Executive Officer, the Compensation Committee and the Board of Directors considered Mr. Benson's many achievements in 2014. As Chief Financial Officer, Mr. Benson made significant improvements to our forecasting, stress testing and internal reporting capabilities while continuing to provide strong intellectual contributions on our business and strategic direction to the company as a whole. Mr. Benson supported the company's achievement of the 2014 Board of Directors' goals by managing the risk of the retained portfolio within risk limits established by the Board of Directors and ensuring managed expenses remained within plan. Mr. Benson also successfully led our efforts to meet the 2014 conservatorship scorecard objective by managing and successfully executing a plan for the reduction of our retained portfolio. In addition, Mr. Benson provided leadership in the company's interactions with FHFA, Treasury and the industry.

Andrew Bon Salle, Executive Vice President-Single-Family Business. In recommending and determining Mr. Bon Salle's individual performance-based at-risk deferred salary, the Chief Executive Officer, the Compensation Committee and the Board of Directors considered Mr. Bon Salle's many achievements in 2014 as he led significant initiatives related to the conservatorship scorecard and the 2014 Board of Directors' Goals. Mr. Bon Salle's accomplishments include managing the company's single-family business within risk limits, improving the representation and warranty framework, leading the development and execution of credit risk transfer transactions, and developing plans for integrating Fannie Mae's systems with the common securitization platform and improving the company's front-end business capabilities. Mr. Bon Salle met or exceeded goals while successfully managing these responsibilities amidst increasing competition and risk.

Terence Edwards, Executive Vice President and Chief Operating Officer. In recommending and determining Mr. Edwards' individual performance-based at-risk deferred salary, the Chief Executive Officer, the Compensation Committee and the Board of Directors considered Mr. Edwards' many achievements in 2014, including his oversight of our safety and soundness initiatives to replace our securities accounting and capital markets infrastructure and to transform the management of our data, his oversight of our initiative to prepare our multifamily business and infrastructure for the future and his work in connection with the common securitization platform, as well as his leadership of the credit portfolio management division. Mr. Edwards' efforts contributed to our success in meeting a number of objectives in the 2014 conservatorship scorecard, including developing additional plans for loss mitigation strategies. Mr. Edwards also contributed to the company's achievement of the 2014 Board of Directors' goals, including our efforts to meet program administrator obligations to Treasury in support of the Making Home Affordable program.

John Nichols, Executive Vice President and Chief Risk Officer. In recommending and determining Mr. Nichols' individual performance-based at-risk deferred salary, the Chief Executive Officer, the Compensation Committee and the Board of Directors considered Mr. Nichols' many achievements in 2014 and his leadership of the Enterprise Risk Management organization. Mr. Nichols led the company's achievement of the 2014 Enterprise Risk Management goals included in the 2014 Board of Directors' goals. He implemented an economic capital framework for measuring the company's business activities, including modeling, reporting, policies and governance; developed a framework for assessing our corporate risk appetite and a comprehensive set of risk limits; launched a significant modeling effort; and strengthened his team.

Other Executive Compensation Considerations

Role of Compensation Consultants

The Compensation Committee's independent compensation consultant is Frederic W. Cook & Co., Inc. ("FW Cook"). Management's outside compensation consultant is McLagan.

For 2014, McLagan advised management and the Compensation Committee on various compensation and human resources matters, including:

- providing guidance and feedback on the company's 2014 executive compensation program;
- advising on market trends, competitive pay levels and various compensation proposals for new hires and promotions; and
- providing market compensation data for senior management positions, including the named executives' positions.

For 2014, FW Cook advised the Compensation Committee and the Board on various executive compensation matters, including:

- assisting the Compensation Committee in its discussions with FHFA on the company's 2014 executive compensation program;
- preparing an analysis of compensation for executives in positions comparable to Fannie Mae executive positions at companies in our primary comparator group, based on information in proxy statements filed by those companies;
- reviewing McLagan's analysis of market compensation data for select senior management positions;
- reviewing various management proposals relating to compensation structures and levels, and for new hires and promotions;
- reviewing the company's risk assessment of its 2014 compensation program;
- assisting the Compensation Committee in its evaluation of the company's performance against the 2014 conservatorship scorecard and communicating its views to FHFA;
- assisting the Compensation Committee in its evaluation of the company's performance against the 2014 Board of Directors' goals;
- facilitating the Compensation Committee's evaluation of the Company's CEO performance in 2014;
- informing the Compensation Committee of regulatory updates and market trends in compensation and benefits; and
- assisting with the preparation of executive compensation disclosure in this Annual Report on Form 10-K.

Compensation Consultant Independence Assessment

The Compensation Committee assessed the independence of FW Cook and McLagan. Based on its assessments, the Compensation Committee determined that FW Cook is independent from management. FW Cook's work for the Compensation Committee raises no conflicts of interest.

Because McLagan was retained by and provides services to management, it is not an independent adviser. McLagan's work raises no material conflicts of interest, and any conflict of interest raised by the fact that McLagan is retained by and provides services to management as well as to the Compensation Committee is addressed by the fact that the Compensation Committee also receives the advice of and has access to its independent compensation consultant.

Comparator Group and Role of Benchmark Data

Our Compensation Committee typically requests benchmark compensation data for our senior executives on an annual basis to assess the compensation of the company's senior executives as compared to a group of similar firms. Finding comparable firms for purposes of benchmarking executive compensation is challenging due to our unique business, structure and mission, and the large size of our book of business compared to other financial services firms. The only directly comparable firm to us is Freddie Mac. At FHFA's request, we and Freddie Mac use the same comparator group of companies for benchmarking executive compensation to provide consistency in the market data used for compensation decisions. Factors relevant to the selection of companies for our comparator group included their status as U.S. public companies, the industry in which they operate (each is a commercial bank, insurance company, finance lessor or government-sponsored enterprise) and their size (in terms of total revenues) relative to the size of Fannie Mae. Our primary comparator group, which was established by the Compensation Committee in 2012, consists of the following 17 companies:

- Allstate Corporation
- Ally Financial Inc.
- American International Group Inc.
- Bank of New York Mellon Corporation
- BB&T Corporation
- Capital One Financial Corporation
- Fifth Third Bancorp
- Freddie Mac
- Hartford Financial Services Group, Inc.
- Metlife, Inc.
- Northern Trust Corporation
- PNC Financial Services Group, Inc.
- Prudential Financial, Inc.
- Regions Financial Corporation
- State Street Corporation
- SunTrust Banks, Inc.
- U.S. Bancorp

The Compensation Committee follows a bifurcated approach to benchmarking senior executive positions. Under this approach, while the comparator group noted above is the primary group of companies used for benchmarking senior management pay levels, for certain senior management roles that are more comparable in function and/or scope to roles at firms outside this comparator group, the Compensation Committee considers pay levels against a broader group of companies. The company believes this more comprehensive approach results in more relevant and better aligned market data. In late 2014, the Compensation Committee adjusted the companies against which certain senior management roles were compared to reflect newly available market data.

The named executives' compensation was compared to compensation at other companies as follows:

- The compensation of our Chief Executive Officer (Mr. Mayopoulos), our Chief Financial Officer (Mr. Benson) and our Executive Vice President and Chief Operating Officer (Mr. Edwards) was benchmarked against our primary comparator group identified above;
- The compensation of our Executive Vice President—Single-Family Business (Mr. Bon Salle) was benchmarked against a group of large banks consisting of Bank of America Corporation, Citigroup Inc., JPMorgan Chase & Co. and Wells Fargo & Company, to the extent those firms have executives in comparable positions, Freddie Mac and other comparable U.S.-based financial services firms; and
- The compensation of our Executive Vice President and Chief Risk Officer (Mr. Nichols) was benchmarked against both the primary comparator group and the same group of large banks, to the extent those firms have executives in comparable positions.

In late 2014, FW Cook provided the Compensation Committee with a comparison of our named executives' total target direct compensation for 2014 with compensation for comparable positions at companies in our primary comparator group, based on

FW Cook's analysis of proxy statements and other SEC filings. McLagan also provided the Compensation Committee with updated benchmarking data for our named executives. The McLagan data compared the named executives' total target direct compensation for 2014 with the 25th percentile, 50th percentile and 75th percentile of 2013 direct compensation for comparable positions in the applicable comparator group of companies based on McLagan's proprietary database and as disclosed in the comparator companies' proxy statements and other SEC filings. Members of the Compensation Committee reviewed and discussed this data in late 2014. Our named executives' total target direct compensation under the 2014 executive compensation program in aggregate was substantially below the market median for comparable firms, and more than 90% below the market median in the case of our Chief Executive Officer.

Compensation Recoupment Policy

Our executive officers' compensation (other than executive officers serving on an interim basis) is subject to the following forfeiture and repayment provisions, also known as "clawback" provisions:

- Materially Inaccurate Information. If an executive officer has been granted deferred salary or incentive payments (including performance-based compensation) based on materially inaccurate financial statements or any other materially inaccurate performance metric criteria, he or she will forfeit or must repay amounts granted in excess of the amounts the Board of Directors determines would likely have been granted using accurate metrics.
- Termination for Cause. If we terminate an executive officer's employment for cause, he or she will immediately forfeit all deferred salary and any incentive payments that have not yet been paid. We may terminate an executive officer's employment for cause if we determine that the officer has: (a) materially harmed the company by, in connection with the officer's performance of his or her duties for the company, engaging in gross misconduct or performing his or her duties in a grossly negligent manner, or (b) been convicted of, or pleaded nolo contendere with respect to, a felony.
- Subsequent Determination of Cause. If an executive officer's employment was not terminated for cause, but the Board of Directors later determines, within a specified period of time, that he or she could have been terminated for cause and that the officer's actions materially harmed the business or reputation of the company, the officer will forfeit or must repay, as the case may be, deferred salary and any incentive payments received by the officer to the extent the Board of Directors deems appropriate under the circumstances. The Board of Directors may require the forfeiture or repayment of all deferred salary and any incentive payments so that the officer is in the same economic position as if he or she had been terminated for cause as of the date of termination of his or her employment.
- Effect of Willful Misconduct. If an executive officer's employment: (a) is terminated for cause (or the Board of Directors later determines that cause for termination existed) due to either (i) willful misconduct by the officer in connection with his or her performance of his or her duties for the company or (ii) the officer has been convicted of, or pleaded nolo contendere with respect to, a felony consisting of an act of willful misconduct in the performance of his or her duties for the company and (b) in the determination of the Board of Directors, this has materially harmed the business or reputation of the company, then, to the extent the Board of Directors deems it appropriate under the circumstances, in addition to the forfeiture or repayment of deferred salary and any incentive payments described above, the executive officer will also forfeit or must repay, as the case may be, deferred salary and annual incentives or long-term awards paid to him or her in the two-year period prior to the date of termination of his or her employment or payable to him or her in the future. Misconduct is not considered willful unless it is done or omitted to be done by the officer in bad faith or without reasonable belief that his or her action or omission was in the best interest of the company.

Certain of the incentive-based compensation for our Chief Executive Officer and Chief Financial Officer also may be subject to a requirement that they be reimbursed to the company in the event that Section 304 of the Sarbanes-Oxley Act of 2002 applies to that compensation.

Stock Ownership and Hedging Policies

We ceased paying new stock-based compensation to our executives after entering into conservatorship in September 2008. In 2009, our Board eliminated our stock ownership requirements. All employees, including our named executives, are prohibited from transacting in derivative securities related to our securities, including options, puts and calls, other than pursuant to our stock-based benefit plans.

Tax Deductibility of our Compensation Expenses

Subject to certain exceptions, section 162(m) of the Internal Revenue Code imposes a $1 million limit on the amount that a company may annually deduct for compensation to its Chief Executive Officer and certain other named executives, unless, among other things, the compensation is "performance-based," as defined in section 162(m), and provided under a plan that has been approved by the shareholders. Compensation the company pays the named executives does not qualify as performance-based compensation under section 162(m). We have not adopted a policy requiring all compensation to be deductible under section 162(m). This approach allows us flexibility in light of the conservatorship.

Retirement Provisions for the 2015 Executive Compensation Program

The Board approved a change to the retirement age for the executive compensation program for 2015 and future years. FHFA approved this change on February 17, 2015. The 2014 executive compensation program, which is not affected by this change, provides that the reduction provisions applicable to payments of earned but unpaid fixed deferred salary do not apply if an officer retires from Fannie Mae at or after reaching age 65. As amended, the 2015 executive compensation program provides that the reduction provisions applicable to payments of earned but unpaid fixed deferred salary do not apply if the officer retires from Fannie Mae at or after: age 62; or age 55 with 10 years of service with Fannie Mae.

COMPENSATION COMMITTEE REPORT

The Compensation Committee of the Board of Directors of Fannie Mae has reviewed and discussed the Compensation Discussion and Analysis included in this Form 10-K with management. Based on such review and discussions, the Compensation Committee has recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Form 10-K.

Compensation Committee:

Brenda J. Gaines, Chair
Diane C. Nordin
Jonathan Plutzik
David H. Sidwell

COMPENSATION RISK ASSESSMENT

Our Enterprise Risk Management division conducted a risk assessment of our 2014 employee compensation policies and practices. In conducting this risk assessment, the division reviewed, among other things, our performance goals, pay mix and compensation structure, variable compensation plans applicable to some employees who support our credit portfolio management division, an incentive plan targeted to employees working on one of our strategic initiatives, our severance arrangements and compensation recoupment policy, oversight of aspects of our compensation by FHFA, the Compensation Committee and the Board of Directors, our corporate culture with regard to risk, and our performance appraisal management process. The division also assessed whether policies, procedures or other mitigating controls existed that would reduce the opportunity for excessive or inappropriate risk-taking within our compensation policies and practices.

Based on the results of this risk assessment, management concluded that our 2014 employee compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the company. Several factors contributed to this conclusion, including:

- Payment of performance-based compensation for achievement of the 2014 conservatorship scorecard objectives and the 2014 Board of Directors' goals is based on the achievement of goals that we have concluded do not encourage unnecessary or excessive risk-taking.
- Our extensive performance appraisal process is designed to ensure achievement of goals without encouraging executives or employees to take excessive risks.
- Deferred salary for our SEC executive officers is subject to the terms of the recoupment policy.
- We have no pre-arranged severance arrangements for our executive officers that would guarantee additional compensation upon termination of employment.

Our Chief Risk Officer discussed the risk assessment of the company's 2014 compensation policies and practices with the Compensation Committee of the Board of Directors.

Despite the determination that our 2014 employee compensation policies and practices do not create risks that are reasonably likely to have a material adverse effect on the company, we believe that we face an elevated risk of executive officer attrition due in part to the level of our senior executives' compensation as compared to comparable firms. As described in

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"Compensation Discussion and Analysis—Other Executive Compensation Considerations—Comparator Group and Role of Benchmark Data," our named executives' total target direct compensation for 2014 in aggregate was substantially below the market median for comparable firms, and more than 90% below the market median in the case of our Chief Executive Officer. Other factors that increase our risk of executive officer attrition include our conservatorship status and the uncertainty of our future. See "Risk Factors" for a discussion of the risks associated with executive and employee retention.

COMPENSATION TABLES

Summary Compensation Table for 2014, 2013 and 2012

The following table shows summary compensation information for 2014, 2013 and 2012 for the named executives. For more information on the compensation reflected in this table, see the footnotes following the table.

		Salary ($)		Non-Equity Incentive Plan Compensation ($)				
Name and Principal Position	Year	Base Salary[1]	Fixed Deferred Salary (Service-Based)[2]	At-Risk Deferred Salary (Performance-Based)[3]	Long-Term Incentive Awards[4]	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)[5]	All Other Compensation ($)[6]	Total ($)
Timothy Mayopoulos[7]	2014	600,000	—	—	—	—	48,000	648,000
President and Chief	2013	599,615	—	—	—	—	87,969	687,584
Executive Officer	2012	500,000	1,358,500	776,588	521,538	—	80,000	3,236,626
David Benson	2014	600,000	1,500,000	900,585	—	210,000	143,164	3,353,749
Executive Vice President	2013	574,231	1,436,462					