FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-Q
November 02, 2018

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2017-06-30 0000310522 us-gaap:DerivativeMember 2018-07-01 2018-09-30 0000310522
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended September 30, 2018
OR

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

For the transition period from to
Commission File No.: 0-50231

Federal National Mortgage Association

(Exact name of registrant as specified in its charter)

Fannie Mae

Federally chartered corporation	**52-0883107**	**1100 15th Street, NW Washington, DC 20005**	**3900 Wisconsin Avenue, NW Washington, DC 20016**	**(800) 2FANNIE (800-232-6643)**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*	*(Address of principal executive offices, including zip code)*	*(Former address, if changed since last report)*	*(Registrant's telephone number, including area code)*

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 o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes þ No o

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

Large accelerated filer þ Accelerated filer o

Non-accelerated filer o Smaller reporting company o
Emerging growth company o
If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
As of September 30, 2018, there were 1,158,087,567 shares of common stock of the registrant outstanding.

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PART I—FINANCIAL INFORMATION
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

We have been under conservatorship, with the Federal Housing Finance Agency ("FHFA") acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since provided for the exercise of certain functions by our Board of Directors. 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.

Our conservatorship has no specified termination date. We do not know when or how the conservatorship will terminate, what further changes to our business will be made during or following conservatorship, 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 or whether we will continue to exist following conservatorship. Congress continues to consider options for reform of the housing finance system, including Fannie Mae. As a result of our agreements with the U.S. Department of the Treasury ("Treasury") and directives from our conservator, we are not permitted to retain more than $3.0 billion in capital reserves or to pay dividends or other distributions to stockholders other than Treasury. Our agreements with Treasury also include covenants that significantly restrict our business activities. For additional information on the conservatorship, the uncertainty of our future, our agreements with Treasury, and recent actions and statements relating to housing finance reform by the Administration, Congress and FHFA, see "Business—Conservatorship and Treasury Agreements," "Business—Legislation and Regulation" and "Risk Factors" in our Form 10-K for the year ended December 31, 2017 ("2017 Form 10-K") and "Legislation and Regulation" and "Risk Factors" in our Form 10-Q for the quarter ended March 31, 2018 ("First Quarter 2018 Form 10-Q"), our Form 10-Q for the quarter ended June 30, 2018 ("Second Quarter 2018 Form 10-Q"), and in this report.

You should read this Management's Discussion and Analysis of FinancialCondition and Results of Operations ("MD&A") in conjunction with our unaudited condensed consolidated financial statements and related notes in this report and the more detailed information in our 2017 Form 10-K. You can find a "Glossary of Terms Used in ThisReport" in the MD&A of our2017 Form 10-K.

This report contains forward-looking statements that are based on management's current expectations and are subject to significant uncertainties and changes in circumstances. Please review "Forward-Looking Statements" for more information on theseforward-looking statements. Our actual results may differ materially from those reflected in our forward-looking statements due to a variety of factors including, but not limited to, those discussed in "Risk Factors" and elsewhere in this report and in our2017 Form 10-K.

Introduction

Fannie Mae provides a stable source of liquidity to the mortgage market and increases the availability and affordability of housing in the United States. We operate in the secondary mortgage market, primarily working with lenders. We do not originate loans or lend money directly to consumers in the primary mortgage market. Instead, we securitize mortgage loans originated by lenders into Fannie Mae mortgage-backed securities that we guarantee (which we refer to as Fannie Mae MBS); purchase mortgage loans and mortgage-related securities, primarily for securitization and sale at a later date; and engage in other activities that increase the supply of affordable housing. Our common stock is traded in the

OTCQB market and quoted under the ticker symbol "FNMA."

Through our single-family and multifamily business segments, we provided $140 billion in liquidity to the mortgage market in the third quarter of 2018, which enabled the financing of 726,000 home purchases, refinancings or rental units.

Fannie Mae Provided $140 Billion in Liquidity in the Third Quarter of 2018

Executive Summary

Summary of Our Financial Performance

Quarterly Results

The increase in our net income in the third quarter of 2018, compared with the third quarter of 2017, was primarily driven by:

- a shift to a benefit for credit losses from a provision for credit losses;
- a shift to fair value gains from fair value losses; and
- a lower provision for federal income taxes;
- partially offset by a decrease in fee and other income.

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

Year-to-Date Results

The increase in our net income in the first nine months of 2018, compared with the first nine months of 2017, was primarily driven by:

- a shift to fair value gains from fair value losses;
- a lower provision for federal income taxes; and
- a higher benefit for credit losses;
- partially offset by a decrease in fee and other income.

See “Consolidated Results of Operations” for more information on our year-to-date financial results.

Net Worth

Our net worth of $7.0 billion as of September 30, 2018 reflects our comprehensive income of $4.0 billion for the third quarter of 2018 and $3.0 billion in retained capital reserves.

Financial Performance Outlook

We expect to remain profitable on an annual basis for the foreseeable future; however, certain factors could result in significant volatility in our financial results from quarter to quarter or year to year. We expect volatility from quarter to quarter in our financial results due to 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. Other factors that may result in volatility in our quarterly financial results include developments that affect our loss reserves, such as changes in interest rates, home prices or accounting standards, or events such as natural disasters.

The potential for significant volatility in our financial results could result in a net loss in a future quarter. We are permitted to retain up to $3.0 billion in capital reserves as a buffer in the event of a net loss in a future quarter. However, any net loss we experience in the future could be greater than the amount of our capital reserves, resulting in a net worth deficit for that quarter. See “Risk Factors” in our 2017 Form 10-K for a discussion of the risks associated with the limitations on our ability to rebuild our capital reserves, including factors that could result in a net loss or net worth deficit in a future quarter.

Treasury Draws and Dividend Payments

Treasury has made a commitment under a senior preferred stock purchase agreement to provide funding to us under certain circumstances if we have a net worth deficit. Pursuant to the senior preferred stock purchase agreement, we issued shares of senior preferred stock to Treasury in 2008. Acting as successor to the rights, titles, powers and privileges of the Board, the conservator has declared and directed us to pay dividends to Treasury on the senior preferred stock on a quarterly basis for every dividend period for which dividends were payable since we entered into conservatorship in 2008.

The chart below shows the funds we have drawn from Treasury pursuant to the senior preferred stock purchase agreement, as well as the dividend payments we have made to Treasury on the senior preferred stock, since entering into conservatorship.

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(1) Under the terms of the senior preferred stock purchase agreement, dividend payments we make to Treasury do not offset our prior draws of funds from Treasury, and we are not permitted to pay down draws we have made under the agreement except in limited circumstances. Amounts may not sum due to rounding.

(2) Treasury draws are shown in the period for which requested, not when the funds were received by us. Draw requests have been funded in the quarter following a net worth deficit.

We expect to pay Treasury a fourth quarter 2018 dividend of $4.0 billion by December 31, 2018. The current dividend provisions of the senior preferred stock provide for quarterly dividends consisting of the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds a $3.0 billion capital reserve amount. We refer to this as a “net worth sweep” dividend. As noted above, our net worth was $7.0 billion as of September 30, 2018.

If we experience a net worth deficit in a future quarter, we will be required to draw additional funds from Treasury under the senior preferred stock purchase agreement to avoid being placed into receivership. As of the date of this filing, the maximum amount of remaining funding under the agreement is $113.9 billion. If we were to draw additional funds from Treasury under the agreement with respect to 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 a description of the terms of the senior preferred stock purchase agreement and the senior preferred stock, see “Business—Conservatorship and Treasury Agreements—Treasury Agreements” in our 2017 Form 10-K.

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

Legislation and Regulation

The information in this section updates and supplements information regarding legislation and regulation affecting our business set forth in "Business—Legislation and Regulation" in our 2017 Form 10-K and in "MD&A—Legislation and Regulation" in our First Quarter 2018 Form 10-Q and Second Quarter 2018 Form 10-Q. Also see "Risk Factors" in this report and in our 2017 Form 10-K for discussions of risks relating to legislative and regulatory matters.

Housing Finance Reform

We expect Congress, the Administration and FHFA to continue considering housing finance reform that could result in significant changes in our structure and role in the future. As a result, there continues to be significant uncertainty regarding the future of our company. See "Risk Factors" in our 2017 Form 10-K for a discussion of the risks to our business relating to the uncertain future of our company.

2017 Housing Goals Performance

We are subject to housing goals, which establish specified requirements for our mortgage acquisitions relating to affordability or location. In October 2018, FHFA notified us that it had preliminarily determined that we met all of our single-family and multifamily housing goals for 2017. See "Business—Legislation and Regulation—GSE Act and Other Regulation of Our Business—Housing Goals" in our 2017 Form 10-K and "MD&A—Legislation and Regulation—Housing Goals" in our First Quarter 2018 Form 10-Q for more information regarding our housing goals.

Proposed Rule on MBS Prepayment Rates

On September 12, 2018, FHFA issued a proposed rule to require Fannie Mae and Freddie Mac to align their programs, policies and practices that affect the prepayment rates of "To-Be-Announced" ("TBA")-eligible MBS. The rule would apply to both Fannie Mae's and Freddie Mac's current offerings of TBA-eligible MBS and to the new Uniform Mortgage-Backed Security ("UMBS") scheduled to be implemented in June 2019. The objective of the Single Security Initiative and the proposed rule is to enhance the overall liquidity of Fannie Mae and Freddie Mac TBA-eligible MBS by supporting their fungibility without regard to which company is the issuer. The proposed rule notes that "[t]he industry has expressed concerns that Fannie Mae and Freddie Mac UMBS may not be truly fungible because differences in Fannie Mae and Freddie Mac policies could result in materially differing cash flows (as a result of, *e.g.*, differing prepayment speeds)." FHFA, as conservator, has previously responded to industry input by imposing alignment mandates on Fannie Mae and Freddie Mac, and publishing a Prepayment Monitoring Report. The proposed rule would codify FHFA's previous mandates, and is intended to ensure that Fannie Mae and Freddie Mac programs, policies and practices that individually have a material effect on cash flows (including policies that affect prepayment speeds) are aligned and will continue to be aligned. See "Risk Factors" for a discussion of the risks to our business associated with the new UMBS and the Single Security Initiative.

Amended FHFA Corporate Governance Regulation: New Strategic Business Plan Requirement

On October 19, 2018, FHFA published in the Federal Register a final rule amending its corporate governance regulation applicable to Fannie Mae, Freddie Mac and the Federal Home Loan Banks. The amended regulation requires our Board of Directors to adopt and have in effect at all times a strategic business plan that describes our strategy for achieving our mission and public purposes. Among other things, this plan must articulate measurable goals and objectives for each significant activity, describe any significant changes to business strategy or approach we are planning to undertake, and identify current and emerging risks associated with our significant activities. The amended regulation requires our Board of Directors to review the strategic business plan at least annually, to re-adopt the plan at least every three years, and to establish management reporting requirements and monitor the implementation of the plan. The final rule will become effective on December 18, 2018. Our Board of Directors has previously adopted a strategic business plan and we are currently assessing whether any changes to this plan may be required as a result of FHFA's amended regulation.

Key Market Economic Indicators

The table below displays certain macroeconomic indicators that can significantly influence our business and financial results. We expect home prices on a national basis to continue to grow in 2018 at a similar rate as in 2017. We also expect significant regional variation in the timing and rate of home price growth.

Selected Key Market Economic Indicators

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Home price change based on Fannie Mae national home price index[1]	1.2 %	1.2 %	5.7%	5.4%
Growth in U.S. gross domestic product ("GDP"), annualized percentage change[2]	3.5 %	2.8 %		

	As of September 30, 2018	December 31, 2017	September 30, 2017
U.S. unemployment rate[3]	3.7 %	4.1 %	4.2 %
2-year swap rate[4]	2.99	2.08	1.74
10-year swap rate[4]	3.12	2.40	2.29
10-year Treasury rate[4]	3.06	2.41	2.33
30-year Fannie Mae MBS par coupon rate[4]	3.81	3.00	2.97

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(1) Calculated internally using property data information on loans purchased by Fannie Mae or Freddie Mac and property data information obtained from other third-party data providers. Fannie Mae's home price index is a weighted repeat transactions index, measuring average price changes in repeat transactions on the same properties. Fannie Mae's home price index excludes prices on properties sold in foreclosure. Fannie Mae's home price estimates are based on preliminary data and are subject to change as additional data becomes available.

(2) According to the U.S. Bureau of Economic Analysis and subject to revision.

(3) According to the U.S. Bureau of Labor Statistics and subject to revision.

(4) According to Bloomberg.

See "Key Market Economic Indicators" in our 2017 Form 10-K for a description of how changes in GDP, unemployment rates, home prices and interest rates can affect our financial results.

Consolidated Results of Operations

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

Summary of Condensed Consolidated Results of Operations

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2018	2017	Variance	2018	2017	Variance
	(Dollars in millions)					
Net interest income	$5,369	$5,274	$95	$15,978	$15,622	$356
Fee and other income	271	1,194	(923)	830	1,796	(966)
Net revenues	5,640	6,468	(828)	16,808	17,418	(610)
Investment gains, net	166	313	(147)	693	689	4
Fair value gains (losses), net	386	(289)	675	1,660	(1,020)	2,680
Administrative expenses	(740)	(664)	(76)	(2,245)	(2,034)	(211)
Credit-related income (expense):						
Benefit (provision) for credit losses	716	(182)	898	2,229	1,481	748
Foreclosed property expense	(159)	(140)	(19)	(460)	(391)	(69)
Total credit-related income (expense)	557	(322)	879	1,769	1,090	679
Temporary Payroll Tax Cut Continuation Act of 2011 ("TCCA") fees	(576)	(531)	(45)	(1,698)	(1,552)	(146)
Other expenses, net	(377)	(427)	50	(946)	(1,100)	154
Income before federal income taxes	5,056	4,548	508	16,041	13,491	2,550
Provision for federal income taxes	(1,045)	(1,525)	480	(3,312)	(4,495)	1,183
Net income	$4,011	$3,023	$988	$12,729	$8,996	$3,733
Total comprehensive income	$3,975	$3,048	$927	$12,372	$8,944	$3,428

Net Interest Income

We have two primary sources of net interest income:

- guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties; and
- the difference between interest income earned on the assets in our retained mortgage portfolio and our other investments portfolio (collectively, our "portfolios") and the interest expense associated with the debt that funds those assets.

Guaranty fees consist of two primary components:

- base guaranty fees that we receive over the life of the loan; and
- upfront fees that we receive at the time of loan acquisition primarily related to single-family loan level pricing adjustments and other fees we receive from lenders, which are amortized over the contractual life of the loan. We refer to this as amortization income.

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The table below displays the components of our net interest income from our portfolios and our guaranty book of business.

Components of Net Interest Income

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2018	2017	Variance	2018	2017	Variance
	(Dollars in millions)					
Net interest income from portfolios[1]	$1,132	$1,109	$ 23	$3,425	$3,318	$ 107
Net interest income from guaranty book of business:						
Base guaranty fee income, net of TCCA	2,153	2,050	103	6,352	6,060	292
Base guaranty fee income related to TCCA[2]	576	531	45	1,698	1,552	146
Net amortization income	1,508	1,584	(76)	4,503	4,692	(189)
Total net interest income from guaranty book of business	4,237	4,165	72	12,553	12,304	249
Total net interest income	$5,369	$5,274	$ 95	$15,978	$15,622	$ 356

(1) Includes interest income from assets held in our retained mortgage portfolio and our other investments portfolio, as well as other assets used to generate lender liquidity. Also includes interest expense on our outstanding Connecticut Avenue Securities® of $366 million and $274 million for the three months ended September 30, 2018 and 2017, respectively, and $1.0 billion and $723 million for the nine months ended September 30, 2018 and 2017, respectively.

(2) Revenues generated by the 10 basis point guaranty fee increase we implemented pursuant to the TCCA, the incremental revenue from which is remitted to Treasury and not retained by us.

Net interest income increased slightly in the third quarter and first nine months of 2018 compared with the third quarter and first nine months of 2017 due to:

- An increase in base guaranty fee income as the size of our guaranty book of business increased and loans with higher base guaranty fees comprised a larger part of our guaranty book of business in the third quarter and first nine months of 2018 compared with the third quarter and first nine months of 2017.
- An increase in income from our other investments portfolio, primarily due to higher interest rates in the third quarter and first nine months of 2018 compared with the third quarter and first nine months of 2017.
- These increases were partially offset by a decline in net amortization income as higher interest rates in the third quarter and first nine months of 2018 compared with the third quarter and first nine months of 2017 slowed down loan prepayments, resulting in lower amortization of cost basis adjustments on mortgage loans of consolidated trusts and related debt.

Amortization of Cost Basis Adjustments

We initially recognize mortgage loans and debt of consolidated trusts in our consolidated balance sheet at fair value. We recognize the difference between the initial fair value and the carrying value of these mortgage loans and debt as cost basis adjustments in our consolidated balance sheet. We amortize these cost basis adjustments as a yield adjustment over the contractual lives of these loans or debt as a component of net interest income.

The following charts display information about the outstanding net premium on debt in excess of loans of consolidated trusts and net discount positions on loans of Fannie Mae.

The net premium position of our consolidated debt will amortize as income over time. The timing of when this amortization income is recognized in our consolidated statements of income can vary based on a number of factors, the most significant of which is interest rates. In a rising interest rate environment, our mortgage loans tend to prepay more slowly, which typically results in lower net amortization income from cost basis adjustments on our net consolidated debt. Conversely, in a declining interest rate environment, our mortgage loans tend to prepay faster, resulting in higher net amortization income from cost basis adjustments on our net consolidated debt.

The net discount position on our mortgage loans of Fannie Mae was primarily recorded upon the acquisition of credit-impaired loans. The extent to which we may record income in future periods as we amortize this discount will be based on the actual performance of the loans.

Analysis of Net Interest Income and Yield

The table below 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.

Analysis of Net Interest Income and Yield

	For the Three Months Ended September 30,					
	2018			2017		
	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	$149,859	$1,665	4.44 %	$181,445	$1,879	4.14 %
Mortgage loans of consolidated trusts	3,090,212	27,058	3.50	2,979,153	25,168	3.38
Total mortgage loans[1]	3,240,071	28,723	3.55	3,160,598	27,047	3.42
Mortgage-related securities	10,513	115	4.38	12,132	99	3.30
Non-mortgage-related securities[2]	57,271	302	2.06	57,880	173	1.17
Federal funds sold and securities purchased under agreements to resell or similar arrangements	32,208	166	2.02	37,094	109	1.15
Advances to lenders	4,459	38	3.34	4,634	33	2.78
Total interest-earning assets	$3,344,522	$29,344	3.51 %	$3,272,338	$27,461	3.36 %
Interest-bearing liabilities:						
Short-term funding debt	$22,837	$(114)	1.95 %	$27,967	$(71)	0.99 %
Long-term funding debt	196,266	(1,133)	2.31	247,334	(1,232)	1.99
Connecticut Avenue Securities® (“CAS”)	25,100	(366)	5.83	20,978	(274)	5.22
Total debt of Fannie Mae	244,203	(1,613)	2.64	296,279	(1,577)	2.13
Debt securities of consolidated trusts held by third parties	3,090,509	(22,362)	2.89	2,984,811	(20,610)	2.76
Total interest-bearing liabilities	$3,334,712	$(23,975)	2.88 %	$3,281,090	$(22,187)	2.70 %
Net interest income/net interest yield		$5,369	0.64 %		$5,274	0.64 %

	For the Nine Months Ended September 30,							
	2018				2017			
	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	$156,168	$5,187	4.43	%	$190,552	$5,950	4.16	%
Mortgage loans of consolidated trusts	3,068,521	79,877	3.47		2,951,478	75,155	3.40	
Total mortgage loans(1)	3,224,689	85,064	3.52		3,142,030	81,105	3.44	
Mortgage-related securities	10,670	321	4.01		13,796	368	3.55	
Non-mortgage-related securities(2)	54,572	771	1.86		56,145	414	0.97	
Federal funds sold and securities purchased under agreements to resell or similar arrangements	33,826	457	1.78		38,260	262	0.90	
Advances to lenders	4,171	102	3.22		4,445	89	2.63	
Total interest-earning assets	$3,327,928	$86,715	3.47	%	$3,254,676	$82,238	3.37	%
Interest-bearing liabilities:								
Short-term funding debt	$26,395	$(328)	1.64	%	$30,231	$(170)	0.74	%
Long-term funding debt	204,543	(3,426)	2.23		261,090	(4,098)	2.09	
Connecticut Avenue Securities® (“CAS”)	23,830	(1,007)	5.63		18,940	(723)	5.09	
Total debt of Fannie Mae	254,768	(4,761)	2.49		310,261	(4,991)	2.14	
Debt securities of consolidated trusts held by third parties	3,068,839	(65,976)	2.87		2,953,203	(61,625)	2.78	
Total interest-bearing liabilities	$3,323,607	$(70,737)	2.84	%	$3,263,464	$(66,616)	2.72	%
Net interest income/net interest yield		$15,978	0.64	%		$15,622	0.64	%

(1) Average balance includes mortgage loans on nonaccrual status. Typically, interest income on nonaccrual mortgage loans is recognized when cash is received. Interest income not recognized for loans on nonaccrual status was $86 million and $351 million, respectively, for the third quarter and first nine months of 2018, compared with $209 million and $611 million, respectively, for the third quarter and first nine months of 2017.

(2) Includes cash equivalents.

Fee and Other Income

Fee and other income includes transaction fees, multifamily fees, technology fees and other miscellaneous income. Fee and other income declined in the third quarter and first nine months of 2018, compared with the third quarter and first nine months of 2017, primarily due to $975 million of income in the third quarter of 2017 resulting from a settlement agreement resolving legal claims related to private-label securities we purchased.

Fair Value Gains (Losses), Net

The estimated fair value of our derivatives, trading securities and other financial instruments carried at fair value may fluctuate substantially from period to period because of changes in interest rates, the yield curve, mortgage and credit spreads and implied volatility, as well as activity related to these financial instruments. While the estimated fair value of our derivatives that serve to mitigate certain risk exposures may fluctuate, some of the financial instruments that generate these exposures are not recorded at fair value in our condensed consolidated financial statements.

The table below displays the components of our fair value gains and losses.

Fair Value Gains (Losses), Net

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Risk management derivatives fair value gains (losses) attributable to:				
Net contractual interest expense accruals on interest rate swaps	$(285)	$(223)	$(786)	$(702)
Net change in fair value during the period	527	75	1,365	364
Total risk management derivatives fair value gains (losses), net	242	(148)	579	(338)
Mortgage commitment derivatives fair value gains (losses), net	118	(248)	606	(520)
Total derivatives fair value gains (losses), net	360	(396)	1,185	(858)
Trading securities gains (losses), net	(40)	59	79	145
CAS fair value gains (losses), net	16	113	35	(218)
Other, net	50	(65)	361	(89)
Fair value gains (losses), net	$386	$(289)	$1,660	$(1,020)

Fair value gains in the third quarter and first nine months of 2018 were primarily driven by:

- increases in the fair value of our mortgage commitment derivatives due to gains on commitments to sell mortgage-related securities as a result of decreases in the prices of securities as interest rates rose during the commitment periods; and
- increases in the fair value of our pay-fixed risk management derivatives due to an increase in longer-term swap rates during the periods.

Fair value losses in the third quarter and first nine months of 2017 were primarily driven by:

- decreases in the fair value of our mortgage commitments due to losses on commitments to sell mortgage-related securities due to an increase in prices as interest rates decreased during most of the commitment periods; and
- decreases in the fair value of our pay-fixed risk management derivatives due to declines in longer-term swap rates during the second quarter and most of the third quarter.

Administrative Expenses

Administrative expenses include salaries and employee benefits, professional services, occupancy and other miscellaneous expenses. Administrative expenses increased in the third quarter and first nine months of 2018, compared with the third quarter and first nine months of 2017, primarily due to an increase in salaries and professional services expense in support of our business resiliency activities and from severance expenses.

Credit-Related Income (Expense)

Benefit (Provision) for Credit Losses

The table below provides quantitative analysis of the drivers of our single-family benefit or provision for credit losses for the periods presented. Many of the drivers that contribute to our benefit or provision for credit losses overlap or are interdependent. The attribution shown below is based on internal allocation estimates. The table does not display our multifamily benefit or provision for credit losses as the amounts for all periods presented were less than $50 million.

Components of Benefit (Provision) for Credit Losses

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in billions)			
Single-family benefit (provision) for credit losses:				
Changes in loan activity[(1)]	$0.4	$(0.9)	$0.7	$(0.8)
Redesignation of held for investment ("HFI") loans to held for sale ("HFS") loans	0.4	0.5	1.4	1.0
Actual and forecasted home prices	0.2	0.1	0.9	1.3
Actual and projected interest rates	(0.3)	(0.1)	(1.0)	(0.2)
Other[(2)]	*	0.2	0.2	0.2
Single-family benefit (provision) for credit losses	0.7	(0.2)	2.2	1.5
Total benefit (provision) for credit losses	$0.7	$(0.2)	$2.2	$1.5

* Represents less than $50 million.

(1) Primarily consists of changes in the allowance due to loan delinquency, loan liquidations, new troubled debt restructurings, amortization of concessions granted to borrowers and the impact of FHFA's Advisory Bulletin 2012-02, "Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention" (the "Advisory Bulletin"). The 2017 amounts include our estimate as of September 30, 2017 of incurred losses resulting from Hurricanes Harvey, Irma and Maria (the "2017 hurricanes"), which is revised quarterly.

(2) Primarily consists of the impact of model and assumption changes that are not separately included in the other components.

The primary factors that impacted our benefit for credit losses in the third quarter and first nine months of 2018 were:

- The redesignation of certain reperforming and nonperforming single-family loans from HFI to HFS as we no longer intend to hold them for the foreseeable future or to maturity. Upon redesignation of these loans, we recorded the loans at the lower of cost or fair value with a charge-off to the allowance for loan losses. Amounts recorded in the allowance related to the loans exceeded the amounts charged off, which contributed to the benefit for credit losses.
- An increase in actual home prices, which contributed to the benefit for credit losses. 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 loss reserves and provision for credit losses.
- The benefit for credit losses was partially offset by the impact of higher actual and projected mortgage interest rates. As mortgage interest rates rise, we expect a decrease in future prepayments on single-family individually impaired loans, including modified loans. Lower expected prepayments lengthen the expected lives of modified loans, which increases the impairment relating to term and interest rate concessions provided on these loans and results in an increase in the provision for credit losses.

The following factors impacted our provision for credit losses in the third quarter of 2017:

- The estimate of incurred losses from the 2017 hurricanes contributed to the provision for credit losses.
- This was partially offset by a benefit primarily due to higher actual home prices.
- In addition, we recognized a benefit from the redesignation of certain reperforming single-family loans from HFI to HFS during the period.

The following factors impacted our benefit for credit losses in the first nine months of 2017:

- We recognized a benefit for credit losses due to higher actual and forecasted home prices in the period.
- In addition, we recognized a benefit from the redesignation of certain reperforming and nonperforming single-family loans from HFI to HFS during the period.
- This was partially offset by the estimate of incurred losses from the 2017 hurricanes.

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

Pursuant to the TCCA, FHFA directed us to increase our single-family guaranty fees by 10 basis points and remit this increase to Treasury. This TCCA-related revenue is included in “Net interest income” and the expense is recognized as “TCCA fees” in our condensed consolidated financial statements. TCCA fees increased in the third quarter and first nine months of 2018 compared with the third quarter and first nine months of 2017 as our book of business subject to the TCCA continued to grow. We expect the guaranty fees collected and expenses incurred under the TCCA to continue to increase.

Federal Income Taxes

The decrease in our provision for federal income taxes in the third quarter and first nine months of 2018 as compared to the third quarter and first nine months of 2017 was the result of the Tax Cuts and Jobs Act of 2017, which reduced the federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018. This decline was the primary driver of the reduction in our effective tax rate to 20.7% for the third quarter of 2018 and 20.6% for the first nine months of 2018, compared with 33.5% for the third quarter of 2017 and 33.3% for the first nine months of 2017. Our effective tax rates for all the periods presented were different from the prevailing federal statutory rate primarily due to the benefits of our investments in housing projects eligible for low-income housing tax credits.

Consolidated Balance Sheet Analysis

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

Summary of Condensed Consolidated Balance Sheets

	As of September 30, 2018	December 31, 2017	Variance
	(Dollars in millions)		
Assets			
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	$54,387	$51,580	$2,807
Restricted cash	23,242	28,150	(4,908)
Investments in securities[1]	47,438	39,522	7,916
Mortgage loans:			
Of Fannie Mae	137,227	167,793	(30,566)
Of consolidated trusts	3,111,570	3,029,816	81,754
Allowance for loan losses	(15,663)	(19,084)	3,421
Mortgage loans, net of allowance for loan losses	3,233,134	3,178,525	54,609
Deferred tax assets, net	14,368	17,350	(2,982)
Other assets	28,536	30,402	(1,866)
Total assets	$3,401,105	$3,345,529	$55,576
Liabilities and equity (deficit)			
Debt:			
Of Fannie Mae	$246,682	$276,752	$(30,070)
Of consolidated trusts	3,127,688	3,053,302	74,386
Other liabilities	19,760	19,161	599
Total liabilities	3,394,130	3,349,215	44,915
Fannie Mae stockholders' equity (deficit):			
Senior preferred stock	120,836	117,149	3,687
Other net deficit	(113,861)	(120,835)	6,974
Total equity (deficit)	6,975	(3,686)	10,661
Total liabilities and equity (deficit)	$3,401,105	$3,345,529	$55,576

(1) Includes $37.4 billion as of September 30, 2018 and $29.2 billion as of December 31, 2017 of non-mortgage-related securities.

Mortgage Loans, Net of Allowance for Loan Losses

The mortgage loans reported in our condensed consolidated balance sheet are classified as either HFS or HFI and include loans owned by Fannie Mae and loans held in consolidated trusts.

Mortgage loans, net of allowance for loan losses increased as of September 30, 2018 compared with December 31, 2017 primarily driven by:

- an increase in mortgage loans due to acquisitions outpacing liquidations and sales; and
- a decrease in our allowance for loan losses primarily driven by the redesignation of single-family loans from HFI to HFS.

For additional information on our mortgage loans, see “Note 3, Mortgage Loans,” and for additional information on changes in our allowance for loan losses, see “Note 4, Allowance for Loan Losses.”

Debt

The decrease in debt of Fannie Mae from December 31, 2017 to September 30, 2018 was primarily driven by lower funding needs as our retained mortgage portfolio continued to decrease during the first nine months of 2018. The increase in debt of consolidated trusts from December 31, 2017 to September 30, 2018 was primarily driven by sales of Fannie Mae MBS, which are accounted for as issuances of debt of consolidated trusts in our condensed consolidated balance sheets, since the MBS certificate ownership is transferred from us to a third party. See "Liquidity and Capital Management—Liquidity Management—Debt Funding" for 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. Also see "Note 7, Short-Term and Long-Term Debt" for additional information on our outstanding debt.

Stockholders' Equity (Deficit)

The shift from a net deficit of $3.7 billion as of December 31, 2017 to net equity of $7.0 billion as of September 30, 2018 reflects:

- our comprehensive income of $12.4 billion for the first nine months of 2018;
- our receipt of $3.7 billion from Treasury during the first quarter of 2018 pursuant to the senior preferred stock purchase agreement, which eliminated our net worth deficit as of December 31, 2017; and
- our dividend payments to Treasury of $5.4 billion during the year.

Retained Mortgage Portfolio

Our retained mortgage portfolio consists of mortgage loans and mortgage-related securities that we own, including Fannie Mae MBS and non-Fannie Mae mortgage-related securities. Assets held by consolidated MBS trusts that back mortgage-related securities owned by third parties are not included in our retained mortgage portfolio. We use our retained mortgage portfolio primarily to provide liquidity to the mortgage market and support our loss mitigation activities. Previously, we also used our retained mortgage portfolio for investment purposes.

The chart below separates the instruments within our retained mortgage portfolio, measured by unpaid principal balance, into three categories based on each instrument's use:

- *Lender liquidity*, which includes balances related to our whole loan conduit activity, supports our efforts to provide liquidity to the single-family and multifamily mortgage markets.
- *Loss mitigation* supports our loss mitigation efforts through the purchase of delinquent loans from MBS trusts.
- *Other* represents assets that were previously purchased for investment purposes. More than half of the balance of "Other" consisted of reverse mortgage loans and Fannie Mae-wrapped reverse mortgage securities as of September 30, 2018. We expect the amount of assets in "Other" will continue to decline over time as they liquidate, mature or are sold.

Retained Mortgage Portfolio
(Dollars in billions)

The table below displays the components of our retained mortgage portfolio, measured by unpaid principal balance.

Retained Mortgage Portfolio

	As of September 30, 2018	As of December 31, 2017
	(Dollars in millions)	
Single-family:		
Mortgage loans[(1)]	$118,118	$146,316
Reverse mortgages	22,943	26,458
Mortgage-related securities:		
Agency securities[(2)]	34,688	31,719
Fannie Mae-wrapped reverse mortgage securities	6,171	6,689
Ginnie Mae reverse mortgage securities	1,882	527
Other Fannie Mae-wrapped securities[(3)]	664	3,414
Private-label and other securities[(3)]	3,107	2,588
Total single-family mortgage-related securities[(4)]	46,512	44,937
Total single-family mortgage loans and mortgage-related securities	187,573	217,711
Multifamily:		
Mortgage loans[(5)]	3,430	4,591
Mortgage-related securities:		
Agency securities[(2)]	7,709	7,860
Commercial mortgage-backed securities ("CMBS")	—	24
Mortgage revenue bonds	402	597
Total multifamily mortgage-related securities[(6)]	8,111	8,481
Total multifamily mortgage loans and mortgage-related securities	11,541	13,072
Total retained mortgage portfolio	$199,114	$230,783

(1) Includes single-family loans classified as troubled debt restructurings ("TDRs") that were on accrual status of $68.4 billion and $86.3 billion as of September 30, 2018 and December 31, 2017, respectively, and single-family loans on nonaccrual status of $26.5 billion and $33.1 billion as of September 30, 2018 and December 31, 2017, respectively.

(2) Includes Fannie Mae, Freddie Mac and Ginnie Mae mortgage-related securities, excluding Fannie Mae-wrapped securities and Ginnie Mae reverse mortgage securities.

(3) The increase in private-label and other securities from December 31, 2017 to September 30, 2018 was due to the dissolution in the first quarter of 2018 of a Fannie Mae-wrapped private-label securities trust. The Fannie Mae-wrapped private-label securities had been classified as other Fannie Mae-wrapped securities prior to the dissolution.

(4) The fair value of these single-family mortgage-related securities was $47.5 billion and $46.7 billion as of September 30, 2018 and December 31, 2017, respectively.

(5) Includes multifamily loans classified as TDRs that were on accrual status of $64 million and $84 million as of September 30, 2018 and December 31, 2017, respectively, and multifamily loans on nonaccrual status of $163 million and $122 million as of September 30, 2018 and December 31, 2017, respectively.

(6) The fair value of these multifamily mortgage-related securities was $8.3 billion and $9.0 billion as of September 30, 2018 and December 31, 2017, respectively.

The amount of mortgage assets that we may own is restricted by our senior preferred stock purchase agreement with Treasury, as described in "Business—Conservatorship and Treasury Agreements—Treasury Agreements" in our 2017 Form 10-K. Our retained mortgage portfolio is below the final $250 billion cap under the senior preferred stock purchase agreement that becomes effective on December 31, 2018. We expect the size of our retained mortgage portfolio will continue to decrease in 2018.

In support of our loss mitigation strategy, we purchased $13.6 billion of loans from our single-family MBS trusts in the first nine months of 2018, the substantial majority of which were delinquent. See "MD&A—Retained Mortgage Portfolio—Purchases of Loans from Our MBS Trusts" in our 2017 Form 10-K for more information relating to our purchases of loans from MBS trusts.

Total Book of Business

The table below displays the composition of our total book of business based on unpaid principal balance. Our single-family book of business accounted for 91% of our total book of business as of September 30, 2018 and December 31, 2017. While our total 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.

Composition of Total Book of Business

	As of					
	September 30, 2018			December 31, 2017		
	Single-Family	Multifamily	Total	Single-Family	Multifamily	Total
	(Dollars in millions)					
Guaranty book of business[(1)]	$2,955,925	$299,817	$3,255,742	$2,931,356	$280,502	$3,211,858
Non-Fannie Mae mortgage securities[(2)]	6,924	402	7,326	4,005	621	4,626
Total book of business	$2,962,849	$300,219	$3,263,068	$2,935,361	$281,123	$3,216,484
Guaranty Book of Business Detail:						
Conventional guaranty book of business[(3)]	$2,920,132	$298,589	$3,218,721	$2,890,908	$279,235	$3,170,143
Government guaranty book of business[(4)]	$35,793	$1,228	$37,021	$40,448	$1,267	$41,715

(1) Includes other single-family Fannie Mae guaranty arrangements of $1.6 billion and $1.8 billion as of September 30, 2018 and December 31, 2017, respectively, and other multifamily Fannie Mae guaranty arrangements of $12.4 billion as of September 30, 2018 and December 31, 2017. The unpaid principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

(2) Includes mortgage-related securities issued by Freddie Mac and Ginnie Mae, mortgage revenue bonds, Alt-A and subprime private-label securities, and CMBS.

(3) 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.

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

The Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act of 2008 (together, the “GSE Act”), requires us to set aside each year an amount equal to 4.2 basis points for each dollar of the unpaid principal balance of our total new business purchases and to pay this amount to specified U.S. Department of Housing and Urban Development (“HUD”) and Treasury funds. New business purchases consist of single-family and multifamily mortgage loans purchased during the period and single-family and multifamily mortgage loans underlying Fannie Mae MBS issued during the period pursuant to lender swaps. In February 2018, we paid $239 million to the funds based on our new business purchases in 2017. Our new business purchases were $389.5 billion for the first nine months of 2018. Accordingly, we recognized an expense of $163 million related to this obligation for the first nine months of 2018. We expect to pay this amount, plus additional amounts to be accrued based on our new business purchases in the fourth quarter of 2018, to the funds on or before March 1, 2019. See “Business—Legislation and Regulation—GSE Act and Other Regulation of Our Business—Affordable Housing Allocations” in our 2017 Form 10-K for more information regarding this obligation.

Business Segments

We have two reportable business segments: Single-Family and Multifamily. The Single-Family business operates in the secondary mortgage market relating to loans secured by properties containing four or fewer residential dwelling units, which are referred to as single-family mortgage loans. The Multifamily business operates in the secondary mortgage market relating primarily to loans secured by properties containing five or more residential units, which are referred to as multifamily mortgage loans.

The chart below displays the net revenues and net income for each of our business segments for the first nine months of 2018 compared with the first nine months of 2017.

This section describes each segment's business and credit metrics, and financial results. For further discussion of our Single-Family and Multifamily business segments, including each segment's primary business activities and customers, see "MD&A—Business Segments" in our 2017 Form 10-K.

Single-Family Business

Single-Family Mortgage Market

Housing activity declined in the third quarter of 2018 compared with the second quarter of 2018. Total existing home sales averaged 5.3 million units annualized in the third quarter of 2018, compared with 5.4 million units in the second quarter of 2018, according to data from the National Association of REALTORS®. According to the U.S. Census Bureau, new single-family home sales decreased during the third quarter of 2018, averaging an annualized rate of 580,000 units, compared with 633,000 units in the second quarter of 2018.

The 30-year fixed mortgage rate averaged 4.72% during the week ended September 28, 2018, compared with 4.55% during the week ended June 30, 2018, according to Freddie Mac's Primary Mortgage Market Survey®. The single-family mortgage market continued to experience a shift to a purchase mortgage market, as the share of refinance originations in the third quarter of 2018 fell to the lowest level since the third quarter of 2000.

We forecast that total originations in the U.S. single-family mortgage market in 2018 will decrease from 2017 levels by approximately 10.5%, from an estimated $1.83 trillion in 2017 to $1.64 trillion in 2018, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will decrease from an estimated $650 billion in 2017 to $454 billion in 2018.

Single-Family Market Share

The chart below displays our estimated market share of single-family mortgage-related securities issuances in the third quarter of 2018 as compared with that of our primary competitors for the issuance of single-family mortgage-related securities.

- We estimate our market share of single-family mortgage-related securities issuances was 40% in the third quarter of 2018, compared with 36% in the second quarter of 2018 and 39% in the third quarter of 2017.

Single-Family Business Metrics

Single-family Fannie Mae MBS outstanding increased as of September 30, 2018 compared to September 30, 2017 because acquisitions during the past twelve months outpaced liquidations, which slowed as a result of a decline in prepayments due to the rising interest rate environment.

(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 single-family mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

Our average charged guaranty fee on newly acquired single-family loans, net of TCCA fees, increased from 47.1 basis points in the third quarter of 2017 to 51.2 basis points in the third quarter of 2018, primarily driven by an increase in the total base guaranty fees charged on our 2018 acquisitions.

Average Charged Guaranty Fee on Single-Family Guaranty Book of Business and Average Charged Guaranty Fee on New Single-Family Acquisitions[(1)]

(1) Calculated based on the average guaranty fee rate for our single-family guaranty arrangements during the period plus the recognition of any upfront cash payments over an estimated average life. Excludes the impact of a 10 basis point guaranty fee increase implemented pursuant to the TCCA, the incremental revenue from which is remitted to Treasury and not retained by us.

Single-Family Business Financial Results

Single-Family Business Financial Results

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2018	2017	Variance	2018	2017	Variance
	(Dollars in millions)					
Net interest income[1]	$4,670	$4,627	$43	$13,954	$13,749	$205
Fee and other income	79	1,005	(926)	306	1,192	(886)
Net revenues	4,749	5,632	(883)	14,260	14,941	(681)
Investment gains, net	146	286	(140)	640	557	83
Fair value gains (losses), net	417	(300)	717	1,729	(997)	2,726
Administrative expenses	(636)	(580)	(56)	(1,928)	(1,781)	(147)
Credit-related income (expense)[2]	582	(294)	876	1,775	1,113	662
TCCA fees[1]	(576)	(531)	(45)	(1,698)	(1,552)	(146)
Other expenses, net	(282)	(320)	38	(684)	(731)	47
Income before federal income taxes	4,400	3,893	507	14,094	11,550	2,544
Provision for federal income taxes	(938)	(1,361)	423	(2,998)	(4,014)	1,016
Net income	$3,462	$2,532	$930	$11,096	$7,536	$3,560

(1) Reflects the impact of a 10 basis point guaranty fee increase implemented pursuant to the TCCA, the incremental revenue from which is remitted to Treasury. The resulting revenue is included in net interest income and the expense is recognized as “TCCA fees.”

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

Net interest income

Single-family net interest income increased in the third quarter and first nine months of 2018 compared with the third quarter and first nine months of 2017. The drivers of net interest income for the single-family segment for all periods presented are consistent with the drivers of net interest income reported in our condensed consolidated statements of operations and comprehensive income for the same periods, which we discuss in “Consolidated Results of Operations—Net Interest Income.”

Fee and other income

Fee and other income decreased in the third quarter and first nine months of 2018 compared with the third quarter and first nine months of 2017 primarily due to $975 million of income in the third quarter of 2017 resulting from a settlement agreement resolving legal claims related to private-label securities we purchased.

Fair value gains (losses), net

We recognized fair value gains in the third quarter and first nine months of 2018, a shift from fair value losses recognized in the third quarter and first nine months of 2017. The drivers of fair value gains and losses for the single-family segment for all the periods presented are consistent with the drivers of fair value gains and losses reported in our condensed consolidated statements of operations and comprehensive income for the same periods, which we discuss in “Consolidated Results of Operations—Fair Value Gains (Losses), Net.”

Credit-related income (expense)

We recognized credit-related income in the third quarter of 2018, a shift from credit-related expense in the third quarter of 2017. We recognized higher credit-related income in the first nine months of 2018 compared with the first nine months of 2017. The drivers of credit-related income and expense for the single-family segment for all periods presented are consistent with the drivers of credit-related income and expense reported in our condensed consolidated statements of operations and comprehensive income for the same periods. We discuss our credit-related income and expense in "Consolidated Results of Operations—Credit-Related Income (Expense)."

Single-Family Mortgage Credit Risk Management

This section updates our discussion of single-family mortgage credit risk management in our 2017 Form 10-K in "MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management."

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

For information on our underwriting and servicing standards, quality control process, repurchase requests, and representation and warranty framework, see "MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards" in our2017 Form 10-K.

Single-Family Portfolio Diversification and Monitoring

For information on key loan attributes, see “MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring” in our 2017 Form 10-K. The table below 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.

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

	Percent of Single-Family Conventional Business Volume at Acquisition[2]				Percent of Single-Family Conventional Guaranty Book of Business[3]	
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,		As of	
	2018	2017	2018	2017	September 30, 2018	December 31, 2017
Original loan-to-value (“LTV”) ratio:[4]						
<= 60%	14 %	16 %	16 %	18 %	20 %	20 %
60.01% to 70%	11	12	12	13	13	14
70.01% to 80%	37	39	37	39	38	38
80.01% to 90%	14	13	13	12	11	11
90.01% to 95%	16	15	15	14	11	10
95.01% to 100%	8	5	7	4	4	4
Greater than 100%	*	*	*	*	3	3
Total	100 %	100 %	100 %	100 %	100 %	100 %
Weighted average	78 %	76 %	77 %	75 %	75 %	75 %
Average loan amount	$235,125	$228,445	$233,027	$225,123	$169,600	$166,643
Estimated mark-to-market LTV ratio:[5]						
<= 60%					56 %	52 %
60.01% to 70%					18	18
70.01% to 80%					15	17
80.01% to 90%					7	8
90.01% to 100%					3	4
Greater than 100%					1	1
Total					100 %	100 %
Weighted average					56 %	58 %
Product type:						
Fixed-rate:[6]						
Long-term	91 %	85 %	89 %	83 %	82 %	80 %
Intermediate-term	7	12	9	14	14	15
Total fixed-rate	98	97	98	97	96	95
Adjustable-rate	2	3	2	3	4	5
Total	100 %	100 %	100 %	100 %	100 %	100 %
Number of property units:						
1 unit	98 %	98 %	98 %	97 %	97 %	97 %
2 to 4 units	2	2	2	3	3	3
Total	100 %	100 %	100 %	100 %	100 %	100 %

	Percent of Single-Family Conventional Business Volume at Acquisition[(2)]				Percent of Single-Family Conventional Guaranty Book of Business[(3)] As of	
	For the Three Months Ended September 30,		For the Nine Months Ended September 30,			
	2018	2017	2018	2017	September 30, 2018	December 31, 2017
Property type:						
Single-family homes	90 %	90 %	90 %	90 %	91 %	91 %
Condo/Co-op	10	10	10	10	9	9
Total	100 %	100 %	100 %	100 %	100 %	100 %
Occupancy type:						
Primary residence	89 %	89 %	89 %	89 %	89 %	89 %
Second/vacation home	4	4	4	4	4	4
Investor	7	7	7	7	7	7
Total	100 %	100 %	100 %	100 %	100 %	100 %
FICO credit score at origination:						
< 620	* %	* %	* %	* %	2 %	2 %
620 to < 660	6	5	6	5	5	5
660 to < 700	14	13	14	13	12	12
700 to < 740	23	23	23	23	20	20
>= 740	57	59	57	59	61	61
Total	100 %	100 %	100 %	100 %	100 %	100 %
Weighted average	743	745	743	745	745	745
Loan purpose:						
Purchase	72 %	63 %	64 %	56 %	42 %	39 %
Cash-out refinance	19	19	22	21	20	20
Other refinance	9	18	14	23	38	41
Total	100 %	100 %	100 %	100 %	100 %	100 %
Geographic concentration:[(7)]						
Midwest	15 %	15 %	14 %	14 %	15 %	15 %
Northeast	14	14	13	14	17	18
Southeast	23	23	23	23	22	22
Southwest	21	20	21	20	18	17
West	27	28	29	29	28	28
Total	100 %	100 %	100 %	100 %	100 %	100 %
Origination year:						
2012 and prior					31 %	36 %
2013					11	12
2014					6	7
2015					10	12
2016					17	18
2017					15	15
2018					10	—
Total					100 %	100 %

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

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

(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) 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) 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.

(6) 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.

(7) 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.

The share of our single-family loan acquisitions consisting of home purchase loans rather than refinances increased in the first nine months of 2018 compared with the first nine months of 2017, primarily driven by higher mortgage rates in 2018. In addition, our acquisitions of loans from first-time home buyers increased from 23% of our single-family loan acquisitions in the first nine months of 2017 to 27% in the first nine months of 2018. Typically, home purchase loans—particularly those to first-time home buyers—have significantly higher LTV ratios than refinances. This trend contributed to an increase in the percentage of our single-family loan acquisitions with LTV ratios over 95%—from 4% in the first nine months of 2017 to 7% in the first nine months of 2018. The increased share of home purchase loan acquisitions has increased the percentage of home purchase loans in our single-family conventional guaranty book of business.

In July 2017, we implemented Desktop Underwriter® ("DU®") Version 10.1, which included a change that enabled loans with debt-to-income ratios above 45% (up to 50%) to rely on DU's comprehensive risk assessment, and removed specific policy rules that had previously set maximum LTV ratio and minimum reserves requirements for those loans. Due in part to our implementation of this change, acquisitions associated with borrower debt-to-income ratios above 45% increased to 25% of our non-Refi Plus single-family acquisitions in the first nine months of 2018, compared with 7% in the first nine months of 2017. After assessing the profile of loans delivered to us using DU Version 10.1, in March 2018 we implemented DU Version 10.2, which revised DU's risk assessment to limit risk layering. Risk layering refers to the acquisition of loans with multiple higher-risk characteristics (such as high LTV ratio, credit profile with a history of delinquencies, debt-to-income ratio above 45% and no or low levels of reserves). In October 2018, we announced our plan to implement DU Version 10.3 in December 2018. DU Version 10.3 will revise DU's risk assessment to further limit risk layering, particularly with respect to loans with debt-to-income ratios above 45%. We expect to continue to acquire a higher proportion of loans with debt-to-income ratios above 45% than we acquired in periods prior to our July 2017 implementation of DU Version 10.1. We will continue to closely monitor loan acquisitions and market conditions and, as appropriate, make changes in our eligibility criteria so that the loans we acquire are consistent with our risk appetite.

For a discussion of factors that may impact the credit characteristics of loans we acquire in the future, see "MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring" in our 2017 Form 10-K. In this section of our 2017 Form 10-K, we also provide more information on the credit characteristics of loans in our guaranty book of business, including Home Affordable Refinance Program® ("HARP®") and Refi Plus™ loans, jumbo-conforming and high-balance loans, reverse mortgages and mortgage products with rate resets.

Transfer of Mortgage Credit Risk

Single-Family Credit Enhancements

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. We also enter into various other types of transactions in which we transfer mortgage credit risk to third parties. The table below displays information on the outstanding unpaid principal balance of our single-family loans, as well as the percentage of our total single-family conventional guaranty book of business measured by unpaid principal balance, that were covered by one or more forms of credit enhancement as of the dates specified. For a description of the types of credit enhancements specified in the table, see “MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Transfer of Mortgage Credit Risk” in our 2017 Form 10-K. For a discussion of our exposure to and management of the institutional counterparty credit risk associated with the providers of these credit enhancements see “Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management” in our 2017 Form 10-K and “Note 11, Concentrations of Credit Risk” in this report.

Single-Family Loans with Credit Enhancement

	As of			
	September 30, 2018		December 31, 2017	
	Unpaid Principal Balance	Percentage of Single-Family Conventional Guaranty Book of Business	Unpaid Principal Balance	Percentage of Single-Family Conventional Guaranty Book of Business
	(Dollars in billions)			
Primary mortgage insurance and other	$ 601	21 %	$ 566	20 %
Connecticut Avenue Securities	768	27	681	24
Credit Insurance Risk Transfer™ (“CIRT™”)	231	8	181	6
Lender risk sharing	94	3	65	2
Less: Loans covered by multiple credit enhancements	(379)	(14)	(335)	(12)
Total unpaid principal balance of single-family loans with credit enhancement	$ 1,315	45 %	$ 1,158	40 %

Credit Risk Transfer Transactions

Our Single-Family business has developed risk-sharing capabilities to transfer portions of our single-family mortgage credit risk to the private market. Our primary method of achieving this objective has been through our CAS and CIRT transactions. In most of our credit risk transfer transactions, we transfer a small portion of the expected credit losses, and a significant portion of the losses we expect would be incurred in a stressed credit environment, such as a severe or prolonged economic downturn.

The tables below display the mortgage credit risk transferred to third parties and retained by Fannie Mae pursuant to our single-family credit risk transfer transactions.

Single-Family Credit Risk Transfer Transactions

Issuances from Inception to September 30, 2018[1]
(Dollars in billions)

Senior	Fannie Mae[2] $1,427
Mezzanine	Fannie Mae[2] $2
First Loss	Fannie Mae[2] $8

Outstanding as of September 30, 2018[1]
(Dollars in billions)

Senior	Fannie Mae[2] $1,041
Mezzanine	Fannie Mae[2] $1
First Loss	Fannie Mae[2] $8

(1) For some lender risk-sharing transactions, does not reflect completed transfers of risk prior to settlement.
(2) Credit risk retained by Fannie Mae in CAS, CIRT and lender risk-sharing transactions. Tranche sizes vary across programs.
(3) Credit risk transferred to third parties. Tranche sizes vary across programs.
(4) Includes mortgage pool insurance transactions covering loans with an unpaid principal balance of approximately $7 billion at issuance and approximately $4 billion outstanding as of September 30, 2018.
(5) For CIRT and some lender risk-sharing transactions, “Reference Pool” reflects a pool of covered loans.
(6) For CAS transactions, “First Loss” represents all B tranche balances.
(7) For CAS and some lender risk-sharing transactions, represents outstanding reference pools, not the outstanding unpaid principal balance of the underlying loans. The outstanding unpaid principal balance for all loans covered by credit risk transfer programs, including all loans on which risk has been transferred in lender risk-sharing transactions, was $1,093 billion as of September 30, 2018.

During the first nine months of 2018, pursuant to our credit risk transfer transactions, we transferred a portion of the mortgage credit risk on single-family mortgages with an unpaid principal balance of over $250 billion at the time of the transactions.

Because a larger portion of our single-family book of business was covered by CAS and CIRT transactions in the first nine months of 2018 than in the first nine months of 2017, the expenses related to these transactions increased:

- For the first nine months of 2018, we paid approximately $655 million in interest expense, net of LIBOR, on our outstanding CAS and approximately $205 million in CIRT premiums.
- Comparatively, we paid approximately $568 million in interest expense, net of LIBOR, on our outstanding CAS and approximately $127 million in CIRT premiums for the first nine months of 2017.

As a part of our continued effort to innovate and improve our credit risk transfer programs, we are in the process of executing an enhancement to our credit risk transfer securities that will structure our CAS offerings as notes issued by a trust that qualifies as a Real Estate Mortgage Investment Conduit (“REMIC”), enabling expanded participation by real estate investment trusts and international investors. The new REMIC structure will differ from the prior CAS notes that were issued as Fannie Mae corporate debt. Under the prior CAS structure, there can be a significant lag between the time when we recognize a provision for credit losses and when we recognize the related recovery from the CAS transaction. Under current accounting rules, while a credit expense on a loan in a reference pool for a CAS transaction is recorded when it is probable that we have incurred a loss, for our CAS issued beginning in 2016, a recovery is recorded only when an actual loss event occurs, which is typically several months after the collateral has been liquidated. The new CAS structure will eliminate this timing mismatch, allowing us to recognize the expected credit loss protection benefit at the same time the credit loss is recognized in our consolidated financial statements. We will continue to record the expected benefit and the loss in the same period upon our adoption of Accounting Standards Update 2016-13, Financial Instruments—Credit Losses, in January 2020.

The enhancement to our CAS program is designed to promote the continued growth of the market by expanding the potential investor base for these securities and limiting investor exposure to Fannie Mae counterparty risk, without disrupting the TBA MBS market. We expect to issue CAS under the new REMIC structure in November 2018.

Single-Family 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. See “MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Problem Loan Management” in our 2017 Form 10-K for a discussion of delinquency statistics on our problem loans, efforts undertaken to manage our problem loans, metrics regarding our loan workout activities, real estate owned (“REO”) management and other single-family credit-related disclosures. The discussion below updates some of that information.

Delinquency

The tables below display the delinquency status of loans and changes in the balance of seriously delinquent loans in our single-family conventional guaranty book of business, based on the 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.

Delinquency Status and Activity of Single-Family Conventional Loans

	As of September 30, 2018	December 31, 2017	September 30, 2017
Delinquency status:			
30 to 59 days delinquent	1.52 %	1.63 %	1.63 %
60 to 89 days delinquent	0.37	0.50	0.40
Seriously delinquent (“SDQ”)	0.82	1.24	1.01
Percentage of SDQ loans that have been delinquent for more than 180 days	53 %	43 %	57 %
Percentage of SDQ loans that have been delinquent for more than two years	13	13	18

	For the Nine Months Ended September 30, 2018	2017
Single-family SDQ loans (number of loans):		
Beginning balance	212,183	206,549
Additions	171,516	177,449
Removals:		
Modifications and other loan workouts	(83,567)	(56,048)
Liquidations and sales	(58,912)	(63,854)
Cured or less than 90 days delinquent	(101,524)	(91,545)
Total removals	(244,003)	(211,447)
Ending balance	139,696	172,551

Our single-family serious delinquency rate was 0.82% as of September 30, 2018, compared with 1.24% as of December 31, 2017 and 1.01% as of September 30, 2017. Our single-family serious delinquency rate increased in the latter part of 2017 due to the impact of the 2017 hurricanes, but has since resumed its prior downward trend because many delinquent borrowers in the affected areas have resolved their loan delinquencies by obtaining loan modifications or through resuming payments and becoming current on their loans. Our single-family serious delinquency rate may be negatively impacted in the near term as a result of the hurricanes that occurred late in the third quarter of 2018 and early in the fourth quarter of 2018, which may cause some borrowers in the affected regions to miss their payments, including through forbearance arrangements that may be extended. We are still evaluating the impact, but we do not believe that the hurricanes to date in 2018, individually or in aggregate, will have a material impact on our credit losses or loss reserves. In the longer term, we expect our single-family

serious delinquency rate to continue to decline, but at a more modest pace than in the past several years, and to experience period-to-period fluctuations.

Certain higher-risk loan categories, such as Alt-A loans, loans with higher estimated 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. Single-family loans originated in 2005 through 2008 constituted 5% of our single-family book of business as of September 30, 2018, but constituted 41% of our seriously delinquent single-family loans as of September 30, 2018. In addition, single-family loans originated in 2005 through 2008 drove 58% of our single-family credit losses in the third quarter of 2018 and 65% in the first nine months of 2018. Loans in certain judicial foreclosure states such as Florida, New Jersey and New York with historically long foreclosure timelines have exhibited higher than average delinquency rates and/or account for a higher share of our credit losses.

The table below 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. 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.

Single-Family Conventional Seriously Delinquent Loan Concentration Analysis

	As of								
	September 30, 2018			December 31, 2017			September 30, 2017		
	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	19 %	6 %	0.34 %	19 %	5 %	0.42 %	19 %	6 %	0.43 %
Florida	6	12	1.51	6	19	3.71	6	10	1.50
New Jersey	4	6	1.51	4	5	2.15	4	7	2.36
New York	5	8	1.55	5	7	2.02	5	9	2.13
All other states	66	68	0.77	66	64	1.09	66	68	0.94
Product type:									
Alt-A(2)	2	12	3.68	2	12	4.95	3	14	4.54
Vintages:									
2004 and prior	3	23	2.77	4	23	3.28	4	25	2.75
2005-2008	5	41	4.90	6	42	6.55	7	48	5.83
2009-2018	92	36	0.34	90	35	0.53	89	27	0.33
Estimated mark-to-market LTV ratio:									
<= 60%	56	47	0.61	52	41	0.84	53	40	0.66
60.01% to 70%	18	17	0.91	18	18	1.34	19	17	1.05
70.01% to 80%	15	15	0.99	17	16	1.48	16	15	1.17
80.01% to 90%	7	10	1.38	8	11	2.09	8	11	1.77
90.01% to 100%	3	5	1.74	4	6	2.62	3	7	2.72
Greater than 100%	1	6	10.65	1	8	11.70	1	10	10.73
Credit enhanced:(3)									
Primary MI & other(4)	21	25	1.19	20	26	1.95	19	26	1.62
Credit risk transfer(5)	38	8	0.23	32	8	0.42	31	4	0.16
Non-credit enhanced	55	70	0.90	60	69	1.27	60	72	1.05

(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) For a description of our Alt-A loan classification criteria, see “Glossary of Terms Used in This Report” in our 2017 Form 10-K.

(3) The credit-enhanced categories are not mutually exclusive. A loan with primary mortgage insurance that is also covered by a credit risk transfer transaction will be included in both the “Primary MI & other” category and the “Credit risk transfer” category. As a result, the “Credit enhanced” and “Non-credit enhanced” categories do not sum to 100%. The total percentage of our single-family conventional guaranty book of business with some form of credit enhancement as of September 30, 2018 was 45%.

(4) Refers to loans included in an agreement used to reduce credit risk by requiring primary mortgage insurance, collateral, letters of credit, 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. Excludes loans covered by credit risk transfer transactions unless such loans are also covered by primary mortgage insurance.

(5) Refers to loans included in reference pools for credit risk transfer transactions, including loans in these transactions that are also covered by primary mortgage insurance. For CAS and some lender risk-sharing transactions, this represents outstanding unpaid principal balance of the underlying loans on the single-family mortgage credit book, not the outstanding reference pool, as of the specified date. Loans included in our credit risk transfer transactions have all been acquired since 2012 and newer vintages typically have significantly lower delinquency rates than more seasoned loans.

Loan Workout Metrics

Our loan workouts reflect our home retention solutions, including loan modifications, repayment plans and forbearances, and foreclosure alternatives, including short sales and deeds-in-lieu of foreclosure.

The chart below displays the unpaid principal balance of our completed single-family loan workouts by type, as well as the number of loan workouts.

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(1) Consists of loan modifications and completed repayment plans and forbearances. 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. Excludes trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as troubled debt restructurings, and repayment and forbearance plans that have been initiated but not completed. There were approximately 22,700 loans in a trial modification period as of September 30, 2018.

(2) Consists of short sales and deeds-in-lieu of foreclosure.

The increase in home retention solutions in the first nine months of 2018 compared with the first nine months of 2017 was primarily driven by modifications and forbearances granted during the first nine months of 2018 to borrowers in areas affected by the 2017 hurricanes.

REO Management

If a loan defaults, we acquire the home through foreclosure or a deed-in-lieu of foreclosure. The table below displays our foreclosure activity by region. Regional REO acquisition trends generally follow a pattern that is similar to, but lags, that of regional delinquency trends.

Single-Family REO Properties

	For the Nine Months Ended September 30,	
	2018	2017
Single-family REO properties (number of properties):		
Beginning of period inventory of single-family REO properties(1)	26,311	38,093
Acquisitions by geographic area:(2)		
Midwest	4,675	6,716
Northeast	5,023	7,496
Southeast	6,190	8,966
Southwest	2,864	4,083
West	1,518	2,156
Total REO acquisitions(1)	20,270	29,417
Dispositions of REO	(25,549)	(38,497)
End of period inventory of single-family REO properties(1)	21,032	29,013
Carrying value of single-family REO properties (dollars in millions)	$2,606	$3,448
Single-family foreclosure rate(3)	0.16 %	0.23 %
REO net sales prices to unpaid principal balance(4)	77 %	75 %
Short sales net sales prices to unpaid principal balance(5)	77 %	75 %

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

(2) See footnote 7 to the Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business table for states included in each geographic region.

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

(4) 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 sellers or servicers, divided by the aggregate unpaid principal balance of the related loans at the time of foreclosure. Net sales price represents the contract sales price less selling costs for the property and other charges paid by the seller at closing.

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

The decrease in single-family REO properties from December 31, 2017 to September 30, 2018 was primarily due to a reduction in REO acquisitions from serious delinquencies aged greater than 180 days driven by improved loan performance and the continued sale of nonperforming loans in 2018.

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Other Single-Family Credit Information

Credit Loss Performance and Concentration Metrics

The amount of credit losses we realize in a given period are driven by foreclosures, pre-foreclosure sales, REO activity, mortgage loan redesignations and charge-offs pursuant to the provisions of the Advisory Bulletin in the period. The table below displays the components of our single-family credit loss performance metrics, as well as our single-family initial charge-off severity rate. Our credit loss performance metrics are not defined terms within generally accepted accounting principles in the United States of America ("GAAP") and may not be calculated in the same manner as similarly titled measures reported by other companies. We believe that credit loss performance metrics may be useful to investors as the losses are presented as a percentage of our guaranty book of business and have historically been used by analysts, investors and other companies within the financial services industry.

Single-Family Credit Loss Performance Metrics

	For the Three Months Ended September 30,				For the Nine Months Ended September 30,			
	2018		2017		2018		2017	
	Amount	Ratio[1]	Amount	Ratio[1]	Amount	Ratio[1]	Amount	Ratio[1]
	(Dollars in millions)							
Charge-offs, net of recoveries	$(430)	5.8 bps	$(382)	5.2 bps	$(1,473)	6.7 bps	$(1,851)	8.5 bps
Foreclosed property expense	(150)	2.1	(157)	2.2	(448)	2.0	(405)	1.9
Credit losses and credit loss ratio	$(580)	7.9 bps	$(539)	7.4 bps	$(1,921)	8.7 bps	$(2,256)	10.4 bps
Single-family initial charge-off severity rate[2]		10.34%		13.82%		11.56%		15.44%

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

(2) The rate excludes any costs, gains or losses associated with REO after initial acquisition through final disposition. The rate includes charge-offs pursuant to the provisions of the Advisory Bulletin and charge-offs of property tax and insurance receivables.

Our single-family credit losses and credit loss ratio increased in the third quarter of 2018 compared with the third quarter of 2017, primarily due to higher charge-offs related to the redesignation of single-family loans from HFI to HFS, partially offset by lower charge-off expenses from reduced foreclosures and foreclosure alternatives and higher home prices in the third quarter of 2018.

Our single-family credit losses and credit loss ratio decreased in the first nine months of 2018 compared with the first nine months of 2017 primarily due to lower charge-off expenses from reduced foreclosures and foreclosure alternatives and higher home prices in 2018, as well as an expansion at the beginning of 2017 of the charge-off criteria for non-liquidated loans pursuant to the provisions of the Advisory Bulletin. The decline in single-family credit losses and credit loss ratio in the first nine months of 2018 was partially offset by higher charge-offs related to the redesignation of single-family loans from HFI to HFS.

Our single-family initial charge-off severity rates declined in the third quarter and first nine months of 2018 compared with the third quarter and first nine months of 2017 primarily as a result of higher home prices in 2018.

Single-Family Loss Reserves

Our single-family loss reserves provide for an estimate of credit losses incurred in our single-family guaranty book of business, including concessions we granted borrowers upon modification of their loans. The table below summarizes the changes in our single-family loss reserves.

Single-Family Loss Reserves

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Changes in loss reserves:				
Beginning balance	$(16,638)	$(20,553)	$(19,155)	$(23,639)
Benefit (provision) for credit losses	732	(137)	2,223	1,518
Charge-offs	514	455	1,728	2,221
Recoveries	(84)	(73)	(255)	(370)
Other[1]	(2)	17	(19)	(21)
Ending balance	$(15,478)	$(20,291)	$(15,478)	$(20,291)

	As of	
	September 30, 2018	December 31, 2017
Loss reserves as a percentage of single-family:		
Guaranty book of business	0.52 %	0.65 %
Recorded investment in nonaccrual loans	47.52	40.80

(1) Amounts represent the portion of single-family benefit (provision) for credit losses, charge-offs and recoveries that are not a part of loss reserves.

Troubled Debt Restructurings and Nonaccrual Loans

The table below displays the single-family loans classified as TDRs that are on accrual status and loans on nonaccrual status. The table includes our recorded investment in HFI and HFS single-family 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.”

Single-Family Troubled Debt Restructurings on Accrual Status and Nonaccrual Loans

	As of	
	September 30, 2018	December 31, 2017
	(Dollars in millions)	
TDRs on accrual status	$104,569	$110,043
Nonaccrual loans	32,571	46,945
Total TDRs on accrual status and nonaccrual loans	$137,140	$156,988
Accruing on-balance sheet loans past due 90 days or more[1]	$243	$353

	For the Nine Months Ended September 30,	
	2018	2017
	(Dollars in millions)	
Interest related to on-balance sheet TDRs on accrual status and nonaccrual loans:		
Interest income forgone[2]	$1,680	$2,616
Interest income recognized[3]	4,141	4,247

(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.

(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) Includes primarily amounts accrued while the loans were performing and cash payments received on nonaccrual loans.

The post-modification unpaid principal balance of single-family HFI and HFS loans classified as TDRs as of September 30, 2018 was $134.8 billion, compared with $146.4 billion as of December 31, 2017. This decrease in loans classified as TDRs was primarily attributable to HFS loan sales in the first nine months of 2018, in addition to other removals, and was partially offset by a higher volume of single-family loan modifications and other forms of loss mitigation in the areas affected by the 2017 hurricanes that resulted in a restructuring of the terms of these loans.

Multifamily Business

Our Multifamily business provides mortgage market liquidity primarily for properties with five or more residential units, which may be apartment communities, cooperative properties, seniors housing, dedicated student housing or manufactured housing communities.

Multifamily Mortgage Market

National multifamily market fundamentals, which include factors such as vacancy rates and rents, showed improvement during the third quarter of 2018 despite an increase in new apartment supply. As a result of continued multifamily demand, the national estimated vacancy level decreased during the third quarter of 2018, remaining near historic lows.

- *Vacancy rates.* According to preliminary third-party data, the national multifamily vacancy rate for institutional investment-type apartment properties was an estimated 5.3% as of September 30, 2018, compared with 5.5% as of June 30, 2018.
- *Rents.* Rents continued to increase during the third quarter of 2018. National asking rents increased by an estimated 0.8%, compared with 1.5% during the second quarter of 2018.

Continued demand for multifamily rental units during the third quarter of 2018 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 36,000 units, according to preliminary data from Reis, Inc., compared with approximately 40,000 units during the second quarter of 2018.

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 has helped to increase property values in most metropolitan areas. It is estimated that approximately 423,000 new multifamily units will be completed in 2018. The bulk of this new supply is concentrated in a limited number of metropolitan areas.

Multifamily Business Metrics

We support affordability in the multifamily rental market. We enabled the financing of 206,000 multifamily units from new business volume in the third quarter of 2018, compared with 189,000 units in the third quarter of 2017. Over 90% of the multifamily units we financed in the third quarter of 2018 were affordable to families earning at or below 120% of the median income in their area, providing support for both workforce housing and affordable housing.

Multifamily New Business Volume[1]
(Dollars in billions)

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

FHFA's 2018 conservatorship scorecard includes an objective to maintain the dollar volume of new multifamily business at or below $35 billion, excluding certain targeted affordable and underserved market business segments. Approximately 42% of our multifamily new business volume of $44.0 billion for the first nine months of 2018 counted toward FHFA's 2018 multifamily volume cap.

The chart below displays our multifamily MBS outstanding as of September 30, 2018 compared with December 31, 2017.

Multifamily Fannie Mae MBS Outstanding
(Dollars in billions)

Multifamily Business Financial Results

Multifamily Business Financial Results

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2018	2017	Variance	2018	2017	Variance
	(Dollars in millions)					
Net interest income	$699	$647	$ 52	$2,024	$1,873	$151
Fee and other income	192	189	3	524	604	(80)
Net revenues	891	836	55	2,548	2,477	71
Fair value gains (losses), net	(31)	11	(42)	(69)	(23)	(46)
Administrative expenses	(104)	(84)	(20)	(317)	(253)	(64)
Credit-related expense[1]	(25)	(28)	3	(6)	(23)	17
Other expenses, net[2]	(75)	(80)	5	(209)	(237)	28
Income before federal income taxes	656	655	1	1,947	1,941	6
Provision for federal income taxes	(107)	(164)	57	(314)	(481)	167
Net income	$549	$491	$ 58	$1,633	$1,460	$173

(1) Consists of the provision for credit losses and foreclosed property income (expense).

(2) Consists of investment gains, gains (losses) on partnership investments and other income (expenses).

Net interest income

Multifamily net interest income increased in the third quarter and first nine months of 2018 compared with the third quarter and first nine months of 2017, primarily due to continued growth of our multifamily guaranty book of business.

(1) 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 multifamily mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

Fee and Other Income

Fee and other income decreased in the first nine months of 2018 compared with the first nine months of 2017 primarily driven by lower yield maintenance fees as a result of increases in interest rates during the first nine months of 2018.

Fair value gains (losses), net

Fair value losses in the third quarter and first nine months of 2018 were primarily driven by losses on commitments to buy multifamily mortgage-related securities due to increasing interest rates resulting in decreasing prices during the commitment periods.

Fair value losses in the first nine months of 2017 were primarily driven by losses on commitments to sell multifamily mortgage-related securities as a result of increases in prices during the commitment periods.

Credit-related expense

Credit-related expense in the third quarter and first nine months of 2018 was due to an increase in the allowance for loan losses primarily driven by a slight increase in downgrades in loan risk ratings.

Credit-related expense in the third quarter and first nine months of 2017 was primarily driven by an increase in our allowance for loan losses, which included estimated losses from the 2017 hurricanes.

Multifamily Mortgage Credit Risk Management

This section updates our discussion of multifamily mortgage credit risk management in our 2017 Form 10-K in “MD&A—Business Segments—Multifamily Business—Multifamily Mortgage Credit Risk Management.”

Multifamily Underwriting Standards and Portfolio Monitoring

Lender risk-sharing is a cornerstone of our Multifamily business. We primarily transfer risk through our Delegated Underwriting and Servicing (“DUS®”) program, which delegates to DUS lenders the ability to underwrite and service multifamily loans, in accordance with our standards and requirements. DUS lenders receive credit risk-related revenues for their respective portion of credit risk retained, and, in turn, are required to fulfill any loss sharing obligation. This aligns the interests of the lender and Fannie Mae from day one and throughout the life of the loan.

Our DUS model typically results in our lenders sharing on a pro-rata or tiered basis approximately one-third of the credit risk on our multifamily loans. In the first nine months of 2018, nearly 100% of our new multifamily business volume had lender risk-sharing. As of September 30, 2018, 97% of the unpaid principal balance of loans in our multifamily guaranty book of business had lender risk-sharing, compared with 96% as of December 31, 2017.

To complement our lender-risk sharing program through our DUS model, we engage in multifamily CIRT transactions, pursuant to which we transfer a portion of the mortgage credit risk on multifamily loans in our multifamily guaranty book of business to insurers or reinsurers. In August 2018, we completed our third multifamily CIRT transaction since the inception of the program, which covered multifamily loans with an unpaid principal balance of approximately $11.1 billion. We plan to continue to transfer credit risk through multifamily CIRT transactions in the future.

We and our lenders monitor the performance and risk characteristics of our multifamily loans and the underlying properties on an ongoing basis throughout the loan term at the asset and portfolio level. 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. We closely monitor loans with an estimated current DSCR below 1.0, as that is an indicator of heightened default risk. The table below displays original LTV ratio and DSCR metrics for our multifamily guaranty book of business.

Multifamily Guaranty Book of Business Key Risk Characteristics

	As of September 30, 2018	December 31, 2017	September 30, 2017
Weighted average original LTV ratio	67%	67 %	67 %
Original LTV ratio greater than 80%	1	2	2
Original DSCR less than or equal to 1.10	13	14	14
Current DSCR less than 1.0	2	2	1

Multifamily Problem Loan Management and Foreclosure Prevention

The multifamily serious delinquency rate was 0.07% as of September 30, 2018, compared with 0.11% as of December 31, 2017 and 0.03% as of September 30, 2017. We classify multifamily loans as seriously delinquent when payment is 60 days or more past due. The decrease in the multifamily serious delinquency rate since December 31, 2017 resulted mostly from a decrease in delinquent loans subject to forbearance agreements granted to borrowers in the areas affected by the 2017 hurricanes.

REO Management

The number of multifamily foreclosed properties held for sale increased to 13 properties with a carrying value of $79 million as of September 30, 2018, compared with 11 properties with a carrying value of $66 million as of December 31, 2017.

Other Multifamily Credit Information

Multifamily Credit Losses

We had $7 million in multifamily credit losses in the third quarter of 2018 compared with a benefit for credit losses of $16 million in the third quarter of 2017. We had $15 million in multifamily credit losses in the first nine months of 2018 compared with a benefit for credit losses of $14 million in the first nine months of 2017. The benefit for credit losses for both 2017 periods was the result of recoveries of previously charged-off amounts.

Multifamily Loss Reserves

The table below summarizes the changes in our multifamily loss reserves.

Multifamily Loss Reserves

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Changes in loss reserves:				
Beginning balance	$(218)	$(189)	$(245)	$(196)
Benefit (provision) for credit losses	(16)	(45)	6	(37)
Charge-offs	1	3	6	3
Recoveries	(3)	(2)	(3)	(3)
Ending balance	$(236)	$(233)	$(236)	$(233)

	As of September 30, 2018	December 31, 2017
Loss reserves as a percentage of multifamily guaranty book of business	0.08 %	0.09 %

Troubled Debt Restructurings and Nonaccrual Loans

The table below displays the composition of multifamily loans classified as TDRs that are on accrual status and multifamily loans on nonaccrual status. The table includes our recorded investment in HFI and HFS multifamily 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."

Multifamily Troubled Debt Restructurings on Accrual Status and Nonaccrual Loans

	As of September 30, 2018	December 31, 2017
	(Dollars in millions)	
TDRs on accrual status	$63	$ 87
Nonaccrual loans	554	424
Total TDRs on accrual status and nonaccrual loans	$617	$ 511

	For the Nine Months Ended September 30,	
	2018	2017
	(Dollars in millions)	
Interest related to on-balance sheet TDRs on accrual status and nonaccrual loans:		
Interest income forgone[1]	$ 20	$ 12
Interest income recognized[2]	2	6

(1) 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.

(2) Represents interest income recognized during the period, including the amortization of any deferred cost basis adjustments, 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.

Liquidity and Capital Management

Liquidity Management

This section supplements and updates information regarding liquidity risk management in our 2017 Form 10-K. See "MD&A—Liquidity and Capital Management—Liquidity Management" and "Risk Factors" in our 2017 Form 10-K for additional information, including discussions of our primary sources and uses of funds, our liquidity risk management practices and liquidity contingency planning, factors that influence our debt funding activity, factors that may impact our access to or the cost of our debt funding, and factors that could adversely affect our liquidity.

Debt Funding

Outstanding Debt

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

The chart and table below display information on our outstanding short-term and long-term debt of Fannie Mae based on original contractual maturity. The total amount of our outstanding debt of Fannie Mae decreased as of September 30, 2018 compared with December 31, 2017 primarily due to lower funding needs as our retained mortgage portfolio continued to decrease during the first nine months of 2018.

Selected Debt Information

	As of December 31, 2017		As of September 30, 2018	
	(Dollars in billions)			
Selected Weighted-Average Interest Rates[1]				
Interest rate on short-term debt	1.18	%	2.06	%
Interest rate on long-term debt, including portion maturing within one year	2.40	%	2.75	%
Interest rate on callable long-term debt	2.31	%	2.82	%
Selected Maturity Data				
Weighted-average maturity of debt maturing within one year (in days)	123		149	
Weighted-average maturity of debt maturing in more than one year (in months)	57		61	
Other Data				
Outstanding callable debt	$72.3		$ 67.1	
Connecticut Avenue Securities[2]	$22.5		$ 25.7	

(1) Outstanding debt amounts and weighted-average interest rates reported in this chart and table include the effects of discounts, premiums, other cost basis adjustments and 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 cost basis adjustments and fair value adjustments of $433 million and $788 million as of September 30, 2018 and December 31, 2017, respectively.

(2) See "Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Transfer of Mortgage Credit Risk—Credit Risk Transfer Transactions" in our 2017 Form 10-K and this report for information regarding our Connecticut Avenue Securities.

For more information on our outstanding short-term and long-term debt, see "Note 7, Short-Term and Long-Term Debt."

Debt Funding Activity

The table below 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.

Activity in Debt of Fannie Mae

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
	(Dollars in millions)			
Issued during the period:				
Short-term:				
Amount	$106,520	$199,940	$446,914	$513,635
Weighted-average interest rate	1.90 %	0.97 %	1.52 %	0.78 %
Long-term:[1]				
Amount	$6,032	$6,435	$17,595	$25,457
Weighted-average interest rate	3.26 %	2.44 %	3.08 %	2.44 %
Total issued:				
Amount	$112,552	$206,375	$464,509	$539,092
Weighted-average interest rate	1.97 %	1.02 %	1.58 %	0.85 %
Paid off during the period:[2]				
Short-term:				
Amount	$103,256	$197,034	$451,295	$515,220
Weighted-average interest rate	1.82 %	0.93 %	1.42 %	0.71 %
Long-term:[1]				
Amount	$12,668	$21,123	$42,854	$60,419
Weighted-average interest rate	1.62 %	1.35 %	1.47 %	2.81 %
Total paid off:				
Amount	$115,924	$218,157	$494,149	$575,639
Weighted-average interest rate	1.79 %	0.97 %	1.43 %	0.93 %

(1) Includes Connecticut Avenue Securities.

(2) 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.

Other Investments Portfolio

The chart below displays information on the composition of our other investments portfolio. The balance of our other investments portfolio fluctuates based on changes in our cash flows, liquidity in the fixed income markets and our liquidity risk management framework and practices.

Cash Flows

Nine Months Ended September 30, 2018. Cash, cash equivalents and restricted cash decreased by $9.2 billion in the nine months ended September 30, 2018. The decrease was primarily driven by cash outflows from (1) the purchase of Fannie Mae MBS from third parties, (2) the redemption of funding debt, which outpaced issuances, due to lower funding needs, and (3) the acquisition of delinquent loans out of MBS trusts.

Partially offsetting these cash outflows were primarily cash inflows from (1) the sale of Fannie Mae MBS to third parties and (2) proceeds from repayments and sales of loans of Fannie Mae.

Nine Months Ended September 30, 2017. Cash, cash equivalents and restricted cash decreased by $10.1 billion in the nine months ended September 30, 2017. The decrease was primarily driven by cash outflows from (1) the purchase of Fannie Mae MBS from third parties, (2) the redemption of funding debt, which outpaced issuances, due to lower funding needs, and (3) the payment of dividends to Treasury under our senior preferred stock purchase agreement.

Partially offsetting these cash outflows were primarily cash inflows from (1) the sale of Fannie Mae MBS to third parties and (2) proceeds from repayments and sales of loans of Fannie Mae.

Credit Ratings

In June 2018, upon reexamining the terms of our subordinated debt, Standard & Poor’s Ratings Services (“S&P”) both revised its rating on our outstanding rated subordinated debt from "AA-" to "AA" and announced that it was withdrawing its rating on our subordinated debt program due to our program no longer being active. There have been no other changes in our credit ratings since we filed our 2017 Form 10-K. For information on our credit ratings, see “MD&A—Liquidity and Capital Management—Liquidity Management—Credit Ratings” in our 2017 Form 10-K.

Capital Management

Regulatory Capital

The deficit of our core capital over statutory minimum capital was $136.7 billion as of September 30, 2018 and $144.4 billion as of December 31, 2017. For information on our minimum capital requirements, see "Note 12, Regulatory Capital Requirements" and "Business—Legislation and Regulation—GSE Act and Other Regulation of Our Business—Capital" in our 2017 Form 10-K and "MD&A—Legislation and Regulation" in our Second Quarter 2018 Form 10-Q.

Capital Activity

The current dividend provisions of the senior preferred stock provide for quarterly dividends consisting of the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds a $3.0 billion capital reserve amount. Because we had a net worth of $7.5 billion as of June 30, 2018, we paid Treasury a third quarter 2018 dividend of $4.5 billion. We expect to pay Treasury a fourth quarter 2018 dividend of $4.0 billion by December 31, 2018 based on our net worth of $7.0 billion as of September 30, 2018.

See "Business—Conservatorship and Treasury Agreements—Treasury Agreements" and "Business—Legislative and Regulation—GSE Act and Other Regulation of Our Business—Conservatorship Capital Framework" in our 2017 Form 10-K for more information on the terms of our senior preferred stock, our senior preferred stock purchase agreement with Treasury and our conservatorship capital framework. See "Risk Factors" in our 2017 Form 10-K for a discussion of the risks associated with the limit on our capital reserves.

Off-Balance Sheet Arrangements

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

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

Our off-balance sheet exposure to credit losses is primarily related to the unpaid principal balance of our unconsolidated Fannie Mae MBS and other financial guarantees. This exposure was $21.5 billion as of September 30, 2018 and $25.1 billion as of December 31, 2017.

Our total outstanding liquidity commitments to advance funds for securities backed by multifamily housing revenue bonds totaled $8.7 billion as of September 30, 2018 and $9.2 billion as of December 31, 2017.

Risk Management

Our business activities expose us to the following three major categories of risk: credit risk (including mortgage credit risk and institutional counterparty credit risk), market risk (including interest rate risk and liquidity risk) and operational risk (including cybersecurity, third-party and model risk). See “MD&A—Risk Management” and “MD&A—Business Segments” in our 2017 Form 10-K for a discussion of our management of these risks.

In this section we provide an update on our management of institutional counterparty credit risk and interest rate risk. We provide an update on our management of mortgage credit risk in this report in “Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management” and “Business Segments—Multifamily Business—Multifamily Mortgage Credit Risk Management.”

Institutional Counterparty Credit Risk Management

This section updates our discussion of institutional counterparty credit risk management in our 2017 Form 10-K. See “MD&A—Risk Management—Institutional Counterparty Credit Risk Management” and “Risk Factors” in our 2017 Form 10-K for additional information, including our exposure to institutional counterparty credit risk and our strategy for managing this risk.

Mortgage Insurers

For information on our mortgage insurers, see “MD&A—Risk Management—Institutional Counterparty Credit Risk Management—Mortgage Insurers” in our 2017 Form 10-K. The discussion below updates some of that information.

Recent Changes

FHFA’s 2018 conservatorship scorecard directs Fannie Mae and Freddie Mac to evaluate the companies’ existing private mortgage insurer eligibility requirements (“PMIERs”) and consider whether changes or updates are appropriate. The PMIERs set the standards and guidelines that a private mortgage insurer must meet and maintain to be an approved insurer eligible to write mortgage insurance on loans acquired by Fannie Mae. The PMIERs are designed to ensure that mortgage insurers have sufficient liquid assets to pay all claims under a hypothetical future stress scenario. At FHFA’s direction, we and Freddie Mac completed our analysis of the PMIERs and, after consulting with our mortgage insurer counterparties, published revised PMIERs in September 2018. The revised PMIERs include certain changes to the risk-based asset requirements, enhancements to the treatment of approved risk transfer transactions, and adjustments to risk transfer credit arising from counterparty risk associated with reinsurance transactions. Many of the changes contained in the update were previously announced through guidance. The revised PMIERs will become effective on March 31, 2019 for existing approved private mortgage insurers and are effective immediately for any new mortgage insurer applicant.

Market Risk Management, Including Interest Rate Risk Management

This section supplements and updates information regarding market risk management in our 2017 Form 10-K. See “MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management” and “Risk Factors” in our 2017 Form 10-K for additional information, including our sources of interest rate risk exposure, business risks posed by changes in interest rates, and our strategy for managing interest rate risk.

Measurement of Interest Rate Risk

The table below 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. The table below also provides the daily average, minimum, maximum and standard deviation values for duration gap and for the most adverse market value impact on the net portfolio to changes in the level of interest rates and the slope of the yield curve for the three months ended September 30, 2018 and 2017.

During the second quarter of 2018, we revised the presentation of our interest rate risk measures to show the market value sensitivity in millions, rather than billions, and to show effective duration gap in years, rather than in months. We have revised all prior period interest rate risk measures to correspond to the current period presentation.

For information on how we measure our interest rate risk, see our 2017 Form 10-K in "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management."

Interest Rate Sensitivity of Net Portfolio to Changes in Interest Rate Level and Slope of Yield Curve

	As of [1][2] September 30, 2018	December 31, 2017
	(Dollars in millions)	
Rate level shock:		
-100 basis points	$(193)	$(44)
-50 basis points	(53)	(21)
+50 basis points	(30)	(29)
+100 basis points	(113)	(122)
Rate slope shock:		
-25 basis points (flattening)	3	(17)
+25 basis points (steepening)	(6)	17

	For the Three Months Ended September 30,[1][3]					
	2018			2017		
	Duration Gap	Rate Slope Shock 25 bps	Rate Level Shock 50 bps	Duration Gap	Rate Slope Shock 25 bps	Rate Level Shock 50 bps
		Market Value Sensitivity			Market Value Sensitivity	
	(In years)	(Dollars in millions)		(In years)	(Dollars in millions)	
Average	0.01	$(13)	$(51)	0.00	$(16)	$(26)
Minimum	(0.01)	(22)	(119)	(0.04)	(46)	(64)
Maximum	0.07	(1)	(30)	0.02	(4)	1
Standard deviation	0.02	6	17	0.02	8	15

(1) Computed based on changes in LIBOR interest rates swap curve. Changes in the level of interest rates assume a parallel shift in all maturities of the U.S. LIBOR interest rate swap curve. Changes in the slope of the yield curve assume a constant 7-year rate, a shift of 16.7 basis points for the 1-year rate (and shorter tenors) and an opposite shift of 8.3 basis points for the 30-year rate. Rate shocks for remaining maturity points are interpolated.

(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. Because the effective duration gap of our net portfolio was close to zero years in the periods presented, the convexity exposure was the primary driver of the market value sensitivity of our net portfolio as of September 30, 2018. In addition, the convexity exposure may result in similar market value sensitivities for positive and negative interest rate shocks of the same magnitude.

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. The table below displays an example of how derivatives impacted the net market value exposure for a 50 basis point parallel interest rate shock.

Derivative Impact on Interest Rate Risk (50 Basis Points)

	As of [1]	
	September 30, 2018	December 31, 2017
	(Dollars in millions)	
Before derivatives	$(600)	$(520)
After derivatives	(30)	(29)
Effect of derivatives	570	491

(1) Measured on the last day of each period presented.

Critical Accounting Policies and Estimates

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the condensed consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We describe our most significant accounting policies in "Note 1, Summary of Significant Accounting Policies" in this report and in our 2017 Form 10-K.

We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as necessary based on changing conditions. Management has discussed any significant changes in judgments and assumptions in applying our critical accounting policies with the Audit Committee of our Board of Directors. See "Risk Factors" in our 2017 Form 10-K for a discussion of the risks associated with the need for management to make judgments and estimates in applying our accounting policies and methods. We have identified two 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: fair value measurement and allowance for loan losses. See "MD&A—Critical Accounting Policies and Estimates" in our 2017 Form 10-K for a discussion of these critical accounting policies and estimates.

Impact of Future Adoption of New Accounting Guidance

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

Forward-Looking Statements

This report includes statements that constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the "Exchange Act"). In addition, our senior management may from time to time make forward-looking statements orally to analysts, investors, the news media and others. Forward-looking statements often include words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," "forecast," "project," "would," "should," "could," "likely," "may," "will" or similar wo
Examples of forward-looking statements in this report include, but are not limited to, statements relating to our expectations regarding the following matters:

- our profitability, financial condition and results of operations, and the factors that will affect our profitability, financial condition and results of operations;
- our business plans and strategies and the impact of such plans and strategies;
- our dividend payments to Treasury;
- our retained mortgage portfolio;
- our payments to HUD and Treasury funds under the GSE Act;
- our plans relating to and the effects of our credit risk transfer transactions;
- the impact of accounting guidance and accounting changes on our business or financial results, including the impact of impairment accounting guidance;
- mortgage market and economic conditions (including home price appreciation rates) and the impact of such conditions on our business or financial results;
- the risks to our business;
- the impact of the 2018 hurricanes on our credit losses and loss reserves;
- our serious delinquency rate and the factors that will affect our serious delinquency rate; and
- our single-family loan acquisitions and the credit risk profile of such acquisitions.

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;
- future legislative and regulatory requirements or changes affecting us, such as the enactment of housing finance reform legislation;
- actions by FHFA, Treasury, HUD or other regulators that affect our business;
- changes in the structure and regulation of the financial services industry;
- the timing and level of, as well as regional variation in, home price changes;
- changes in interest rates and credit spreads;
- changes in unemployment rates and other macroeconomic and housing market conditions;
- credit availability;
- disruptions in the housing and credit markets;
- changes in the fiscal and monetary policies of the Federal Reserve, including implementation of the Federal Reserve's balance sheet normalization program;
-

our future guaranty fee pricing and the impact of that pricing on our competitive environment and guaranty fee revenues;

- the volume of mortgage originations;
- the size, composition and quality of our guaranty book of business and retained mortgage portfolio;
- our market share;
- the life of the loans in our guaranty book of business;
- challenges we face in retaining and hiring qualified executives and other 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, in its role as our conservator or as our regulator, such as changes in the type of business we do or implementation of the Single Security Initiative;
- limitations on our business imposed by FHFA, in its role 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;
- significant changes in modification and foreclosure activity;
- the volume and pace of future nonperforming and reperforming loan sales and their impact on our results and serious delinquency rates;
- changes in borrower behavior;
- the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies;
- defaults by one or more institutional counterparties;
- resolution or settlement agreements we may enter into with our counterparties;
- our need to rely on third parties to fully achieve some of our corporate objectives;
- our reliance on mortgage servicers;
- changes in GAAP, guidance by the Financial Accounting Standards Board and changes to our accounting policies;
- changes in the fair value of our assets and liabilities;
- operational control weaknesses;
- our reliance on models and future updates we make to our models, including the assumptions used by these models;
- global political risks;
- natural disasters, environmental disasters, terrorist attacks, pandemics or other major disruptive events;
- cyber attacks or other information security breaches or threats; and
- those factors described in “Risk Factors” in this report and in our 2017 Form 10-K.

Readers are cautioned to place forward-looking statements in this report or that we make from time to time into proper context by carefully considering the factors discussed in “Risk Factors” in this report and in our 2017 Form 10-K. These forward-looking statements are representative only as of the date they are made, and we undertake no obligation to update any forward-looking statement as a result of new information, future events or otherwise, except as required under the federal securities laws.

Item 1. Financial Statements
FANNIE MAE
(In conservatorship)
Condensed Consolidated Balance Sheets — (Unaudited)
(Dollars in millions, except share amounts)

	As of September 30, 2018		December 31, 2017	
ASSETS				
Cash and cash equivalents	$	27,789	$	32,110
Restricted cash (includes $17,835 and $22,132, respectively, related to consolidated trusts)	23,242		28,150	
Federal funds sold and securities purchased under agreements to resell or similar arrangements	26,598		19,470	
Investments in securities:				
Trading, at fair value (includes $3,734 and $747, respectively, pledged as collateral)	43,901		34,679	
Available-for-sale, at fair value	3,537		4,843	
Total investments in securities	47,438		39,522	
Mortgage loans:				
Loans held for sale, at lower of cost or fair value	10,572		4,988	
Loans held for investment, at amortized cost:				
Of Fannie Mae	126,674		162,809	
Of consolidated trusts	3,111,551		3,029,812	
Total loans held for investment (includes $9,153 and $10,596, respectively, at fair value)	3,238,225		3,192,621	
Allowance for loan losses	(15,663	)	(19,084	)
Total loans held for investment, net of allowance	3,222,562		3,173,537	
Total mortgage loans	3,233,134		3,178,525	
Deferred tax assets, net	14,368		17,350	
Accrued interest receivable, net (includes $8,234 and $7,560, respectively, related to consolidated trusts)	8,792		8,133	
Acquired property, net	2,722		3,220	
Other assets	17,022		19,049	
Total assets	$	3,401,105	$	3,345,529
LIABILITIES AND EQUITY (DEFICIT)				
Liabilities:				
Accrued interest payable (includes $8,942 and $8,598, respectively, related to consolidated trusts)	$	10,105	$	9,682
Debt:				
Of Fannie Mae (includes $7,251 and $8,186, respectively, at fair value)	246,682		276,752	

Of consolidated trusts (includes $24,948 and $30,493, respectively, at fair value)	3,127,688	3,053,302
Other liabilities (includes $322 and $492, respectively, related to consolidated trusts)	9,655	9,479
Total liabilities	3,394,130	3,349,215
Commitments and contingencies (Note 14)	—	—
Fannie Mae stockholders' equity (deficit):		
Senior preferred stock, 1,000,000 shares issued and outstanding	120,836	117,149
Preferred stock, 700,000,000 shares are authorized—555,374,922 shares issued and outstanding	19,130	19,130
Common stock, no par value, no maximum authorization—1,308,762,703 shares issued and 1,158,087,567 shares outstanding	687	687
Accumulated deficit	(126,591)	(133,805)
Accumulated other comprehensive income	313	553
Treasury stock, at cost, 150,675,136 shares	(7,400)	(7,400)
Total stockholders' equity (deficit) (See Note 1: Senior Preferred Stock Purchase Agreement and Senior Preferred Stock for information on our dividend obligation to Treasury)	6,975	(3,686)
Total liabilities and equity (deficit)	$ 3,401,105	$ 3,345,529

See Notes to Condensed Consolidated Financial Statements

Financial Statements | Condensed Consolidated Statements of Operations and Comprehensive Income

FANNIE MAE

(In conservatorship)

Condensed Consolidated Statements of Operations and Comprehensive Income — (Unaudited)

(Dollars and shares in millions, except per share amounts)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2018	2017	2018	2017
Interest income:				
Trading securities	$363	$195	$917	$513
Available-for-sale securities	54	77	175	269
Mortgage loans (includes $27,058 and $25,168, respectively, for the three months ended and $79,877 and $75,155, respectively, for the nine months ended related to consolidated trusts)	28,723	27,047	85,064	81,105
Other	204	142	559	351
Total interest income	29,344	27,461	86,715	82,238
Interest expense:				
Short-term debt	(114)	(72)	(331)	(173)
Long-term debt (includes $22,361 and $20,609, respectively, for the three months ended and $65,972 and $61,622, respectively, for the nine months ended related to consolidated trusts)	(23,861)	(22,115)	(70,406)	(66,443)
Total interest expense	(23,975)	(22,187)	(70,737)	(66,616)
Net interest income	5,369	5,274	15,978	15,622
Benefit (provision) for credit losses	716	(182)	2,229	1,481
Net interest income after benefit (provision) for credit losses	6,085	5,092	18,207	17,103
Investment gains, net	166	313	693	689
Fair value gains (losses), net	386	(289)	1,660	(1,020)
Fee and other income	271	1,194	830	1,796
Non-interest income	823	1,218	3,183	1,465
Administrative expenses:				
Salaries and employee benefits	(355)	(331)	(1,101)	(1,007)
Professional services	(247)	(218)	(744)	(681)
Other administrative expenses	(138)	(115)	(400)	(346)
Total administrative expenses	(740)	(664)	(2,245)	(2,034)
Foreclosed property expense	(159)	(140)	(460)	(391)
Temporary Payroll Tax Cut Continuation Act of 2011 (“TCCA”) fees	(576)	(531)	(1,698)	(1,552)
Other expenses, net	(377)	(427)	(946)	(1,100)
Total expenses	(1,852)	(1,762)	(5,349)	(5,077)
Income before federal income taxes	5,056	4,548	16,041	13,491
Provision for federal income taxes	(1,045)	(1,525)	(3,312)	(4,495)
Net income	4,011	3,023	12,729	8,996
Other comprehensive income (loss):				
Changes in unrealized gains on available-for-sale securities, net of reclassification adjustments and taxes	(33)	27	(349)	(46)
Other	(3)	(2)	(8)	(6)

Total other comprehensive income (loss)	(36)	25	(357)	(52)
Total comprehensive income	$3,975	$3,048	$12,372	$8,944
Net income	$4,011	$3,023	$12,729	$8,996
Dividends distributed or available for distribution to senior preferred stockholder	(3,975)	(3,048)	(9,372)	(8,944)
Net income (loss) attributable to common stockholders	$36	$(25)	$3,357	$52
Earnings (loss) per share:				
Basic	$0.01	$0.00	$0.58	$0.01
Diluted	0.01	0.00	0.57	0.01
Weighted-average common shares outstanding:				
Basic	5,762	5,762	5,762	5,762
Diluted	5,893	5,762	5,893	5,893

See Notes to Condensed Consolidated Financial Statements

FANNIE MAE

(In conservatorship)

Condensed Consolidated Statements of Cash Flows — (Unaudited)

(Dollars in millions)

	For the Nine Months Ended September 30,	
	2018	**2017**
Net cash provided by (used in) operating activities	$(1,796)	$172
Cash flows provided by investing activities:		
Proceeds from maturities and paydowns of trading securities held for investment	163	1,088
Proceeds from sales of trading securities held for investment	96	149
Proceeds from maturities and paydowns of available-for-sale securities	564	1,671
Proceeds from sales of available-for-sale securities	729	1,207
Purchases of loans held for investment	(135,913)	(142,565)
Proceeds from repayments of loans acquired as held for investment of Fannie Mae	11,651	17,721
Proceeds from sales of loans acquired as held for investment of Fannie Mae	10,637	5,399
Proceeds from repayments and sales of loans acquired as held for investment of consolidated trusts	306,374	323,424
Advances to lenders	(83,643)	(89,348)
Proceeds from disposition of acquired property and preforeclosure sales	7,090	9,671
Net change in federal funds sold and securities purchased under agreements to resell or similar arrangements	(7,128)	6,675
Other, net	(56)	344
Net cash provided by investing activities	110,564	135,436
Cash flows used in financing activities:		
Proceeds from issuance of debt of Fannie Mae	636,466	776,380
Payments to redeem debt of Fannie Mae	(666,888)	(809,299)
Proceeds from issuance of debt of consolidated trusts	278,357	282,433
Payments to redeem debt of consolidated trusts	(364,942)	(383,969)
Payments of cash dividends on senior preferred stock to Treasury	(5,397)	(11,367)
Proceeds from senior preferred stock purchase agreement with Treasury	3,687	—
Other, net	720	88
Net cash used in financing activities	(117,997)	(145,734)
Net decrease in cash, cash equivalents and restricted cash	(9,229)	(10,126)
Cash, cash equivalents and restricted cash at beginning of period	60,260	62,177
Cash, cash equivalents and restricted cash at end of period	$51,031	$52,051
Cash paid during the period for:		
Interest	$82,010	$82,652
Income taxes	460	1,670

See Notes to Condensed Consolidated Financial Statements

FANNIE MAE

(In conservatorship)

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. Summary of Significant Accounting Policies

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

We have been under conservatorship, with FHFA acting as conservator, since September 6, 2008. See "Note 1, Summary of Significant Accounting Policies" in our annual report on Form 10-K for the year ended December 31, 2017 ("2017 Form 10-K") for additional information on our conservatorship and the impact of U.S. government support of our business.

The unaudited interim condensed consolidated financial statements as of and for the three and nine months ended September 30, 2018, and related notes, should be read in conjunction with our audited consolidated financial statements and related notes included in our 2017 Form 10-K.

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America ("GAAP") for interim financial information and with the SEC's instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and note disclosures required by GAAP for complete consolidated financial statements. In the opinion of management, all adjustments of a normal recurring nature considered necessary for a fair presentation have been included. The accompanying condensed consolidated financial statements include our accounts as well as the accounts of other entities in which we have a controlling financial interest. All intercompany accounts and transactions have been eliminated. To conform to our current period presentation, we have reclassified certain amounts reported in our prior periods' condensed consolidated financial statements. Results for the three and nine months ended September 30, 2018 may not necessarily be indicative of the results for the year ending December 31, 2018.

Use of Estimates

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

Senior Preferred Stock Purchase Agreement and Senior Preferred Stock

Treasury has made a commitment under a senior preferred stock purchase agreement to provide funding to us under certain circumstances if we have a net worth deficit. In the first quarter of 2018, we received

$3.7 billion from Treasury to eliminate our net worth deficit as of December 31, 2017. Pursuant to the senior preferred stock purchase agreement, we have received a total of $119.8 billion from Treasury as of September 30, 2018, and the amount of remaining funding available to us under the agreement was $113.9 billion.

Pursuant to the senior preferred stock purchase agreement, we issued shares of senior preferred stock to Treasury in 2008. Acting as successor to the rights, titles, powers and privileges of the Board, our conservator has declared and directed us to pay dividends to Treasury on the senior preferred stock on a quarterly basis for every dividend period for which dividends were payable since we entered into conservatorship in 2008. Effective January 1, 2018, the dividend provisions of the senior preferred stock provide for quarterly dividends consisting of the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds a $3.0 billion capital reserve amount. We refer to this as a “net worth sweep” dividend. On September 28, 2018, we paid Treasury a dividend of $4.5 billion based on our net worth of $7.5 billion as of June 30, 2018, less the applicable capital reserve amount of $3.0 billion. Because we had a net worth of $7.0 billion as of September 30, 2018, we expect to pay Treasury a dividend of $4.0 billion for the fourth quarter of 2018 by December 31, 2018.

The liquidation preference of the senior preferred stock is subject to adjustment. The aggregate liquidation preference of the senior preferred stock was $123.8 billion as of September 30, 2018.

See “Note 11, Equity (Deficit)” in our 2017 Form 10-K for additional information about the senior preferred stock purchase agreement and the senior preferred stock.

Regulatory Capital

We submit capital reports to FHFA, which monitors our capital levels. The deficit of core capital over statutory minimum capital was $136.7 billion as of September 30, 2018 and $144.4 billion as of December 31, 2017. Due to the terms of our senior preferred stock described above, we do not expect to eliminate our deficit of core capital over statutory minimum capital.

Related Parties

As a result of our issuance to Treasury of a warrant to purchase shares of Fannie Mae common stock equal to 79.9% of the total number of shares of Fannie Mae common stock, we and Treasury are deemed related parties. As of September 30, 2018, Treasury held an investment in our senior preferred stock with an aggregate liquidation preference of $123.8 billion. FHFA’s control of Fannie Mae and Freddie Mac has caused Fannie Mae, FHFA and Freddie Mac to be deemed related parties. In 2013, Fannie Mae and Freddie Mac established Common Securitization Solutions, LLC (“CSS”), a jointly owned limited liability company to operate a common securitization platform; therefore, CSS is deemed a related party.

Transactions with Treasury

Our administrative expenses were reduced by $6 million and $9 million for the three months ended September 30, 2018 and 2017, respectively, and $19 million and $32 million for the nine months ended September 30, 2018 and 2017, respectively, due to reimbursements from Treasury and Freddie Mac for expenses incurred as program administrator for Treasury’s Home Affordable Modification Program and other initiatives under Treasury’s Making Home Affordable Program.

During the three months ended September 30, 2018, we did not make any payments to the Internal Revenue Service (“IRS”), a bureau of Treasury. We made tax payments of $460 million during the nine months ended September 30, 2018. We made tax payments of $600 million and $1.7 billion during the three and nine months ended September 30, 2017, respectively.

In 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 certain programs, including a new issue bond (“NIB”) program. As of September 30, 2018, under the NIB program, Fannie Mae and Freddie Mac had $4.6 billion outstanding of pass-through securities backed by single-family and multifamily housing bonds issued by HFAs, which is less than 35% of the total original principal under the program, the amount of losses that Treasury would bear. Accordingly, we do not have a potential risk of loss under the NIB program.

The fee revenue and expense related to the TCCA are recorded in “Mortgage loans interest income” and “TCCA fees,” respectively, in our condensed consolidated statements of operations and comprehensive income. We recognized $576 million and $531 million in TCCA fees for the three months ended

September 30, 2018 and 2017, respectively, and $1.7 billion and $1.6 billion for the nine months ended September 30, 2018 and 2017, respectively, of which $576 million had not been remitted to Treasury as of September 30, 2018.

We incurred expenses in connection with certain funding obligations under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act of 2008 (the “GSE Act”), a portion of which is attributable to Treasury’s Capital Magnet Fund. These expenses, recognized in “Other expenses, net” in our condensed consolidated statements of operations and comprehensive income, were measured as the product of 4.2 basis points and the unpaid principal balance of our total new business purchases for the respective period. We recognized $20 million and $16 million in “Other expenses, net” in connection with Treasury’s Capital Magnet Fund for the three months ended September 30, 2018 and 2017, respectively, and $57 million and $46 million for the nine months ended September 30, 2018 and 2017, respectively, of which $57 million had not been remitted as of September 30, 2018.

In addition to the transactions with Treasury mentioned above, we purchase and sell Treasury securities in the normal course of business. As of September 30, 2018 and December 31, 2017, we held Treasury securities with a fair value of $37.6 billion and $29.2 billion, respectively, and accrued interest receivable of $124 million and $77 million, respectively. We recognized interest income on these securities held by us of $192 million and $95 million for the three months ended September 30, 2018 and 2017, respectively, and $485 million and $244 million for the nine months ended September 30, 2018 and 2017, respectively.

Transactions with Freddie Mac

As of September 30, 2018 and December 31, 2017, we held Freddie Mac mortgage-related securities with a fair value of $497 million and $613 million, respectively, and accrued interest receivable of $2 million and $2 million, respectively. We recognized interest income on these securities held by us of $6 million and $8 million for the three months ended September 30, 2018 and 2017, respectively, and $19 million and $31 million for the nine months ended September 30, 2018 and 2017, respectively. In addition, Freddie Mac may be an investor in variable interest entities ("VIEs") that we have consolidated, and we may be an investor in VIEs that Freddie Mac has consolidated. Freddie Mac may also be an investor in our debt securities.

Transactions with FHFA

The GSE Act authorizes FHFA to establish an annual assessment for regulated entities, including Fannie Mae, which is payable on a semi-annual basis (April and October), for FHFA's costs and expenses, as well as to maintain FHFA's working capital. We recognized FHFA assessment fees, which are recorded in "Administrative expenses" in our condensed consolidated statements of operations and comprehensive income, of $26 million for the three months ended September 30, 2018 and 2017, and $81 million and $82 million for the nine months ended September 30, 2018 and 2017, respectively.

Transactions with CSS

We contributed capital to CSS, the company we jointly own with Freddie Mac, of $33 million and $25 million for the three months ended September 30, 2018 and 2017, respectively, and $109 million and $78 million for the nine months ended September 30, 2018 and 2017, respectively. No other transactions outside of normal business activities have occurred between us and CSS during the three and nine months ended September 30, 2018 and 2017.

Income Taxes

The decrease in our provision for federal income taxes for the three and nine months ended September 30, 2018 as compared to the three and nine months ended September 30, 2017 was the result of the Tax Cuts and Jobs Act of 2017, which reduced the federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018. This decline was the primary driver of the reduction in our effective tax rate to 20.7% for the three months ended September 30, 2018 and 20.6% for the nine months ended September 30, 2018, compared with 33.5% for the three months ended September 30, 2017 and 33.3% for the nine months ended September 30, 2017. Our effective tax rates for all the periods presented were different from the prevailing federal statutory rate primarily due to the benefits of our investments in housing projects eligible for low-income housing tax credits.

Earnings (Loss) per Share