FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-Q
August 06, 2015

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 June 30, 2015

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
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3900 Wisconsin Avenue, NW Washington, DC	20016
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code:
(202) 752-7000

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of June 30, 2015, there were 1,158,082,750 shares of common stock of the registrant outstanding.

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MD&A TABLE REFERENCE

PART I—FINANCIAL INFORMATION

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

We have been under conservatorship, with the Federal Housing Finance Agency (“FHFA”) acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. Our directors do not have any fiduciary duties to any person or entity except to the conservator and, accordingly, are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator. We describe the rights and powers of the conservator, key provisions of our agreements with the U.S. Department of the Treasury (“Treasury”), and their impact on shareholders in our Annual Report on Form 10-K for the year ended December 31, 2014 (“2014 Form 10-K”) in “Business—Conservatorship and Treasury Agreements.”

You should read this Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”) in conjunction with our unaudited condensed consolidated financial statements and related notes and the more detailed information in our 2014 Form 10-K.

This report contains forward-looking statements that are based on management’s current expectations and are subject to significant uncertainties and changes in circumstances. Please review “Forward-Looking Statements” for more information on the forward-looking statements in this report. Our actual results may differ materially from those reflected in our forward-looking statements due to a variety of factors including, but not limited to, those discussed in “Risk Factors” and elsewhere in this report and in our 2014 Form 10-K.

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

INTRODUCTION

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

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

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

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

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

EXECUTIVE SUMMARY

Our Strategy

We are focused on:

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

Achieving strong financial and credit performance

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

- Financial Performance. We reported net income of $4.6 billion for the second quarter of 2015, compared with net income of $3.7 billion for the second quarter of 2014. See "Summary of Our Financial Performance" below for an overview of our financial performance for the second quarter and first half of 2015, compared with the second quarter and first half of 2014. We expect to remain profitable on an annual basis for the foreseeable future; however, certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year. For more information regarding our expectations for our future financial performance, see "Outlook—Financial Results" and "Outlook—Revenues" below.
- Dividend Payments to Treasury. With our expected September 2015 dividend payment to Treasury, we will have paid a total of $142.5 billion in dividends to Treasury on our senior preferred stock. The aggregate amount of draws we have received from Treasury to date under the senior preferred stock purchase agreement is $116.1 billion. Under the terms of the senior preferred stock purchase agreement, dividend payments do not offset prior Treasury draws. See "Treasury Draws and Dividend Payments" and "Outlook—Dividend Obligations to Treasury" below for more information regarding our dividend payments to Treasury.
- Book of Business and Credit Performance. Beginning in 2008, we made changes to strengthen our underwriting and eligibility standards that have improved the credit quality of our single-family guaranty book of business and contributed to improvement in our credit performance. Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010, and was 1.66% as of June 30, 2015, compared with 1.89% as of December 31, 2014. Single-family seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. See "Single-Family Guaranty Book of Business" below for information on the credit performance of the mortgage loans in our single-family guaranty book of business and on our recent single-family acquisitions.

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

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

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

We continued our efforts to support the housing recovery in the second quarter of 2015. We remained the largest single issuer of mortgage-related securities in the single-family secondary market during the second quarter of 2015 and a continuous source of liquidity in the multifamily market. We also continued to help struggling homeowners. In the second quarter of 2015, we provided approximately 34,000 loan workouts to help homeowners stay in their homes or otherwise avoid foreclosure. We discuss our activities to support the housing and mortgage markets in "Contributions to the Housing and Mortgage Markets" below.

Serving customer needs and improving our business efficiency

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

Helping to build a sustainable housing finance system

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

Summary of Our Financial Performance

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

Comprehensive Income

Quarterly Results

We recognized comprehensive income of $4.4 billion in the second quarter of 2015, consisting of net income of $4.6 billion and other comprehensive loss of $281 million. In comparison, we recognized comprehensive income of $3.7 billion in the second quarter of 2014, consisting of net income of $3.7 billion and other comprehensive income of $45 million. The increase in comprehensive income was primarily due to a shift to fair value gains from fair value losses, partly offset by a shift to credit-related expense from credit-related income.

We recognized fair value gains of $2.6 billion in the second quarter of 2015 primarily due to an increase in longer-term swap rates during the period. We recognized fair value losses of $934 million in the second quarter of 2014 as longer-term swap rates decreased during the period.

Credit-related expense of $1.2 billion in the second quarter of 2015 was primarily attributable to an increase in mortgage interest rates during the period. Due to the rise in mortgage interest rates we expect a decline in future prepayments on individually impaired loans, including modified loans. Lower expected prepayments lengthen the expected lives of modified loans, which increases the impairment related to concessions provided on these loans and results in an increase in the provision for credit losses. The negative impact from the increase in interest rates was partially offset by a positive impact from an increase in home prices during the second quarter of 2015. Also contributing to credit-related expense was the redesignation of certain nonperforming single-family loans from held for investment ("HFI") to held for sale ("HFS") in the second quarter of 2015. These loans were adjusted to the lower of cost or fair value, which negatively impacted our provision for credit losses by approximately $500 million. The change in intent is aligned with our plan to complete additional sales of nonperforming loans by building these sales into a programmatic offering. Credit-related income of $1.9 billion in the second quarter of 2014 was primarily attributable to an increase in home prices in the period.

Year-to-Date Results

We recognized comprehensive income of $6.2 billion in the first half of 2015, consisting of net income of $6.5 billion and other comprehensive loss of $373 million. In comparison, we recognized comprehensive income of $9.4 billion in the first half of 2014, consisting of net income of $9.0 billion and other comprehensive income of $417 million. The decrease in comprehensive income was driven by revenue of $4.2 billion recognized in the first half of 2014 resulting from settlement agreements resolving certain lawsuits relating to private-label mortgage-related securities ("PLS") sold to us and a shift to credit-related expense from credit-related income. The negative impact from these factors was partially offset by a positive impact from a shift to fair value gains from fair value losses.

Credit-related expense of $1.2 billion in the first half of 2015 and credit-related income of $2.9 billion in the first half of 2014 were primarily a result of the same factors that affected our results for the second quarters of 2015 and 2014, as described above.

Fair value gains of $687 million in the first half of 2015 and fair value losses of $2.1 billion in the first half of 2014 were primarily a result of the same factors that affected our results for the second quarters of 2015 and 2014, as described above.

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

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

Net Worth

Our net worth increased to $6.2 billion as of June 30, 2015 from $3.7 billion as of December 31, 2014 primarily due to our comprehensive income of $6.2 billion, partially offset by our payments to Treasury of $3.7 billion in senior preferred stock dividends for the first half of 2015. Our expected dividend payment of $4.4 billion for the third quarter of 2015 is calculated based on our net worth of $6.2 billion as of June 30, 2015 less the applicable capital reserve amount of $1.8 billion.

Single-Family Guaranty Book of Business

Credit Performance

We continued to achieve strong credit performance in the second quarter of 2015. In addition to acquiring loans with strong credit profiles, we continued to execute on our strategies for reducing credit losses, such as helping eligible Fannie Mae borrowers with high loan-to-value ("LTV") ratio loans refinance into more sustainable loans through the

Administration's Home Affordable Refinance Program® ("HARP®"), offering borrowers loan modifications that can significantly reduce their monthly payments, pursuing foreclosure alternatives and managing our real estate owned ("REO") inventory to appropriately manage costs and maximize sales proceeds. As we work to reduce credit losses, we also seek to assist struggling homeowners, help stabilize communities and support the housing market.

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

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

	2015			2014				
	Q2 YTD	Q2	Q1	Full Year	Q4	Q3	Q2	Q1
	(Dollars in millions)							
As of the end of each period:								
Serious delinquency rate[(2)]	1.66%	1.66%	1.78%	1.89%	1.89%	1.96%	2.05%	2.19%
Seriously delinquent loan count	287,372	287,372	308,546	329,590	329,590	340,897	357,267	383,810
Foreclosed property inventory:								
Number of properties[(3)]	68,717	68,717	79,319	87,063	87,063	92,386	96,796	102,398
Carrying value	$7,997	$7,997	$8,915	$9,745	$9,745	$10,209	$10,347	$10,492
Total loss reserves[(4)]	31,770	31,770	32,532	37,762	37,762	39,330	41,657	44,760
During the period:								
Credit-related (expense) income[(5)]	$(1,245)	$(1,238)	$(7)	$3,625	$94	$748	$1,781	$1,002
Credit losses[(6)]	7,482	2,109	5,373	5,978	1,616	1,738	1,497	1,127
REO net sales prices to unpaid principal balance[(7)]	71%	72%	70%	69%	69%	69%	69%	68%
Short sales net sales price to unpaid principal balance[(8)]	73%	74%	73%	72%	72%	72%	72%	71%
Loan workout activity (number of loans):								
Home retention loan workouts[(9)]	56,337	27,769	28,568	130,132	27,610	30,584	33,639	38,299
Short sales and deeds-in-lieu of foreclosure	11,785	6,128	5,657	34,480	6,845	7,992	9,516	10,127
Total loan workouts	68,122	33,897	34,225	164,612	34,455	38,576	43,155	48,426
Loan workouts as a percentage of delinquent loans in our guaranty book of business[(10)]	21.96%	22.69%	21.71%	23.20%	20.45%	22.46%	24.69%	25.70%

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

(2) Calculated based on the number of single-family conventional loans that are 90 days or more past due or in the foreclosure process, divided by the number of loans in our single-family conventional guaranty book of business.

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

(4)

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

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

(6) Consists of (a) charge-offs, net of recoveries and (b) foreclosed property expense (income), adjusted to exclude the impact of fair value losses resulting from credit-impaired loans acquired from MBS trusts. As discussed in "Consolidated Results of Operations—Credit-Related (Expense) Income—Credit Loss Performance Metrics," our credit losses in the first half of 2015 included charge-offs of (1) $1.8 billion in loans held for investment and $724 million in preforeclosure property taxes and insurance receivable that we recognized on January 1, 2015 upon our adoption of FHFA's Advisory Bulletin AB 2012-02, "Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention" (the "Advisory Bulletin") and (2) $1.1 billion in accrued interest receivable that we recognized on January 1, 2015 upon our adoption of a change in accounting policy related to loans placed on nonaccrual. See "Note 1, Summary of Significant Accounting Policies" for more information on these changes.

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

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

(9) Consists of (a) modifications, which do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as troubled debt restructurings ("TDRs"), or repayment plans or forbearances that have been initiated but not completed and (b) repayment plans and forbearances completed. See "Table 30: Statistics on Single-Family Loan Workouts" in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Problem Loan Management—Loan Workout Metrics" for additional information on our various types of loan workouts.

(10) Calculated based on annualized problem loan workouts during the period as a percentage of the average balance of delinquent loans in our single-family guaranty book of business.

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

We continue to experience disproportionately higher credit losses and serious delinquency rates from single-family loans originated in 2005 through 2008 than from loans originated in other years. Single-family loans originated in 2005 through 2008 constituted 12% of our single-family book of business as of June 30, 2015 but constituted 58% of our seriously delinquent single-family loans as of June 30, 2015 and drove 68% of our single-family credit losses in the second quarter of 2015. For information on the credit performance of our single-family book of business based on loan vintage, see "Table 11: Credit Loss Concentration Analysis" in "Consolidated Results of Operations—Credit-Related (Expense) Income—Credit Loss Performance Metrics" and "Table 29: Single-Family Conventional Seriously Delinquent Loan Concentration Analysis" in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management." For information on certain credit characteristics of our single-family book of business based on the period in which we acquired the loans, see "Table 24: Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period" in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

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

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

Recently Acquired Single-Family Loans

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

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Table 2: Single-Family Acquisitions Statistics

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

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

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

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

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

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

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

The decrease in our average charged guaranty fee on newly-acquired single-family loans in the second quarter of 2015 as compared with the second quarter of 2014 was driven primarily by a decrease in loan level price adjustments charged on our acquisitions in the second quarter of 2015, as these acquisitions included a lower proportion of loans with higher LTV ratios and a lower proportion of loans with lower FICO credit scores than our acquisitions in the second quarter of 2014. Loan level price adjustments refer to one-time cash fees that we charge at the time we acquire a loan based on the credit characteristics of the loan. The decrease in our acquisitions of loans with higher LTV ratios in the second quarter of 2015 as compared with the second quarter of 2014 was driven by decreases in the percentage of our acquisitions consisting of home purchase loans and HARP loans, and an increase in the percentage of our acquisitions consisting of non-HARP refinance loans. Both home purchase loans and HARP loans typically have

higher LTV ratios than non-HARP refinance loans.
For more information on the credit risk profile of our single-family conventional loan acquisitions in the second quarter of 2015, see “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management,” including “Table 27: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business” in that section.
Whether the loans we acquire in the future will exhibit an overall credit profile and performance similar to our more recent acquisitions will depend on a number of factors, including: our future guaranty fee pricing and any impact of that pricing on

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

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

Providing Targeted Access to Credit Opportunities for Creditworthy Borrowers

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

As part of meeting this scorecard objective, in 2014 we worked with FHFA to revise our eligibility criteria to address a targeted segment of creditworthy borrowers—those who can afford a mortgage but who lack resources for a substantial down payment—in a responsible manner by taking into account factors that would compensate for the high LTV ratios of their loans. Specifically, we changed our eligibility requirements to increase our maximum LTV ratio from 95% to 97% for loans meeting certain criteria. Although higher LTV ratio loans typically present a higher credit risk than lower LTV ratio loans, we expect our acquisition of these loans under our revised eligibility criteria will not materially affect our overall credit risk because we expect that (1) these loans will constitute a small portion of our acquisitions overall and (2) our eligibility requirements for these loans will limit their effect on our overall credit risk. In addition, we have experience managing the credit risk associated with loans with LTV ratios in this range. In the first half of 2015, we acquired approximately 9,000 single-family loans with 95.01% to 97% LTV ratios from approximately 600 lenders. These loans represented less than 1% of the single-family loans we acquired in the first half of 2015. While we expect the volume of loans we acquire under these criteria to increase, we expect they will continue to constitute only a small portion of our overall acquisitions. Our eligibility requirements for these loans include compensating factors and risk mitigants, which reduce the incidence of loans with multiple higher-risk characteristics, or "risk layering." For purchase transactions, at least one borrower on the loan must be a first-time home buyer and occupy the property as his or her principal residence. In some cases, we also require the borrower to receive housing counseling before obtaining the loan. Eligibility for refinance transactions is limited to existing Fannie Mae loans to provide support for borrowers who may not otherwise be eligible for our Refi Plus™ initiative. For both purchase and refinance loans, the loans must have fixed-rate terms and must be underwritten through Desktop Underwriter®, our proprietary automated underwriting system. Desktop Underwriter provides a comprehensive credit risk assessment on loan applications submitted through the system, assessing risk layers and compensating factors, and identifying loan applications that do not meet our eligibility requirements. We require mortgage insurance or other appropriate credit enhancement for all non-HARP loans with LTV ratios greater than 80%.

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

Contributions to the Housing and Mortgage Markets

Liquidity and Support Activities

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

- We serve as a stable source of liquidity for purchases of homes and financing of multifamily rental housing, as well as for refinancing existing mortgages. We provided approximately $144 billion in liquidity to the mortgage market in the second quarter of 2015 through our purchases of loans and guarantees of loans and securities. This liquidity enabled borrowers to complete approximately 344,000 mortgage refinancings and approximately 229,000 home purchases, and provided financing for approximately 181,000 units of multifamily housing.
- Our role in the market enables qualified borrowers to have reliable access to affordable mortgage credit, including a variety of conforming mortgage products such as the prepayable 30-year fixed-rate mortgage that protects homeowners from fluctuations in interest rates.
- We provided approximately 34,000 loan workouts in the second quarter of 2015 to help homeowners stay in their homes or otherwise avoid foreclosure. Our loan workout efforts have helped to stabilize neighborhoods, home prices and the housing market.
- We helped borrowers refinance loans, including through our Refi Plus initiative, which offers additional refinancing flexibility to eligible borrowers who are current on their loans, whose loans are owned or guaranteed by us and who meet certain additional criteria. We acquired approximately 59,000 Refi Plus loans in the second quarter of 2015. Refinancings delivered to us through Refi Plus in the second quarter of 2015 reduced borrowers' monthly mortgage payments by an average of $183.
- We support affordability in the multifamily rental market. Approximately 80% of the multifamily units we financed in the second quarter of 2015 were affordable to families earning at or below the median income in their area.
- In addition to purchasing and guaranteeing loans, we provide funds to the mortgage market through short-term financing and other activities. These activities are described in our 2014 Form 10-K in "Business—Business Segments—Capital Markets."

2015 Market Share

We remained the largest single issuer of mortgage-related securities in the secondary market during the second quarter of 2015, with an estimated market share of new single-family mortgage-related securities issuances of 37%, compared with 40% in the first quarter of 2015 and 39% in the second quarter of 2014.

We remained a continuous source of liquidity in the multifamily market in the second quarter and first half of 2015. We owned or guaranteed approximately 19% of the outstanding debt on multifamily properties as of March 31, 2015 (the latest date for which information is available).

Serving Customer Needs and Improving Our Business Efficiency

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

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

- in January 2015, we made Collateral Underwriter™ available to lenders at no cost, giving them access to the same appraisal review tool we use so that they can address potential appraisal issues prior to delivering a loan to us;
- in April 2015, we integrated Collateral Underwriter with our Desktop Underwriter underwriting system, which we believe will enhance our lenders' risk management and underwriting capabilities;
- in June 2015, we eliminated fees charged to customers for using Desktop Underwriter and Desktop Originator®, which we expect will allow more lenders to access these systems in their underwriting process;

- beginning in the fall of 2015, we plan to enhance our EarlyCheck™ loan verification tool with additional loan-level data integrity capabilities, to give lenders confidence that the loans they deliver to us have accurate, complete data and meet our requirements; and
- in late 2015, we expect to make available a new loan delivery platform for lenders that is designed to help lenders deliver loans more efficiently and with greater transparency and certainty.

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

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

Helping to Build a Sustainable Housing Finance System

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

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

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

Credit Risk Transfer Transactions: Connecticut Avenue Securities and Credit Insurance Risk Transfer. FHFA's 2015 conservatorship scorecard includes an objective that we transact credit risk transfers on reference pools of single-family mortgages with an unpaid principal balance of at least $150 billion in 2015, utilizing at least two types of risk transfer structures. The goal of these transactions is, to the extent economically sensible, to transfer a portion of the existing credit risk on a portion of our single-family guaranty book of business in order to reduce the risk to taxpayers of future borrower defaults. Our primary method of achieving this objective has been through the issuance of our Connecticut Avenue Securities™ ("CAS"), which transfer a portion of the credit risk associated with losses on the reference pool of mortgage loans to investors in these securities. From January 2015 to July 2015, we issued $4.5 billion in CAS, transferring a portion of the credit risk on single-family mortgages with an unpaid principal balance of $143.5 billion. See "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards—Risk Sharing Transactions" for more information on CAS. We also executed a credit insurance risk transfer™ ("CIRT™") transaction in July 2015 that shifted a portion of the credit risk on a reference pool of single-family mortgage loans with an unpaid principal balance of approximately $4.7 billion to a panel of reinsurers. See "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Credit Guarantors—Reinsurers" for more information on this CIRT transaction.

Nonperforming Loan Sales. FHFA's 2015 conservatorship scorecard includes an objective that we implement key loss mitigation activities, including those that enable borrowers to stay in their homes and avoid foreclosure where possible. These activities include developing and executing additional strategies to reduce the number of severely aged delinquent loans we hold, considering tools such as nonperforming loan sales. In March 2015, FHFA announced enhanced requirements for nonperforming loan sales by Fannie Mae and Freddie Mac. In the announcement, the Director of FHFA indicated FHFA's expectation that, with these enhanced requirements, nonperforming loan sales will result in favorable outcomes for borrowers and local communities. We completed our first nonperforming loan sale in

June 2015, selling approximately 2,500 nonperforming loans with an aggregate unpaid principal balance of $633 million. We began marketing our second nonperforming loan sale in July 2015. We plan to complete additional nonperforming loan sales by building these sales into a programmatic offering.

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

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

Single Security. FHFA's 2015 conservatorship scorecard includes objectives relating to the development of a single mortgage-backed security for Fannie Mae and Freddie Mac. Specifically, the 2015 scorecard requires that we finalize the single security structure (including security features, disclosure standards and related requirements) and develop a plan to implement the single security in the market. FHFA believes a single security would increase liquidity in the housing finance market. The development of the single security is expected to be a multi-year initiative. In the first half of 2015, we worked on a variety of issues relating to the implementation of the single security, including accounting matters, communication planning, industry outreach, risk assessments, legal and contractual issues, trust matters, disclosures, and system development and testing work with the common securitization platform. In May 2015, FHFA issued an update on the structure of the single security that outlined its determinations regarding the key features of the single security structure and requested feedback on its determinations. In addition, in July 2015, we, Freddie Mac and Common Securitization Solutions, LLC announced the creation of an industry advisory group to provide feedback and share information on efforts to build the common securitization platform and implement the single security. See "Legislative and Regulatory Developments—Housing Finance Reform—Conservator Developments" in this report and "Housing Finance Reform—Conservator Developments" in our 2014 Form 10-K for additional information on FHFA's single security proposal and the common securitization platform and "Risk Factors" in our 2014 Form 10-K for a discussion of the risks to our business associated with a single security for Fannie Mae and Freddie Mac.

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

Treasury Draws and Dividend Payments

From 2009 through the first quarter of 2012, we received a total of $116.1 billion from Treasury under the senior preferred stock purchase agreement. This funding provided us with the capital and liquidity needed to fulfill our mission of providing liquidity and support to the nation's housing finance markets and to avoid a trigger of mandatory receivership under the Federal Housing Finance Regulatory Reform Act of 2008 (the "2008 Reform Act"). In addition, a portion of the $116.1 billion we received from Treasury was drawn to pay dividends to Treasury because, prior to 2013, our dividend payments on the senior preferred stock accrued at an annual rate of 10%, and we were directed by our conservator to pay these dividends to Treasury each quarter even when we did not have sufficient income to pay the dividend. We have not received funds from Treasury under the agreement since the first quarter of 2012. As of the date of this filing, the maximum amount of remaining funding under the agreement is $117.6 billion. From 2008 through the second quarter of 2015, we paid a total of $138.2 billion in dividends to Treasury on the senior preferred stock. Under the terms of the senior preferred stock purchase agreement, dividend payments do not offset prior Treasury draws, and we are not permitted to pay down draws we have made under the agreement except in limited circumstances. Accordingly, the current aggregate liquidation preference of the senior preferred stock is $117.1 billion, due to the initial $1.0 billion liquidation preference of the senior preferred stock (for which we did not receive cash proceeds) and the $116.1 billion we have drawn from Treasury.

The Director of FHFA directs us to make dividend payments on the senior preferred stock on a quarterly basis. We expect to pay Treasury a senior preferred stock dividend of $4.4 billion by September 30, 2015 for the third quarter of 2015.

Housing and Mortgage Market and Economic Conditions

Economic growth strengthened in the second quarter of 2015. According to the U.S. Bureau of Economic Analysis advance estimate, the inflation-adjusted U.S. gross domestic product, or GDP, rose by 2.3% on an annualized basis in the second quarter of 2015, compared with an increase of 0.6% in the first quarter of 2015. The overall economy gained an estimated 664,000 non-farm jobs in the second quarter of 2015. According to the U.S. Bureau of Labor Statistics, over the 12 months ending in June 2015, the economy created an estimated 2.9 million non-farm jobs. The unemployment rate was 5.3% in June 2015, compared with 5.5% in March 2015.

According to the Federal Reserve, total U.S. residential mortgage debt outstanding, which includes $9.9 trillion of single-family debt outstanding, was estimated to be approximately $10.9 trillion as of both March 31, 2015 (the latest date for which information is available) and December 31, 2014.

Housing sales were mixed in the second quarter of 2015, with existing home sales increasing and new home sales declining as compared with the first quarter of 2015. Total existing home sales averaged 5.3 million units annualized in the second quarter of 2015, a 6.6% increase from the first quarter of 2015, according to data from the National Association of REALTORS®. Sales of foreclosed homes and preforeclosure, or “short,” sales (together, “distressed sales”) accounted for 8% of existing home sales in June 2015, compared with 10% in March 2015 and 11% in June 2014. According to the U.S. Census Bureau, new single-family home sales declined during the second quarter of 2015, averaging an annualized rate of 507,000 units, a 1.9% decline from the first quarter of 2015.

The number of months’ supply, or the inventory/sales ratio, of available existing homes and of new homes each increased in the second quarter of 2015. According to the U.S. Census Bureau, the months’ supply of new single-family unsold homes was 5.4 months as of June 30, 2015, compared with 5.1 months as of March 31, 2015. According to the National Association of REALTORS®, the months’ supply of existing unsold homes was 5.0 months as of June 30, 2015, compared with a 4.6 months’ supply as of March 31, 2015.

The overall mortgage market serious delinquency rate, which has trended down since peaking in the fourth quarter of 2009, remained above long-term averages at 4.2% as of March 31, 2015 (the latest date for which information is available), according to the Mortgage Bankers Association’s National Delinquency Survey, compared with 4.5% as of December 31, 2014. We provide information about Fannie Mae’s serious delinquency rate, which also decreased in the first quarter of 2015, in “Single-Family Guaranty Book of Business—Credit Performance.”

Based on our home price index, we estimate that home prices on a national basis increased by 2.8% in the second quarter of 2015 and by 3.7% in the first half of 2015, following increases of 4.5% in 2014 and 8.0% in 2013. Despite the recent increases in home prices, we estimate that, through June 30, 2015, home prices on a national basis remained 7.0% below their peak in the third quarter of 2006. Our home price estimates are based on preliminary data and are subject to change as additional data become available.

Despite the recent increases in home prices, many homeowners continue to have “negative equity” in their homes as a result of declines in home prices since 2006, which means their mortgage principal balance exceeds the current market value of their home. This increases the likelihood that borrowers will abandon their mortgage obligations and that the loans will become delinquent and proceed to foreclosure. According to CoreLogic, Inc. the number of residential properties with mortgages in a negative equity position in the first quarter of 2015 was approximately 5.1 million, down from 5.4 million in the fourth quarter of 2014 and from 6.3 million in the first quarter of 2014. The percentage of properties with mortgages in a negative equity position in the first quarter of 2015 was 10.2%, down from 10.8% in the fourth quarter of 2014 and from 12.9% in the first quarter of 2014.

Thirty-year fixed-rate mortgage rates ended the quarter at 4.08% for the week of July 2, 2015, up from 3.70% for the week of April 2, 2015, according to the Freddie Mac Primary Mortgage Market Survey®.

During the second quarter of 2015, the multifamily sector continued to exhibit positive fundamentals, according to preliminary third-party data, with declining vacancy levels and increasing rent growth. The national multifamily vacancy rate for institutional investment-type apartment properties was an estimated 4.75% as of June 30, 2015, compared with 5.0% as of both March 31, 2015 and June 30, 2014. National asking rents increased by an estimated

1.0% during the second quarter of 2015, compared with 0.5% during the first quarter of 2015. Because estimated multifamily rent growth has outpaced wage growth over the past few years, multifamily rental housing affordability has declined in recent years.

Continued demand for multifamily rental units was reflected in the estimated positive net absorption (that is, the net change in the number of occupied rental units during the time period) of approximately 44,000 units during the second quarter of 2015, according to preliminary data from Reis, Inc., compared with approximately 33,000 units during the first quarter of 2015. As a result of the continued demand for multifamily rental units over the past few years, there has been an increase in the amount of new multifamily construction development nationally. Approximately 332,000 new multifamily units are expected to be completed this year. The bulk of this new supply is concentrated in a limited number of metropolitan areas. We believe this increase in supply will result in a temporary slowdown in net absorption rates, occupancy levels and effective rents in those areas throughout 2015. Nevertheless, we expect overall national rental market supply and demand to remain in balance over the longer term, based on expected construction completions, expected obsolescence, positive rental household formation trends and expected increases in the population of 25- to 34-year olds, which is the primary age group that tends to rent multifamily housing.

Outlook

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

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

Financial Results. Our financial results continued to be strong in the second quarter of 2015, with net income of $4.6 billion. We expect to remain profitable on an annual basis for the foreseeable future; however, we expect our earnings in 2015 and future years will be substantially lower than our earnings for 2014, primarily due to our expectation of substantially lower income from resolution agreements, continued declines in net interest income from our retained mortgage portfolio assets and lower credit-related income or a shift to credit-related expense. In addition, certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year. Our future financial results also will be affected by a number of other factors, including: our guaranty fee rates; the volume of single-family mortgage originations in the future; the size, composition and quality of our retained mortgage portfolio and guaranty book of business; and economic and housing market conditions. Our expectations for our future financial results do not take into account the impact on our business of potential future legislative or regulatory changes, which could have a material impact on our financial results, particularly the enactment of housing finance reform legislation as noted in “Uncertainty Regarding our Future Status” above.

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

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

We expect continued decreases in the size of our retained mortgage portfolio, which will continue to negatively impact our net interest income and net revenues; however, we also expect increases in our guaranty fee revenues will partially offset the negative impact of the decline in our retained mortgage portfolio. We expect our guaranty fee revenues to increase over the next several years, as loans with lower guaranty fees liquidate from our book of business and are replaced with new loans with higher guaranty fees. The extent to which the positive impact of increased guaranty fee revenues will offset the negative impact of the decline in the size of our retained mortgage portfolio will depend on many factors, including: changes to guaranty fee pricing we may make in the future and their impact on our competitive environment and guaranty fee revenues; the size, composition and quality of our guaranty book of business; the life of the loans in our guaranty book of business; the size, composition and quality of our retained mortgage portfolio, including the pace at which we are required by our conservator to reduce the size of our portfolio and the types of assets we are required to sell; economic and housing market conditions, including changes in interest rates; our market share; and legislative and regulatory changes.

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

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

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

We forecast that total originations in the U.S. single-family mortgage market in 2015 will increase from 2014 levels by approximately 24%, from an estimated $1.2 trillion in 2014 to $1.5 trillion in 2015, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will increase from an estimated $508 billion in 2014 to $689 billion in 2015.

Home Prices. Based on our home price index, we estimate that home prices on a national basis increased by 2.8% in the second quarter of 2015 and by 3.7% in the first half of 2015. We expect the rate of home price appreciation in 2015 to be similar to the rate in 2014. Future home price changes may be very different from our expectations as a result of significant inherent uncertainty in the current market environment, including uncertainty about the effect of recent and future changes in mortgage rates; actions the federal government has taken and may take with respect to fiscal policies, mortgage finance programs and policies, and housing finance reform; the Federal Reserve’s purchases and sales of mortgage-backed securities; the impact of those actions on and changes generally in unemployment and the general economic and interest rate environment; and the impact on the U.S. economy of global economic and political conditions. We also expect significant regional variation in the timing and rate of home price growth.

Credit Losses. Our credit losses, which include our charge-offs, net of recoveries, reflect our realization of losses on our loans. Our credit losses were $7.5 billion in the first half of 2015, compared with $2.6 billion in the first half of 2014. The increase in our credit losses in the first half of 2015 compared with the first half of 2014 was primarily due to our approach to adopting the charge-off provisions of FHFA’s Advisory Bulletin AB 2012-02, “Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention” (the “Advisory Bulletin”) on January 1, 2015, as well as a change in accounting policy for nonaccrual loans. Our credit losses were $2.1 billion in the second quarter of 2015, compared with $5.4 billion in the first quarter of 2015 and $1.5 billion in the second quarter of 2014. Our credit losses declined in the second quarter of 2015 compared with the first quarter of 2015, primarily because credit losses for the second quarter of 2015 do not reflect the $2.5 billion in initial charge-offs associated with our approach to adopting the charge-off provisions of the Advisory Bulletin in the first quarter of 2015 or the $1.1 billion in charge-offs relating to the change in accounting policy in the first quarter of 2015 described above. We expect our credit losses generally to continue to decline in future quarters. For further information about our implementation of the Advisory Bulletin and our change in accounting policy for nonaccrual loans, see “Note 1, Summary of Significant Accounting Policies.” For further information about our credit losses for the second quarter and first half of 2015 as compared with the second quarter and first half of 2014, see “Consolidated Results of Operations—Credit-Related (Expense) Income—Credit Loss Performance Metrics.”

Loss Reserves. Our total loss reserves consist of (1) our allowance for loan losses, (2) our allowance for preforeclosure property taxes and insurance receivable and (3) our reserve for guaranty losses. Our total loss reserves were $32.1 billion as of June 30, 2015, down from $38.2 billion as of December 31, 2014. Although our loss reserves have declined substantially from their peak and are expected to decline further, we expect our loss reserves will remain elevated relative to the levels experienced prior to the 2008 housing crisis for an extended period because (1) we expect future defaults on loans that we acquired prior to 2009 and the resulting charge-offs will occur over a period of years and (2) a significant portion of our reserves represents concessions granted to borrowers upon modification of their loans and our reserves will continue to reflect these concessions until the loans are fully repaid or default.

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

LEGISLATIVE AND REGULATORY DEVELOPMENTS

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

Housing Finance Reform

Legislative Developments

Congress continues to consider housing finance reform that could result in significant changes in our structure and role in the future. The first session of the 114th Congress convened in January 2015. A number of bills have been introduced in the Senate and the House of Representatives in the current session of Congress relating to Fannie Mae, Freddie Mac and the housing finance system. One of these bills—the Financial Regulatory Improvement Act of 2015—was approved by the Senate Banking Committee in May 2015. This bill contains provisions that would, among other matters:

- prevent the U.S. government from using increases in Fannie Mae and Freddie Mac guaranty fees to finance government spending, unless a law is enacted to do so and the funds are used to finance secondary mortgage market reforms;
- prohibit Treasury from selling its senior preferred stock in Fannie Mae or Freddie Mac unless Congress enacts a law directing it to do so;
- establish requirements for Common Securitization Solutions, LLC ("CSS") that include: expanding the CSS Board of Directors to include non-GSE representatives; transitioning ownership of CSS to a private, non-profit entity within five years; and facilitating the issuance of mortgage-backed securities by non-GSE issuers through its platform within three to five years; and
- require Fannie Mae and Freddie Mac to engage in significant and increasing credit risk sharing transactions, including front-end and first-loss transactions.

The text of the Financial Regulatory Improvement Act of 2015 was also included in the Financial Services and General Government Appropriations bill approved by the Senate Appropriations Committee in July 2015.

In addition, in July 2015, action was taken in Congress on two additional bills relating to Fannie Mae:

- The House Committee on Financial Services approved a bill that would suspend the current compensation package of our Chief Executive Officer and reduce his compensation to the level that was in effect as of January 1, 2015. The bill also provides that the Chief Executive Officer's compensation may not be increased following this reduction. If this legislation becomes law, our Chief Executive Officer's total annual target direct compensation would be reduced from $4,000,000 to $600,000 and frozen at this level.
- The Senate approved a surface transportation reauthorization bill that includes a provision to extend by an additional four years the 10 basis point guaranty fee increase implemented pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011 (the "TCCA"), which fees we are required to remit to Treasury.

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

Conservator Developments

Update on Single Security Structure

FHFA's 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac includes the goal of developing a single mortgage-backed security for Fannie Mae and Freddie Mac. In August 2014, FHFA published a request for public input on a proposed structure for this single security. After reviewing and considering the responses received, FHFA issued an update on the structure of the single security in May 2015 that outlined its determinations regarding the key features of the single security structure and requested further feedback on its determinations. FHFA's determinations included the following:

- Fannie Mae and Freddie Mac will each issue and guarantee single securities directly backed by mortgage loans it has acquired, referred to as first-level securities, and will not cross-guarantee each other's first-level securities;
- mortgage loans backing first-level single securities will be limited to fixed-rate mortgage loans now eligible for financing through the "To-Be-Announced" ("TBA") market;
- Fannie Mae and Freddie Mac will each be able to issue second-level single securities, also referred to as resecuritizations, backed by first- or second-level securities issued by either company;
- the key features of the new single security will be the same as those of the current Fannie Mae MBS;
- the loan- and security-level disclosures for single securities will closely resemble those of Freddie Mac participation certificates ("PCs"); and
- investors in Freddie Mac PCs will have the option to exchange legacy PCs for comparable single securities backed by the same mortgage loans; there will not be an exchange option for legacy Fannie Mae MBS because FHFA expects

investors to treat them as fungible with the single securities.

FHFA's 2015 conservatorship scorecard includes an objective for Fannie Mae and Freddie Mac to finalize the single security structure this year (including security features, disclosure standards and related requirements) and to develop a plan to implement the single security in the market. The single security initiative remains a multi-year effort.

One of FHFA's stated objectives in developing a single security is to reduce the costs to Freddie Mac and taxpayers that result from the difference in liquidity of Fannie Mae MBS and Freddie Mac PCs. We believe the implementation of a single security would likely reduce, and could eliminate, the trading advantage that Fannie Mae MBS have over Freddie Mac PCs. If this occurs, we believe it would negatively affect our ability to compete for mortgage assets in the secondary market, and therefore could adversely affect our results of operations. See "Risk Factors" in our 2014 Form 10-K for a discussion of the risks to our business associated with a single security for Fannie Mae and Freddie Mac.

Change to Multifamily Volume Scorecard Objective

FHFA's 2015 conservatorship scorecard includes an objective to maintain the dollar volume of our new multifamily business at $30 billion or below, excluding volume associated with affordable housing loans, loans to small multifamily properties and loans to manufactured housing rental communities. While the multifamily volume cap remains at $30 billion, in May 2015, FHFA expanded the affordable housing lending categories that are excluded from the cap. FHFA stated that it made these revisions to facilitate continued liquidity in the overall multifamily finance market and to reinforce FHFA's emphasis on providing financing for affordable rental housing.

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 2014 Form 10-K.

We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as necessary based on changing conditions. Management has discussed any significant changes in judgments and assumptions in applying our critical accounting policies with the Audit Committee of our Board of Directors. See "Risk Factors" in our 2014 Form 10-K for a discussion of the risks associated with the need for management to make judgments and estimates in applying our accounting policies and methods. We have identified three of our accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. These critical accounting policies and estimates are as follows:

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

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

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.

Table 3: Summary of Condensed Consolidated Results of Operations

	For the Three Months Ended June 30,			For the Six Months Ended June 30,		
	2015	2014	Variance	2015	2014	Variance
	(Dollars in millions)					
Net interest income	$5,677	$4,904	$773	$10,744	$9,642	$1,102
Fee and other income	556	383	173	864	4,738	(3,874)
Net revenues	6,233	5,287	946	11,608	14,380	(2,772)
Investment gains, net	514	483	31	856	578	278
Fair value gains (losses), net	2,606	(934)	3,540	687	(2,124)	2,811
Administrative expenses	(689)	(697)	8	(1,412)	(1,369)	(43)
Credit-related (expense) income						
(Provision) benefit for credit losses	(1,033)	1,639	(2,672)	(500)	2,413	(2,913)
Foreclosed property (expense) income	(182)	214	(396)	(655)	476	(1,131)
Total credit-related (expense) income	(1,215)	1,853	(3,068)	(1,155)	2,889	(4,044)
Temporary Payroll Tax Cut Continuation Act of 2011 (“TCCA”) fees	(397)	(335)	(62)	(779)	(657)	(122)
Other non-interest expenses[1]	(202)	(238)	36	(197)	(369)	172
Income before federal income taxes	6,850	5,419	1,431	9,608	13,328	(3,720)
Provision for federal income taxes	(2,210)	(1,752)	(458)	(3,080)	(4,336)	1,256
Net income	4,640	3,667	973	6,528	8,992	(2,464)
Less: Net income attributable to noncontrolling interest	—	(1)	1	—	(1)	1
Net income attributable to Fannie Mae	$4,640	$3,666	$974	$6,528	$8,991	$(2,463)
Total comprehensive income attributable to Fannie Mae	$4,359	$3,711	$648	$6,155	$9,408	$(3,253)

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

Net Interest Income

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

Table 4 displays an analysis of our net interest income, average balances, and related yields earned on assets and incurred on liabilities. For most components of the average balances, we use a daily weighted average of amortized cost. When daily average balance information is not available, such as for mortgage loans, we use monthly averages.

Table 5 displays the change in our net interest income between periods and the extent to which that variance is attributable to: (1) changes in the volume of our interest-earning assets and interest-bearing liabilities or (2) changes in the interest rates of these assets and liabilities.

Table 4: Analysis of Net Interest Income and Yield

	For the Three Months Ended June 30,					
	2015			2014		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans of Fannie Mae	$262,563	$2,415	3.68 %	$288,904	$2,632	3.64 %
Mortgage loans of consolidated trusts	2,785,927	24,267	3.48	2,764,340	25,533	3.69
Total mortgage loans[1]	3,048,490	26,682	3.50	3,053,244	28,165	3.69
Mortgage-related securities	115,524	1,290	4.47	146,632	1,719	4.69
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(81,251)	(893)	4.40	(100,240)	(1,171)	4.67
Total mortgage-related securities, net	34,273	397	4.63	46,392	548	4.72
Non-mortgage securities[2]	42,729	13	0.12	34,410	9	0.10
Federal funds sold and securities purchased under agreements to resell or similar arrangements	32,685	13	0.16	28,731	6	0.08
Advances to lenders	4,137	21	2.01	2,896	18	2.46
Total interest-earning assets	$3,162,314	$27,126	3.43 %	$3,165,673	$28,746	3.63 %
Interest-bearing liabilities:						
Short-term debt	$90,365	$33	0.14 %	$80,682	$20	0.10 %
Long-term debt	347,044	1,888	2.18	403,082	2,129	2.11
Total short-term and long-term funding debt	437,409	1,921	1.76	483,764	2,149	1.78
Debt securities of consolidated trusts	2,856,763	20,421	2.86	2,818,331	22,864	3.25
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(81,251)	(893)	4.40	(100,240)	(1,171)	4.67
Total debt securities of consolidated trusts held by third parties	2,775,512	19,528	2.81	2,718,091	21,693	3.19
Total interest-bearing liabilities	$3,212,921	$21,449	2.67 %	$3,201,855	$23,842	2.98 %
Net interest income/net interest yield		$5,677	0.72 %		$4,904	0.62 %

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	For the Six Months Ended June 30,					
	2015			2014		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans of Fannie Mae	$266,622	$4,837	3.63 %	$292,493	$5,266	3.60 %
Mortgage loans of consolidated trusts	2,785,742	48,889	3.51	2,767,973	51,487	3.72
Total mortgage loans[1]	3,052,364	53,726	3.52	3,060,466	56,753	3.71
Mortgage-related securities	118,629	2,716	4.58	152,114	3,538	4.65
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(82,419)	(1,840)	4.46	(104,019)	(2,429)	4.67
Total mortgage-related securities, net	36,210	876	4.84	48,095	1,109	4.61
Non-mortgage securities[2]	43,332	25	0.12	34,020	15	0.09
Federal funds sold and securities purchased under agreements to resell or similar arrangements	33,045	25	0.15	31,050	11	0.07
Advances to lenders	4,069	42	2.06	3,054	37	2.41
Total interest-earning assets	$3,169,020	$54,694	3.45 %	$3,176,685	$57,925	3.65 %
Interest-bearing liabilities:						
Short-term debt	$94,183	$62	0.13 %	$71,856	$40	0.11 %
Long-term debt	352,616	3,845	2.18	422,727	4,474	2.12
Total short-term and long-term funding debt	446,799	3,907	1.75	494,583	4,514	1.83
Debt securities of consolidated trusts	2,852,858	41,883	2.94	2,820,316	46,198	3.28
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(82,419)	(1,840)	4.46	(104,019)	(2,429)	4.67
Total debt securities of consolidated trusts held by third parties	2,770,439	40,043	2.89	2,716,297	43,769	3.22
Total interest-bearing liabilities	$3,217,238	$43,950	2.73 %	$3,210,880	$48,283	3.01 %
Net interest income/net interest yield		$10,744	0.68 %		$9,642	0.61 %

	As of June 30,	
	2015	2014
Selected benchmark interest rates		
3-month LIBOR	0.28 %	0.23 %
2-year swap rate	0.90	0.58
5-year swap rate	1.79	1.70
10-year swap rate	2.46	2.63
30-year Fannie Mae MBS par coupon rate	3.10	3.18

(1) Average balance includes mortgage loans on nonaccrual status. Interest income not recognized for loans on nonaccrual status was $433 million and $845 million, respectively, for the second quarter and first half of 2015 compared with $454 million and $981 million, respectively, for the second quarter and first half of 2014. Effective January 1, 2015, we changed our policy for the treatment of interest previously accrued, but not collected, at the date loans are placed on nonaccrual status. See "Note 1, Summary of Significant Accounting Policies" for information on this policy change.

(2) Includes cash equivalents.

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

	For the Three Months Ended June 30, 2015 vs. 2014			For the Six Months Ended June 30, 2015 vs. 2014		
	Total	Variance Due to:[1]		Total	Variance Due to:[1]	
	Variance	Volume	Rate	Variance	Volume	Rate
	(Dollars in millions)					
Interest income:						
Mortgage loans of Fannie Mae	$(217)	$(242)	$25	$(429)	$(469)	$40
Mortgage loans of consolidated trusts	(1,266)	198	(1,464)	(2,598)	329	(2,927)
Total mortgage loans	(1,483)	(44)	(1,439)	(3,027)	(140)	(2,887)
Total mortgage-related securities, net	(151)	(139)	(12)	(233)	(281)	48
Non-mortgage securities[2]	4	2	2	10	5	5
Federal funds sold and securities purchased under agreements to resell or similar arrangements	7	1	6	14	1	13
Advances to lenders	3	7	(4)	5	11	(6)
Total interest income	$(1,620)	$(173)	$(1,447)	$(3,231)	$(404)	$(2,827)
Interest expense:						
Short-term debt	13	3	10	22	14	8
Long-term debt	(241)	(303)	62	(629)	(761)	132
Total short-term and long-term funding debt	(228)	(300)	72	(607)	(747)	140
Total debt securities of consolidated trusts held by third parties	(2,165)	520	(2,685)	(3,726)	1,014	(4,740)
Total interest expense	$(2,393)	$220	$(2,613)	$(4,333)	$267	$(4,600)
Net interest income	$773	$(393)	$1,166	$1,102	$(671)	$1,773

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

Net interest income and net interest yield increased in the second quarter and first half of 2015 compared with the second quarter and first half of 2014 primarily due to an increase in amortization income as an increase in prepayments on mortgage loans held by consolidated trusts accelerated the amortization of cost basis adjustments. Higher guaranty fee income also contributed to an increase in net interest income as loans with higher guaranty fees have become a larger part of our guaranty book of business. We recognize almost all of our guaranty fee revenue in net interest income due to the consolidation of the substantial majority of loans underlying our MBS trusts on our balance sheet. The increase in net interest income was partially offset by a decline in the average balance of our retained mortgage portfolio, as we continued to reduce this portfolio pursuant to the requirements of our senior preferred stock purchase agreement with Treasury and FHFA's additional portfolio cap. The average balance of our retained mortgage portfolio was 13% lower in the second quarter and first half of 2015 than in the second quarter and first half of 2014. See "Business Segment Results—The Capital Markets Group's Mortgage Portfolio" for more information about our retained mortgage portfolio.

Fee and Other Income

Fee and other income includes transaction fees, multifamily fees, technology fees and other miscellaneous income. Fee and other income increased in the second quarter of 2015 compared with the second quarter of 2014 primarily driven by proceeds from the sale of our remaining unsecured bankruptcy claims against Lehman Brothers and its subsidiaries as well as higher multifamily fees. Fee and other income decreased in the first half of 2015 compared with the first half of 2014 due to revenue of $4.2 billion recognized in the first half of 2014 as a result of settlement agreements resolving certain lawsuits relating to PLS sold to us.

Starting in June 2015, we eliminated fees charged to customers for using our proprietary Desktop Underwriter and Desktop Originator systems, which is expected to allow more lenders to access these systems in their underwriting process. The elimination of these fees will result in lower technology fees in future periods.

Fair Value Gains (Losses), Net

Table 6: Fair Value Gains (Losses), Net

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in millions)			
Risk management derivatives fair value gains (losses) attributable to:				
Net contractual interest expense accruals on interest rate swaps	$(199)	$(257)	$(428)	$(456)
Net change in fair value during the period	2,507	(679)	1,222	(1,420)
Total risk management derivatives fair value gains (losses), net	2,308	(936)	794	(1,876)
Mortgage commitment derivatives fair value gains (losses), net	173	(310)	(66)	(655)
Total derivatives fair value gains (losses), net	2,481	(1,246)	728	(2,531)
Trading securities gains, net	20	249	56	394
Other, net[1]	105	63	(97)	13
Fair value gains (losses), net	$2,606	$(934)	$687	$(2,124)

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

Risk Management Derivatives Fair Value Gains (Losses), Net

Risk management derivative instruments are an integral part of our interest rate risk management strategy. We supplement our issuance of debt securities with derivative instruments to further reduce interest rate risk. We recognized risk management derivative fair value gains in the second quarter and first half of 2015 primarily as a result of increases in the fair value of our pay-fixed derivatives due to increases in longer-term swap rates during the periods.

We recognized risk management derivative fair value losses in the second quarter and first half of 2014 primarily as a result of decreases in the fair value of our pay-fixed derivatives due to declines in longer-term swap rates during the periods.

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

Mortgage Commitment Derivatives Fair Value Gains (Losses), Net

We recognized fair value gains on our mortgage commitments in the second quarter of 2015 primarily due to gains on commitments to sell mortgage-related securities driven by a decrease in prices as interest rates increased during the commitment periods. We recognized fair value losses on our mortgage commitments in the first half of 2015 primarily due to losses on commitments to sell mortgage-related securities in the first quarter of 2015, which more than offset the gains on commitments to sell mortgage-related securities in the second quarter of 2015 described above. The losses we experienced on commitments to sell mortgage-related securities in the first quarter of 2015 were driven by an increase in prices as interest rates decreased during the commitment periods.

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

Credit-Related (Expense) Income

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

(Provision) Benefit for Credit Losses

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

Table 7: Total Loss Reserves

	As of June 30, 2015	December 31, 2014
	(Dollars in millions)	
Allowance for loan losses	$31,150	$35,541
Reserve for guaranty losses	658	1,246
Combined loss reserves	31,808	36,787
Other[1]	261	1,386
Total loss reserves	32,069	38,173
Fair value losses previously recognized on acquired credit-impaired loans[2]	8,944	9,864
Total loss reserves and fair value losses previously recognized on acquired credit-impaired loans	$41,013	$48,037

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

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

Table 8: Changes in Combined Loss Reserves

	For the Three Months Ended June 30,		For the Six Months Ended June 30,	
	2015	2014	2015	2014
	(Dollars in millions)			
Changes in combined loss reserves:				
Beginning balance	$32,498	$43,431	$36,787	$45,295
Provision (benefit) for credit losses	1,033	(1,639)	500	(2,413)
Charge-offs[1]	(2,097)	(1,960)	(7,486)	(3,587)
Recoveries	260	452	882	844
Other[2]	114	167	1,125	312
Ending balance	$31,808	$40,451	$31,808	$40,451

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	As of June 30, 2015		December 31, 2014	
	(Dollars in millions)			
Allocation of combined loss reserves:				
Balance at end of each period attributable to:				
Single-family	$31,510		$36,383	
Multifamily	298		404	
Total	$31,808		$36,787	
Single-family and multifamily combined loss reserves as a percentage of applicable guaranty book of business:				
Single-family	1.11	%	1.28	%
Multifamily	0.14		0.20	
Combined loss reserves as a percentage of:				
Total guaranty book of business	1.05	%	1.20	%
Recorded investment in nonaccrual loans	59.90			