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

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

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2014
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No.: 0-50231
Federal National Mortgage Association
(Exact name of registrant as specified in its charter)
Fannie Mae

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

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

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

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

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PART I—FINANCIAL INFORMATION

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

We have been under conservatorship, with the Federal Housing Finance Agency ("FHFA") acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. Our directors do not have any fiduciary duties to any person or entity except to the conservator and, accordingly, are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator. We describe the rights and powers of the conservator, key provisions of our agreements with the U.S. Department of the Treasury ("Treasury"), and their impact on shareholders in our Annual Report on Form 10-K for the year ended December 31, 2013 ("2013 Form 10-K") in "Business—Conservatorship and Treasury Agreements."

You should read this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in conjunction with our unaudited condensed consolidated financial statements and related notes and the more detailed information in our 2013 Form 10-K.

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

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

INTRODUCTION

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

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

Our conservatorship has no specified termination date, and we do not know when or how the conservatorship will terminate, whether we will continue to exist following conservatorship, what changes to our business structure will be made during or following the conservatorship, or what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated. In addition, our agreements with Treasury that provide for financial support include covenants that significantly restrict our business activities and provide for dividends to accrue at a rate equal to our net worth less a capital reserve amount, allowing us to retain only a limited and decreasing amount of our net worth. We provide additional information on the conservatorship, the provisions of our agreements with Treasury, and their impact on our business in our 2013 Form 10-K in "Business—Conservatorship and Treasury Agreements" and "Risk Factors." We discuss the uncertainty of our future in "Executive Summary—Outlook" and "Risk Factors." We discuss proposals for housing finance reform that could materially affect our business in "Legislative and Regulatory Developments—Housing Finance Reform" in this report and in "Business—Housing Finance Reform" in our 2013 Form 10-K.

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

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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 and Progress

We are focused on:

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

Achieving strong financial performance and strengthening our book of business

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

- Financial Performance. We reported net income of $5.3 billion and pre-tax income of $7.9 billion for the first quarter of 2014, compared with net income of $58.7 billion and pre-tax income of $8.1 billion for the first quarter of 2013. See “Summary of Our Financial Performance” below for an overview of our financial performance for the first quarter of 2014, as compared with the first quarter of 2013. As of March 31, 2014, we have been profitable for nine consecutive quarters, and we expect to remain profitable for the foreseeable future. For more information regarding our expectations for our future financial performance, see “Outlook—Financial Results” and “Outlook—Revenues” below.
- Dividend Payments to Treasury. With our expected June 2014 dividend payment to Treasury, we will have paid a total of $126.8 billion in dividends to Treasury on our senior preferred stock. The aggregate amount of draws we have received from Treasury to date under the senior preferred stock purchase agreement is $116.1 billion. Under the terms of the senior preferred stock purchase agreement, dividend payments do not offset prior Treasury draws. See “Outlook—Dividend Obligations to Treasury” below for more information regarding our dividend payments to Treasury.
- Book of Business. Changes we have made beginning in 2008 to strengthen our underwriting and eligibility standards have improved the credit quality of our single-family guaranty book of business. Single-family loans we have acquired since the beginning of 2009 (referred to as our “new single-family book of business”) comprised 78% of our single-family guaranty book of business as of March 31, 2014, while the single-family loans we acquired prior to 2009 (referred to as our “legacy book of business”) comprised 22% of our single-family guaranty book of business. As described below in “Strengthening Our Book of Business—New Book of Business,” we expect that our new single-family book of business will be profitable over its lifetime.
- Credit Performance. As of March 31, 2014, our single-family serious delinquency rate had declined for sixteen consecutive quarters. Our single-family serious delinquency rate was 2.19% as of March 31, 2014, compared with 2.38% as of December 31, 2013. See “Improving the Credit Performance of our Book of Business” below for additional information on the credit performance of the mortgage loans in our single-family guaranty book of business for each of the last five quarters, and for a description of our strategies for reducing credit losses on our legacy book of business.

Although we have improved our financial performance and the quality of our book of business since entering into conservatorship in 2008, we remain under conservatorship and subject to the restrictions of the senior preferred stock purchase agreement with Treasury. As a result of the senior preferred stock purchase agreement and directives from our conservator, we are not permitted to retain our net worth (other than a limited amount that will decrease to zero by 2018), rebuild our capital position or pay dividends or other distributions to stockholders other than Treasury. See “Business—Conservatorship and Treasury Agreements” in our 2013 Form 10-K for more information regarding our conservatorship and our senior preferred stock purchase agreement with Treasury. In addition, the future of our company remains uncertain. Congress continues to consider options for reform of the housing finance system, including the GSEs, and we cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation. See “Legislative and Regulatory Developments—Housing Finance Reform” in this report and “Business—Housing Finance Reform” in our 2013 Form 10-K for information on recent proposals for housing finance reform.

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

We continued our efforts to support the housing recovery in the first quarter of 2014. We remained the largest single issuer of mortgage-related securities in the secondary market during the first quarter of 2014 and a continuous source of liquidity in the multifamily market. We also continued to help struggling homeowners. In the first quarter of 2014, we provided over 48,000 loan workouts to help homeowners stay in their homes or otherwise avoid foreclosure. We discuss our activities to support the housing and mortgage markets in "Contributions to the Housing and Mortgage Markets" below.

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

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

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

Summary of Our Financial Performance

Comprehensive Income

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

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

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

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

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

Credit-related income decreased to $1.0 billion in the first quarter of 2014 from $1.2 billion in the first quarter of 2013. Our credit results for the first quarter of 2014 were primarily driven by higher discounted cash flow projections on our individually impaired loans due to a decrease in mortgage interest rates in the first quarter of 2014. Lower mortgage interest rates shorten the expected lives of modified loans, which reduces the impairment on these loans and results in a decrease in the provision for credit losses. In the first quarter of 2013, our credit results were primarily driven by an increase in home prices, including the sales prices of our REO properties as a result of strong demand in the first quarter of 2013.

We expect volatility from period to period in our financial results due to changes in market conditions that result in periodic fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings. These instruments include derivatives and trading securities. The estimated fair value of our derivatives and trading securities may fluctuate substantially from period to period because of changes in interest rates, credit spreads and interest rate volatility, as well as activity related to these financial instruments. While the estimated fair value of our derivatives that serve to mitigate certain risk exposures may fluctuate, some of the financial instruments that generate these exposures are not recorded at fair value in our condensed consolidated financial statements. In addition, our credit-related income or expense can vary substantially from period to period primarily due to changes in home prices, borrower payment behavior and economic conditions.

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

Net Worth

Our net worth decreased to $8.1 billion as of March 31, 2014 from $9.6 billion as of December 31, 2013 primarily due to our payment to Treasury of $7.2 billion in senior preferred stock dividends during the first quarter of 2014, partially offset by our comprehensive income of $5.7 billion for the first quarter of 2014. Our dividend payment for the second quarter of 2014 will be $5.7 billion, which is calculated based on our net worth of $8.1 billion as of March 31, 2014 less the applicable capital reserve amount of $2.4 billion.

Strengthening Our Book of Business

New Book of Business

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

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

Recently Acquired Single-Family Loans

Table 1 below displays information regarding our average charged guaranty fee on and specified risk characteristics of the single-family loans we acquired in each of the last five quarters. Table 1 also displays the volume of our single-family Fannie Mae MBS issuances for these periods, which is indicative of the volume of single-family loans we acquired for these periods.

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Table 1: Single-Family Acquisitions Statistics

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

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

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

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

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

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

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

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

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

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

Whether the loans we acquire in the future will exhibit an overall credit profile and performance similar to our more recent acquisitions will depend on a number of factors, including our future pricing and eligibility standards and those of mortgage insurers, the Federal Housing Administration ("FHA") and the Veterans Administration ("VA"), the percentage of loan originations representing refinancings, changes in interest rates, our future objectives, government policy, market and competitive conditions, and the volume and characteristics of HARP loans we acquire in the future. In addition, if our lender customers retain more of the higher-quality loans they originate as they seek higher-yielding assets, it could negatively affect the credit risk profile of our new single-family acquisitions.

Improving the Credit Performance of our Book of Business

We continue our efforts to improve the credit performance of our book of business. In addition to acquiring loans with strong credit profiles, as we discuss above in "Strengthening Our Book of Business," we continue to execute on our strategies for reducing credit losses on our legacy book of business, such as helping eligible Fannie Mae borrowers with high LTV ratio loans refinance into more sustainable loans through HARP, offering borrowers loan modifications that can significantly reduce their monthly payments, pursuing foreclosure alternatives and managing our real estate owned ("REO") inventory to minimize costs and maximize sales proceeds. As we work to reduce credit losses, we also seek to assist struggling homeowners, help stabilize communities and support the housing market.

Table 2 presents information for each of the last five quarters about the credit performance of mortgage loans in our single-family guaranty book of business and our workouts. The term "workouts" refers to both home retention solutions (loan modifications and other solutions that enable a borrower to stay in his or her home) and foreclosure alternatives (short sales and deeds-in-lieu of foreclosure). The workout information in Table 2 does not reflect repayment plans and forbearances that have been initiated but not completed, nor does it reflect trial modifications that have not become permanent.

Table 2: Credit Statistics, Single-Family Guaranty Book of Business[(1)]

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

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

(2) Calculated based on the number of single-family conventional loans that are 90 days or more past due or in the foreclosure process, divided by the number of loans in our single-family conventional guaranty book of business. We include single-family conventional loans that we own and those that back Fannie Mae MBS in the calculation of the single-family serious delinquency rate.

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

(4)

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

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

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

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

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

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

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

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

(12) Consists of (a) modifications, which do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as TDRs, or repayment plans or forbearances that have been initiated but not completed and (b) repayment plans and forbearances completed. See "Table 35: Statistics on Single-Family Loan Workouts" in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Problem Loan Management—Loan Workout Metrics" for additional information on our various types of loan workouts.

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

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

We provide more information on our efforts to reduce our credit losses in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" and "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management" in both this report and our 2013 Form 10-K. See also "Risk Factors" in our 2013 Form 10-K, where we describe factors that may adversely affect the success of our efforts, including our reliance on third parties to service our loans, conditions in the foreclosure environment, and risks relating to our mortgage insurer counterparties.

Contributions to the Housing and Mortgage Markets

Liquidity and Support Activities

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

- We serve as a stable source of liquidity for purchases of homes and financing of multifamily rental housing, as well as for refinancing existing mortgages. The approximately $87 billion in liquidity we provided to the mortgage market in the first quarter of 2014 through our purchases and guarantees of loans and securities enabled borrowers to complete approximately 232,000 mortgage refinancings and approximately 163,000 home purchases, and provided financing for approximately 72,000 units of multifamily housing.
- Our role in the market enables borrowers to have reliable access to affordable mortgage credit, including a variety of conforming mortgage products such as the prepayable 30-year fixed-rate mortgage that protects homeowners from fluctuations in interest rates.
- We provided over 48,000 loan workouts in the first quarter of 2014 to help homeowners stay in their homes or otherwise avoid foreclosure. These efforts helped to stabilize neighborhoods, home prices and the housing market.
- We helped borrowers refinance loans, including through our Refi Plus initiative. We acquired approximately 97,000 Refi Plus loans in the first quarter of 2014. Refinancings delivered to us through Refi Plus in the first quarter of 2014 reduced borrowers' monthly mortgage payments by an average of $157. Some borrowers' monthly payments increased as they took advantage of the ability to refinance through Refi Plus to reduce the term of their loan, to switch from an

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

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

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

2014 Market Share

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

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

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

Housing and Mortgage Market and Economic Conditions

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

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

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

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

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

Based on our home price index, we estimate that home prices on a national basis increased by 0.4% in the first quarter of 2014, following an increase of 8.5% in 2013 and 4.2% in 2012. Despite the recent increases in home prices, we estimate that, through March 31, 2014, home prices on a national basis remained 13.4% below their peak in the third quarter of 2006. Our home price estimates are based on preliminary data and are subject to change as additional data become available.

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

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

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

National asking rents increased by an estimated 0.5% during the first quarter of 2014, compared with an increase of 1.0% during the fourth quarter of 2013. Continued demand for multifamily rental units was reflected in the estimated positive net absorption (that is, the net change in the number of occupied rental units during the time period) of approximately 42,000 units during the first quarter of 2014, according to preliminary data from Reis, Inc., compared with approximately 49,000 units during the fourth quarter of 2013.

As a result of the continued demand for multifamily rental units over the past few years, there has been an increase in the amount of new multifamily construction development nationally. Approximately 280,000 new multifamily units are expected to be completed this year. The bulk of this new supply is concentrated in a limited number of metropolitan areas. As a result, multifamily fundamentals could be impacted in certain localized areas, producing a temporary slowdown in net absorption rates, occupancy levels and effective rents in those areas later in 2014.

Outlook

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

We cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation. See “Legislative and Regulatory Developments—Housing Finance Reform” in this report and “Business—Housing Finance Reform” in our 2013 Form 10-K for a discussion of proposals for reform of the housing finance system, including the GSEs, that could materially affect our business, including proposed federal legislation that, among other things, would require the wind down of Fannie Mae and Freddie Mac. See “Risk Factors” in both this report and in our 2013 Form 10-K for a discussion of the risks to our business relating to the uncertain future of our company.

Financial Results. Our financial results continued to be strong in the first quarter of 2014, with net income of $5.3 billion. We expect to remain profitable for the foreseeable future. While we expect our annual net income to remain strong over the next few years, we expect our annual net income to be substantially lower than our net income for 2013. We discuss the reasons for this expectation, and note our expectation that certain factors that contributed to a large portion of our 2013 net income will not contribute as significantly or at all to our earnings in 2014 or future years, in “Business—Executive Summary—Outlook—Financial Results” in our 2013 Form 10-K. Our earnings will be affected by a number of factors, including: changes in home prices; changes in interest rates; our guaranty fee rates; the volume of single-family mortgage originations in the future; the size, composition and quality of our retained mortgage portfolio and guaranty book of business; and economic and housing market conditions. Some of these factors, such as changes in interest rates or home prices, could result in significant variability in our earnings from quarter to quarter or year to year. Our expectations for our future financial results do not take into account the impact on our business of potential future legislative or regulatory changes, which could have a material impact on our financial results, particularly the enactment of housing finance reform legislation as noted in “Uncertainty Regarding our Future Status” above.

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

The decrease in the balance of mortgage assets held in our retained mortgage portfolio contributed to a decline in our net interest income in the first quarter of 2014 as compared with the first quarter of 2013. We expect continued decreases in the size of our retained mortgage portfolio, which will continue to negatively impact our net interest income and revenues; however, we also expect increases in our guaranty fee revenues will at least partially offset the negative impact of the decline in our retained mortgage portfolio. The extent to which the positive impact of increased guaranty fee revenues will offset the negative impact of the decline in the size of our retained mortgage portfolio will depend on many factors, including: changes to guaranty fee pricing we may make in the future; the size, composition and quality of our guaranty book of business; the life of the loans in our guaranty book of business; the size, composition and quality of our retained mortgage portfolio; economic and housing market conditions; and legislative and regulatory changes.

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

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

Dividend Obligations to Treasury. We expect to retain only a limited amount of any future net worth because we are required by the dividend provisions of the senior preferred stock and quarterly directives from our conservator to pay Treasury each quarter the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. This capital reserve amount is $2.4 billion for each quarter of 2014 and then decreases by $600 million annually until it reaches zero in 2018.

From 2009 through the first quarter of 2012, we received a total of $116.1 billion from Treasury under the senior preferred stock purchase agreement. This funding provided us with the capital and liquidity needed to fulfill our mission of providing liquidity and support to the nation's housing finance markets and to avoid a trigger of mandatory receivership under the Federal Housing Finance Regulatory Reform Act of 2008 (the "2008 Reform Act"). In addition, a portion of the $116.1 billion we received from Treasury was drawn to pay dividends to Treasury because, prior to 2013, our dividend payments on the senior preferred stock accrued at an annual rate of 10%, and we were directed by our conservator to pay these dividends to Treasury each quarter even when we did not have sufficient income to pay the dividend. We have not received funds from Treasury under the agreement since the first quarter of 2012. From 2008 through the first quarter of 2014, we paid a total of $121.1 billion in dividends to Treasury on the senior preferred stock. Under the terms of the senior preferred stock purchase agreement, dividend payments do not offset prior Treasury draws, and we are not permitted to pay down draws we have made under the agreement except in limited circumstances. Accordingly, the current aggregate liquidation preference of the senior preferred stock is $117.1 billion, due to the initial $1 billion liquidation preference of the senior preferred stock (for which we did not receive cash proceeds) and the $116.1 billion we have drawn from Treasury.

The Director of FHFA directs us to make dividend payments on the senior preferred stock on a quarterly basis. In June 2014, we expect to pay Treasury additional senior preferred stock dividends of $5.7 billion for the second quarter of 2014.

Overall Market Conditions. We expect that single-family mortgage loan serious delinquency and severity rates will continue their downward trend, but that single-family serious delinquency and severity rates will remain high compared with pre-housing crisis levels because it will take some time for the remaining delinquent loans with high mark-to-market LTV ratios originated prior to 2009 to work their way through the foreclosure process. Despite steady demand and stable fundamentals at the national level, the multifamily sector may continue to exhibit below average fundamentals in certain local markets and with certain properties. We expect the level of multifamily foreclosures in 2014 will generally remain commensurate with 2013 levels.

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

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

Home Prices. Based on our home price index, we estimate that home prices on a national basis increased by 0.4% in the first quarter of 2014. Although we expect home price growth to continue in 2014, we expect the rate of home price growth on a national basis in 2014 will be lower than in 2013. Future home price changes may be very different from our expectations as a result of significant inherent uncertainty in the current market environment, including uncertainty about the effect of recent and future changes in mortgage rates; actions the federal government has taken and may take with respect to fiscal policies, mortgage finance programs and policies, and housing finance reform; the Federal Reserve's purchases and sales of mortgage-related securities; the impact of those actions on and changes generally in unemployment and the general economic and interest rate environment; and the impact on the U.S. economy of global economic conditions. We also expect significant regional variation in the timing and rate of home price growth.

Credit Losses. Our credit losses, which include our charge-offs, net of recoveries, reflect our realization of losses on our loans. We currently realize losses on loans, through our charge-offs, at the time of foreclosure or when we accept short sales or deeds-in-lieu of foreclosure. Our credit losses were $1.1 billion in the first quarter of 2014, compared with $260 million in the fourth quarter of 2013 and $1.5 billion in the first quarter of 2013. Although our credit losses have declined in recent years, we expect our credit losses in 2014 and 2015 will be higher than in 2013. The amounts we recognized in 2013 pursuant to a number of repurchase and compensatory fee resolution agreements reduced our 2013 credit losses from what they otherwise would have been. Moreover, we expect our implementation of the charge-off provisions required by FHFA's Advisory Bulletin AB 2012-02 in 2015 will increase our credit losses for 2015 from what they otherwise would have been. We expect our credit losses to resume their downward trend beginning in 2016. See "Legislative and Regulatory Developments—FHFA Advisory Bulletin Regarding Framework for

Adversely Classifying Loans" for further information about this Advisory Bulletin.

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

Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations. We present a number of estimates and expectations in this executive summary regarding our future performance, including estimates and expectations regarding our future financial results and profitability, the level and sources of our revenues, our future dividend payments to Treasury, the profitability and performance of single-family loans we have acquired, our future acquisitions, future liquidations of loans from our single-family guaranty book of business, our future credit losses and our future loss reserves. We also present a number of estimates and expectations in this executive summary regarding future housing market conditions, including expectations regarding future delinquency and severity rates, future mortgage originations, future refinancings, future single-family mortgage debt outstanding and future home prices. These estimates and expectations are forward-looking statements based on our current assumptions regarding numerous factors. Our future estimates of our performance and housing market conditions, as well as the actual results, may differ materially from our current estimates and expectations as a result of: the timing and level of, as well as regional variation in, home price changes; changes in interest rates, unemployment rates and other macroeconomic and housing market variables; our future guaranty fee pricing and the impact of that pricing on our competitive environment; our future serious delinquency rates; future legislative or regulatory requirements that have a significant impact on our business, such as a requirement that we implement a principal forgiveness program; future legislative or regulatory changes that have a significant impact on our business, such as the enactment of housing finance reform legislation; actions we may be required to take by FHFA, as our conservator or as our regulator, such as changes in the type of business we do; future updates to our models relating to our loss reserves, including the assumptions used by these models; future changes to our accounting policies; significant changes in modification and foreclosure activity; changes in borrower behavior, such as an increasing number of underwater borrowers who strategically default on their mortgage loans; the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies; whether our counterparties meet their obligations in full; resolution or settlement agreements we may enter into with our counterparties; changes in the fiscal and monetary policies of the Federal Reserve, including the effect of the tapering of its program of purchasing mortgage-related securities and any future sales of such securities; changes in the fair value of our assets and liabilities; impairments of our assets; changes in generally accepted accounting principles ("GAAP"); credit availability; natural and other disasters; and other factors, including those discussed in "Forward-Looking Statements," "Risk Factors" and elsewhere in this report and in our 2013 Form 10-K. Due to the large size of our guaranty book of business, even small changes in these factors could have a significant impact on our financial results for a particular period.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

The information in this section updates and supplements information regarding legislative and regulatory developments set forth in "Business—Housing Finance Reform" and "Business—Our Charter and Regulation of Our Activities" in our 2013 Form 10-K. Also see "Risk Factors" in this report and in our 2013 Form 10-K for a discussion of risks relating to legislative and regulatory matters.

Housing Finance Reform

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

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

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

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

Dodd-Frank Act—FHFA Rule Regarding Stress Testing

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

Housing Goals

As described in "Business—Our Charter and Regulation of Our Activities—The GSE Act—Housing Goals and Duty to Serve Underserved Markets," the benchmark level for our acquisitions of single-family owner-occupied purchase money mortgage loans for families in low-income areas is set annually by notice from FHFA. In April 2014, FHFA notified us that the overall low-income areas home purchase benchmark for 2014 is 18%.

FHFA Advisory Bulletin Regarding Framework for Adversely Classifying Loans

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

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

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

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

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

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

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the condensed consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We describe our most significant accounting policies in “Note 1, Summary of Significant Accounting Policies” in this report and in our 2013 Form 10-K.

We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as necessary based on changing conditions. Management has discussed any significant changes in judgments and assumptions in applying our critical accounting policies with the Audit Committee of our Board of Directors. See “Risk Factors” in our 2013 Form 10-K for a discussion of the risks associated with the need for management to make judgments and estimates in applying our accounting policies and methods. We have identified four of our accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. These critical accounting policies and estimates are as follows:

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

- Deferred Tax Assets.

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

CONSOLIDATED RESULTS OF OPERATIONS

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

Table 3: Summary of Condensed Consolidated Results of Operations

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

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

Net Interest Income

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

Table 4 displays an analysis of our net interest income, average balances, and related yields earned on assets and incurred on liabilities for the periods indicated. For most components of the average balances, we use a daily weighted average of amortized cost. When daily average balance information is not available, such as for mortgage loans, we use monthly averages. Table 5 displays the change in our net interest income between periods and the extent to which that variance is attributable to: (1) changes in the volume of our interest-earning assets and interest-bearing liabilities or (2) changes in the interest rates of these assets and liabilities.

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Table 4: Analysis of Net Interest Income and Yield

	For the Three Months Ended March 31,					
	2014			2013		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans of Fannie Mae	$296,018	$2,634	3.56 %	$345,077	$3,830	4.44 %
Mortgage loans of consolidated trusts	2,771,950	25,954	3.75	2,669,149	25,394	3.81
Total mortgage loans[1]	3,067,968	28,588	3.73	3,014,226	29,224	3.88
Mortgage-related securities	157,595	1,819	4.62	236,309	2,683	4.54
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(107,798)	(1,258)	4.67	(152,986)	(1,797)	4.70
Total mortgage-related securities, net	49,797	561	4.51	83,323	886	4.25
Non-mortgage securities[2]	33,626	6	0.07	42,879	13	0.12
Federal funds sold and securities purchased under agreements to resell or similar arrangements	33,395	5	0.06	69,804	27	