

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

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

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

For the quarterly period ended June 30, 2018

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 | 3900 Wisconsin Avenue, NW<br>Washington, DC 20016 | (800) 2FANNIE<br>(800-232-6643) |
|---------------------------------|------------|---|---------------------------------|

|  |                                      |  |  |
|--|--------------------------------------|--|--|
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer Identification No.) | (Address of principal executive offices, including zip code) | (Registrant's telephone number, including area code) |
|--|--------------------------------------|--|--|

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of June 30, 2018, there were 1,158,087,567 shares of common stock of the registrant outstanding.

## TABLE OF CONTENTS

|  | Page |
|--|------|
| PART I—Financial Information   | 1    |
| Item 1. <u>Financial Statements</u>  |      |
| <u>Condensed Consolidated Balance Sheets</u>   | 49   |
| <u>Condensed Consolidated Statements of Operations and Comprehensive Income</u>                      | 50   |
| <u>Condensed Consolidated Statements of Cash Flows</u>   | 51   |
| <u>Note 1—Summary of Significant Accounting Policies</u>   | 52   |
| <u>Note 2—Consolidations and Transfers of Financial Assets</u>                                       | 56   |
| <u>Note 3—Mortgage Loans</u>   | 57   |
| <u>Note 4—Allowance for Loan Losses</u>  | 64   |
| <u>Note 5—Investments in Securities</u>  | 66   |
| <u>Note 6—Financial Guarantees</u>   | 69   |
| <u>Note 7—Short-Term and Long-Term Debt</u>  | 70   |
| <u>Note 8—Derivative Instruments</u>   | 71   |
| <u>Note 9—Segment Reporting</u>  | 73   |
| <u>Note 10—Equity</u>  | 75   |
| <u>Note 11—Concentrations of Credit Risk</u>   | 76   |
| <u>Note 12—Netting Arrangements</u>  | 81   |
| <u>Note 13—Fair Value</u>  | 82   |
| <u>Note 14—Commitments and Contingencies</u>   | 96   |
| Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u> | 1    |
| <u>Introduction</u>  | 1    |
| <u>Executive Summary</u>   | 2    |
| <u>Legislation and Regulation</u>  | 5    |
| <u>Key Market Economic Indicators</u>  | 7    |
| <u>Consolidated Results of Operations</u>  | 8    |
| <u>Consolidated Balance Sheet Analysis</u>   | 14   |
| Retained Mortgage Portfolio  | 16   |
| <u>Total Book of Business</u>  | 18   |
| <u>Business Segments</u>   | 19   |
| <u>Liquidity and Capital Management</u>  | 40   |
| <u>Off-Balance Sheet Arrangements</u>  | 44   |
| <u>Risk Management</u>   | 44   |
| <u>Critical Accounting Policies and Estimates</u>  | 46   |
| <u>Impact of Future Adoption of New Accounting Guidance</u>  | 46   |
| <u>Forward-Looking Statements</u>  | 46   |
| Item 3. <u>Quantitative and Qualitative Disclosures about Market Risk</u>                            | 98   |
| Item 4. <u>Controls and Procedures</u>   | 98   |
| PART II—Other Information  | 101  |
| Item 1. <u>Legal Proceedings</u>   | 101  |
| Item 1A. <u>Risk Factors</u>   | 102  |
| Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                           | 103  |
| Item 3. <u>Defaults Upon Senior Securities</u>   | 104  |
| Item 4. <u>Mine Safety Disclosures</u>   | 104  |
| Item 5. <u>Other Information</u>   | 104  |
| Item 6. <u>Exhibits</u>  | 105  |

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

## PART I—FINANCIAL INFORMATION

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

We have been under conservatorship, with the Federal Housing Finance Agency (“FHFA”) acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since provided for the exercise of certain functions by our Board of Directors. Our directors do not have any fiduciary duties to any person or entity except to the conservator and, accordingly, are not obligated to consider the interests of the company, the holders of our equity or debt securities, or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator.

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

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 in this report and the more detailed information in our 2017 Form 10-K. You can find a “Glossary of Terms Used in This Report” in the MD&A of our 2017 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 these forward-looking statements. Our actual results may differ materially from those reflected in our forward-looking statements due to a variety of factors including, but not limited to, those discussed in “Risk Factors” and elsewhere in this report and in our 2017 Form 10-K.

#### Introduction

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

Through our single-family and multifamily business segments, we provided \$125 billion in liquidity to the mortgage market in the second quarter of 2018, which enabled the financing of 665,000 home purchases, refinancings or rental units.

Second  
Quarter  
2018  
Form  
10-Q

---

MD&A | Introduction

Fannie Mae Provided \$125 Billion in Liquidity in the Second Quarter of 2018

Executive

Summary

Summary of Our Financial Performance

## Quarterly Results

The increase in our net income in the second quarter of 2018, compared with the second quarter of 2017, was primarily driven by a shift to fair value gains in the second quarter of 2018 from fair value losses in the second quarter of 2017. We discuss the drivers of net fair value gains (losses) in “Consolidated Results of Operations—Fair Value Gains (Losses), Net.”

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

## Year-to-Date Results

The increase in our net income in the first half of 2018, compared with the first half of 2017, was primarily driven by a shift to fair value gains in the first half of 2018 from fair value losses in the first half of 2017. We discuss the drivers of net fair value gains (losses) in “Consolidated Results of Operations—Fair Value Gains (Losses), Net.”

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

### Net Worth

Our net worth of \$7.5 billion as of June 30, 2018 reflects our comprehensive income of \$4.5 billion for the second quarter of 2018 and \$3.0 billion in retained capital reserves.

### Financial Performance Outlook

We expect to remain profitable on an annual basis for the foreseeable future; however, certain factors could result in significant volatility in our financial results from quarter to quarter or year to year. We expect volatility from quarter to quarter in our financial results due to a number of factors, particularly changes in market conditions that result in fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings. Other factors that may result in volatility in our quarterly financial results include developments that affect our loss reserves, such as changes in interest rates, home prices or accounting standards, or events such as natural disasters.

The potential for significant volatility in our financial results could result in a net loss in a future quarter. We are permitted to retain up to \$3.0 billion in capital reserves as a buffer in the event of a net loss in a future quarter.

However, any net loss we experience in the future could be greater than the amount of our capital reserves, resulting in a net worth deficit for that quarter. See “Risk Factors” in our 2017 Form 10-K for a discussion of the risks associated with the limitations on our ability to rebuild our capital reserves, including factors that could result in a net loss or net worth deficit in a future quarter.

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A | Executive Summary

Treasury Draws and Dividend Payments

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

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

---

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

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

We expect to pay Treasury a third quarter 2018 dividend of \$4.5 billion by September 30, 2018. The current dividend provisions of the senior preferred stock provide for quarterly dividends consisting of the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds a \$3.0 billion capital reserve amount. We refer to this as a “net worth sweep” dividend. As noted above, our net worth was \$7.5 billion as of June 30, 2018.

If we experience a net worth deficit in a future quarter, we will be required to draw additional funds from Treasury under the senior preferred stock purchase agreement to avoid being placed into receivership. As of the date of this filing, the maximum amount of remaining funding under the agreement is \$113.9 billion. If we were to draw additional funds from Treasury under the agreement in respect of a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement. For a description of the terms of the senior preferred stock purchase agreement and the senior preferred stock, see “Business—Conservatorship and Treasury Agreements—Treasury Agreements” in our 2017 Form 10-K.

Although Treasury owns our senior preferred stock and a warrant to purchase 79.9% of our common stock, and has made a commitment under a senior preferred stock purchase agreement to provide us with funds to maintain

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---



MD&A | Executive Summary

a positive net worth under specified conditions, the U.S. government does not guarantee our securities or other obligations.

Legislation

and

Regulation

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

Housing Finance Reform

On June 21, 2018, the Administration released a federal government reform and reorganization plan which addressed, among many other matters, reforming the federal role in housing finance. In the plan, the Administration proposes ending the conservatorships of Fannie Mae and Freddie Mac, returning them to fully private, shareholder-owned companies and eliminating their statutory charters, while providing a federal regulator with the authority to oversee the companies and approve other guarantors to compete with the incumbent enterprises. The proposal asserts that if the companies lost some of the benefits that have led them to dominate the market, it would enable other private companies to begin competing in the secondary mortgage market.

The proposal also states that Fannie Mae and Freddie Mac, along with other potential guarantors, would have access to an explicit and limited government guarantee on the mortgage-backed securities they issue through the establishment of a mortgage insurance fund paid for by the companies and other guarantors. The proposal suggests that the newly-privatized Fannie Mae and Freddie Mac would focus on secondary market liquidity for loans to qualified borrowers. The proposal notes that the U.S. Department of Housing and Urban Development (“HUD”) would assume primary responsibility for supporting the needs of low- and moderate-income borrowers that cannot be fulfilled through traditional underwriting and that would be partially subsidized through a fee levied on the outstanding volume of mortgage-backed securities issued by guarantors. The proposal acknowledges that legislative and policy changes would be required for its implementation.

We expect Congress, the Administration and FHFA to continue considering housing finance reform that could result in significant changes in our structure and role in the future. As a result, there continues to be significant uncertainty regarding the future of our company.

See “Risk Factors” in our 2017 Form 10-K for a discussion of the risks to our business relating to the uncertain future of our company.

Single-Counterparty Credit Limit

On June 14, 2018, the Federal Reserve adopted a rule to restrict the counterparty credit exposure of very large banking organizations. Beginning in 2020, any bank holding company with \$250 billion or more in total consolidated assets must limit their exposure to any counterparty and its affiliates to no more than 25% of tier 1 capital, and any U.S. banking organization that is a global systemically important bank (“U.S. GSIB”) must adhere to a stricter limit of 15% of tier 1 capital for exposures to any other U.S. GSIB or non-bank entity supervised by the Federal Reserve. Similarly, limits are set on counterparty credit exposures held by U.S. intermediate holding companies that are subsidiaries of foreign banking organizations. While Fannie Mae is in conservatorship, exposures involving claims on or directly and fully guaranteed by Fannie Mae are exempt from these restrictions and Fannie Mae MBS and debt can be used as collateral to reduce a banking organization’s counterparty exposure. At this time, we do not know what impact, if any, this rule will have on our customers’ business practices, or whether and to what extent this rule may adversely affect demand for or the liquidity of securities we issue.

Proposed Capital Requirements

We are required by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act of 2008 (together, the “GSE Act”), to maintain sufficient capital to meet minimum and risk-based capital levels established by FHFA in order to be classified as “adequately capitalized.” However, because we are under conservatorship, FHFA has suspended our capital classifications and advised us that

we will not be subject to corrective action requirements that would ordinarily result from our receiving a capital classification of “undercapitalized.”

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A |  
Legislation  
and  
Regulation

On June 12, 2018, FHFA proposed new capital requirements for Fannie Mae and Freddie Mac, which would also be suspended while we remain in conservatorship. The proposed rule would implement a new framework for risk-based capital requirements and a revised minimum leverage capital requirement. The proposed risk-based capital framework would provide a granular assessment of credit risk specific to different mortgage loan categories, as well as components for market risk, operational risk, and a going-concern buffer. The proposed rule includes two alternative leverage ratio proposals on which FHFA is seeking feedback.

See “Business—Legislation and Regulation—GSE Act and Other Regulation of Our Business—Capital” in our 2017 Form 10-K for information about capital requirements under the current rule.

FHFA Structure

On July 16, 2018, in connection with litigation related to Fannie Mae’s and Freddie Mac’s senior preferred stock purchase agreements with Treasury, the U.S Court of Appeals for the Fifth Circuit held that FHFA’s structure violates the Constitution’s separation of powers and concluded that the Housing and Economic Recovery Act’s removal restriction, which permits removal of FHFA’s Director only “for cause by the President,” is inoperative and should be severed from the remainder of the statute. FHFA has broad powers over our business in its role as our conservator and as our regulator. As a result, changes in the Director of FHFA can result in changes in FHFA’s strategic goals for our conservatorship or other material changes in our business. See “Risk Factors” in our 2017 Form 10-K for a discussion of risks relating to our conservatorship and FHFA regulation. The court left intact the remainder of the statute and FHFA’s past actions, including the third amendment to the senior preferred stock purchase agreement. See “Legal Proceedings—Senior Preferred Stock Purchase Agreements Litigation—Southern District of Texas” for additional information about the litigation.

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A I  
Key  
Market  
Economic  
Indicators

Key  
Market  
Economic  
Indicators

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

Selected Key Market Economic Indicators

|  | For the<br>Three<br>Months<br>Ended<br>June 30,<br>2018 |                      | For the Six<br>Months<br>Ended June<br>30,<br>2017 |      |
|--|---|----------------------|--|------|
| Home price change based on Fannie Mae national home price index <sup>(1)</sup>             | 2.7%  | 3.0%                 | 4.1%   | 4.1% |
| Growth in U.S. gross domestic product ("GDP"), annualized percentage change <sup>(2)</sup> | 4.1%  | 3.0%                 |  |      |
|  | As of   |                      |  |      |
|  | June 30,<br>2018  | December<br>31, 2017 | June<br>30,<br>2017                                |      |
| U.S. unemployment rate   | 4.0 %   | 4.1 %                | 4.4 %  |      |
| 2-year swap rate   | 2.79  | 2.08                 | 1.62   |      |
| 10-year swap rate  | 2.93  | 2.40                 | 2.28   |      |
| 10-year Treasury rate  | 2.86  | 2.41                 | 2.30   |      |
| 30-year Fannie Mae MBS par coupon rate   | 3.60  | 3.00                 | 3.03   |      |

Calculated internally using property data information on loans purchased by Fannie Mae or Freddie Mac and property data information obtained from other third-party data providers. Fannie Mae's home price index is a

<sup>(1)</sup> weighted repeat transactions index, measuring average price changes in repeat transactions on the same properties.

Fannie Mae's home price index excludes prices on properties sold in foreclosure. Fannie Mae's home price estimates are based on preliminary data and are subject to change as additional data becomes available.

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

Uncertainty and concerns associated with trade policy have recently intensified, which could impact economic growth and inflation. See "Key Market Economic Indicators" in our 2017 Form 10-K for a description of how changes in GDP, unemployment rates, home prices and interest rates can affect our financial results.

Fannie  
Mae  
Second  
Quarter  
2018  
Form

10-Q

---

MD&A I  
Consolidated  
Results of  
Operations

Consolidated  
Results of  
Operations

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

Summary of Condensed Consolidated Results of Operations

|  | For the Three Months   |          |          | For the Six Months     |          |          |
|--|------------------------|----------|----------|------------------------|----------|----------|
|  | Ended June 30,<br>2018 | 2017     | Variance | Ended June 30,<br>2018 | 2017     | Variance |
|  | (Dollars in millions)  |          |          |                        |          |          |
| Net interest income  | \$5,377                | \$5,002  | \$ 375   | \$ 10,609              | \$10,348 | \$ 261   |
| Fee and other income   | 239                    | 353      | (114 )   | 559                    | 602      | (43 )    |
| Net revenues   | 5,616                  | 5,355    | 261      | 11,168                 | 10,950   | 218      |
| Investment gains, net  | 277                    | 385      | (108 )   | 527                    | 376      | 151      |
| Fair value gains (losses), net                                   | 229                    | (691 )   | 920      | 1,274                  | (731 )   | 2,005    |
| Administrative expenses  | (755 )                 | (686 )   | (69 )    | (1,505 )               | (1,370 ) | (135 )   |
| Credit-related income:   |                        |          |          |                        |          |          |
| Benefit for credit losses  | 1,296                  | 1,267    | 29       | 1,513                  | 1,663    | (150 )   |
| Foreclosed property expense                                      | (139 )                 | (34 )    | (105 )   | (301 )                 | (251 )   | (50 )    |
| Total credit-related income                                      | 1,157                  | 1,233    | (76 )    | 1,212                  | 1,412    | (200 )   |
| Temporary Payroll Tax Cut Continuation Act of 2011 ("TCCA") fees | (565 )                 | (518 )   | (47 )    | (1,122 )               | (1,021 ) | (101 )   |
| Other expenses, net  | (366 )                 | (291 )   | (75 )    | (569 )                 | (673 )   | 104      |
| Income before federal income taxes                               | 5,593                  | 4,787    | 806      | 10,985                 | 8,943    | 2,042    |
| Provision for federal income taxes                               | (1,136 )               | (1,587 ) | 451      | (2,267 )               | (2,970 ) | 703      |
| Net income   | \$4,457                | \$3,200  | \$ 1,257 | \$8,718                | \$5,973  | \$ 2,745 |
| Total comprehensive income                                       | \$4,459                | \$3,117  | \$ 1,342 | \$8,397                | \$5,896  | \$ 2,501 |

Net Interest Income

We have two primary sources of net interest income:

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

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

Components of Net Interest Income

|  | For the Three Months   |         |          | For the Six Months Ended |         |          |
|--|------------------------|---------|----------|--------------------------|---------|----------|
|  | Ended June 30,<br>2018 | 2017    | Variance | June 30,<br>2018         | 2017    | Variance |
|  | (Dollars in millions)  |         |          |                          |         |          |
| Net interest income from portfolios <sup>(1)</sup>       | \$1,215                | \$1,126 | \$ 89    | \$2,293                  | \$2,209 | \$ 84    |
| Net interest income from guaranty book of business:      |                        |         |          |                          |         |          |
| Base guaranty fee income, net of TCCA                    | 2,110                  | 2,024   | 86       | 4,199                    | 4,010   | 189      |
| Base guaranty fee income related to TCCA <sup>(2)</sup>  | 565                    | 518     | 47       | 1,122                    | 1,021   | 101      |
| Net amortization income                                  | 1,487                  | 1,334   | 153      | 2,995                    | 3,108   | (113 )   |
| Total net interest income from guaranty book of business | 4,162                  | 3,876   | 286      | 8,316                    | 8,139   | 177      |

Total net interest income \$5,377 \$5,002 \$ 375 \$10,609 \$10,348 \$ 261

---

Includes interest income from assets held in our retained mortgage portfolio and other investments portfolio, as  
(1) well as other assets used to generate lender liquidity. Also includes interest expense on outstanding Connecticut  
Avenue

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A I  
Consolidated  
Results of  
Operations

Securities<sup>®</sup> of \$339 million and \$241 million for the three months ended June 30, 2018 and 2017, respectively, and \$641 million and \$449 million for the six months ended June 30, 2018 and 2017, respectively.

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

Net interest income increased in the second quarter and first half of 2018 compared with the second quarter and first half of 2017 due to:

An increase in income from our guaranty book of business as the size of our guaranty book of business

- increased and loans with higher base guaranty fees comprised a larger part of our guaranty book of business in the second quarter and first half of 2018 than in the second quarter and first half of 2017.

We initially recognize mortgage loans and debt of consolidated trusts in our consolidated balance sheet at fair value.

We recognize the difference between the initial fair value and the carrying value of these mortgage loans and debt as cost basis adjustments in our consolidated balance sheet. We amortize cost basis adjustments, including premiums and discounts on mortgage loans and securities, as a yield adjustment over the contractual life of the loan or security as a component of net interest income.

The impact of net premiums and discounts on net interest income can vary:

• The net premium position of our consolidated debt will amortize as income over time.

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

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

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

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---



MD&A I  
Consolidated  
Results of  
Operations

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

Analysis of Net Interest Income and Yield

|  | For the Three Months Ended June 30, |                                |                                 |                    |                                |                                 |
|--|-------------------------------------|--------------------------------|---------------------------------|--------------------|--------------------------------|---------------------------------|
|  | 2018                                |                                |                                 | 2017               |                                |                                 |
|  | Average<br>Balance                  | Interest<br>Income/<br>Expense | Average<br>Rates<br>Earned/Paid | Average<br>Balance | Interest<br>Income/<br>Expense | Average<br>Rates<br>Earned/Paid |
|  | (Dollars in millions)               |                                |                                 |                    |                                |                                 |
| Interest-earning assets:   |                                     |                                |                                 |                    |                                |                                 |
| Mortgage loans of Fannie Mae   | \$ 156,392                          | \$ 1,786                       | 4.57 %                          | \$ 190,255         | \$ 1,978                       | 4.16 %                          |
| Mortgage loans of consolidated trusts  | 3,065,008                           | 26,521                         | 3.46                            | 2,951,028          | 25,033                         | 3.39                            |
| Total mortgage loans <sup>(1)</sup>  | 3,221,400                           | 28,307                         | 3.51                            | 3,141,283          | 27,011                         | 3.44                            |
| Mortgage-related securities  | 10,964                              | 106                            | 3.87                            | 13,860             | 127                            | 3.64                            |
| Non-mortgage-related securities <sup>(2)</sup>   | 54,678                              | 262                            | 1.89                            | 54,542             | 140                            | 1.02                            |
| Federal funds sold and securities purchased under agreements to resell or similar arrangements | 31,939                              | 149                            | 1.84                            | 37,136             | 87                             | 0.93                            |
| Advances to lenders  | 4,202                               | 33                             | 3.12                            | 4,208              | 28                             | 2.64                            |
| Total interest-earning assets  | \$ 3,323,183                        | \$ 28,857                      | 3.47 %                          | \$ 3,251,029       | \$ 27,393                      | 3.37 %                          |
| Interest-bearing liabilities:  |                                     |                                |                                 |                    |                                |                                 |
| Short-term funding debt  | \$ 25,204                           | \$ (108)                       | 1.69 %                          | \$ 30,320          | \$ (56)                        | 0.73 %                          |
| Long-term funding debt   | 203,165                             | (1,135)                        | 2.23                            | 263,064            | (1,388)                        | 2.11                            |
| Connecticut Avenue Securities® (“CAS”)   | 23,887                              | (339)                          | 5.68                            | 18,923             | (241)                          | 5.09                            |
| Total debt of Fannie Mae   | 252,256                             | (1,582)                        | 2.51                            | 312,307            | (1,685)                        | 2.16                            |
| Debt securities of consolidated trusts held by third parties                                   | 3,065,489                           | (21,898)                       | 2.86                            | 2,949,510          | (20,706)                       | 2.81                            |
| Total interest-bearing liabilities   | \$ 3,317,745                        | \$ (23,480)                    | 2.83 %                          | \$ 3,261,817       | \$ (22,391)                    | 2.75 %                          |
| Net interest income/net interest yield   |                                     | \$ 5,377                       | 0.65 %                          |                    | \$ 5,002                       | 0.62 %                          |

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

MD&A I  
Consolidated  
Results of  
Operations

|  | For the Six Months Ended June 30, |                                |                                 |   |                    |                                |                                 |   |
|--|-----------------------------------|--------------------------------|---------------------------------|---|--------------------|--------------------------------|---------------------------------|---|
|  | 2018                              |                                | 2017                            |   | 2018               |                                | 2017                            |   |
|  | Average<br>Balance                | Interest<br>Income/<br>Expense | Average<br>Rates<br>Earned/Paid | % | Average<br>Balance | Interest<br>Income/<br>Expense | Average<br>Rates<br>Earned/Paid | % |
|  | (Dollars in millions)             |                                |                                 |   |                    |                                |                                 |   |
| Interest-earning assets:   |                                   |                                |                                 |   |                    |                                |                                 |   |
| Mortgage loans of Fannie Mae   | \$ 159,721                        | \$ 3,522                       | 4.41                            | % | \$ 195,302         | \$ 4,071                       | 4.17                            | % |
| Mortgage loans of consolidated trusts  | 3,056,594                         | 52,819                         | 3.46                            |   | 2,937,007          | 49,987                         | 3.40                            |   |
| Total mortgage loans <sup>(1)</sup>  | 3,216,315                         | 56,341                         | 3.50                            |   | 3,132,309          | 54,058                         | 3.45                            |   |
| Mortgage-related securities  | 10,750                            | 206                            | 3.83                            |   | 14,627             | 269                            | 3.66                            |   |
| Non-mortgage-related securities <sup>(2)</sup>   | 53,200                            | 469                            | 1.75                            |   | 55,264             | 241                            | 0.87                            |   |
| Federal funds sold and securities purchased<br>under agreements to resell or similar<br>arrangements | 34,649                            | 291                            | 1.67                            |   | 38,851             | 153                            | 0.78                            |   |
| Advances to lenders  | 4,024                             | 64                             | 3.16                            |   | 4,356              | 56                             | 2.55                            |   |
| Total interest-earning assets  | \$ 3,318,938                      | \$ 57,371                      | 3.46                            | % | \$ 3,245,407       | \$ 54,777                      | 3.38                            | % |
| Interest-bearing liabilities:  |                                   |                                |                                 |   |                    |                                |                                 |   |
| Short-term funding debt  | \$ 28,204                         | \$ (214 )                      | 1.51                            | % | \$ 31,381          | \$ (99 )                       | 0.63                            | % |
| Long-term funding debt   | 208,751                           | (2,293 )                       | 2.20                            |   | 267,990            | (2,866 )                       | 2.14                            |   |
| Connecticut Avenue Securities® (“CAS”)   | 23,184                            | (641 )                         | 5.53                            |   | 17,904             | (449 )                         | 5.02                            |   |
| Total debt of Fannie Mae   | 260,139                           | (3,148 )                       | 2.42                            |   | 317,275            | (3,414 )                       | 2.15                            |   |
| Debt securities of consolidated trusts held by<br>third parties                                      | 3,057,812                         | (43,614 )                      | 2.85                            |   | 2,937,399          | (41,015 )                      | 2.79                            |   |
| Total interest-bearing liabilities   | \$ 3,317,951                      | \$ (46,762)                    | 2.82                            | % | \$ 3,254,674       | \$ (44,429)                    | 2.73                            | % |
| Net interest income/net interest yield   |                                   | \$ 10,609                      | 0.64                            | % |                    | \$ 10,348                      | 0.64                            | % |

Average balance includes mortgage loans on nonaccrual status. Typically, interest income on nonaccrual mortgage loans is recognized when cash is received. Interest income not recognized for loans on nonaccrual status was \$97 million and \$265 million, respectively, for the second quarter and first half of 2018, compared with \$186 million and \$402 million, respectively, for the second quarter and first half of 2017.

<sup>(2)</sup> Includes cash equivalents.

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

MD&A I  
Consolidated  
Results of  
Operations

Fair Value Gains (Losses), Net

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

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

Fair Value Gains (Losses), Net

|  | For the Three<br>Months Ended<br>June 30,<br>2018 |         | For the Six<br>Months Ended<br>June 30,<br>2017 |         |
|--|---|---------|---|---------|
|  | 2018  | 2017    | 2018  | 2017    |
|  | (Dollars in millions)                             |         |   |         |
| Risk management derivatives fair value gains (losses) attributable to: |   |         |   |         |
| Net contractual interest expense accruals on interest rate swaps       | \$(286)   | \$(224) | \$(501)   | \$(479) |
| Net change in fair value during the period                             | 324   | (78)    | 838   | 289     |
| Total risk management derivatives fair value gains (losses), net       | 38  | (302)   | 337   | (190)   |
| Mortgage commitment derivatives fair value gains (losses), net         | (76)  | (192)   | 488   | (272)   |
| Total derivatives fair value gains (losses), net                       | (38)  | (494)   | 825   | (462)   |
| Trading securities gains, net  | 21  | 18      | 119   | 86      |
| CAS fair value gains (losses), net                                     | 27  | (169)   | 19  | (331)   |
| Other, net   | 219   | (46)    | 311   | (24)    |
| Fair value gains (losses), net   | \$229   | \$(691) | \$1,274   | \$(731) |

Fair value gains in the second quarter of 2018 were primarily driven by price decreases during the quarter on long-term debt of consolidated trusts held at fair value, which are included in "Other, net."

Fair value gains in the first half of 2018 were primarily driven by:

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

Fair value losses in the second quarter and first half of 2017 were primarily driven by:

- decreases in the fair value of our pay-fixed risk management derivatives due to declines in longer-term swap rates during the second quarter;
- decreases in the fair value of our mortgage commitments due to losses on commitments to sell mortgage-related securities due to an increase in prices as interest rates decreased during the commitment periods; and
- fair value losses on CAS debt reported at fair value resulting from tightening spreads between CAS debt yields and LIBOR during the periods.

Fannie  
Mae  
Second  
Quarter  
2018

Form  
10-Q

---

MD&A I  
Consolidated  
Results of  
Operations

## Credit-Related Income

## Benefit for Credit Losses

The table below provides quantitative analysis of the drivers of our single-family benefit for credit losses for the periods presented. Many of the drivers that contribute to our benefit for credit losses overlap or are interdependent. The attribution shown below is based on internal allocation estimates. The table below also displays our multifamily benefit for credit losses.

## Components of Benefit for Credit Losses

|   | For the<br>Three<br>Months<br>Ended June<br>30,<br>2018 |       | For the Six<br>Months<br>Ended June<br>30,<br>2017 |        |
|---|---|-------|--|--------|
|   | 2018  | 2017  | 2018   | 2017   |
|   | (Dollars in billions)                                   |       |  |        |
| Benefit for credit losses:  |   |       |  |        |
| Changes in loan activity <sup>(1)</sup>   | \$0.5   | \$0.1 | \$0.3  | \$0.1  |
| Redesignation of held for investment (“HFI”) loans to held for sale (“HFS”) loans | 0.8   | 0.4   | 1.0  | 0.5    |
| Actual and forecasted home prices   | 0.4   | 0.6   | 0.7  | 1.2    |
| Actual and projected interest rates   | (0.3 )  | 0.1   | (0.7 )   | (0.1 ) |
| Other <sup>(2)</sup>  | (0.1 )  | 0.1   | 0.2  | *      |
| Single-family benefit for credit losses   | 1.3   | 1.3   | 1.5  | 1.7    |
| Multifamily benefit for credit losses   | *   | *     | *  | *      |
| Total benefit for credit losses   | \$1.3   | \$1.3 | \$1.5  | \$1.7  |

\*Represents less than \$50 million.

Primarily consists of changes in the allowance due to loan delinquency, loan liquidations, new troubled debt restructurings, amortization of concessions granted to borrowers and the impact of FHFA’s Advisory Bulletin (1) 2012-02, “Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention” (the “Advisory Bulletin”).

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

The primary factors that impacted our benefit for credit losses in the second quarter and first half of 2018 were:

The redesignation of certain reperforming and nonperforming single-family loans from HFI to HFS as we no longer intend to hold them for the foreseeable future or to maturity. Upon redesignation of these loans, we recorded the loans at the lower of cost or fair value with a charge-off to the allowance for loan losses. Amounts recorded in the allowance related to the loans exceeded the amounts charged off, which contributed to the benefit for credit losses. An increase in home prices, which contributed to the benefit for credit losses. Higher home prices decrease the likelihood that loans will default and reduce the amount of credit loss on loans that do default, which impacts our estimate of losses and ultimately reduces our loss reserves and provision for credit losses.

The benefit for credit losses was partially offset by the impact of higher actual and projected mortgage interest rates. As mortgage interest rates rise, we expect a decrease in future prepayments on single-family individually impaired loans, including modified loans. Lower expected prepayments lengthen the expected lives of modified loans, which increases the impairment relating to concessions provided on these loans and results in an increase in the provision for credit losses.

The following factors contributed to our benefit for credit losses in the second quarter and first half of 2017:

Higher actual and forecasted home prices in the periods.

The redesignation of certain reperforming and nonperforming single-family loans from HFI to HFS during the periods.

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A I  
Consolidated  
Results of  
Operations

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

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

Federal Income Taxes

The decrease in our provision for federal income taxes in the second quarter and first half of 2018 as compared to the second quarter and first half of 2017 was the result of the Tax Cuts and Jobs Act of 2017, which reduced the federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018. This decline was the primary driver of the reduction in our effective tax rate to 20.3% for the three months ended June 30, 2018 and 20.6% for the six months ended June 30, 2018, compared with 33.2% for both the three and six months ended June 30, 2017. Our effective tax rates for all the periods presented were different from the prevailing federal statutory rate primarily due to the benefits of our investments in housing projects eligible for low-income housing tax credits.

Consolidated

Balance

Sheet

Analysis

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

Summary of Condensed Consolidated Balance Sheets

|  | As of<br>June 30,<br>2018 | December 31,<br>2017 | Variance   |
|--|---------------------------|----------------------|------------|
|  | (Dollars in millions)     |                      |            |
| <b>Assets</b>  |                           |                      |            |
| Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements | \$37,153                  | \$51,580             | \$(14,427) |
| Restricted cash  | 27,876                    | 28,150               | (274 )     |
| Investments in securities <sup>(1)</sup>   | 46,104                    | 39,522               | 6,582      |
| <b>Mortgage loans:</b>   |                           |                      |            |
| Of Fannie Mae  | 154,471                   | 167,793              | (13,322 )  |
| Of consolidated trusts   | 3,070,965                 | 3,029,816            | 41,149     |
| Allowance for loan losses  | (16,812 )                 | (19,084 )            | 2,272      |
| Mortgage loans, net of allowance for loan losses   | 3,208,624                 | 3,178,525            | 30,099     |
| Deferred tax assets, net   | 15,375                    | 17,350               | (1,975 )   |
| Other assets   | 28,232                    | 30,402               | (2,170 )   |
| Total assets   | \$3,363,364               | \$3,345,529          | \$17,835   |
| <b>Liabilities and equity (deficit)</b>  |                           |                      |            |
| <b>Debt:</b>   |                           |                      |            |
| Of Fannie Mae  | \$250,690                 | \$276,752            | \$(26,062) |
| Of consolidated trusts   | 3,086,799                 | 3,053,302            | 33,497     |
| Other liabilities  | 18,416                    | 19,161               | (745 )     |
| Total liabilities  | 3,355,905                 | 3,349,215            | 6,690      |
| Fannie Mae stockholders' equity (deficit):   |                           |                      |            |

Edgar Filing: FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE - Form 10-Q

|  |             |              |           |
|--|-------------|--------------|-----------|
| Senior preferred stock                 | 120,836     | 117,149      | 3,687     |
| Other net deficit                      | (113,377 )  | (120,835 )   | 7,458     |
| Total equity (deficit)                 | 7,459       | (3,686 )     | 11,145    |
| Total liabilities and equity (deficit) | \$3,363,364 | \$ 3,345,529 | \$ 17,835 |

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---



MD&A I  
Consolidated  
Balance  
Sheet  
Analysis

---

(1) Includes \$35.8 billion as of June 30, 2018 and \$29.2 billion as of December 31, 2017 of non-mortgage-related securities.

Mortgage Loans, Net of Allowance for Loan Losses

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

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

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

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

Debt

The decrease in debt of Fannie Mae from December 31, 2017 to June 30, 2018 was primarily driven by lower funding needs. The increase in debt of consolidated trusts from December 31, 2017 to June 30, 2018 was primarily driven by sales of Fannie Mae MBS, which are accounted for as issuances of debt of consolidated trusts in our condensed consolidated balance sheets, since the MBS certificate ownership is transferred from us to a third party. See “Liquidity and Capital Management—Liquidity Management—Debt Funding” for a summary of the activity of the debt of Fannie Mae and a comparison of the mix between our outstanding short-term and long-term debt. Also see “Note 7, Short-Term and Long-Term Debt” for additional information on our outstanding debt.

Stockholders’ Equity (Deficit)

The shift from a net deficit of \$3.7 billion as of December 31, 2017 to net equity of \$7.5 billion as of June 30, 2018 reflects:

- our comprehensive income of \$8.4 billion for the first half of 2018;
- our receipt of \$3.7 billion from Treasury during the first quarter of 2018 pursuant to the senior preferred stock purchase agreement, which eliminated our net worth deficit as of December 31, 2017; and
- our dividend payment to Treasury of \$938 million in the second quarter of 2018.

MD&A |  
 Retained  
 Mortgage  
 Portfolio

Retained  
 Mortgage  
 Portfolio

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

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

• **Lender liquidity**, which includes balances related to our whole loan conduit activity, supports our efforts to provide liquidity to the single-family and multifamily mortgage markets.

• **Loss mitigation** supports our loss mitigation efforts through the purchase of delinquent loans from MBS trusts.

• **Other** represents assets that were previously purchased for investment purposes. More than half of the balance of "Other" consisted of reverse mortgage loans and Fannie Mae-wrapped reverse mortgage securities as of June 30, 2018. We expect the amount of assets in "Other" will decline over time as they liquidate, mature or are sold.

Retained Mortgage Portfolio  
 (Dollars in billions)

| Lender liquidity | Loss mitigation | Other |
|------------------|-----------------|-------|
|------------------|-----------------|-------|

Fannie  
 Mae  
 Second  
 Quarter  
 2018  
 Form  
 10-Q

MD&A I  
Retained  
Mortgage  
Portfolio

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

|  | As of                 |                      |
|--|-----------------------|----------------------|
|  | June 30,<br>2018      | December 31,<br>2017 |
|  | (Dollars in millions) |                      |
| Single-family:   |                       |                      |
| Mortgage loans <sup>(1)</sup>                                      | \$ 135,856            | \$ 146,316           |
| Reverse mortgages  | 23,664                | 26,458               |
| Mortgage-related securities:                                       |                       |                      |
| Agency securities <sup>(2)</sup>                                   | 43,161                | 31,719               |
| Fannie Mae-wrapped reverse mortgage securities                     | 6,390                 | 6,689                |
| Ginnie Mae reverse mortgage securities                             | 1,926                 | 527                  |
| Other Fannie Mae-wrapped securities <sup>(3)</sup>                 | 677                   | 3,414                |
| Private-label and other securities <sup>(3)</sup>                  | 3,220                 | 2,588                |
| Total single-family mortgage-related securities <sup>(4)</sup>     | 55,374                | 44,937               |
| Total single-family mortgage loans and mortgage-related securities | 214,894               | 217,711              |
| Multifamily:   |                       |                      |
| Mortgage loans <sup>(5)</sup>                                      | 3,784                 | 4,591                |
| Mortgage-related securities:                                       |                       |                      |
| Agency securities <sup>(2)</sup>                                   | 6,686                 | 7,860                |
| Commercial mortgage-backed securities (“CMBS”)                     | —                     | 24                   |
| Mortgage revenue bonds   | 441                   | 597                  |
| Total multifamily mortgage-related securities <sup>(6)</sup>       | 7,127                 | 8,481                |
| Total multifamily mortgage loans and mortgage-related securities   | 10,911                | 13,072               |
| Total retained mortgage portfolio                                  | \$225,805             | \$ 230,783           |

Includes single-family loans classified as TDRs that were on accrual status of \$79.9 billion and \$86.3 billion as of  
(1) June 30, 2018 and December 31, 2017, respectively, and single-family loans on nonaccrual status of \$30.2 billion and \$33.1 billion as of June 30, 2018 and December 31, 2017, respectively.

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

The increase in private-label and other securities and the corresponding decrease in other Fannie Mae-wrapped  
(3) securities from December 31, 2017 to June 30, 2018 was due to the dissolution of a Fannie Mae-wrapped private-label securities trust during the first quarter of 2018.

(4) The fair value of these single-family mortgage-related securities was \$56.6 billion and \$46.7 billion as of June 30, 2018 and December 31, 2017, respectively.

Includes multifamily loans classified as TDRs that were on accrual status of \$64 million and \$84 million as of  
(5) June 30, 2018 and December 31, 2017, respectively, and multifamily loans on nonaccrual status of \$200 million and \$122 million as of June 30, 2018 and December 31, 2017, respectively.

(6) The fair value of these multifamily mortgage-related securities was \$7.4 billion and \$9.0 billion as of June 30, 2018 and December 31, 2017, respectively.

The amount of mortgage assets that we may own is restricted by our senior preferred stock purchase agreement with Treasury, as described in “Business—Conservatorship and Treasury Agreements—Treasury Agreements” in our 2017 Form 10-K. Our retained mortgage portfolio is below the final \$250 billion cap under the senior preferred stock purchase

agreement that becomes effective on December 31, 2018. We expect the size of our retained mortgage portfolio will continue to decrease in 2018.

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A I  
Retained  
Mortgage  
Portfolio

In support of our loss mitigation strategy, we purchased \$10.5 billion of loans from our single-family MBS trusts in the first half of 2018, the substantial majority of which were delinquent. See “MD&A—Retained Mortgage Portfolio—Purchases of Loans from Our MBS Trusts” in our 2017 Form 10-K for more information relating to our purchases of loans from MBS trusts.

Total

Book of

Business

The table below displays the composition of our total book of business based on unpaid principal balance. Our single-family book of business accounted for 91% of our total book of business as of June 30, 2018 and December 31, 2017. While our total book of business includes all of our mortgage-related assets, both on- and off-balance sheet, our guaranty book of business excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

Composition of Total Book of Business

|   | As of<br>June 30, 2018 |             |             | December 31, 2017 |             |             |
|---|------------------------|-------------|-------------|-------------------|-------------|-------------|
|   | Single-Family          | Multifamily | Total       | Single-Family     | Multifamily | Total       |
|   | (Dollars in millions)  |             |             |                   |             |             |
| Guaranty book of business <sup>(1)</sup>              | \$2,949,038            | \$ 291,352  | \$3,240,390 | \$2,931,356       | \$ 280,502  | \$3,211,858 |
| Non-Fannie Mae mortgage securities <sup>(2)</sup>     | 6,907                  | 441         | 7,348       | 4,005             | 621         | 4,626       |
| Total book of business                                | \$2,955,945            | \$ 291,793  | \$3,247,738 | \$2,935,361       | \$ 281,123  | \$3,216,484 |
| Guaranty Book of Business Detail:                     |                        |             |             |                   |             |             |
| Conventional guaranty book of business <sup>(3)</sup> | \$2,912,112            | \$ 290,119  | \$3,202,231 | \$2,890,908       | \$ 279,235  | \$3,170,143 |
| Government guaranty book of business <sup>(4)</sup>   | \$36,926               | \$ 1,233    | \$38,159    | \$40,448          | \$ 1,267    | \$41,715    |

<sup>(1)</sup> Includes other single-family Fannie Mae guarantees of \$1.7 billion and \$1.8 billion as of June 30, 2018 and December 31, 2017, respectively, and other multifamily Fannie Mae guarantees of \$12.1 billion and \$12.4 billion as of June 30, 2018 and December 31, 2017, respectively. The unpaid principal balance of securitized Fannie Mae MBS is included only once in the reported amount.

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

<sup>(3)</sup> Refers to mortgage loans and mortgage-related securities that are not guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies.

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

The GSE Act requires us to set aside each year an amount equal to 4.2 basis points for each dollar of the unpaid principal balance of our total new business purchases and to pay this amount to specified HUD and Treasury funds. New business purchases consist of single-family and multifamily whole mortgage loans purchased during the period and single-family and multifamily mortgage loans underlying Fannie Mae MBS issued during the period pursuant to lender swaps. In February 2018, we paid \$239 million to the funds based on our new business purchases in 2017. Our new business purchases were \$249.3 billion for the first half of 2018. Accordingly, we recognized an expense of \$105 million related to this obligation for the first half of 2018. We expect to pay this amount, plus additional amounts to be accrued based on our new business purchases in the second half of 2018, to the funds on or before March 1, 2019. See “Business—Legislation and Regulation—GSE Act and Other Regulation of Our Business—Affordable Housing Allocations” in our 2017 Form 10-K for more information regarding this obligation.

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A |  
Business  
Segments

Business  
Segments

We have two reportable business segments: Single-Family and Multifamily. This section describes each segment's business and credit metrics, and financial results.

Single-Family Business

Single-Family Mortgage Market

Housing sales slightly declined in the second quarter of 2018 compared with the first quarter of 2018. Total existing home sales averaged 5.4 million units annualized in the second quarter of 2018, compared with 5.5 million units in the first quarter of 2018, according to data from the National Association of REALTORS®. According to the U.S. Census Bureau, new single-family home sales decreased during the second quarter of 2018, averaging an annualized rate of 646,000 units, compared with 656,000 units in the first quarter of 2018.

The 30-year fixed mortgage rate averaged 4.55% during the week ended June 30, 2018, compared with 4.44% during the week ended March 31, 2018, according to Freddie Mac's Primary Mortgage Market Survey®.

We forecast that total originations in the U.S. single-family mortgage market in 2018 will decrease from 2017 levels by approximately 8%, from an estimated \$1.83 trillion in 2017 to \$1.69 trillion in 2018, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will decrease from an estimated \$650 billion in 2017 to \$481 billion in 2018.

Single-Family Market Share

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

We estimate our market share of single-family mortgage-related securities issuances was 36% in the second quarter of 2018, compared with 42% in the first quarter of 2018 and 39% in the second quarter of 2017.

Single-Family Business Metrics

Single-family Fannie Mae MBS issuances decreased in the second quarter of 2018, primarily as a result of lower refinancing activity during the quarter. However, single-family Fannie Mae MBS outstanding increased as of June 30, 2018 compared to March 31, 2018 because acquisitions during the quarter outpaced liquidations, which slowed as a result of a decline in prepayments due to the rising interest rate environment.

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A I  
Business  
Segments

---

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

Our average charged guaranty fee on newly acquired single-family loans, net of TCCA fees, increased from 48.0 basis points in the second quarter of 2017 to 49.0 basis points in the second quarter of 2018, primarily driven by an increase in the total base guaranty fees charged on our 2018 acquisitions.

Average Charged Guaranty Fee on Single-Family Guaranty Book of Business and  
Average Charged Guaranty Fee on New Single-Family Acquisitions<sup>(1)</sup>

---

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

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---



MD&A I  
Business  
Segments

## Single-Family Business Financial Results

## Single-Family Business Financial Results

|                                      | For the Three Months  |          |          | For the Six Months Ended |          |          |
|--------------------------------------|-----------------------|----------|----------|--------------------------|----------|----------|
|                                      | Ended June 30,        |          |          | June 30,                 |          |          |
|                                      | 2018                  | 2017     | Variance | 2018                     | 2017     | Variance |
|                                      | (Dollars in millions) |          |          |                          |          |          |
| Net interest income <sup>(1)</sup>   | \$4,723               | \$4,366  | \$ 357   | \$9,284                  | \$9,122  | \$ 162   |
| Fee and other income                 | 69                    | 111      | (42 )    | 227                      | 187      | 40       |
| Net revenues                         | 4,792                 | 4,477    | 315      | 9,511                    | 9,309    | 202      |
| Investment gains, net                | 252                   | 321      | (69 )    | 494                      | 271      | 223      |
| Fair value gains (losses), net       | 278                   | (685 )   | 963      | 1,312                    | (697 )   | 2,009    |
| Administrative expenses              | (649 )                | (600 )   | (49 )    | (1,292 )                 | (1,201 ) | (91 )    |
| Credit-related income <sup>(2)</sup> | 1,159                 | 1,223    | (64 )    | 1,193                    | 1,407    | (214 )   |
| TCCA fees <sup>(1)</sup>             | (565 )                | (518 )   | (47 )    | (1,122 )                 | (1,021 ) | (101 )   |
| Other expenses, net                  | (270 )                | (155 )   | (115 )   | (402 )                   | (411 )   | 9        |
| Income before federal income taxes   | 4,997                 | 4,063    | 934      | 9,694                    | 7,657    | 2,037    |
| Provision for federal income taxes   | (1,044 )              | (1,401 ) | 357      | (2,060 )                 | (2,653 ) | 593      |
| Net income                           | \$3,953               | \$2,662  | \$ 1,291 | \$7,634                  | \$5,004  | \$ 2,630 |

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

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

## Net interest income

Single-family net interest income increased in the second quarter and first half of 2018 compared with the second quarter and first half of 2017. The drivers of net interest income for the single-family segment for these periods are consistent with the drivers of net interest income for our condensed consolidated statements of operations and comprehensive income for the same periods, which we discuss in "Consolidated Results of Operations—Net Interest Income."

## Investment gains, net

Investment gains decreased in the second quarter of 2018 compared with the second quarter of 2017 primarily due to gains on sales of AFS securities during the second quarter of 2017. We did not recognize any gains on sales of AFS securities during the second quarter of 2018. Investment gains increased in the first half of 2018 compared with the first half of 2017 primarily driven by a higher volume of reperforming loan sales and higher gains on sales of AFS securities during the first half of 2018.

## Fair value gains (losses), net

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

## Credit-related income

We recognized lower single-family credit-related income in the second quarter and first half of 2018 compared with the second quarter and first half of 2017. The drivers of credit-related income for the single-family segment in the second quarter and first half of 2017 and 2018 are consistent with the drivers of credit-related income for our condensed consolidated statements of operations and comprehensive income for the same periods, which we discuss

in “Consolidated Results of Operations—Credit-Related Income.”

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A |  
Business  
Segments

#### Single-Family Mortgage Credit Risk Management

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

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

For information on our underwriting and servicing standards, quality control process, repurchase requests, and representation and warranty framework, see “MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards” in our 2017 Form 10-K.

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A I  
Business  
Segments

Single-Family Portfolio Diversification and Monitoring

For information on key loan attributes, see “MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring” in our 2017 Form 10-K. The table below displays our single-family conventional business volumes and our single-family conventional guaranty book of business, based on certain key risk characteristics that we use to evaluate the risk profile and credit quality of our single-family loans.

Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business<sup>(1)</sup>

|  | Percent of Single-Family Conventional Business Volume at Acquisition <sup>(2)</sup> |           |                                   |           | Percent of Single-Family Conventional Guaranty Book of Business <sup>(3)(4)</sup> |                   |   |
|--|---|-----------|-----------------------------------|-----------|---|-------------------|---|
|  | For the Three Months Ended June 30,   |           | For the Six Months Ended June 30, |           | As of   |                   |   |
|  | 2018  | 2017      | 2018                              | 2017      | June 30, 2018   | December 31, 2017 |   |
| Original LTV ratio: <sup>(5)</sup>                 |   |           |                                   |           |   |                   |   |
| <= 60%   | 16  | %17       | %17                               | %19       | % 20  | % 20              | % |
| 60.01% to 70%                                      | 11  | 12        | 12                                | 13        | 14  | 14                |   |
| 70.01% to 80%                                      | 37  | 39        | 38                                | 39        | 38  | 38                |   |
| 80.01% to 90%                                      | 13  | 13        | 12                                | 12        | 11  | 11                |   |
| 90.01% to 95%                                      | 15  | 15        | 14                                | 13        | 10  | 10                |   |
| 95.01% to 100%                                     | 8   | 4         | 7                                 | 4         | 4   | 4                 |   |
| Greater than 100%                                  | *   | *         | *                                 | *         | 3   | 3                 |   |
| Total  | 100   | %100      | %100                              | %100      | % 100   | % 100             | % |
| Weighted average                                   | 77  | %76       | %76                               | %75       | % 75  | % 75              | % |
| Average loan amount                                | \$231,490   | \$225,194 | \$231,890                         | \$223,305 | \$168,532   | \$166,643         |   |
| Estimated mark-to-market LTV ratio: <sup>(6)</sup> |   |           |                                   |           |   |                   |   |
| <= 60%   |   |           |                                   |           | 55  | % 52              | % |
| 60.01% to 70%                                      |   |           |                                   |           | 18  | 18                |   |
| 70.01% to 80%                                      |   |           |                                   |           | 15  | 17                |   |
| 80.01% to 90%                                      |   |           |                                   |           | 8   | 8                 |   |
| 90.01% to 100%                                     |   |           |                                   |           | 3   | 4                 |   |
| Greater than 100%                                  |   |           |                                   |           | 1   | 1                 |   |
| Total  |   |           |                                   |           | 100   | % 100             | % |
| Weighted average                                   |   |           |                                   |           | 56  | % 58              | % |
| Product type:                                      |   |           |                                   |           |   |                   |   |
| Fixed-rate: <sup>(7)</sup>                         |   |           |                                   |           |   |                   |   |
| Long-term  | 89  | %84       | %88                               | %82       | % 81  | % 80              | % |
| Intermediate-term                                  | 9   | 13        | 10                                | 15        | 15  | 15                |   |
| Total fixed-rate                                   | 98  | 97        | 98                                | 97        | 96  | 95                |   |
| Adjustable-rate                                    | 2   | 3         | 2                                 | 3         | 4   | 5                 |   |
| Total  | 100   | %100      | %100                              | %100      | % 100   | % 100             | % |
| Number of property units:                          |   |           |                                   |           |   |                   |   |
| 1 unit   | 98  | %97       | %97                               | %97       | % 97  | % 97              | % |
| 2-4 units  | 2   | 3         | 3                                 | 3         | 3   | 3                 |   |
| Total  | 100   | %100      | %100                              | %100      | % 100   | % 100             | % |

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A I  
Business  
Segments

|  | Percent of Single-Family<br>Conventional Business<br>Volume at Acquisition <sup>(2)</sup> |      |  |      | Percent of<br>Single-Family<br>Conventional<br>Guaranty Book of<br>Business <sup>(3)(4)</sup> |      |              |      |
|--|---|------|--|------|---|------|--------------|------|
|  | For the<br>Three<br>Months<br>Ended<br>June 30,   |      | For the Six<br>Months<br>Ended<br>June 30, |      | As of<br>June 30,   |      | December 31, |      |
|  | 2018  | 2017 | 2018                                       | 2017 | 2018  | 2017 | 2018         | 2017 |
| Property type:                           |   |      |  |      |   |      |              |      |
| Single-family homes                      | 90  | %90  | %90  | %90  | %91   | %91  | 91           | %    |
| Condo/Co-op                              | 10  | 10   | 10   | 10   | 9   | 9    | 9            |      |
| Total                                    | 100   | %100 | %100                                       | %100 | %100  | %100 | 100          | %    |
| Occupancy type:                          |   |      |  |      |   |      |              |      |
| Primary residence                        | 89  | %88  | %89  | %89  | %89   | %89  | 89           | %    |
| Second/vacation home                     | 5   | 5    | 4  | 4    | 4   | 4    | 4            |      |
| Investor                                 | 6   | 7    | 7  | 7    | 7   | 7    | 7            |      |
| Total                                    | 100   | %100 | %100                                       | %100 | %100  | %100 | 100          | %    |
| FICO credit score at origination:        |   |      |  |      |   |      |              |      |
| < 620                                    | *   | %*   | %*   | %*   | %2  | %2   | 2            | %    |
| 620 to < 660                             | 6   | 5    | 6  | 5    | 5   | 5    | 5            |      |
| 660 to < 700                             | 14  | 13   | 14   | 13   | 12  | 12   | 12           |      |
| 700 to < 740                             | 23  | 23   | 23   | 23   | 20  | 20   | 20           |      |
| >= 740                                   | 57  | 59   | 57   | 59   | 61  | 61   | 61           |      |
| Total                                    | 100   | %100 | %100                                       | %100 | %100  | %100 | 100          | %    |
| Weighted average                         | 743   | 745  | 743  | 745  | 745   | 745  | 745          |      |
| Loan purpose:                            |   |      |  |      |   |      |              |      |
| Purchase                                 | 65  | %61  | %59  | %53  | %41   | %39  | 39           | %    |
| Cash-out refinance                       | 22  | 20   | 24   | 22   | 20  | 20   | 20           |      |
| Other refinance                          | 13  | 19   | 17   | 25   | 39  | 41   | 41           |      |
| Total                                    | 100   | %100 | %100                                       | %100 | %100  | %100 | 100          | %    |
| Geographic concentration: <sup>(8)</sup> |   |      |  |      |   |      |              |      |
| Midwest                                  | 14  | %14  | %13  | %14  | %15   | %15  | 15           | %    |
| Northeast                                | 12  | 13   | 13   | 14   | 18  | 18   | 18           |      |
| Southeast                                | 24  | 24   | 23   | 23   | 22  | 22   | 22           |      |
| Southwest                                | 22  | 21   | 21   | 20   | 17  | 17   | 17           |      |
| West                                     | 28  | 28   | 30   | 29   | 28  | 28   | 28           |      |
| Total                                    | 100   | %100 | %100                                       | %100 | %100  | %100 | 100          | %    |
| Origination year:                        |   |      |  |      |   |      |              |      |
| 2012 and prior                           |   |      |  |      | 33  | %36  | 36           | %    |
| 2013                                     |   |      |  |      | 11  | 12   | 12           |      |
| 2014                                     |   |      |  |      | 6   | 7    | 7            |      |
| 2015                                     |   |      |  |      | 11  | 12   | 12           |      |
| 2016                                     |   |      |  |      | 17  | 18   | 18           |      |
| 2017                                     |   |      |  |      | 16  | 15   | 15           |      |

|       |      |     |   |
|-------|------|-----|---|
| 2018  | 6    | —   |   |
| Total | 100% | 100 | % |

---

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

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A I  
Business  
Segments

- (1) Second lien mortgage loans held by third parties are not reflected in the original LTV or mark-to-market LTV ratios in this table.
- (2) Calculated based on unpaid principal balance of single-family loans for each category at time of acquisition. Calculated based on the aggregate unpaid principal balance of single-family loans for each category divided by the
- (3) aggregate unpaid principal balance of loans in our single-family conventional guaranty book of business as of the end of each period.
- Our single-family conventional guaranty book of business includes jumbo-conforming and high-balance loans that represented approximately 7% of our single-family conventional guaranty book of business as of June 30, 2018
- (4) and December 31, 2017. See “MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Single-Family Portfolio Diversification and Monitoring—Jumbo-Conforming and High-Balance Loans” in our 2017 Form 10-K for information on these loans.
- The original LTV ratio generally is based on the original unpaid principal balance of the loan divided by the
- (5) appraised property value reported to us at the time of acquisition of the loan. Excludes loans for which this information is not readily available.
- The aggregate estimated mark-to-market LTV ratio is based on the unpaid principal balance of the loan as of the
- (6) end of each reported period divided by the estimated current value of the property, which we calculate using an internal valuation model that estimates periodic changes in home value. Excludes loans for which this information is not readily available.
- (7) Long-term fixed-rate consists of mortgage loans with maturities greater than 15 years, while intermediate-term fixed-rate loans have maturities equal to or less than 15 years.
- Midwest consists of IL, IN, IA, MI, MN, NE, ND, OH, SD and WI. Northeast consists of CT, DE, ME, MA, NH, NJ, NY, PA, PR, RI, VT and VI. Southeast consists of AL, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA and WV.
- (8) Southwest consists of AZ, AR, CO, KS, LA, MO, NM, OK, TX and UT. West consists of AK, CA, GU, HI, ID, MT, NV, OR, WA and WY.
- Mortgage rates in the second quarter and first half of 2018 were higher than in the second quarter and first half of 2017. As a result of the increased rate environment, refinance volume declined and the share of home purchase loan originations increased, resulting in a greater proportion of our single-family loan acquisitions in the first half of 2018 with loan-to-value (“LTV”) ratios over 95% (7% in the first half of 2018 compared with 4% in the first half of 2017). The decline in refinance volume also led to a decline in the weighted average FICO credit score of our single-family acquisitions in the first half of 2018 (743 in the first half of 2018 compared with 745 in the first half of 2017). The increased share of home purchase loan acquisitions has increased the percentage of home purchase loans in our single-family conventional guaranty book of business (41% as of June 30, 2018 compared with 39% as of December 31, 2017).
- In July 2017, we implemented Desktop Underwriter® (“DU”) Version 10.1, which included a change that enabled loans with debt-to-income ratios above 45% (up to 50%) to rely on DU’s comprehensive risk assessment, and removed specific policy rules that had previously set maximum LTV ratio and minimum reserves requirements for those loans. Due in part to our implementation of this change, acquisitions associated with borrower debt-to-income ratios above 45% increased to 26% of our non-Refi Plus single-family acquisitions in the second quarter of 2018, compared with 7% in the second quarter of 2017, and increased to 24% in the first half of 2018, compared with 7% in the first half of 2017. After assessing the profile of loans delivered to us using DU Version 10.1, in March 2018 we implemented DU Version 10.2, which revised DU’s risk assessment to limit risk layering. Risk layering refers to the acquisition of loans with multiple higher-risk characteristics (such as high LTV ratio, credit profile with a history of delinquencies, debt-to-income ratio above 45% and no or low levels of reserves). We expect to continue to acquire a higher proportion of loans with debt-to-income ratios above 45% than we acquired in periods prior to our July 2017 implementation of DU Version 10.1.



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

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A |  
Business  
Segments

Transfer of Mortgage Credit Risk

Single-Family Credit Enhancements

Our charter generally requires credit enhancement on any single-family conventional mortgage loan that we purchase or securitize if it has an LTV ratio over 80% at the time of purchase. We also enter into various other types of transactions in which we transfer mortgage credit risk to third parties. The table below displays information on the outstanding unpaid principal balance of our single-family loans, as well as the percentage of our total single-family conventional guaranty book of business measured by unpaid principal balance, that were covered by one or more forms of credit enhancement as of the dates specified. For a description of the types of credit enhancements specified in the table, see “MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Transfer of Mortgage Credit Risk” in our 2017 Form 10-K. For a discussion of our exposure to and management of the institutional counterparty credit risk associated with the providers of these credit enhancements see “Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management” in our 2017 Form 10-K and “Note 11, Concentrations of Credit Risk” in this report.

Single-Family Loans with Credit Enhancement

|   | As of                 |               |   |                   |               |   |
|---|-----------------------|---------------|---|-------------------|---------------|---|
|   | June 30, 2018         |               |   | December 31, 2017 |               |   |
|   | Unpaid                | Percentage    |   | Unpaid            | Percentage    |   |
|   | Principal             | of            |   | Principal         | of            |   |
|   | Balance               | Single-Family |   | Balance           | Single-Family |   |
|   |                       | Conventional  |   |                   | Conventional  |   |
|   |                       | Guaranty      |   |                   | Guaranty      |   |
|   |                       | Book of       |   |                   | Book of       |   |
|   |                       | Business      |   |                   | Business      |   |
|   | (Dollars in billions) |               |   |                   |               |   |
| Primary mortgage insurance and other  | \$ 580                | 20            | % | \$ 566            | 20            | % |
| Connecticut Avenue Securities® (“CAS”)  | 738                   | 26            |   | 681               | 24            |   |
| Credit Insurance Risk Transfer™ (“CIRT™”)                                     | 202                   | 7             |   | 181               | 6             |   |
| Lender risk sharing   | 86                    | 3             |   | 65                | 2             |   |
| Less: Loans covered by multiple credit enhancements                           | (350 )                | (12 )         |   | (335 )            | (12 )         |   |
| Total unpaid principal balance of single-family loans with credit enhancement | \$ 1,256              | 44            | % | \$ 1,158          | 40            | % |

Credit Risk Transfer Transactions

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



MD&A I  
Business  
Segments

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

Single-Family Credit Risk Transfer Transactions

Issuances from Inception to June 30, 2018<sup>(1)</sup>

(Dollars in billions)

|            |                                      |                               |                              |   |                                       |
|------------|--------------------------------------|-------------------------------|------------------------------|---|---------------------------------------|
| Senior     | Fannie Mae <sup>(2)</sup><br>\$1,331 |                               |                              |   | Initial Reference Pool <sup>(5)</sup> |
| Mezzanine  | Fannie Mae <sup>(2)</sup><br>\$2     | CIRT <sup>(3)(4)</sup><br>\$6 | CAS <sup>(3)</sup><br>\$30   | Lender Risk-Sharing <sup>(3)</sup><br>\$1 |                                       |
| First Loss | Fannie Mae <sup>(2)</sup><br>\$7     |                               | CAS <sup>(3)(6)</sup><br>\$3 | Lender Risk-Sharing <sup>(3)</sup><br>\$1 | \$1,381                               |

Outstanding as of June 30, 2018<sup>(1)</sup>

(Dollars in billions)

|            |                                    |                               |                              |   |  |
|------------|------------------------------------|-------------------------------|------------------------------|---|--|
| Senior     | Fannie Mae <sup>(2)</sup><br>\$979 |                               |                              |   | Outstanding Reference Pool <sup>(5)(7)</sup> |
| Mezzanine  | Fannie Mae <sup>(2)</sup><br>\$1   | CIRT <sup>(3)(4)</sup><br>\$6 | CAS <sup>(3)</sup><br>\$22   | Lender Risk-Sharing <sup>(3)</sup><br>\$1 |  |
| First Loss | Fannie Mae <sup>(2)</sup><br>\$7   |                               | CAS <sup>(3)(6)</sup><br>\$3 | Lender Risk-Sharing <sup>(3)</sup><br>\$1 | \$1,020                                      |

(1) For some lender risk-sharing transactions, does not reflect completed transfers of risk prior to settlement.

(2) Credit risk retained by Fannie Mae in CAS, CIRT and lender risk-sharing transactions. Tranche sizes vary across programs.

(3) Credit risk transferred to third parties. Tranche sizes vary across programs.

(4) Includes mortgage pool insurance transactions covering loans with an unpaid principal balance of approximately \$7 billion at issuance and approximately \$4 billion outstanding as of June 30, 2018.

(5) For CIRT and some lender risk-sharing transactions, "Reference Pool" reflects a pool of covered loans.

(6) For CAS transactions, "First Loss" represents all B tranche balances.

(7) For CAS and some lender risk-sharing transactions, represents outstanding reference pools, not the outstanding unpaid principal balance of the underlying loans. The outstanding unpaid principal balance for all loans covered by credit risk transfer programs, including all loans on which risk has been transferred in lender risk-sharing transactions, was \$1,026 billion as of June 30, 2018.

10-Q

---

MD&A |  
Business  
Segments

During the first half of 2018, pursuant to our credit risk transfer transactions, we transferred a portion of the mortgage credit risk on single-family mortgages with an unpaid principal balance of over \$150 billion at the time of the transactions.

We continue to transfer credit risk on a larger portion of our single-family book of business. Accordingly, the expenses related to these transactions increased from the first half of 2017 to the first half of 2018.

- For the first half of 2018, we paid approximately \$425 million in interest expense, net of LIBOR, on our outstanding CAS and approximately \$130 million in CIRT premiums.

- Comparatively, we paid approximately \$364 million in interest expense, net of LIBOR, on our outstanding CAS and approximately \$84 million in CIRT premiums for the first half of 2017.

As a part of our continued effort to innovate and improve our credit risk transfer programs, we are in the process of executing an enhancement to our credit risk transfer securities that will enable us to structure future CAS offerings as notes issued by a trust that qualifies as a Real Estate Mortgage Investment Conduit (“REMIC”). In order to facilitate this change, we began making a REMIC tax election on a majority of single-family loans we acquire and guarantee, beginning with loans in MBS pools issued on and after May 1, 2018. This proposed REMIC structure differs from the current CAS notes that are issued as Fannie Mae corporate debt. Under the current CAS structure, there can be a significant lag between the time when we recognize a provision for credit losses and when we recognize the related recovery from the CAS transaction. Under current accounting rules, while a credit expense on a loan in a reference pool for a CAS transaction is recorded when it is probable that we have incurred a loss, for our CAS issued beginning in 2016, a recovery is recorded only when an actual loss event occurs, which is typically several months after the collateral has been liquidated. The proposed new CAS structure will eliminate this timing mismatch, allowing us to recognize the credit loss protection benefit at the same time the credit loss is recognized in our condensed consolidated financial statements. We expect that upon our adoption of Accounting Standards Update 2016-13, Financial Instruments—Credit Losses, planned for January 1, 2020, we will recognize projected benefits we are entitled to receive from a credit enhancement when we recognize the expected loss on the mortgage loan (not to exceed the losses recorded in the financial statements), thereby continuing to record the benefit and the loss in the same period. The proposed enhancements to our CAS program are designed to promote the continued growth of the market by expanding the potential investor base for these securities and limiting investor exposure to Fannie Mae counterparty risk, without disrupting the To-Be-Announced (“TBA”) MBS market. We may issue CAS under the new REMIC structure later this year, subject to FHFA approval, market conditions and other factors.

#### Single-Family Problem Loan Management

Our problem loan management strategies are primarily focused on reducing defaults to avoid losses that would otherwise occur and pursuing foreclosure alternatives to attempt to minimize the severity of the losses we incur. See “MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Problem Loan Management” in our 2017 Form 10-K for a discussion of delinquency statistics on our problem loans, efforts undertaken to manage our problem loans, metrics regarding our loan workout activities, real estate owned (“REO”) management and other single-family credit-related disclosures. The discussion below updates some of that information.

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q



MD&A I  
Business  
Segments

Delinquency

The table below displays the delinquency status of loans and changes in the balance of seriously delinquent loans in our single-family conventional guaranty book of business, based on the number of loans. We include single-family conventional loans that we own and those that back Fannie Mae MBS in the calculation of the single-family delinquency rate. Seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. Delinquency Status and Activity of Single-Family Conventional Loans

|   | As of              |              |          |  |
|---|--------------------|--------------|----------|--|
|   | June 30,           | December 31, | June 30, |  |
|   | 2018               | 2017         | 2017     |  |
| Delinquency status:   |                    |              |          |  |
| 30 to 59 days delinquent  | 1.34%              | 1.63%        | 1.32%    |  |
| 60 to 89 days delinquent  | 0.34               | 0.50         | 0.34     |  |
| Seriously delinquent ("SDQ")  | 0.97               | 1.24         | 1.01     |  |
| Percentage of SDQ loans that have been delinquent for more than 180 days  | 55%                | 43%          | 61%      |  |
| Percentage of SDQ loans that have been delinquent for more than two years | 13                 | 13           | 20       |  |
|   | For the Six Months |              |          |  |
|   | Ended June 30,     |              |          |  |
|   | 2018               | 2017         |          |  |
| Single-family SDQ loans (number of loans):                                |                    |              |          |  |
| Beginning balance   | 212,183            | 206,549      |          |  |
| Additions   | 119,040            | 116,271      |          |  |
| Removals:   |                    |              |          |  |
| Modifications and other loan workouts                                     | (54,435)           | (38,515)     |          |  |
| Liquidations and sales  | (37,242)           | (45,295)     |          |  |
| Cured or less than 90 days delinquent                                     | (73,315)           | (64,860)     |          |  |
| Total removals  | (164,992)          | (148,670)    |          |  |
| Ending balance  | 166,231            | 174,150      |          |  |

Our single-family serious delinquency rate was 0.97% as of June 30, 2018, compared with 1.24% as of December 31, 2017 and 1.01% as of June 30, 2017. Our single-family serious delinquency rate increased in the latter part of 2017 due to the impact of Hurricanes Harvey, Irma and Maria (the "hurricanes"), but has since resumed its prior downward trend because many delinquent borrowers, including those in areas affected by the hurricanes, have resolved their loan delinquencies by obtaining loan modifications or through resuming payments and becoming current on their loans. We expect modification activity in areas affected by the hurricanes to slow down in the second half of the year as delinquency rates in the affected areas continue to fall. We expect our single-family serious delinquency rate to continue to decline, but at a more modest pace than in the past several years, and to experience period-to-period fluctuations.

Certain higher-risk loan categories, such as Alt-A loans, loans with higher mark-to-market LTV ratios, and our 2005 through 2008 loan vintages, continue to exhibit higher than average delinquency rates and/or account for a higher share of our credit losses. Single-family loans originated in 2005 through 2008 constituted 6% of our single-family book of business as of June 30, 2018, but constituted 41% of our seriously delinquent single-family loans as of June 30, 2018. In addition, single-family loans originated in 2005 through 2008 drove 74% of our single-family credit losses in the second quarter of 2018 and 68% in the first half of 2018. Loans in certain judicial foreclosure states such as Florida, New Jersey and New York with historically long foreclosure timelines have exhibited higher than average delinquency rates and/or account for a higher share of our credit losses.



Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A I  
Business  
Segments

The table below displays the serious delinquency rates for, and the percentage of our total seriously delinquent single-family conventional loans represented by, the specified loan categories. We also include information for our loans in California, as this state accounts for a large share of our single-family conventional guaranty book of business. The reported categories are not mutually exclusive. Percentage of book outstanding calculations are based on the unpaid principal balance of loans for each category divided by the unpaid principal balance of our total single-family guaranty book of business for which we have detailed loan level information.

## Single-Family Conventional Seriously Delinquent Loan Concentration Analysis

|  | As of<br>June 30, 2018                                       |  |                                | December 31, 2017  |  |                                | June 30, 2017  |  |                                |
|--|--|--|--------------------------------|--|--|--------------------------------|--|--|--------------------------------|
|  | Percentage<br>of Book<br>Outstanding<br>Loans <sup>(1)</sup> | Percentage<br>of Seriously<br>Delinquent<br>Loans <sup>(1)</sup> | Serious<br>Delinquency<br>Rate | Percentage<br>of Book<br>Outstanding<br>Loans <sup>(1)</sup> | Percentage<br>of Seriously<br>Delinquent<br>Loans <sup>(1)</sup> | Serious<br>Delinquency<br>Rate | Percentage<br>of Book<br>Outstanding<br>Loans <sup>(1)</sup> | Percentage<br>of Seriously<br>Delinquent<br>Loans <sup>(1)</sup> | Serious<br>Delinquency<br>Rate |
| States:                                |  |  |                                |  |  |                                |  |  |                                |
| California                             | 19 %   | 5 %  | 0.36 %                         | 19 %   | 5 %  | 0.42 %                         | 19 %   | 6 %  | 0.43 %                         |
| Florida                                | 6  | 17   | 2.51                           | 6  | 19   | 3.71                           | 6  | 10   | 1.51                           |
| New Jersey                             | 4  | 5  | 1.68                           | 4  | 5  | 2.15                           | 4  | 8  | 2.49                           |
| New York                               | 5  | 7  | 1.66                           | 5  | 7  | 2.02                           | 5  | 10   | 2.21                           |
| All other states                       | 66   | 66   | 0.88                           | 66   | 64   | 1.09                           | 66   | 66   | 0.94                           |
| Product type:                          |  |  |                                |  |  |                                |  |  |                                |
| Alt-A <sup>(2)</sup>                   | 2  | 12   | 4.21                           | 2  | 12   | 4.95                           | 3  | 14   | 4.52                           |
| Vintages:                              |  |  |                                |  |  |                                |  |  |                                |
| 2004 and prior                         | 3  | 23   | 3.00                           | 4  | 23   | 3.28                           | 4  | 25   | 2.62                           |
| 2005-2008                              | 6  | 41   | 5.54                           | 6  | 42   | 6.55                           | 7  | 50   | 5.73                           |
| 2009-2018                              | 91   | 36   | 0.41                           | 90   | 35   | 0.53                           | 89   | 25   | 0.32                           |
| Estimated mark-to-market<br>LTV ratio: |  |  |                                |  |  |                                |  |  |                                |
| <= 60%                                 | 55   | 45   | 0.69                           | 52   | 41   | 0.84                           | 53   | 39   | 0.64                           |
| 60.01% to 70%                          | 18   | 17   | 1.07                           | 18   | 18   | 1.34                           | 19   | 16   | 1.02                           |
| 70.01% to 80%                          | 15   | 15   | 1.19                           | 17   | 16   | 1.48                           | 16   | 15   | 1.16                           |
| 80.01% to 90%                          | 8  | 10   | 1.69                           | 8  | 11   | 2.09                           | 8  | 12   | 1.79                           |
| 90.01% to 100%                         | 3  | 6  | 2.46                           | 4  | 6  | 2.62                           | 3  | 7  | 2.98                           |
| Greater than 100%                      | 1  | 7  | 11.41                          | 1  | 8  | 11.70                          | 1  | 11   | 10.05                          |
| Credit enhanced: <sup>(3)</sup>        |  |  |                                |  |  |                                |  |  |                                |
| Primary MI & other <sup>(4)</sup>      | 20   | 24   | 1.40                           | 20   | 26   | 1.95                           | 19   | 27   | 1.68                           |
| Credit risk transfer <sup>(5)</sup>    | 36   | 8  | 0.29                           | 32   | 8  | 0.42                           | 28   | 3  | 0.15                           |
| Non-credit enhanced                    | 56   | 71   | 1.06                           | 60   | 69   | 1.27                           | 63   | 72   | 1.03                           |

(1) Calculated based on the number of single-family loans that were seriously delinquent for each category divided by the total number of single-family conventional loans that were seriously delinquent.

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

(3) The credit-enhanced categories are not mutually exclusive. A loan with primary mortgage insurance that is also covered by a credit risk transfer transaction will be included in both the “Primary MI & other” category and the “Credit risk transfer” category. As a result, the “Credit enhanced” and “Non-credit enhanced” categories do not sum to

100%. The total percentage of our single-family conventional guaranty book of business with some form of credit enhancement as of June 30, 2018 was 44%.

Refers to loans included in an agreement used to reduce credit risk by requiring primary mortgage insurance, collateral, letters of credit, corporate guarantees, or other agreements to provide an entity with some assurance that it will be compensated to some degree in the event of a financial loss. Excludes loans covered by credit risk transfer transactions unless such loans are also covered by primary mortgage insurance.

Fannie  
Mae  
Second  
~~Q~~arter  
2018  
Form  
10-Q

---

MD&A I  
Business  
Segments

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

Loan Workout Metrics

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

The chart below displays our completed single-family loan workouts, by type. These statistics include loan modifications but do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as troubled debt restructurings, or repayment or forbearance plans that have been initiated but not completed. As of June 30, 2018, there were approximately 43,900 loans in a trial modification period.

---

Consists of modifications and completed repayment plans and forbearances. Repayment plans reflect only those (1) plans associated with loans that were 60 days or more delinquent. Forbearances reflect loans that were 90 days or more delinquent.

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

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

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A I  
Business  
Segments

REO Management

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

Single-Family REO Properties

|  | For the Six Months |          |   |   |
|--|--------------------|----------|---|---|
|  | Ended June 30,     |          |   |   |
|  | 2018               | 2017     |   |   |
| Single-family REO properties (number of properties):                         |                    |          |   |   |
| Beginning of period inventory of single-family REO properties <sup>(1)</sup> | 26,311             | 38,093   |   |   |
| Acquisitions by geographic area: <sup>(2)</sup>                              |                    |          |   |   |
| Midwest  | 3,284              | 4,712    |   |   |
| Northeast  | 3,419              | 5,269    |   |   |
| Southeast  | 4,403              | 6,530    |   |   |
| Southwest  | 1,972              | 2,976    |   |   |
| West   | 996                | 1,587    |   |   |
| Total REO acquisitions <sup>(1)</sup>  | 14,074             | 21,074   |   |   |
| Dispositions of REO  | (18,378)           | (27,796) |   |   |
| End of period inventory of single-family REO properties <sup>(1)</sup>       | 22,007             | 31,371   |   |   |
| Carrying value of single-family REO properties (dollars in millions)         | \$2,696            | \$3,545  |   |   |
| Single-family foreclosure rate <sup>(3)</sup>                                | 0.16               | % 0.25   | % | % |
| REO net sales prices to unpaid principal balance <sup>(4)</sup>              | 77                 | % 75     | % | % |
| Short sales net sales prices to unpaid principal balance <sup>(5)</sup>      | 77                 | % 75     | % | % |

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

(2) See footnote 8 to the Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business table for states included in each geographic region.

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

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

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

Single-family foreclosed properties declined in the first half of 2018 compared with the first half of 2017 primarily due to declining REO acquisitions from serious delinquencies aged greater than 180 days over the course of the past year.

Quarter  
2018  
Form  
10-Q

---

MD&A I  
Business  
Segments

Other Single-Family Credit Information

Credit Loss Performance and Concentration Metrics

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

Single-Family Credit Loss Performance Metrics

|   | For the Three Months Ended June 30, |                      | For the Six Months Ended June 30, |                      |            |                      |            |          |
|---|-------------------------------------|----------------------|-----------------------------------|----------------------|------------|----------------------|------------|----------|
|   | 2018                                | 2017                 | 2018                              | 2017                 | 2018       | 2017                 |            |          |
|   | Amount                              | Ratio <sup>(1)</sup> | Amount                            | Ratio <sup>(1)</sup> | Amount     | Ratio <sup>(1)</sup> |            |          |
|   | (Dollars in millions)               |                      |                                   |                      |            |                      |            |          |
| Charge-offs, net of recoveries                                | \$ (651)                            | 8.8 bps              | \$ (525)                          | 7.2 bps              | \$ (1,043) | 7.1 bps              | \$ (1,469) | 10.2 bps |
| Foreclosed property expense                                   | (136 )                              | 1.9                  | (32 )                             | 0.5                  | (298 )     | 2.0                  | (248 )     | 1.7      |
| Credit losses and credit loss ratio                           | \$ (787)                            | 10.7 bps             | \$ (557)                          | 7.7 bps              | \$ (1,341) | 9.1 bps              | \$ (1,717) | 11.9 bps |
| Single-family initial charge-off severity rate <sup>(2)</sup> |                                     | 10.6%                |                                   | 14.5%                |            | 12.0%                |            | 15.9%    |

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

The rate excludes any costs, gains or losses associated with REO after initial acquisition through final disposition.

(2) The rate includes charge-offs pursuant to the provisions of the Advisory Bulletin and charge-offs of property tax and insurance receivables.

Our single-family credit losses and credit loss ratio increased in the second quarter of 2018 compared with the second quarter of 2017, primarily due to higher charge-offs related to the redesignation of single-family loans from HFI to HFS in 2018. In addition, we had lower foreclosed property expense in the second quarter of 2017 as a result of income we received from the resolution of compensatory fees and representation and warranty matters during that quarter.

Our single-family credit losses and credit loss ratio decreased in the first half of 2018 compared with the first half of 2017 due to rising home prices with resulting lower charge-off severity rates in the first half of 2018, as well as an expansion at the beginning of 2017 of the charge-off criteria for non-liquidated loans pursuant to the provisions of FHFA’s Advisory Bulletin 2012-02, “Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention.”

Our single-family initial charge-off severity rates declined in the second quarter and first half of 2018, primarily as a result of higher home prices.

Single-Family Loss Reserves

Our single-family loss reserves provide for an estimate of credit losses incurred in our single-family guaranty book of business, including concessions we granted borrowers upon modification of their loans. Our loss reserves have declined substantially from their peak and are expected to decline further in 2018; however, we expect a smaller decline in our loss reserves in the future as compared to the trend in recent years, absent further significant redesignations of loans from HFI to HFS.

Fannie  
Mae  
Second  
~~Q~~Quarter  
2018  
Form  
10-Q

---



MD&A I  
Business  
Segments

The table below summarizes the changes in our single-family loss reserves.

Single-Family Loss Reserves

|                           | For the Three<br>Months Ended June<br>30, |            | For the Six Months Ended<br>June 30, |             |
|---------------------------|---|------------|--------------------------------------|-------------|
|                           | 2018                                      | 2017       | 2018                                 | 2017        |
|                           | (Dollars in millions)                     |            |                                      |             |
| Changes in loss reserves: |   |            |                                      |             |
| Beginning balance         | \$(18,568)                                | \$(22,326) | \$(19,155)                           | \$(23,639 ) |
| Benefit for credit losses | 1,295                                     | 1,255      | 1,491                                | 1,655       |
| Charge-offs               | 738                                       | 705        | 1,214                                | 1,766       |
| Recoveries                | (87 )                                     | (180 )     | (171 )                               | (297 )      |
| Other <sup>(1)</sup>      | (16 )                                     | (7 )       | (17 )                                | (38 )       |
| Ending balance            | \$(16,638)                                | \$(20,553) | \$(16,638)                           | \$(20,553 ) |

|   | As of    |              |   |  |
|---|----------|--------------|---|--|
|   | June 30, | December 31, |   |  |
|   | 2018     | 2017         |   |  |
| Loss reserves as a percentage of single-family: |          |              |   |  |
| Guaranty book of business                       | 0.56     | % 0.65       | % |  |
| Recorded investment in nonaccrual loans         | 45.72    | 40.80        |   |  |

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

Troubled Debt Restructurings and Nonaccrual Loans

The table below displays the single-family loans classified as TDRs that are on accrual status and loans on nonaccrual status. The table includes our recorded investment in HFI and HFS single-family mortgage loans. For information on the impact of TDRs and other individually impaired loans on our allowance for loan losses, see "Note 3, Mortgage Loans."

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

|   | As of                 |              |          |  |
|---|-----------------------|--------------|----------|--|
|   | June 30,              | December 31, |          |  |
|   | 2018                  | 2017         |          |  |
|   | (Dollars in millions) |              |          |  |
| TDRs on accrual status  | \$ 110,467            | \$ 110,043   |          |  |
| Nonaccrual loans  | 36,395                | 46,945       |          |  |
| Total TDRs on accrual status and nonaccrual loans                                 | \$ 146,862            | \$ 156,988   |          |  |
| Accruing on-balance sheet loans past due 90 days or more <sup>(1)</sup>           | \$ 258                | \$ 353       |          |  |
|   |                       |              |          | For the Six<br>Months<br>Ended June 30,<br>2018 2017<br>(Dollars in<br>millions) |
| Interest related to on-balance sheet TDRs on accrual status and nonaccrual loans: |                       |              |          |  |
| Interest income forgone <sup>(2)</sup>  |                       |              | \$ 1,306 | \$ 1,772   |

|   |       |       |
|---|-------|-------|
| Interest income recognized <sup>(3)</sup> | 2,918 | 2,884 |
|---|-------|-------|

---

Includes loans that, as of the end of each period, are 90 days or more past due and continuing to accrue interest.

(1) The majority of these amounts consists of loans insured or guaranteed by the U.S. government and loans for which we have recourse against the seller in the event of a default.

Fannie  
Mae  
Second  
~~Q~~Quarter  
2018  
Form  
10-Q

---

MD&A I  
Business  
Segments

Represents the amount of interest income we did not recognize, but would have recognized during the period for  
(2) nonaccrual loans and TDRs on accrual status as of the end of each period had the loans performed according to their original contractual terms.

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

The post-modification unpaid principal balance of single-family HFI and HFS loans classified as TDRs as of June 30, 2018 was \$145.8 billion, compared with \$146.4 billion as of December 31, 2017. This decrease in loans classified as TDRs was primarily attributable to HFS loan sales in the second quarter of 2018, partially offset by a higher volume of single-family loan modifications and other forms of loss mitigation in the areas affected by the hurricanes that resulted in a restructuring of the terms of these loans in the first half of 2018.

#### Multifamily Business

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

#### Multifamily Mortgage Market

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

Vacancy rates. According to preliminary third-party data, the national multifamily vacancy rate for institutional investment-type apartment properties was an estimated 5.5% as of June 30, 2018, compared to 5.8% as of March 31, 2018.

Rents. Rents continued to increase during the second quarter of 2018. National asking rents increased by an estimated 1.5%, compared with 0.5% during the first quarter of 2018.

Continued demand for multifamily rental units during the second quarter of 2018 was reflected in the estimated positive net absorption (that is, the net change in the number of occupied rental units during the time period) of approximately 37,300 units, according to preliminary data from Reis, Inc., compared with approximately 36,100 units during the first quarter of 2018.

Vacancy rates and rents are important to loan performance because multifamily loans are generally repaid from the cash flows generated by the underlying property. Several years of improvement in these fundamentals helped to increase property values in most metropolitan areas. It is estimated that approximately 446,000 new multifamily units will be completed in 2018. The bulk of this new supply is concentrated in a limited number of metropolitan areas.

#### Multifamily Business Metrics

Multifamily new business volume increased in the second quarter of 2018 compared with the second quarter of 2017. FHFA's 2018 conservatorship scorecard includes an objective to maintain the dollar volume of new multifamily business at or below \$35 billion, excluding certain targeted affordable and underserved market business segments. Approximately 36% of our multifamily new business volume of \$25.8 billion for the first half of 2018 counted toward FHFA's 2018 multifamily volume cap.

We support affordability in the multifamily rental market. We financed 188,000 multifamily units from new business volume in the second quarter of 2018, compared with 162,000 units in the second quarter of 2017. Over 90% of the multifamily units we financed in the second quarter of 2018 were affordable to families earning at or below 120% of the median income in their area, providing support for both workforce housing and affordable housing.

Quarter  
2018  
Form  
10-Q

---

MD&A I  
Business  
Segments

---

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

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

Multifamily Fannie Mae MBS Outstanding

(Dollars in billions)

Fannie  
Mae  
Second  
~~Q~~arter  
2018  
Form  
10-Q

---

MD&A I  
Business  
Segments

## Multifamily Business Financial Results

## Multifamily Business Financial Results

|  | For the Three Months  |        |          | For the Six Months Ended |         |          |
|--|-----------------------|--------|----------|--------------------------|---------|----------|
|  | Ended June 30,        |        |          | June 30,                 |         |          |
|  | 2018                  | 2017   | Variance | 2018                     | 2017    | Variance |
|  | (Dollars in millions) |        |          |                          |         |          |
| Net interest income                            | \$654                 | \$636  | \$ 18    | \$1,325                  | \$1,226 | \$ 99    |
| Fee and other income                           | 170                   | 242    | (72 )    | 332                      | 415     | (83 )    |
| Net revenues                                   | 824                   | 878    | (54 )    | 1,657                    | 1,641   | 16       |
| Fair value losses, net                         | (49 )                 | (6 )   | (43 )    | (38 )                    | (34 )   | (4 )     |
| Administrative expenses                        | (106 )                | (86 )  | (20 )    | (213 )                   | (169 )  | (44 )    |
| Credit-related income (expense) <sup>(1)</sup> | (2 )                  | 10     | (12 )    | 19                       | 5       | 14       |
| Other expenses, net <sup>(2)</sup>             | (71 )                 | (72 )  | 1        | (134 )                   | (157 )  | 23       |
| Income before federal income taxes             | 596                   | 724    | (128 )   | 1,291                    | 1,286   | 5        |
| Provision for federal income taxes             | (92 )                 | (186 ) | 94       | (207 )                   | (317 )  | 110      |
| Net income                                     | \$504                 | \$538  | \$ (34 ) | \$1,084                  | \$969   | \$ 115   |

<sup>(1)</sup> Consists of the benefit for credit losses and foreclosed property expense.

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

## Net interest income

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

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

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

MD&A I  
Business  
Segments

#### Fee and Other Income

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

#### Fair value losses, net

Fair value losses in the second quarter of 2018 were primarily driven by losses on commitments to buy multifamily mortgage-related securities as a result of increasing interest rates during the commitment periods.

#### Multifamily Mortgage Credit Risk Management

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

#### Multifamily Underwriting Standards and Portfolio Monitoring

Lender risk-sharing is a cornerstone of our Multifamily business. We primarily transfer risk through our Delegated Underwriting and Servicing (“DUS”) program, which delegates to DUS lenders the ability to underwrite and service multifamily loans, in accordance with our standards and requirements. DUS lenders receive credit risk-related revenues for their respective portion of credit risk retained, and, in turn, are required to fulfill any loss sharing obligation. This aligns the interests of the lender and Fannie Mae from day one and throughout the life of the loan. Our DUS model typically results in our lenders sharing on a pro-rata or tiered basis approximately one-third of the credit risk on our multifamily loans. In the first half of 2018, nearly 100% of our new multifamily business volume had lender risk-sharing. As of June 30, 2018, 97% of the unpaid principal balance of loans in our multifamily guaranty book of business had lender risk-sharing, compared with 96% as of December 31, 2017.

Our standards for multifamily loans specify maximum original LTV ratio and minimum original debt service coverage ratio (“DSCR”) values that vary based on loan characteristics. The table below displays original LTV ratio and DSCR metrics for our multifamily guaranty book of business.

#### Multifamily Guaranty Book of Business Key Risk Characteristics

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

We and our lenders monitor the performance and risk characteristics of our multifamily loans and the underlying properties on an ongoing basis throughout the loan term at the asset and portfolio level. We closely monitor loans with an estimated current DSCR below 1.0, as that is an indicator of heightened default risk. The percentage of loans in our multifamily guaranty book of business, calculated based on unpaid principal balance, with a current DSCR less than 1.0 was approximately 2% as of June 30, 2018 and December 31, 2017.

#### Multifamily Problem Loan Management and Foreclosure Prevention

The multifamily serious delinquency rate was 0.10% as of June 30, 2018, compared with 0.11% as of December 31, 2017 and 0.04% as of June 30, 2017. We classify multifamily loans as seriously delinquent when payment is 60 days or more past due. Higher multifamily serious delinquency rates as of both December 31, 2017 and June 30, 2018 resulted mostly from an increase in delinquent loans subject to forbearance agreements granted to borrowers in the areas affected by the hurricanes in the latter part of 2017.

#### REO Management

The number of multifamily foreclosed properties held for sale increased to 13 properties with a carrying value of \$81 million as of June 30, 2018, compared with 11 properties with a carrying value of \$66 million as of December 31, 2017.

Fannie  
Mae  
Second  
~~Q~~arter  
2018  
Form  
10-Q

---



MD&A I  
Business  
Segments

Other Multifamily Credit Information

Multifamily Credit Losses

We had \$4 million in multifamily credit losses in the second quarter of 2018 compared with \$2 million in the second quarter of 2017. We had \$8 million in multifamily credit losses in the first half of 2018 compared with \$2 million in the first half of 2017. Our multifamily credit losses remain low as foreclosure activity remains low.

Multifamily Loss Reserves

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

Multifamily Loss Reserves

|   | For the Three<br>Months Ended<br>June 30, |          | For the Six Months<br>Ended June 30, |          |
|---|---|----------|--------------------------------------|----------|
|   | 2018                                      | 2017     | 2018                                 | 2017     |
|   | (Dollars in millions)                     |          |                                      |          |
| Changes in loss reserves:   |   |          |                                      |          |
| Beginning balance   | \$ (220)                                  | \$ (200) | \$ (245)                             | \$ (196) |
| Benefit for credit losses   | 1   | 12       | 22                                   | 8        |
| Charge-offs   | 1   | (1)      | 5                                    | —        |
| Recoveries  | —   | 1        | —                                    | (1)      |
| Other <sup>(1)</sup>  | —   | (1)      | —                                    | —        |
| Ending balance  | \$ (218)                                  | \$ (189) | \$ (218)                             | \$ (189) |
|   |   |          | As of                                |          |
|   |   |          | June 30, December 31,                |          |
|   |   |          | 2018 2017                            |          |
| Loss reserves as a percentage of<br>multifamily guaranty book of business |   |          | 0.07 %                               | 0.09 %   |

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

Troubled Debt Restructurings and Nonaccrual Loans

The table below displays the composition of multifamily loans classified as TDRs that are on accrual status and multifamily loans on nonaccrual status. The table includes our recorded investment in HFI and HFS multifamily mortgage loans. For information on the impact of TDRs and other individually impaired loans on our allowance for loan losses, see “Note 3, Mortgage Loans.”

Multifamily Troubled Debt Restructurings on Accrual  
Status and Nonaccrual Loans

|   | As of                 |                   |
|---|-----------------------|-------------------|
|   | June 30, 2018         | December 31, 2017 |
|   | (Dollars in millions) |                   |
| TDRs on accrual status                            | \$ 68                 | \$ 87             |
| Nonaccrual loans                                  | 619                   | 424               |
| Total TDRs on accrual status and nonaccrual loans | \$ 687                | \$ 511            |

For the Six  
Months

|   | Ended                 |      |
|---|-----------------------|------|
|   | June 30,              | 2017 |
|   | (Dollars in millions) |      |
| Interest related to on-balance sheet TDRs on accrual status and nonaccrual loans: |                       |      |
| Interest income forgone <sup>(1)</sup>  | \$ 16                 | \$ 9 |
| Interest income recognized <sup>(2)</sup>   | —                     | 2    |

Fannie  
Mae  
Second  
~~Q~~arter  
2018  
Form  
10-Q

---

MD&A I  
Business  
Segments

---

Represents the amount of interest income we did not recognize, but would have recognized during the period for  
(1) nonaccrual loans and TDRs on accrual status as of the end of each period had the loans performed according to their original contractual terms.

Represents interest income recognized during the period, including the amortization of any deferred cost basis  
(2) adjustments, for loans classified as either nonaccrual loans or TDRs on accrual status as of the end of each period.  
Includes primarily amounts accrued while the loans were performing and cash payments received on nonaccrual loans.

Liquidity and  
Capital  
Management

Liquidity Management

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

Debt Funding

Outstanding Debt

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

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

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A I  
Liquidity and  
Capital  
Management

## Selected Debt Information

|  | As of                    |                  |
|--|--------------------------|------------------|
|  | December<br>31,<br>2017  | June 30,<br>2018 |
|  | (Dollars in<br>billions) |                  |
| Selected Weighted-Average Interest Rates <sup>(1)</sup>                      |                          |                  |
| Interest rate on short-term debt   | 1.18 %                   | 1.86 %           |
| Interest rate on long-term debt, including portion maturing within one year  | 2.40 %                   | 2.66 %           |
| Interest rate on callable long-term debt                                     | 2.31 %                   | 2.66 %           |
| Selected Maturity Data   |                          |                  |
| Weighted-average maturity of debt maturing within one year (in days)         | 123                      | 116              |
| Weighted-average maturity of debt maturing in more than one year (in months) | 57                       | 58               |
| Other Data   |                          |                  |
| Outstanding callable debt  | \$72.3                   | \$69.0           |
| Connecticut Avenue Securities <sup>(2)</sup>                                 | \$22.5                   | \$24.6           |

Outstanding debt amounts and weighted-average interest rates reported in this chart and table include the effects of discounts, premiums, other cost basis adjustments and fair value gains and losses associated with debt that we elected to carry at fair value. Reported amounts for total debt of Fannie Mae include unamortized cost basis adjustments and fair value adjustments of \$558 million and \$788 million as of June 30, 2018 and December 31, 2017, respectively.

See “Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Transfer of Mortgage Credit Risk—Credit Risk Transfer Transactions” in our 2017 Form 10-K for information regarding our Connecticut Avenue Securities.

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

## Debt Funding Activity

The table below displays the activity in debt of Fannie Mae. This activity excludes the debt of consolidated trusts and intraday loans. The reported amounts of debt issued and paid off during the period represent the face amount of the debt at issuance and redemption.



MD&A I  
Liquidity and  
Capital  
Management

## Activity in Debt of Fannie Mae

|  | For the Three Months<br>Ended June 30,<br>2018 |           | For the Six Months<br>Ended June 30,<br>2017 |           |   |  |
|--|--|-----------|--|-----------|---|--|
|  | 2018   | 2017      | 2018   | 2017      |   |  |
|  | (Dollars in millions)                          |           |  |           |   |  |
| Issued during the period:                  |  |           |  |           |   |  |
| Short-term:                                |  |           |  |           |   |  |
| Amount                                     | \$121,106                                      | \$162,311 | \$340,394                                    | \$313,695 |   |  |
| Weighted-average interest rate             | 1.64   | % 0.78    | % 1.41                                       | % 0.65    | % |  |
| Long-term: <sup>(1)</sup>                  |  |           |  |           |   |  |
| Amount                                     | \$6,395  | \$5,914   | \$11,563                                     | \$19,022  |   |  |
| Weighted-average interest rate             | 3.00   | % 2.81    | % 2.98                                       | % 2.44    | % |  |
| Total issued:                              |  |           |  |           |   |  |
| Amount                                     | \$127,501                                      | \$168,225 | \$351,957                                    | \$332,717 |   |  |
| Weighted-average interest rate             | 1.70   | % 0.85    | % 1.46                                       | % 0.75    | % |  |
| Paid off during the period: <sup>(2)</sup> |  |           |  |           |   |  |
| Short-term:                                |  |           |  |           |   |  |
| Amount                                     | \$130,361                                      | \$169,440 | \$348,039                                    | \$318,186 |   |  |
| Weighted-average interest rate             | 1.53   | % 0.68    | % 1.31                                       | % 0.58    | % |  |
| Long-term: <sup>(1)</sup>                  |  |           |  |           |   |  |
| Amount                                     | \$12,406                                       | \$23,424  | \$30,186                                     | \$39,296  |   |  |
| Weighted-average interest rate             | 1.28   | % 4.52    | % 1.41                                       | % 3.59    | % |  |
| Total paid off:                            |  |           |  |           |   |  |
| Amount                                     | \$142,767                                      | \$192,864 | \$378,225                                    | \$357,482 |   |  |
| Weighted-average interest rate             | 1.51   | % 1.14    | % 1.31                                       | % 0.91    | % |  |

<sup>(1)</sup> Includes Connecticut Avenue Securities.

Consists of all payments on debt, including regularly scheduled principal payments, payments at maturity,

<sup>(2)</sup> payments resulting from calls and payments for any other repurchases. Repurchases of debt and early retirements of zero-coupon debt are reported at original face value, which does not equal the amount of actual cash payment.

## Other Investments Portfolio

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

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

MD&A |  
Liquidity and  
Capital  
Management

Cash Flows

Six Months Ended June 30, 2018. Cash, cash equivalents and restricted cash decreased by \$11.5 billion in the six months ended June 30, 2018. The decrease was primarily driven by cash outflows from (1) the redemption of funding debt, which outpaced issuances, due to lower funding needs, (2) the purchase of Fannie Mae MBS from third parties and (3) the acquisition of delinquent loans out of MBS trusts.

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

Six Months Ended June 30, 2017. Cash, cash equivalents and restricted cash decreased by \$14.3 billion in the six months ended June 30, 2017. The decrease was primarily driven by cash outflows from (1) the purchase of Fannie Mae MBS from third parties, (2) the redemption of funding debt, which outpaced issuances, due to lower funding needs, and (3) the payment of dividends to Treasury under our senior preferred stock purchase agreement.

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

Credit Ratings

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

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A I  
Liquidity and  
Capital  
Management

Capital Management

Regulatory Capital

The deficit of our core capital over statutory minimum capital was \$136.3 billion as of June 30, 2018 and \$144.4 billion as of December 31, 2017. For information on our minimum capital requirements, see “Note 12, Regulatory Capital Requirements” in our 2017 Form 10-K and “Legislation and Regulation” in this report.

Capital Activity

The current dividend provisions of the senior preferred stock provide for quarterly dividends consisting of the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds a \$3.0 billion capital reserve amount.

Because we had a net worth of \$3.9 billion as of March 31, 2018, we paid Treasury a second quarter 2018 dividend of \$938 million. We expect to pay Treasury a third quarter 2018 dividend of \$4.5 billion by September 30, 2018 based on our net worth of \$7.5 billion as of June 30, 2018.

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

Off-Balance

Sheet

Arrangements

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

our guaranty of mortgage loan securitization and resecuritization transactions, and other guaranty commitments over which we do not have control;

liquidity support transactions; and

partnership interests.

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

Our total outstanding liquidity commitments to advance funds for securities backed by multifamily housing revenue bonds totaled \$9.0 billion as of June 30, 2018 and \$9.2 billion as of December 31, 2017.

Risk

Management

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

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

Market Risk Management, Including Interest Rate Risk Management

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



Fannie  
Mae  
Second  
~~Q~~Quarter  
2018  
Form  
10-Q

---

MD&A I  
Risk  
Management

Measurement of Interest Rate Risk

The table below displays the pre-tax market value sensitivity of our net portfolio to changes in the level of interest rates and the slope of the yield curve as measured on the last day of each period presented. The table below also provides the daily average, minimum, maximum and standard deviation values for duration gap and for the most adverse market value impact on the net portfolio to changes in the level of interest rates and the slope of the yield curve for the three months ended June 30, 2018 and 2017.

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

We have revised all prior period interest rate risk measures to correspond to the current period presentation.

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

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

|                               | As of <sup>(1)(2)</sup>                               |                            |                            |              |                            |                            |
|-------------------------------|---|----------------------------|----------------------------|--------------|----------------------------|----------------------------|
|                               | June 30,  | December 31,               |                            |              |                            |                            |
|                               | 2018  | 2017                       |                            |              |                            |                            |
|                               | (Dollars in millions)                                 |                            |                            |              |                            |                            |
| Rate level shock:             |   |                            |                            |              |                            |                            |
| -100 basis points             | \$(16)  | \$ (44 )                   |                            |              |                            |                            |
| -50 basis points              | 24  | (21 )                      |                            |              |                            |                            |
| +50 basis points              | (93 )   | (29 )                      |                            |              |                            |                            |
| +100 basis points             | (238 )  | (122 )                     |                            |              |                            |                            |
| Rate slope shock:             |   |                            |                            |              |                            |                            |
| -25 basis points (flattening) | 2   | (17 )                      |                            |              |                            |                            |
| +25 basis points (steepening) | (2 )  | 17                         |                            |              |                            |                            |
|                               | For the Three Months Ended June 30, <sup>(1)(3)</sup> |                            |                            |              |                            |                            |
|                               | 2018  |                            | 2017                       |              |                            |                            |
|                               | Duration Gap  | Rate Slope Shock<br>25 bps | Rate Level Shock<br>50 bps | Duration Gap | Rate Slope Shock<br>25 bps | Rate Level Shock<br>50 bps |
|                               |   | Market Value Sensitivity   |                            |              | Market Value Sensitivity   |                            |
|                               | (In years)  | (Dollars in millions)      |                            | (In years)   | (Dollars in millions)      |                            |
| Average                       | 0.02  | \$(3)                      | \$(55)                     | (0.01)       | \$(42)                     | \$(37)                     |
| Minimum                       | (0.02)  | (12)                       | (115)                      | (0.04)       | (50 )                      | (92 )                      |
| Maximum                       | 0.06  | 0                          | (29 )                      | 0.06         | (26 )                      | (2 )                       |
| Standard deviation            | 0.01  | 2                          | 16                         | 0.02         | 8                          | 21                         |

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

- (2) Measured on the last day of each period presented.
- (3) Computed based on daily values during the period presented.

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

We use derivatives to help manage the residual interest rate risk exposure between our assets and liabilities. Derivatives have enabled us to keep our interest rate risk exposure at consistently low levels in a wide range of

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A |  
Risk  
Management

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

Derivative Impact on Interest Rate Risk  
(50 Basis Points)

|                       | As of <sup>(1)</sup>     |                      |
|-----------------------|--------------------------|----------------------|
|                       | June 30,<br>2018         | December<br>31, 2017 |
|                       | (Dollars in<br>millions) |                      |
| Before derivatives    | \$(791)                  | \$(520)              |
| After derivatives     | (93)                     | (29)                 |
| Effect of derivatives | 698                      | 491                  |

<sup>(1)</sup> Measured on the last day of each period presented.

Critical  
Accounting  
Policies and  
Estimates

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

We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as necessary based on changing conditions. Management has discussed any significant changes in judgments and assumptions in applying our critical accounting policies with the Audit Committee of our Board of Directors. See “Risk Factors” in our 2017 Form 10-K for a discussion of the risks associated with the need for management to make judgments and estimates in applying our accounting policies and methods. We have identified two of our accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition: fair value measurement and allowance for loan losses. See “MD&A—Critical Accounting Policies and Estimates” in our 2017 Form 10-K for a discussion of these critical accounting policies and estimates.

Impact of  
Future  
Adoption of  
New  
Accounting  
Guidance

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

Forward-Looking  
Statements

This report includes statements that constitute forward-looking statements within the meaning of Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). In addition, our senior management may from time to time

make forward-looking statements orally to analysts, investors, the news media and others. Forward-looking statements often include words such as “expect,” “anticipate,” “intend,” “plan,” “believe,” “seek,” “estimate,” “forecast,” “project,” “would,” “could,” “likely,” “may,” “will” or similar words. Examples of forward-looking statements in this report include, but are not limited to, statements relating to our expectations regarding the following matters:

- our profitability, financial condition and results of operations, and the factors that will affect our profitability, financial condition and results of operations;
- our business plans and strategies and the impact of such plans and strategies;
- our dividend payments to Treasury;
- our retained mortgage portfolio;

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

MD&A I  
Forward-Looking  
Statements

- our payments to HUD and Treasury funds under the GSE Act;
- the effects of our credit risk transfer transactions;
- the impact of accounting guidance and accounting changes on our business or financial results, including the impact of impairment accounting guidance;
- mortgage market and economic conditions (including home price appreciation rates) and the impact of such conditions on our business or financial results;
- the risks to our business;
- our loss reserves;
- our serious delinquency rate and the factors that will affect our serious delinquency rate;
- our single-family loan acquisitions and the credit risk profile of such acquisitions; and
- our response to legal and regulatory proceedings and their impact on our business or financial condition.

Forward-looking statements reflect our management's expectations, forecasts or predictions of future conditions, events or results based on various assumptions and management's estimates of trends and economic factors in the markets in which we are active, as well as our business plans. They are not guarantees of future performance. By their nature, forward-looking statements are subject to risks and uncertainties. Our actual results and financial condition may differ, possibly materially, from the anticipated results and financial condition indicated in these forward-looking statements.

There are a number of factors that could cause actual conditions, events or results to differ materially from those described in the forward-looking statements contained in this report, including, but not limited to, the following:

- the uncertainty of our future;
- future legislative and regulatory requirements or changes affecting us, such as the enactment of housing finance reform legislation;
- actions by FHFA, Treasury, HUD or other regulators that affect our business;
- changes in the structure and regulation of the financial services industry;
- the timing and level of, as well as regional variation in, home price changes;
- changes in interest rates and credit spreads;
- changes in unemployment rates and other macroeconomic and housing market conditions;
- credit availability;
- disruptions in the housing and credit markets;
- changes in the fiscal and monetary policies of the Federal Reserve, including implementation of the Federal Reserve's balance sheet normalization program;
- our future guaranty fee pricing and the impact of that pricing on our competitive environment and guaranty fee revenues;
- the volume of mortgage originations;
- the size, composition and quality of our guaranty book of business and retained mortgage portfolio;
- our market share;
- the life of the loans in our guaranty book of business;
- challenges we face in retaining and hiring qualified executives and other employees;
- our future serious delinquency rates;
- the deteriorated credit performance of many loans in our guaranty book of business;
- the conservatorship and its effect on our business;
- the investment by Treasury and its effect on our business;
- adverse effects from activities we undertake to support the mortgage market and help borrowers;

Fannie  
Mae

Second  
Quarter  
2018  
Form  
10-Q

---

MD&A I  
Forward-Looking  
Statements

actions we may be required to take by FHFA, in its role as our conservator or as our regulator, such as changes in the type of business we do or implementation of the Single Security Initiative;

- limitations on our business imposed by FHFA, in its role as our conservator or as our regulator;
- our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers;
- a decrease in our credit ratings;
- limitations on our ability to access the debt capital markets;
- significant changes in modification and foreclosure activity;
- the volume and pace of future nonperforming and reperforming loan sales and their impact on our results and serious delinquency rates;
- changes in borrower behavior;
- the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies;
- defaults by one or more institutional counterparties;
- resolution or settlement agreements we may enter into with our counterparties;
- our need to rely on third parties to fully achieve some of our corporate objectives;
- our reliance on mortgage servicers;
- changes in GAAP, guidance by the Financial Accounting Standards Board and changes to our accounting policies;
- changes in the fair value of our assets and liabilities;
- operational control weaknesses;
- our reliance on models and future updates we make to our models, including the assumptions used by these models;
- global political risks;
- natural disasters, environmental disasters, terrorist attacks, pandemics or other major disruptive events;
- cyber attacks or other information security breaches or threats; and
- those factors described in “Risk Factors” in this report and in our 2017 Form 10-K.

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

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---



Financial  
Statements I  
Condensed  
Consolidated  
Balance  
Sheets

## Item 1. Financial Statements

## FANNIE MAE

(In conservatorship)

Condensed Consolidated Balance Sheets — (Unaudited)

(Dollars in millions, except share amounts)

|   | As of<br>June 30,<br>2018 | December 31,<br>2017 |
|---|---------------------------|----------------------|
| <b>ASSETS</b>   |                           |                      |
| Cash and cash equivalents   | \$20,853                  | \$32,110             |
| Restricted cash (includes \$22,774 and \$22,132, respectively, related to consolidated trusts)                | 27,876                    | 28,150               |
| Federal funds sold and securities purchased under agreements to resell or similar arrangements                | 16,300                    | 19,470               |
| Investments in securities:  |                           |                      |
| Trading, at fair value (includes \$3,363 and \$747, respectively, pledged as collateral)                      | 42,381                    | 34,679               |
| Available-for-sale, at fair value   | 3,723                     | 4,843                |
| Total investments in securities   | 46,104                    | 39,522               |
| Mortgage loans:   |                           |                      |
| Loans held for sale, at lower of cost or fair value   | 14,323                    | 4,988                |
| Loans held for investment, at amortized cost:   |                           |                      |
| Of Fannie Mae   | 140,154                   | 162,809              |
| Of consolidated trusts  | 3,070,959                 | 3,029,812            |
| Total loans held for investment (includes \$9,628 and \$10,596, respectively, at fair value)                  | 3,211,113                 | 3,192,621            |
| Allowance for loan losses   | (16,812 )                 | (19,084 )            |
| Total loans held for investment, net of allowance   | 3,194,301                 | 3,173,537            |
| Total mortgage loans  | 3,208,624                 | 3,178,525            |
| Deferred tax assets, net  | 15,375                    | 17,350               |
| Accrued interest receivable, net (includes \$7,702 and \$7,560, respectively, related to consolidated trusts) | 8,256                     | 8,133                |
| Acquired property, net  | 2,816                     | 3,220                |
| Other assets  | 17,160                    | 19,049               |
| Total assets  | \$3,363,364               | \$3,345,529          |
| <b>LIABILITIES AND EQUITY (DEFICIT)</b>   |                           |                      |
| Liabilities:  |                           |                      |
| Accrued interest payable (includes \$8,751 and \$8,598, respectively, related to consolidated trusts)         | \$9,825                   | \$9,682              |
| Debt:   |                           |                      |
| Of Fannie Mae (includes \$7,558 and \$8,186, respectively, at fair value)                                     | 250,690                   | 276,752              |
| Of consolidated trusts (includes \$26,675 and \$30,493, respectively, at fair value)                          | 3,086,799                 | 3,053,302            |
| Other liabilities (includes \$353 and \$492, respectively, related to consolidated trusts)                    | 8,591                     | 9,479                |
| Total liabilities   | 3,355,905                 | 3,349,215            |
| Commitments and contingencies (Note 14)   | —                         | —                    |

Edgar Filing: FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE - Form 10-Q

|  |             |             |
|--|-------------|-------------|
| Fannie Mae stockholders' equity (deficit):   |             |             |
| Senior preferred stock, 1,000,000 shares issued and outstanding  | 120,836     | 117,149     |
| Preferred stock, 700,000,000 shares are authorized—555,374,922 shares issued and outstanding   | 19,130      | 19,130      |
| Common stock, no par value, no maximum authorization—1,308,762,703 shares issued and 1,158,087,567 shares outstanding  | 687         | 687         |
| Accumulated deficit  | (126,143 )  | (133,805 )  |
| Accumulated other comprehensive income   | 349         | 553         |
| Treasury stock, at cost, 150,675,136 shares  | (7,400 )    | (7,400 )    |
| Total stockholders' equity (deficit) (See Note 1: Senior Preferred Stock Purchase Agreement and Senior Preferred Stock for information on our dividend obligation to Treasury) | 7,459       | (3,686 )    |
| Total liabilities and equity (deficit)   | \$3,363,364 | \$3,345,529 |

See Notes to Condensed Consolidated Financial Statements

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---

Financial  
Statements |  
Condensed  
Consolidated  
Statements of  
Operations and  
Comprehensive  
Income

## FANNIE MAE

(In conservatorship)

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

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

|  | For the Three<br>Months<br>Ended June 30, |          | For the Six Months<br>Ended June 30, |          |
|--|---|----------|--------------------------------------|----------|
|  | 2018                                      | 2017     | 2018                                 | 2017     |
| Interest income:   |   |          |                                      |          |
| Trading securities   | \$318                                     | \$176    | \$554                                | \$318    |
| Available-for-sale securities  | 50  | 91       | 121                                  | 192      |
| Mortgage loans (includes \$26,521 and \$25,033, respectively, for the three months ended and \$52,819 and \$49,987, respectively, for the six months ended related to consolidated trusts) | 28,307                                    | 27,011   | 56,341                               | 54,058   |
| Other  | 182                                       | 115      | 355                                  | 209      |
| Total interest income  | 28,857                                    | 27,393   | 57,371                               | 54,777   |
| Interest expense:  |   |          |                                      |          |
| Short-term debt  | (110 )                                    | (57 )    | (217 )                               | (101 )   |
| Long-term debt (includes \$21,896 and \$20,705, respectively, for the three months ended and \$43,611 and \$41,013, respectively, for the six months ended related to consolidated trusts) | (23,370)                                  | (22,334) | (46,545)                             | (44,328) |
| Total interest expense   | (23,480)                                  | (22,391) | (46,762)                             | (44,429) |
| Net interest income  | 5,377                                     | 5,002    | 10,609                               | 10,348   |
| Benefit for credit losses  | 1,296                                     | 1,267    | 1,513                                | 1,663    |
| Net interest income after benefit for credit losses  | 6,673                                     | 6,269    | 12,122                               | 12,011   |
| Investment gains, net  | 277                                       | 385      | 527                                  | 376      |
| Fair value gains (losses), net   | 229                                       | (691 )   | 1,274                                | (731 )   |
| Fee and other income   | 239                                       | 353      | 559                                  | 602      |
| Non-interest income  | 745                                       | 47       | 2,360                                | 247      |
| Administrative expenses:   |   |          |                                      |          |
| Salaries and employee benefits   | (365 )                                    | (332 )   | (746 )                               | (676 )   |
| Professional services  | (254 )                                    | (234 )   | (497 )                               | (463 )   |
| Other administrative expenses  | (136 )                                    | (120 )   | (262 )                               | (231 )   |
| Total administrative expenses  | (755 )                                    | (686 )   | (1,505 )                             | (1,370 ) |
| Foreclosed property expense  | (139 )                                    | (34 )    | (301 )                               | (251 )   |
| Temporary Payroll Tax Cut Continuation Act of 2011 (“TCCA”) fees   | (565 )                                    | (518 )   | (1,122 )                             | (1,021 ) |
| Other expenses, net  | (366 )                                    | (291 )   | (569 )                               | (673 )   |
| Total expenses   | (1,825 )                                  | (1,529 ) | (3,497 )                             | (3,315 ) |
| Income before federal income taxes   | 5,593                                     | 4,787    | 10,985                               | 8,943    |
| Provision for federal income taxes   | (1,136 )                                  | (1,587 ) | (2,267 )                             | (2,970 ) |
| Net income   | 4,457                                     | 3,200    | 8,718                                | 5,973    |

Edgar Filing: FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE - Form 10-Q

|   |          |          |          |          |
|---|----------|----------|----------|----------|
| Other comprehensive income (loss):  |          |          |          |          |
| Changes in unrealized gains on available-for-sale securities, net of reclassification adjustments and taxes | 4        | (81 )    | (316 )   | (73 )    |
| Other   | (2 )     | (2 )     | (5 )     | (4 )     |
| Total other comprehensive income (loss)   | 2        | (83 )    | (321 )   | (77 )    |
| Total comprehensive income  | \$4,459  | \$3,117  | \$8,397  | \$5,896  |
| Net income  | \$4,457  | \$3,200  | \$8,718  | \$5,973  |
| Dividends distributed or available for distribution to senior preferred stockholder                         | (4,459 ) | (3,117 ) | (5,397 ) | (5,896 ) |
| Net income (loss) attributable to common stockholders   | \$(2 )   | \$83     | \$3,321  | \$77     |
| Earnings (loss) per share:  |          |          |          |          |
| Basic   | \$0.00   | \$0.01   | \$0.58   | \$0.01   |
| Diluted   | 0.00     | 0.01     | 0.56     | 0.01     |
| Weighted-average common shares outstanding:   |          |          |          |          |
| Basic   | 5,762    | 5,762    | 5,762    | 5,762    |
| Diluted   | 5,762    | 5,893    | 5,893    | 5,893    |

See Notes to Condensed Consolidated Financial Statements

Fannie  
Mae  
(In  
conservatorship)  
~~S~~cond  
Quarter  
2018  
Form  
10-Q

---

Financial  
Statements |  
Condensed  
Consolidated  
Statements of  
Cash Flows

## FANNIE MAE

(In conservatorship)

Condensed Consolidated Statements of Cash Flows — (Unaudited)

(Dollars in millions)

|  | For the Six Months<br>Ended June 30, |            |
|--|--------------------------------------|------------|
|  | 2018                                 | 2017       |
| Net cash provided by (used in) operating activities  | \$(1,675 )                           | \$(3,626 ) |
| Cash flows provided by investing activities:   |                                      |            |
| Proceeds from maturities and paydowns of trading securities held for investment                              | 141                                  | 937        |
| Proceeds from sales of trading securities held for investment  | 96                                   | 124        |
| Proceeds from maturities and paydowns of available-for-sale securities                                       | 417                                  | 1,214      |
| Proceeds from sales of available-for-sale securities   | 672                                  | 922        |
| Purchases of loans held for investment   | (86,615 )                            | (90,180 )  |
| Proceeds from repayments of loans acquired as held for investment of Fannie Mae                              | 7,945                                | 12,835     |
| Proceeds from sales of loans acquired as held for investment of Fannie Mae                                   | 2,555                                | 2,361      |
| Proceeds from repayments and sales of loans acquired as held for investment of consolidated trusts           | 202,923                              | 208,576    |
| Advances to lenders  | (55,151 )                            | (57,533 )  |
| Proceeds from disposition of acquired property and preforeclosure sales                                      | 4,848                                | 6,874      |
| Net change in federal funds sold and securities purchased under agreements to resell or similar arrangements | 3,170                                | 1,195      |
| Other, net   | (495 )                               | (208 )     |
| Net cash provided by investing activities  | 80,506                               | 87,117     |
| Cash flows used in financing activities:   |                                      |            |
| Proceeds from issuance of debt of Fannie Mae   | 473,373                              | 489,301    |
| Payments to redeem debt of Fannie Mae  | (499,674)                            | (510,340)  |
| Proceeds from issuance of debt of consolidated trusts  | 172,507                              | 181,764    |
| Payments to redeem debt of consolidated trusts   | (239,297)                            | (250,251)  |
| Payments of cash dividends on senior preferred stock to Treasury   | (938 )                               | (8,250 )   |
| Proceeds from senior preferred stock purchase agreement with Treasury  | 3,687                                | —          |
| Other, net   | (20 )                                | 11         |
| Net cash used in financing activities  | (90,362 )                            | (97,765 )  |
| Net decrease in cash, cash equivalents and restricted cash   | (11,531 )                            | (14,274 )  |
| Cash, cash equivalents and restricted cash at beginning of period  | 60,260                               | 62,177     |
| Cash, cash equivalents and restricted cash at end of period  | \$48,729                             | \$47,903   |
| Cash paid during the period for:   |                                      |            |
| Interest   | \$54,408                             | \$56,207   |
| Income taxes   | 460                                  | 1,070      |

See Notes to Condensed Consolidated Financial Statements

Fannie  
Mae  
(In  
conservatorship)  
**S**econd  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements I  
Summary of  
Significant  
Accounting  
Policies

FANNIE MAE

(In conservatorship)

Notes to Condensed Consolidated Financial Statements

(Unaudited)

1. Summary of Significant Accounting Policies

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

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

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

Basis of Presentation

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

Use of Estimates

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

Senior Preferred Stock Purchase Agreement and Senior Preferred Stock

Treasury has made a commitment under a senior preferred stock purchase agreement to provide funding to us under certain circumstances if we have a net worth deficit. In the first quarter of 2018, we received \$3.7 billion from Treasury to eliminate our net worth deficit as of December 31, 2017. Pursuant to the senior preferred stock purchase

agreement, we have received a total of \$119.8 billion from Treasury as of June 30, 2018, and the amount of remaining funding available to us under the agreement was \$113.9 billion.

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

Fannie  
Mae  
(In  
conservatorship)  
~~S~~cond  
Quarter  
2018  
Form  
10-Q

---



Notes to  
Condensed  
Consolidated  
Financial  
Statements I  
Summary of  
Significant  
Accounting  
Policies

Treasury a dividend of \$938 million based on our net worth of \$3.9 billion as of March 31, 2018, less the applicable capital reserve amount of \$3.0 billion. Because we had a net worth of \$7.5 billion as of June 30, 2018, we expect to pay Treasury a dividend of \$4.5 billion for the third quarter of 2018 by September 30, 2018.

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

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

#### Regulatory Capital

We submit capital reports to FHFA, which monitors our capital levels. The deficit of core capital over statutory minimum capital was \$136.3 billion as of June 30, 2018 and \$144.4 billion as of December 31, 2017. Due to the terms of our senior preferred stock described above, we do not expect to eliminate our deficit of core capital over statutory minimum capital.

#### Related Parties

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

#### Transactions with Treasury

Our administrative expenses were reduced by \$6 million and \$11 million for the three months ended June 30, 2018 and 2017, respectively, and \$13 million and \$23 million for the six months ended June 30, 2018 and 2017, respectively, due to reimbursements from Treasury and Freddie Mac for expenses incurred as program administrator for Treasury’s Home Affordable Modification Program and other initiatives under Treasury’s Making Home Affordable Program.

We made tax payments to the Internal Revenue Service (“IRS”), a bureau of Treasury, of \$460 million during the three and six months ended June 30, 2018. We made tax payments of \$1.1 billion during the three and six months ended June 30, 2017.

In 2009, we entered into a memorandum of understanding with Treasury, FHFA and Freddie Mac pursuant to which we agreed to provide assistance to state and local housing finance agencies (“HFAs”) through certain programs, including a new issue bond (“NIB”) program. As of June 30, 2018, under the NIB program, Fannie Mae and Freddie Mac had \$4.7 billion outstanding of pass-through securities backed by single-family and multifamily housing bonds issued by HFAs, which is less than 35% of the total original principal under the program, the amount of losses that Treasury would bear. Accordingly, we do not have a potential risk of loss under the NIB program.

The fee revenue and expense related to the TCCA are recorded in “Mortgage loans interest income” and “TCCA fees,” respectively, in our condensed consolidated statements of operations and comprehensive income. We recognized \$565 million and \$518 million in TCCA fees during the three months ended June 30, 2018 and 2017, respectively, and \$1.1 billion and \$1.0 billion for the six months ended June 30, 2018 and 2017, respectively, of which \$565 million had not been remitted to Treasury as of June 30, 2018.

We incurred expenses in connection with certain funding obligations under the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended by the Federal Housing Finance Regulatory Reform Act of 2008 (the “GSE Act”), a portion of which is attributable to Treasury’s Capital Magnet Fund. These expenses, recognized in “Other expenses, net” in our condensed consolidated statements of operations and comprehensive income, were measured as the product of 4.2 basis points and the unpaid principal balance of our total new business purchases for the respective period. We recognized \$19 million and \$15 million in “Other expenses, net” in connection with Treasury’s Capital Magnet Fund for the three months ended June 30, 2018 and 2017, respectively, and \$37 million and \$30 million for the six months ended June 30, 2018 and 2017, respectively, of which \$37 million had not been remitted as of June 30, 2018.

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Summary of  
Significant  
Accounting  
Policies

In addition to the transactions with Treasury mentioned above, we purchase and sell Treasury securities in the normal course of business. As of June 30, 2018 and December 31, 2017, we held Treasury securities with a fair value of \$35.7 billion and \$29.2 billion, respectively, and accrued interest receivable of \$116 million and \$77 million, respectively. We recognized interest income on these securities held by us of \$164 million and \$86 million for the three months ended June 30, 2018 and 2017, respectively, and \$293 million and \$149 million for the six months ended June 30, 2018 and 2017, respectively.

Transactions with Freddie Mac

As of June 30, 2018 and December 31, 2017, we held Freddie Mac mortgage-related securities with a fair value of \$543 million and \$613 million, respectively, and accrued interest receivable of \$2 million. We recognized interest income on these securities held by us of \$6 million and \$10 million for the three months ended June 30, 2018 and 2017, respectively, and \$13 million and \$23 million for the six months ended June 30, 2018 and 2017, respectively. In addition, Freddie Mac may be an investor in variable interest entities (“VIEs”) that we have consolidated, and we may be an investor in VIEs that Freddie Mac has consolidated. Freddie Mac may also be an investor in our debt securities.

Transactions with FHFA

The GSE Act authorizes FHFA to establish an annual assessment for regulated entities, including Fannie Mae, which is payable on a semi-annual basis (April and October), for FHFA’s costs and expenses, as well as to maintain FHFA’s working capital. We recognized FHFA assessment fees, which are recorded in “Administrative expenses” in our condensed consolidated statements of operations and comprehensive income, of \$26 million for the three months ended June 30, 2018 and 2017, respectively, and \$55 million and \$56 million for the six months ended June 30, 2018 and 2017, respectively.

Transactions with CSS

In connection with the company we jointly own with Freddie Mac, we contributed capital to CSS of \$35 million and \$18 million for the three months ended June 30, 2018 and 2017, respectively, and \$76 million and \$53 million for the six months ended June 30, 2018 and 2017, respectively. No other transactions outside of normal business activities have occurred between us and CSS during the three and six months ended June 30, 2018 and 2017.

Income Taxes

The decrease in our provision for federal income taxes for the three and six months ended June 30, 2018 as compared to the three and six months ended June 30, 2017 was the result of the Tax Cuts and Jobs Act of 2017, which reduced the federal statutory corporate income tax rate from 35% to 21% effective January 1, 2018. This decline was the primary driver of the reduction in our effective tax rate to 20.3% for the three months ended June 30, 2018 and 20.6% for the six months ended June 30, 2018, compared with 33.2% for both the three and six months ended June 30, 2017. Our effective tax rates for all the periods presented were different from the prevailing federal statutory rate primarily due to the benefits of our investments in housing projects eligible for low-income housing tax credits.

Earnings (Loss) per Share

Earnings (loss) per share (“EPS”) is presented for basic and diluted EPS. We compute basic EPS by dividing net income (loss) attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. However, as a result of our conservatorship status and the terms of the senior preferred stock, no amounts are available to distribute as dividends to common or preferred stockholders (other than to Treasury as holder of the senior preferred stock). Weighted average common shares includes 4.6 billion shares for the periods ended June 30, 2018 and 2017 that would be issued upon the full exercise of the warrant issued to Treasury from the date the

warrant was issued.

The calculation of diluted EPS includes all the components of basic earnings per share, plus the dilutive effect of common stock equivalents such as convertible securities and stock options. Weighted average shares outstanding is increased to include the number of additional common shares that would have been outstanding if the dilutive potential common shares had been issued. For the six months ended June 30, 2018 and 2017, our diluted EPS weighted average shares outstanding includes shares of common stock that would be issuable upon the conversion of 131 million shares of convertible preferred stock. For the three months ended June 30, 2018,

Fannie  
Mae  
(In  
conservatorship)  
~~S~~cond  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements I  
Summary of  
Significant  
Accounting  
Policies

convertible preferred stock is not included in the calculation because a net loss attributable to common stockholders was incurred and it would have an anti-dilutive effect.

New Accounting Guidance

The following table updates information about our significant policies that have recently been adopted or are yet to be adopted from the information included in our 2017 Form 10-K.

| Standard  | Description   | Date of Adoption | Impact on Consolidated Financial or Planned Statements  |
|---|---|------------------|---|
| Accounting Standards Update (“ASU”) 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities (Subtopic 825-10)                        | The amendment addresses certain aspects of recognition, measurement, presentation and disclosure of financial instruments.  | January 1, 2018  | The adoption of the amendments did not have a material impact on our condensed consolidated financial statements.   |
| ASU 2016-15, Statement of Cash Flows (Topic 230), Classification of Certain Cash Receipts and Cash Payments (a consensus of the Emerging Issues Task Force)     | The main objective of this update is to address the diversity in practice that currently exists in regards to how certain cash receipts and cash payments are presented and classified in the statement of cash flows under Topic 230, Statement of Cash Flows, and other Topics.   | January 1, 2018  | This guidance was applied retrospectively to the statement of cash flows for the prior period presented. The adoption of the amendments did not have a material impact on our condensed consolidated financial statements.  |
| ASU 2016-18, Statement of Cash Flows (Topic 230), Restricted Cash (a consensus of the Financial Accounting Standards Board (“FASB”) Emerging Issues Task Force) | The amendments in this update address the diversity in the classification and presentation of changes in restricted cash on the statement of cash flows under Topic 230, Statement of Cash Flows. Specifically, this amendment dictates that the statement of cash flows should explain the change in the period of the total of cash, cash equivalents and restricted cash balances. | January 1, 2018  | This guidance was applied retrospectively to the statements of cash flows for the prior period presented. As a result of this adoption, the net change in restricted cash that results from transfers between cash, cash equivalents, and restricted cash will no longer be presented as an investing activity in our condensed consolidated statement of cash flows. The adoption of the amendments did not have a material impact on our condensed consolidated financial statements. |
| ASU 2018-02, Income Statement (Topic 220): Reclassification of Certain Tax Effects from   | The amendments in this update allow a reclassification from accumulated other comprehensive income to retained earnings for   | January 1, 2018  | The early adoption of this guidance resulted in the reclassification of \$117 million in stranded tax amounts from accumulated other comprehensive  |

Accumulated Other  
Comprehensive Income

stranded tax effects resulting from  
the Tax Cuts and Jobs Act.

income to retained earnings.

ASU 2016-13,  
Financial  
Instruments-Credit Losses  
(Topic 326): Measurement  
of Credit Losses on  
Financial Instruments

The amendments in this update  
replace the incurred loss  
impairment methodology in current  
GAAP with a methodology that  
reflects lifetime expected credit  
losses and requires consideration of  
a broader range of reasonable and  
supportable information to inform  
credit loss estimates.

January 1,  
2020

We are continuing to evaluate the impact  
of this guidance on our condensed  
consolidated financial statements. We  
expect the greater impact of the guidance  
to relate to our accounting for credit  
losses for loans that are not individually  
impaired. The adoption of this guidance  
may increase our allowance for loan  
losses and decrease, perhaps  
substantially, our retained earnings.

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Consolidations  
and Transfers  
of Financial  
Assets

## 2. Consolidations and Transfers of Financial Assets

We have interests in various entities that are considered to be VIEs. The primary types of entities are securitization trusts and limited partnerships. These interests include investments in securities issued by VIEs, such as Fannie Mae MBS created pursuant to our securitization transactions and our guaranty to the entity. We consolidate the substantial majority of our single-class securitization trusts because our role as guarantor and master servicer provides us with the power to direct matters (primarily the servicing of mortgage loans) that impact the credit risk to which we are exposed. In contrast, we do not consolidate single-class securitization trusts when other organizations have the power to direct these activities.

### Unconsolidated VIEs

We do not consolidate VIEs when we are not deemed to be the primary beneficiary. Our unconsolidated VIEs include securitization trusts and limited partnerships. The following table displays the carrying amount and classification of our assets and liabilities that relate to our involvement with unconsolidated securitization trusts.

|                                     | As of                 |                      |
|-------------------------------------|-----------------------|----------------------|
|                                     | June 30,<br>2018      | December 31,<br>2017 |
|                                     | (Dollars in millions) |                      |
| Assets:                             |                       |                      |
| Trading securities:                 |                       |                      |
| Fannie Mae                          | \$1,640               | \$ 3,809             |
| Non-Fannie Mae                      | 4,925                 | 1,580                |
| Total trading securities            | 6,565                 | 5,389                |
| Available-for-sale securities:      |                       |                      |
| Fannie Mae                          | 1,825                 | 2,032                |
| Non-Fannie Mae                      | 1,322                 | 2,062                |
| Total available-for-sale securities | 3,147                 | 4,094                |
| Other assets                        | 70                    | 74                   |
| Other liabilities                   | (104 )                | (467 )               |
| Net carrying amount                 | \$9,678               | \$ 9,090             |

Our maximum exposure to loss generally represents the greater of our recorded investment in the entity or the unpaid principal balance of the assets covered by our guaranty. However, our securities issued by Fannie Mae multi-class resecuritization trusts that are not consolidated do not give rise to any additional exposure to loss as we already consolidate the underlying collateral. The maximum exposure to loss related to unconsolidated mortgage-backed trusts was approximately \$14 billion and \$15 billion as of June 30, 2018 and December 31, 2017, respectively. The total assets of our unconsolidated securitization trusts were approximately \$70 billion as of June 30, 2018 and December 31, 2017.

The maximum exposure to loss for our unconsolidated limited partnerships and similar legal entities, which consist of low-income housing tax credit investments, community investments and other entities, was \$103 million and the related carrying value was \$81 million as of June 30, 2018. As of December 31, 2017, the maximum exposure to loss was \$105 million and the related carrying value was \$82 million. The total assets of these limited partnership investments were \$3.0 billion and \$3.2 billion as of June 30, 2018 and December 31, 2017, respectively.

The unpaid principal balance of our multifamily loan portfolio was \$275.8 billion as of June 30, 2018. As our lending relationship does not provide us with a controlling financial interest in the borrower entity, we do not consolidate these borrowers regardless of their status as either a VIE or a voting interest entity. We have excluded these entities from our VIE disclosures. However, the disclosures we have provided in “Note 3, Mortgage Loans,” “Note 4, Allowance for Loan Losses” and “Note 6, Financial Guarantees” with respect to this population are consistent with the FASB’s stated objectives for the disclosures related to unconsolidated VIEs.

Transfers of Financial Assets

We issue Fannie Mae MBS through portfolio securitization transactions by transferring pools of mortgage loans or mortgage-related securities to one or more trusts or special purpose entities. We are considered to be the

Fannie  
Mae  
(In  
conservatorship)  
6<sup>th</sup>  
Quarter  
2018  
Form  
10-Q

---



Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Consolidations  
and Transfers  
of Financial  
Assets

transferor when we transfer assets from our own retained mortgage portfolio in a portfolio securitization transaction. For the three months ended June 30, 2018 and 2017, the unpaid principal balance of portfolio securitizations was \$51.6 billion and \$69.2 billion, respectively. For the six months ended June 30, 2018 and 2017, the unpaid principal balance of portfolio securitizations was \$115.9 billion and \$126.5 billion, respectively.

We retain interests from the transfer and sale of mortgage-related securities to unconsolidated single-class and multi-class portfolio securitization trusts. As of June 30, 2018, the unpaid principal balance of retained interests was \$1.6 billion and its related fair value was \$2.5 billion. The unpaid principal balance of retained interests was \$3.9 billion and its related fair value was \$4.7 billion as of December 31, 2017. For the three months ended June 30, 2018 and 2017, the principal and interest received on retained interests was \$128 million and \$303 million, respectively. For the six months ended June 30, 2018 and 2017, the principal and interest received on retained interests was \$354 million and \$560 million, respectively.

#### Managed Loans

Managed loans are on-balance sheet mortgage loans, as well as mortgage loans that we have securitized in unconsolidated portfolio securitization trusts. The unpaid principal balance of securitized loans in unconsolidated portfolio securitization trusts, which are primarily loans that are guaranteed or insured, in whole or in part, by the U.S. government, was \$1.2 billion and \$1.3 billion as of June 30, 2018 and December 31, 2017, respectively. For information on our on-balance sheet mortgage loans, see “Note 3, Mortgage Loans.”

#### 3. Mortgage Loans

We own single-family mortgage loans, which are secured by four or fewer residential dwelling units, and multifamily mortgage loans, which are secured by five or more residential dwelling units. We classify these loans as either held for investment (“HFI”) or held for sale (“HFS”). We report the carrying value of HFI loans at the unpaid principal balance, net of unamortized premiums and discounts, other cost basis adjustments, and an allowance for loan losses. We report the carrying value of HFS loans at the lower of cost or fair value and record valuation changes in “Investment gains, net” in our condensed consolidated statements of operations and comprehensive income. We define the recorded investment of HFI loans as unpaid principal balance, net of unamortized premiums and discounts, other cost basis adjustments, and accrued interest receivable.

For purposes of the single-family mortgage loan disclosures in this footnote, we define “primary” class as mortgage loans that are not included in other loan classes; “government” class as mortgage loans that are guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies, and that are not Alt-A; and “other” class as loans with higher-risk characteristics, such as interest-only loans and negative-amortizing loans, that are neither government nor Alt-A.

The following table displays the carrying value of our mortgage loans.

|  | As of                 |                      |
|--|-----------------------|----------------------|
|  | June 30,<br>2018      | December 31,<br>2017 |
|  | (Dollars in millions) |                      |
| Single-family                                    | \$2,910,803           | \$2,890,634          |
| Multifamily                                      | 275,797               | 265,069              |
| Total unpaid principal balance of mortgage loans | 3,186,600             | 3,155,703            |
| Cost basis and fair value adjustments, net       | 38,836                | 41,906               |

|   |             |             |
|---|-------------|-------------|
| Allowance for loan losses for loans held for investment | (16,812 )   | (19,084 )   |
| Total mortgage loans                                    | \$3,208,624 | \$3,178,525 |

The following table displays information about our redesignated mortgage loans.

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Mortgage  
Loans

|  | For the Three<br>Months Ended<br>June 30,<br>2018 |         | For the Six<br>Months Ended<br>June 30,<br>2017 |         |
|--|---|---------|---|---------|
|  | 2018  | 2017    | 2018  | 2017    |
|  | (Dollars in millions)                             |         |   |         |
| Carrying value of loans redesignated from HFI to HFS | \$6,235   | \$2,879 | \$13,602  | \$5,422 |
| Carrying value of loans redesignated from HFS to HFI | 12  | 17      | 30  | 52      |
| Loans sold - unpaid principal balance                | 3,710   | 2,947   | 4,458   | 3,040   |
| Realized gains on sale of mortgage loans             | 210   | 55      | 208   | 53      |

The recorded investment of single-family mortgage loans for which formal foreclosure proceedings are in process was \$12.0 billion and \$13.0 billion as of June 30, 2018 and December 31, 2017, respectively. As a result of our various loss mitigation and foreclosure prevention efforts, we expect that a portion of the loans in the process of formal foreclosure proceedings will not ultimately foreclose.

## Nonaccrual Loans

We discontinue accruing interest on loans when we believe collectibility of principal or interest is not reasonably assured, which for a single-family loan we have determined, based on our historical experience, to be when the loan becomes two months or more past due according to its contractual terms. Interest previously accrued but not collected is reversed through interest income at the date a loan is placed on nonaccrual status. We return a non-modified single-family loan to accrual status at the point that the borrower brings the loan current. We return a modified single-family loan to accrual status at the point that the borrower successfully makes all required payments during the trial period (generally three to four months) and the modification is made permanent. We place a multifamily loan on nonaccrual status when the loan becomes three months or more past due according to its contractual terms or is deemed to be individually impaired, unless the loan is well secured such that collectibility of principal and accrued interest is reasonably assured. We return a multifamily loan to accrual status when the borrower cures the delinquency of the loan or we otherwise determine that the loan is well secured such that collectibility is reasonably assured.

## Aging Analysis

The following tables display an aging analysis of the total recorded investment in our HFI mortgage loans by portfolio segment and class, excluding loans for which we have elected the fair value option.

As of June 30, 2018

|                           | 30 - 59<br>Days<br>Delinquent | 60 - 89<br>Days<br>Delinquent | Seriously<br>Delinquent <sup>(1)</sup> | Total<br>Delinquent | Current     | Total       | Recorded<br>Investment<br>in Loans<br>90 Days or<br>More<br>Delinquent<br>and<br>Accruing<br>Interest | Recorded<br>Investment<br>in<br>Nonaccrual<br>Loans |
|---------------------------|-------------------------------|-------------------------------|--|---------------------|-------------|-------------|---|---|
|                           | (Dollars in millions)         |                               |  |                     |             |             |   |   |
| Single-family:            |                               |                               |  |                     |             |             |   |   |
| Primary                   | \$28,773                      | \$ 6,876                      | \$ 17,962                              | \$ 53,611           | \$2,776,694 | \$2,830,305 | \$ 29   | \$ 28,570   |
| Government <sup>(2)</sup> | 49                            | 17                            | 185                                    | 251                 | 24,068      | 24,319      | 185   | —   |

Edgar Filing: FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE - Form 10-Q

|                            |          |          |           |           |             |             |        |           |
|----------------------------|----------|----------|-----------|-----------|-------------|-------------|--------|-----------|
| Alt-A                      | 2,569    | 876      | 2,485     | 5,930     | 53,395      | 59,325      | 4      | 3,854     |
| Other                      | 935      | 313      | 941       | 2,189     | 15,901      | 18,090      | 3      | 1,417     |
| Total single-family        | 32,326   | 8,082    | 21,573    | 61,981    | 2,870,058   | 2,932,039   | 221    | 33,841    |
| Multifamily <sup>(3)</sup> | 13       | N/A      | 347       | 360       | 277,107     | 277,467     | —      | 619       |
| Total                      | \$32,339 | \$ 8,082 | \$ 21,920 | \$ 62,341 | \$3,147,165 | \$3,209,506 | \$ 221 | \$ 34,460 |

Fannie  
Mae  
(In  
conservatorship)  
S8cond  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Mortgage  
Loans

As of December 31, 2017

|                            | 30 - 59<br>Days<br>Delinquent | 60 - 89<br>Days<br>Delinquent | Seriously<br>Delinquent <sup>(1)</sup> | Total<br>Delinquent | Current     | Total       | Recorded<br>Investment<br>in Loans<br>90 Days or<br>More<br>Delinquent<br>and<br>Accruing<br>Interest | Recorded<br>Investment<br>in<br>Nonaccrual<br>Loans |
|----------------------------|-------------------------------|-------------------------------|--|---------------------|-------------|-------------|---|---|
| (Dollars in millions)      |                               |                               |  |                     |             |             |   |   |
| Single-family:             |                               |                               |  |                     |             |             |   |   |
| Primary                    | \$35,582                      | \$ 10,396                     | \$ 23,999                              | \$ 69,977           | \$2,732,818 | \$2,802,795 | \$ 87   | \$ 37,971   |
| Government <sup>(2)</sup>  | 55                            | 21                            | 206                                    | 282                 | 30,807      | 31,089      | 206   | —   |
| Alt-A                      | 3,186                         | 1,147                         | 3,418                                  | 7,751               | 59,475      | 67,226      | 5   | 5,094   |
| Other                      | 1,185                         | 411                           | 1,252                                  | 2,848               | 19,016      | 21,864      | 5   | 1,834   |
| Total single-family        | 40,008                        | 11,975                        | 28,875                                 | 80,858              | 2,842,116   | 2,922,974   | 303   | 44,899  |
| Multifamily <sup>(3)</sup> | 26                            | N/A                           | 276                                    | 302                 | 266,699     | 267,001     | —   | 424   |
| Total                      | \$40,034                      | \$ 11,975                     | \$ 29,151                              | \$ 81,160           | \$3,108,815 | \$3,189,975 | \$ 303  | \$ 45,323   |

(1) Single-family seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. Multifamily seriously delinquent loans are loans that are 60 days or more past due.

(2) Primarily consists of reverse mortgages, which due to their nature, are not aged and are included in the current column.

(3) Multifamily loans 60-89 days delinquent are included in the seriously delinquent column.

Credit Quality Indicators

The following table displays the total recorded investment in our single-family HFI loans by class and credit quality indicator, excluding loans for which we have elected the fair value option.

|   | As of<br>June 30, 2018 <sup>(1)</sup> |          |          | December 31, 2017 <sup>(1)</sup> |          |          |
|---|---------------------------------------|----------|----------|----------------------------------|----------|----------|
|   | Primary                               | Alt-A    | Other    | Primary                          | Alt-A    | Other    |
| (Dollars in millions)   |                                       |          |          |                                  |          |          |
| Estimated mark-to-market loan-to-value (“LTV”) ratio <sup>(3)</sup> |                                       |          |          |                                  |          |          |
| Less than or equal to 80%   | \$2,516,133                           | \$49,011 | \$14,537 | \$2,439,858                      | \$51,903 | \$16,428 |
| Greater than 80% and less than or equal to 90%                      | 218,193                               | 4,846    | 1,585    | 238,038                          | 6,680    | 2,277    |
| Greater than 90% and less than or equal to 100%                     | 83,243                                | 2,675    | 940      | 106,076                          | 4,044    | 1,443    |
| Greater than 100%   | 12,736                                | 2,793    | 1,028    | 18,823                           | 4,599    | 1,716    |
| Total   | \$2,830,305                           | \$59,325 | \$18,090 | \$2,802,795                      | \$67,226 | \$21,864 |

(1) Excludes \$24.3 billion and \$31.1 billion as of June 30, 2018 and December 31, 2017, respectively, of mortgage loans guaranteed or insured, in whole or in part, by the U.S. government or one of its agencies, that are not Alt-A loans. The segment class is primarily reverse mortgages for which we do not calculate an estimated

mark-to-market LTV ratio.

The aggregate estimated mark-to-market LTV ratio is based on the unpaid principal balance of the loan as of the  
 (2) end of each reported period divided by the estimated current value of the property, which we calculate using an  
 internal valuation model that estimates periodic changes in home value.

The following table displays the total recorded investment in our multifamily HFI loans by credit quality indicator,  
 excluding loans for which we have elected the fair value option.

As of  
 June 30,      December  
 2018          31,  
 2017  
 (Dollars in millions)

Credit risk profile by internally assigned grade:

|                           |           |           |
|---------------------------|-----------|-----------|
| Non-classified            | \$273,064 | \$263,416 |
| Classified <sup>(1)</sup> | 4,403     | 3,585     |
| Total                     | \$277,467 | \$267,001 |

Fannie  
 Mae  
 (In  
 conservatorship)  
 Second  
 Quarter  
 2018  
 Form  
 10-Q

---

Notes to  
 Condensed  
 Consolidated  
 Financial  
 Statements |  
 Mortgage  
 Loans

(1) Represents loans classified as “Substandard,” which have a well-defined weakness that jeopardizes the timely full repayment. Loans with a weakness that makes collection or liquidation in full highly questionable and improbable based on existing conditions and values are referred to as “Doubtful.” We had no loans classified as doubtful for the periods indicated.

## Individually Impaired Loans

Individually impaired loans include troubled debt restructurings (“TDRs”), acquired credit-impaired loans and multifamily loans that we have assessed as probable that we will not collect all contractual amounts due, regardless of whether we are currently accruing interest; excluding loans classified as HFS. The following tables display the total unpaid principal balance, recorded investment, related allowance, average recorded investment and interest income recognized for individually impaired loans.

|  | As of<br>June 30, 2018         |                                 |  | December 31, 2017              |                                 |  |
|--|--------------------------------|---------------------------------|--|--------------------------------|---------------------------------|--|
|  | Unpaid<br>Principal<br>Balance | Total<br>Recorded<br>Investment | Related<br>Allowance<br>for Loan<br>Losses | Unpaid<br>Principal<br>Balance | Total<br>Recorded<br>Investment | Related<br>Allowance<br>for Loan<br>Losses |
|  | (Dollars in millions)          |                                 |  |                                |                                 |  |
| Individually impaired loans:   |                                |                                 |  |                                |                                 |  |
| With related allowance recorded:                                     |                                |                                 |  |                                |                                 |  |
| Single-family:   |                                |                                 |  |                                |                                 |  |
| Primary  | \$89,828                       | \$86,148                        | \$(11,258 )                                | \$91,194                       | \$86,864                        | \$(11,652 )                                |
| Government   | 274                            | 279                             | (58 )                                      | 276                            | 279                             | (56 )                                      |
| Alt-A  | 19,098                         | 17,475                          | (3,314 )                                   | 23,077                         | 21,045                          | (4,046 )                                   |
| Other  | 6,900                          | 6,504                           | (1,252 )                                   | 8,488                          | 8,006                           | (1,493 )                                   |
| Total single-family  | 116,100                        | 110,406                         | (15,882 )                                  | 123,035                        | 116,194                         | (17,247 )                                  |
| Multifamily  | 229                            | 230                             | (39 )                                      | 279                            | 280                             | (42 )                                      |
| Total individually impaired loans with related allowance recorded    | 116,329                        | 110,636                         | (15,921 )                                  | 123,314                        | 116,474                         | (17,289 )                                  |
| With no related allowance recorded: <sup>(1)</sup>                   |                                |                                 |  |                                |                                 |  |
| Single-family:   |                                |                                 |  |                                |                                 |  |
| Primary  | 15,904                         | 15,086                          | —  | 16,027                         | 15,158                          | —  |
| Government   | 61                             | 56                              | —  | 66                             | 60                              | —  |
| Alt-A  | 2,915                          | 2,608                           | —  | 3,253                          | 2,870                           | —  |
| Other  | 868                            | 803                             | —  | 988                            | 909                             | —  |
| Total single-family  | 19,748                         | 18,553                          | —  | 20,334                         | 18,997                          | —  |
| Multifamily  | 354                            | 356                             | —  | 308                            | 310                             | —  |
| Total individually impaired loans with no related allowance recorded | 20,102                         | 18,909                          | —  | 20,642                         | 19,307                          | —  |
| Total individually impaired loans <sup>(2)</sup>                     | \$136,431                      | \$129,545                       | \$(15,921 )                                | \$143,956                      | \$135,781                       | \$(17,289 )                                |

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---



Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Mortgage  
LoansFor the Three Months Ended June 30,  
2018

2017

| Average<br>Recorded<br>Investment | Total<br>Interest<br>Income<br>Recognized <sup>(3)</sup> | Interest<br>Income<br>Recognized <sup>(3)</sup><br>on a Cash<br>Basis | Average<br>Recorded<br>Investment | Total<br>Interest<br>Income<br>Recognized <sup>(3)</sup> | Interest<br>Income<br>Recognized <sup>(3)</sup><br>on a Cash<br>Basis |
|-----------------------------------|--|---|-----------------------------------|--|---|
|-----------------------------------|--|---|-----------------------------------|--|---|

(Dollars in millions)

## Individually impaired loans:

## With related allowance recorded:

## Single-family:

|  |          |        |        |          |        |       |
|--|----------|--------|--------|----------|--------|-------|
| Primary  | \$88,526 | \$ 915 | \$ 109 | \$94,599 | \$ 955 | \$ 77 |
| Government   | 279      | 9      | —      | 295      | 2      | —     |
| Alt-A  | 19,349   | 219    | 16     | 24,249   | 240    | 14    |
| Other  | 7,265    | 73     | 6      | 9,419    | 82     | 5     |
| Total single-family  | 115,419  | 1,216  | 131    | 128,562  | 1,279  | 96    |
| Multifamily  | 232      | 1      | —      | 259      | 4      | —     |
| Total individually impaired loans with<br>related allowance recorded | 115,651  | 1,217  | 131    | 128,821  | 1,283  | 96    |

With no related allowance recorded:<sup>(1)</sup>

## Single-family:

|   |           |          |        |           |          |        |
|---|-----------|----------|--------|-----------|----------|--------|
| Primary   | 14,942    | 243      | 32     | 15,091    | 273      | 24     |
| Government  | 57        | 2        | —      | 61        | 1        | —      |
| Alt-A   | 2,723     | 61       | 5      | 3,026     | 67       | 2      |
| Other   | 857       | 15       | 1      | 1,016     | 21       | 1      |
| Total single-family   | 18,579    | 321      | 38     | 19,194    | 362      | 27     |
| Multifamily   | 355       | 1        | —      | 284       | 7        | —      |
| Total individually impaired loans with no<br>related allowance recorded | 18,934    | 322      | 38     | 19,478    | 369      | 27     |
| Total individually impaired loans                                       | \$134,585 | \$ 1,539 | \$ 169 | \$148,299 | \$ 1,652 | \$ 123 |

Fannie  
Mae  
(In  
conservatorship)Second  
Quarter  
2018  
Form  
10-Q



Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Mortgage  
Loans

|   | For the Six Months Ended June 30, |  |  |                                   |  |  |
|---|-----------------------------------|--|--|-----------------------------------|--|--|
|   | 2018                              |  |  | 2017                              |  |  |
|   | Average<br>Recorded<br>Investment | Total<br>Interest<br>Income<br>Recognized <sup>(3)</sup> | Interest<br>Income<br>Recognized<br>on a Cash<br>Basis | Average<br>Recorded<br>Investment | Total<br>Interest<br>Income<br>Recognized <sup>(3)</sup> | Interest<br>Income<br>Recognized<br>on a Cash<br>Basis |
| (Dollars in millions)   |                                   |  |  |                                   |  |  |
| Individually impaired loans:  |                                   |  |  |                                   |  |  |
| With related allowance recorded:  |                                   |  |  |                                   |  |  |
| Single-family:  |                                   |  |  |                                   |  |  |
| Primary   | \$88,342                          | \$ 1,826   | \$ 216   | \$96,395                          | \$ 1,941   | \$ 165   |
| Government  | 278                               | 12   | —  | 298                               | 5  | —  |
| Alt-A   | 20,020                            | 431  | 32   | 24,896                            | 489  | 29   |
| Other   | 7,556                             | 144  | 11   | 9,805                             | 169  | 10   |
| Total single-family   | 116,196                           | 2,413  | 259  | 131,394                           | 2,604  | 204  |
| Multifamily   | 248                               | 1  | —  | 280                               | 6  | —  |
| Total individually impaired loans with<br>related allowance recorded    | 116,444                           | 2,414  | 259  | 131,674                           | 2,610  | 204  |
| With no related allowance recorded: <sup>(1)</sup>                      |                                   |  |  |                                   |  |  |
| Single-family:  |                                   |  |  |                                   |  |  |
| Primary   | 14,988                            | 486  | 58   | 15,050                            | 562  | 47   |
| Government  | 58                                | 2  | —  | 61                                | 2  | —  |
| Alt-A   | 2,781                             | 119  | 9  | 3,056                             | 140  | 5  |
| Other   | 878                               | 31   | 2  | 1,041                             | 44   | 2  |
| Total single-family   | 18,705                            | 638  | 69   | 19,208                            | 748  | 54   |
| Multifamily   | 340                               | 3  | —  | 278                               | 10   | —  |
| Total individually impaired loans with no<br>related allowance recorded | 19,045                            | 641  | 69   | 19,486                            | 758  | 54   |
| Total individually impaired loans                                       | \$135,489                         | \$ 3,055   | \$ 328   | \$151,160                         | \$ 3,368   | \$ 258   |

(1) The discounted cash flows or collateral value equals or exceeds the carrying value of the loan and, as such, no valuation allowance is required.

Includes single-family loans classified as TDRs with a recorded investment of \$128.5 billion and \$134.7 billion as

(2) of June 30, 2018 and December 31, 2017, respectively. Includes multifamily loans classified as TDRs with a recorded investment of \$211 million and \$185 million as of June 30, 2018 and December 31, 2017, respectively.

(3) Total single-family interest income recognized of \$1.5 billion for the three months ended June 30, 2018 consists of \$1.4 billion of contractual interest and \$186 million of effective yield adjustments. Total single-family interest income recognized of \$1.7 billion for the three months ended June 30, 2017 consists of \$1.5 billion of contractual interest and \$229 million of effective yield adjustments. Total single-family interest income recognized of \$3.1 billion for the six months ended June 30, 2018 consists of \$2.7 billion of contractual interest and \$352 million of effective yield adjustments. Total single-family interest income recognized of \$3.4 billion for the six months ended

June 30, 2017 consists of \$2.9 billion of contractual interest and \$497 million of effective yield adjustments.  
Troubled Debt Restructurings

A modification to the contractual terms of a loan that results in granting a concession to a borrower experiencing financial difficulties is considered a TDR. In addition to formal loan modifications, we also engage in other loss mitigation activities with troubled borrowers, which include repayment plans and forbearance arrangements, both of which represent informal agreements with the borrower that do not result in the legal modification of the loan's contractual terms. We account for these informal restructurings as a TDR if we defer more than three missed payments. We also classify loans to certain borrowers who have received bankruptcy relief as TDRs.

The substantial majority of the loan modifications we complete result in term extensions, interest rate reductions or a combination of both. During the three months ended June 30, 2018 and 2017, the average term extension of a single-family modified loan was 128 months and 155 months, respectively, and the average interest rate reduction was 0.13 and 0.67 percentage points, respectively. During the six months ended June 30, 2018 and

Fannie  
Mae  
(In  
conservatorship)  
~~6~~2cond  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Mortgage  
Loans

2017, the average term extension of a single-family modified loan was 133 months and 154 months, respectively, and the average interest rate reduction was 0.18 and 0.80 percentage points, respectively.

The following tables display the number of loans and recorded investment in loans classified as a TDR.

|                     | For the Three Months Ended June 30,<br>2018 |  | 2017                  |                     |
|---------------------|---|--|-----------------------|---------------------|
|                     | Number<br>of<br>Loans                       | Recorded Investment<br>(Dollars in millions) | Number<br>of<br>Loans | Recorded Investment |
| Single-family:      |   |  |                       |                     |
| Primary             | 21,820                                      | \$ 3,148                                     | 14,148                | \$ 1,945            |
| Government          | 26  | 2  | 45                    | 4                   |
| Alt-A               | 1,538                                       | 200  | 1,328                 | 194                 |
| Other               | 285   | 52   | 271                   | 46                  |
| Total single-family | 23,669                                      | 3,402  | 15,792                | 2,189               |
| Multifamily         | 2   | 19   | 3                     | 17                  |
| Total TDRs          | 23,671                                      | \$ 3,421                                     | 15,795                | \$ 2,206            |

|                     | For the Six Months Ended June 30,<br>2018 |  | 2017                  |                     |
|---------------------|---|--|-----------------------|---------------------|
|                     | Number<br>of<br>Loans                     | Recorded Investment<br>(Dollars in millions) | Number<br>of<br>Loans | Recorded Investment |
| Single-family:      |   |  |                       |                     |
| Primary             | 63,499                                    | \$ 9,672                                     | 31,383                | \$ 4,308            |
| Government          | 74  | 6  | 106                   | 10                  |
| Alt-A               | 3,720                                     | 483  | 2,893                 | 418                 |
| Other               | 730                                       | 136  | 580                   | 99                  |
| Total single-family | 68,023                                    | 10,297                                       | 34,962                | 4,835               |
| Multifamily         | 10  | 61   | 3                     | 17                  |
| Total TDRs          | 68,033                                    | \$ 10,358                                    | 34,965                | \$ 4,852            |

The increase in loans classified as TDRs for the three and six months ended June 30, 2018 compared with the three and six months ended June 30, 2017 was primarily attributable to single-family loan modifications and other forms of loss mitigation in the areas affected by Hurricanes Harvey, Irma and Maria that resulted in a restructuring of the terms of these loans.

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter

2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements I  
Mortgage  
Loans

For loans that had a payment default in the period presented and that were classified as a TDR in the twelve months prior to the payment default, the following tables display the number of loans and our recorded investment in these loans at the time of payment default. For purposes of this disclosure, we define loans that had a payment default as: single-family and multifamily loans with completed TDRs that liquidated during the period, either through foreclosure, deed-in-lieu of foreclosure, or a short sale; single-family loans with completed modifications that are two or more months delinquent during the period; or multifamily loans with completed modifications that are one or more months delinquent during the period.

|  | For the Three Months Ended June 30, |                     |        |                     |
|--|-------------------------------------|---------------------|--------|---------------------|
|  | 2018                                |                     | 2017   |                     |
|  | Number                              | Recorded Investment | Number | Recorded Investment |
|  | of                                  | of                  | of     | of                  |
|  | Loans                               | Loans               | Loans  | Loans               |
|  | (Dollars in millions)               |                     |        |                     |
| Single-family:                         |                                     |                     |        |                     |
| Primary                                | 3,834                               | \$ 554              | 4,238  | \$ 589              |
| Government                             | 15                                  | 2                   | 25     | 3                   |
| Alt-A                                  | 588                                 | 92                  | 616    | 97                  |
| Other                                  | 131                                 | 26                  | 150    | 30                  |
| Total TDRs that subsequently defaulted | 4,568                               | \$ 674              | 5,029  | \$ 719              |

|  | For the Six Months Ended June 30, |                     |        |                     |
|--|-----------------------------------|---------------------|--------|---------------------|
|  | 2018                              |                     | 2017   |                     |
|  | Number                            | Recorded Investment | Number | Recorded Investment |
|  | of                                | of                  | of     | of                  |
|  | Loans                             | Loans               | Loans  | Loans               |
|  | (Dollars in millions)             |                     |        |                     |
| Single-family:                         |                                   |                     |        |                     |
| Primary                                | 8,652                             | \$ 1,255            | 8,717  | \$ 1,210            |
| Government                             | 29                                | 4                   | 44     | 5                   |
| Alt-A                                  | 1,265                             | 201                 | 1,230  | 193                 |
| Other                                  | 326                               | 64                  | 351    | 68                  |
| Total single-family                    | 10,272                            | 1,524               | 10,342 | 1,476               |
| Multifamily                            | 1                                 | 2                   | 1      | 4                   |
| Total TDRs that subsequently defaulted | 10,273                            | \$ 1,526            | 10,343 | \$ 1,480            |

#### 4. Allowance for Loan Losses

We maintain an allowance for loan losses for HFI loans held by Fannie Mae and loans backing Fannie Mae MBS issued from consolidated trusts. When calculating our allowance for loan losses, we consider the unpaid principal balance, net of amortized premiums and discounts, and other cost basis adjustments of HFI loans at the balance sheet date. We record charge-offs as a reduction to our allowance for loan losses at the point of foreclosure, completion of a short sale, upon the redesignation of loans from HFI to HFS or when a loan is determined to be uncollectible. We aggregate single-family HFI loans that are not individually impaired based on similar risk characteristics for purposes of estimating incurred credit losses and establishing a collective single-family loss reserve using an

econometric model that derives an overall loss reserve estimate. We base our allowance methodology on historical events and trends, such as loss severity (in event of default), default rates, and recoveries from mortgage insurance contracts and other credit enhancements that provide loan level loss coverage and are either contractually attached to a loan or that were entered into contemporaneously with and in contemplation of a guaranty or loan purchase transaction. We use recent regional historical sales and appraisal information including the sales of our own foreclosed properties, to develop our loss severity estimates for all loan categories. Our allowance calculation also incorporates a loss confirmation period (the anticipated time lag between a credit loss event and the confirmation of the credit loss resulting from that event) to ensure our allowance estimate captures credit losses that have been incurred as of the balance sheet date but have not been confirmed. In addition,

Fannie  
Mae  
(In  
conservatorship)  
~~6~~cond  
Quarter  
2018  
Form  
10-Q

---



Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Allowance  
for Loan  
Losses

management performs a review of the observable data used in its estimate to ensure it is representative of prevailing economic conditions and other events existing as of the balance sheet date.

Individually impaired single-family loans currently include those classified as a TDR and acquired credit-impaired loans. We consider a loan to be impaired when, based on current information, it is probable that we will not receive all amounts due, including interest, in accordance with the contractual terms of the loan agreement. When a loan has been restructured, we measure impairment using a cash flow analysis discounted at the loan's original effective interest rate. If we expect to recover our recorded investment in an individually impaired loan through probable foreclosure of the underlying collateral, we measure impairment based on the fair value of the collateral, reduced by estimated disposal costs and adjusted for estimated proceeds from mortgage, flood, or hazard insurance or similar sources.

We establish a collective allowance for all loans in our multifamily guaranty book of business that are not individually measured for impairment using an internal model that applies loss factors to loans in similar risk categories. Our loss factors are developed based on our historical default and loss severity experience. We identify multifamily loans for evaluation for impairment through a credit risk assessment process. If we determine that a multifamily loan is individually impaired, we generally measure impairment on that loan based on the fair value of the underlying collateral less estimated costs to sell the property, as we have concluded that such loans are collateral dependent. We evaluate collectively for impairment smaller-balance homogeneous multifamily loans.

The following table displays changes in single-family, multifamily and total allowance for loan losses.

|  | For the Three<br>Months Ended June<br>30, |            | For the Six Months<br>Ended June 30, |            |
|--|---|------------|--------------------------------------|------------|
|  | 2018                                      | 2017       | 2018                                 | 2017       |
|  | (Dollars in millions)                     |            |                                      |            |
| Single-family allowance for loan losses: |   |            |                                      |            |
| Beginning balance                        | \$(18,523)                                | \$(21,938) | \$(18,849)                           | \$(23,283) |
| Benefit for loan losses <sup>(1)</sup>   | 1,270                                     | 1,185      | 1,192                                | 1,605      |
| Charge-offs                              | 731                                       | 689        | 1,196                                | 1,729      |
| Recoveries                               | (64 )                                     | (146 )     | (124 )                               | (231 )     |
| Other <sup>(2)</sup>                     | (16 )                                     | (8 )       | (17 )                                | (38 )      |
| Ending balance                           | \$(16,602)                                | \$(20,218) | \$(16,602)                           | \$(20,218) |
| Multifamily allowance for loan losses:   |   |            |                                      |            |
| Beginning balance                        | \$(211 )                                  | \$(191 )   | \$(235 )                             | \$(182 )   |
| Benefit for loan losses <sup>(1)</sup>   | —   | 11         | 20                                   | 2          |
| Charge-offs                              | 1   | —          | 5                                    | —          |
| Recoveries                               | —   | (1 )       | —                                    | (1 )       |
| Ending balance                           | \$(210 )                                  | \$(181 )   | \$(210 )                             | \$(181 )   |
| Total allowance for loan losses:         |   |            |                                      |            |
| Beginning balance                        | \$(18,734)                                | \$(22,129) | \$(19,084)                           | \$(23,465) |
| Benefit for loan losses <sup>(1)</sup>   | 1,270                                     | 1,196      | 1,212                                | 1,607      |
| Charge-offs                              | 732                                       | 689        | 1,201                                | 1,729      |
| Recoveries                               | (64 )                                     | (147 )     | (124 )                               | (232 )     |
| Other <sup>(2)</sup>                     | (16 )                                     | (8 )       | (17 )                                | (38 )      |

Ending balance \$(16,812) \$(20,399) \$(16,812) \$(20,399)

- 
- (1) Benefit for loan losses is included in “Benefit for credit losses” in our condensed consolidated statements of operations and comprehensive income.
- (2) Amounts represent the portion of benefit for loan losses, charge-offs and recoveries that are not a part of the allowance for loan losses.

Fannie  
Mae  
(In  
conservatorship)  
5<sup>th</sup>cond  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Allowance  
for Loan  
Losses

The following table displays the allowance for loan losses and recorded investment in our HFI loans by impairment or allowance methodology and portfolio segment, excluding loans for which we have elected the fair value option.

|  | As of<br>June 30, 2018 |             |              | December 31, 2017 |             |              |
|--|------------------------|-------------|--------------|-------------------|-------------|--------------|
|  | Single-Family          | Multifamily | Total        | Single-Family     | Multifamily | Total        |
|  | (Dollars in millions)  |             |              |                   |             |              |
| Allowance for loan losses by segment:      |                        |             |              |                   |             |              |
| Individually impaired loans <sup>(1)</sup> | \$ (15,882 )           | \$ (39 )    | \$ (15,921 ) | \$ (17,247 )      | \$ (42 )    | \$ (17,289 ) |
| Collectively reserved loans                | (720 )                 | (171 )      | (891 )       | (1,602 )          | (193 )      | (1,795 )     |
| Total allowance for loan losses            | \$ (16,602 )           | \$ (210 )   | \$ (16,812 ) | \$ (18,849 )      | \$ (235 )   | \$ (19,084 ) |

Recorded investment in loans by  
segment:

|  |              |            |              |              |            |              |
|--|--------------|------------|--------------|--------------|------------|--------------|
| Individually impaired loans <sup>(1)</sup> | \$ 128,959   | \$ 586     | \$ 129,545   | \$ 135,191   | \$ 590     | \$ 135,781   |
| Collectively reserved loans                | 2,803,080    | 276,881    | 3,079,961    | 2,787,783    | 266,411    | 3,054,194    |
| Total recorded investment in loans         | \$ 2,932,039 | \$ 277,467 | \$ 3,209,506 | \$ 2,922,974 | \$ 267,001 | \$ 3,189,975 |

<sup>(1)</sup> Includes acquired credit-impaired loans.

## 5. Investments in Securities

### Trading Securities

Trading securities are recorded at fair value with subsequent changes in fair value recorded as “Fair value gains (losses), net” in our condensed consolidated statements of operations and comprehensive income. The following table displays our investments in trading securities.

|  | As of                 |                      |
|--|-----------------------|----------------------|
|  | June 30,<br>2018      | December<br>31, 2017 |
|  | (Dollars in millions) |                      |
| Mortgage-related securities:                               |                       |                      |
| Fannie Mae <sup>(1)</sup>                                  | \$ 1,696              | \$ 3,876             |
| Other agency   | 3,494                 | 1,118                |
| Alt-A and subprime private-label securities <sup>(1)</sup> | 1,430                 | 453                  |
| Commercial mortgage-backed securities (“CMBS”)—            | —                     | 9                    |
| Mortgage revenue bonds                                     | 1                     | 1                    |
| Total mortgage-related securities                          | 6,621                 | 5,457                |
| Non-mortgage-related securities:                           |                       |                      |
| U.S. Treasury securities                                   | 35,663                | 29,222               |
| Other securities   | 97                    | —                    |
| Total non-mortgage-related securities                      | 35,760                | 29,222               |
| Total trading securities                                   | \$ 42,381             | \$ 34,679            |

<sup>(1)</sup>

The increase in Alt-A and subprime private-label securities and the corresponding decrease in Fannie Mae securities from December 31, 2017 to June 30, 2018 was due to the dissolution of a Fannie Mae-wrapped private-label securities trust in the first quarter of 2018.

Fannie  
Mae  
(In  
conservatorship)  
6cond  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Investments  
in Securities

The following table displays information about our net trading gains (losses).

|  | For the<br>Three<br>Months<br>Ended<br>June 30,<br>2018 |      | For the Six<br>Months<br>Ended<br>June 30,<br>2017 |      |
|--|---|------|--|------|
|  | 2018  | 2017 | 2018   | 2017 |
| Net trading gains  | \$21  | \$18 | \$119  | \$86 |
| Net trading gains (losses) recognized in the period related to securities still held at period end | 1   | (7)  | 48   | 71   |

Available-for-Sale Securities

We record available-for-sale (“AFS”) securities at fair value with unrealized gains and losses, recorded net of tax, as a component of “Other comprehensive income (loss)” and we recognize realized gains and losses from the sale of AFS securities in “Investment gains, net” in our condensed consolidated statements of operations and comprehensive income.

The following table displays the gross realized gains and proceeds on sales of AFS securities.

|   | For the<br>Three<br>Months<br>Ended<br>June<br>30,<br>2018 |       | For the Six<br>Months<br>Ended June<br>30,<br>2017 |       |
|---|--|-------|--|-------|
|   | 2018   | 2017  | 2018   | 2017  |
| Gross realized gains  | \$227  | \$227 | \$363  | \$230 |
| Total proceeds (excludes initial sale of securities from new portfolio securitizations) | 6,799  | 6,799 | 641  | 894   |

The following tables display the amortized cost, gross unrealized gains and losses, and fair value by major security type for AFS securities.

|   | As of June 30, 2018  |                              |  |                        |
|---|--|------------------------------|--|------------------------|
|   | Total<br>Amortized<br>Cost <sup>(1)</sup><br>(Dollars in millions) | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses <sup>(2)</sup> | Total<br>Fair<br>Value |
| Fannie Mae                                  | \$1,866  | \$ 72                        | \$ (34 )                                     | \$1,904                |
| Other agency                                | 279  | 19                           | —  | 298                    |
| Alt-A and subprime private-label securities | 357  | 292                          | —  | 649                    |
| Mortgage revenue bonds                      | 494  | 16                           | (4 )   | 506                    |
| Other mortgage-related securities           | 342  | 24                           | —  | 366                    |
| Total                                       | \$3,338  | \$ 423                       | \$ (38 )                                     | \$3,723                |
|   | As of December 31, 2017  |                              |  |                        |
|   | Total<br>Amortized<br>Cost <sup>(1)</sup>                          | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses <sup>(2)</sup> | Total<br>Fair<br>Value |

|   | (Dollars in millions) |        |          |         |
|---|-----------------------|--------|----------|---------|
| Fannie Mae                                  | \$2,044               | \$ 102 | \$ (27 ) | \$2,119 |
| Other agency                                | 332                   | 25     | —        | 357     |
| Alt-A and subprime private-label securities | 662                   | 652    | —        | 1,314   |
| CMBS  | 15                    | —      | —        | 15      |
| Mortgage revenue bonds                      | 655                   | 20     | (4 )     | 671     |
| Other mortgage-related securities           | 350                   | 17     | —        | 367     |
| Total                                       | \$4,058               | \$ 816 | \$ (31 ) | \$4,843 |

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Investments  
in Securities

Amortized cost consists of unpaid principal balance, unamortized premiums, discounts and other cost basis adjustments, as well as net other-than-temporary impairments (“OTTI”) recognized in “Investment gains, net” in our condensed consolidated statements of operations and comprehensive income.

(2) Represents the gross unrealized losses on securities for which we have not recognized OTTI, as well as the noncredit component of OTTI and cumulative changes in fair value of securities for which we previously recognized the credit component of OTTI in “Accumulated other comprehensive income” in our condensed consolidated balance sheets.

The following tables display additional information regarding gross unrealized losses and fair value by major security type for AFS securities in an unrealized loss position.

As of June 30, 2018

|                        | Less Than 12<br>Consecutive<br>Months |               | 12<br>Consecutive<br>Months or<br>Longer |               |
|------------------------|---------------------------------------|---------------|--|---------------|
|                        | Gross<br>Unrealized<br>Losses         | Fair<br>Value | Gross<br>Unrealized<br>Losses            | Fair<br>Value |
|                        | (Dollars in millions)                 |               |  |               |
| Fannie Mae             | \$(5)                                 | \$ 190        | \$(29)                                   | \$ 419        |
| Mortgage revenue bonds | (1 )                                  | 29            | (3 )                                     | 3             |
| Total                  | \$(6)                                 | \$ 219        | \$(32)                                   | \$ 422        |

As of December 31, 2017

|                        | Less Than 12<br>Consecutive<br>Months |               | 12<br>Consecutive<br>Months or<br>Longer |               |
|------------------------|---------------------------------------|---------------|--|---------------|
|                        | Gross<br>Unrealized<br>Losses         | Fair<br>Value | Gross<br>Unrealized<br>Losses            | Fair<br>Value |
|                        | (Dollars in millions)                 |               |  |               |
| Fannie Mae             | \$(1)                                 | \$ 134        | \$(26)                                   | \$ 461        |
| Mortgage revenue bonds | —                                     | —             | (4 )                                     | 3             |
| Total                  | \$(1)                                 | \$ 134        | \$(30)                                   | \$ 464        |

Other-Than-Temporary Impairments

The balance of the unrealized credit loss component of AFS debt securities held by us and recognized in our condensed consolidated statements of operations and comprehensive income was \$733 million, \$729 million and \$1.1 billion as of June 30, 2018, March 31, 2018 and December 31, 2017, respectively. The decrease in the six months ended June 30, 2018 was primarily driven by securities no longer held in our portfolio at period end.

The balance of the unrealized credit loss component of AFS debt securities held by us and recognized in our condensed consolidated statements of operations and comprehensive income was \$1.8 billion as of June 30, 2017 and

March 31, 2017, and \$1.9 billion as of December 31, 2016. The decrease in the six months ended June 30, 2017 was primarily driven by securities no longer held in our portfolio at period end.

Fannie  
Mae  
(In  
conservatorship)  
68cond  
Quarter  
2018  
Form  
10-Q

---



Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Investments  
in Securities

### Maturity Information

The following table displays the amortized cost and fair value of our AFS securities by major security type and remaining contractual maturity, assuming no principal prepayments. The contractual maturity of mortgage-backed securities is not a reliable indicator of their expected life because borrowers generally have the right to prepay their obligations at any time.

|  | As of June 30, 2018        |                        |                     |               |  |               |   |               |                   |                |
|--|----------------------------|------------------------|---------------------|---------------|--|---------------|---|---------------|-------------------|----------------|
|  | Total<br>Amortized<br>Cost | Total<br>Fair<br>Value | One Year or<br>Less |               | After One<br>Year<br>Through<br>Five Years |               | After Five<br>Years<br>Through Ten<br>Years |               | After Ten Years   |                |
|  |                            |                        | Amortized<br>Cost   | Fair<br>Value | Amortized<br>Cost                          | Fair<br>Value | Amortized<br>Cost                           | Fair<br>Value | Amortized<br>Cost | Fair<br>Value  |
|  | (Dollars in millions)      |                        |                     |               |  |               |   |               |                   |                |
| Fannie Mae                                     | \$1,866                    | \$1,904                | \$—                 | \$—           | \$12                                       | \$12          | \$80  | \$85          | \$1,774           | \$1,807        |
| Other agency                                   | 279                        | 298                    | 2                   | 2             | 11   | 11            | 44  | 47            | 222               | 238            |
| Alt-A and subprime private-label<br>securities | 357                        | 649                    | —                   | —             | —  | —             | —   | —             | 357               | 649            |
| Mortgage revenue bonds                         | 494                        | 506                    | 4                   | 4             | 33   | 33            | 61  | 61            | 396               | 408            |
| Other mortgage-related securities              | 342                        | 366                    | —                   | —             | —  | —             | 6   | 6             | 336               | 360            |
| <b>Total</b>                                   | <b>\$3,338</b>             | <b>\$3,723</b>         | <b>\$6</b>          | <b>\$6</b>    | <b>\$56</b>                                | <b>\$56</b>   | <b>\$191</b>                                | <b>\$199</b>  | <b>\$3,085</b>    | <b>\$3,462</b> |

### 6. Financial Guarantees

We recognize a guaranty obligation for our obligation to stand ready to perform on our guarantees to unconsolidated trusts and other guaranty arrangements. These off-balance sheet guarantees expose us to credit losses primarily relating to the unpaid principal balance of our unconsolidated Fannie Mae MBS and other financial guarantees. The remaining contractual terms of our guarantees range from 1 day to 34 years; however, the actual term of each guaranty may be significantly less than the contractual term based on the prepayment characteristics of the related mortgage loans. The following table displays our maximum exposure, guaranty obligation recognized in our condensed consolidated balance sheets, and the maximum potential recovery from third parties through available credit enhancements and recourse related to our financial guarantees.

|  | As of<br>June 30, 2018 |                        |                                    | December 31, 2017   |                        |                                    |
|--|------------------------|------------------------|------------------------------------|---------------------|------------------------|------------------------------------|
|  | Maximum<br>Exposure    | Guaranty<br>Obligation | Maximum<br>Recovery <sup>(1)</sup> | Maximum<br>Exposure | Guaranty<br>Obligation | Maximum<br>Recovery <sup>(1)</sup> |
|  | (Dollars in millions)  |                        |                                    |                     |                        |                                    |
| Unconsolidated Fannie Mae MBS              | \$7,680                | \$30                   | \$7,054                            | \$10,876            | \$127                  | \$7,340                            |
| Other guaranty arrangements <sup>(2)</sup> | 13,824                 | 133                    | 2,320                              | 14,265              | 131                    | 2,404                              |
| <b>Total</b>                               | <b>\$21,504</b>        | <b>\$163</b>           | <b>\$9,374</b>                     | <b>\$25,141</b>     | <b>\$258</b>           | <b>\$9,744</b>                     |

Recoverability of such credit enhancements and recourse is subject to, among other factors, our mortgage insurers' and financial guarantors' ability to meet their obligations to us. For information on our mortgage insurers and financial guarantors, see "Note 13, Concentrations of Credit Risk" in our 2017 Form 10-K and "Note 11, Concentrations of Credit Risk" in this report.

(2) Primarily consists of credit enhancements and long-term standby commitments.

Fannie  
Mae  
(In  
conservatorship)  
~~6~~2<sup>nd</sup>  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Short-Term  
and  
Long-Term  
Debt

## 7. Short-Term and Long-Term Debt

### Short-Term Debt

The following table displays our outstanding short-term debt (debt with an original contractual maturity of one year or less) and weighted-average interest rates of this debt.

|                               | As of                 |                   |   |   |
|-------------------------------|-----------------------|-------------------|---|---|
|                               | June 30, 2018         | December 31, 2017 |   |   |
|                               | Outstanding           | Outstanding       | Weighted-Average Interest Rate <sup>(1)</sup> | Weighted-Average Interest Rate <sup>(1)</sup> |
|                               | (Dollars in millions) |                   |   |   |
| Short-term debt of Fannie Mae | \$25,726              | \$33,377          | 1.86 %  | 1.18 %  |
| Debt of consolidated trusts   | 339                   | 379               | 1.88  | 1.11  |
| Total short-term debt         | \$26,065              | \$33,756          | 1.86 %  | 1.18 %  |

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

### Intraday Line of Credit

We use a secured intraday funding line of credit provided by a large financial institution. We post collateral which, in some circumstances, the secured party has the right to repledge to third parties. As this line of credit is an uncommitted intraday loan facility, we may be unable to draw on it if and when needed. The line of credit under this facility was \$15.0 billion as of June 30, 2018 and December 31, 2017.

### Long-Term Debt

Long-term debt represents debt with an original contractual maturity of greater than one year. The following table displays our outstanding long-term debt.

|                                  | As of                 |                   |   |   |
|----------------------------------|-----------------------|-------------------|---|---|
|                                  | June 30, 2018         | December 31, 2017 |   |   |
|                                  | Maturities            | Outstanding       | Weighted-Average Interest Rate <sup>(1)</sup> | Weighted-Average Interest Rate <sup>(1)</sup> |
|                                  | (Dollars in millions) |                   |   |   |
| Senior fixed:                    |                       |                   |   |   |
| Benchmark notes and bonds        | 2018 - 2030           | \$ 116,563        | 2.28 %  | 2018 - 2030<br>\$ 123,541 2.11 %              |
| Medium-term notes <sup>(2)</sup> | 2018 - 2026           | 69,986            | 1.46  | 2018 - 2026<br>75,901 1.41                    |
| Other <sup>(3)</sup>             | 2018 - 2038           | 6,876             | 4.66  | 2018 - 2038<br>7,421 4.84                     |
| Total senior fixed               |                       | 193,425           | 2.06  | 206,863 1.95                                  |
| Senior floating:                 |                       |                   |   |   |

Edgar Filing: FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE - Form 10-Q

|   |             |             |        |             |             |        |
|---|-------------|-------------|--------|-------------|-------------|--------|
| Medium-term notes <sup>(2)</sup>                  | 2019 - 2020 | 1,175       | 1.86   | 2018 - 2020 | 8,425       | 1.36   |
| Connecticut Avenue Securities <sup>(4)</sup>      | 2023 - 2030 | 24,589      | 5.66   | 2023 - 2030 | 22,527      | 5.18   |
| Other <sup>(5)</sup>                              | 2020 - 2037 | 354         | 9.00   | 2020 - 2037 | 376         | 6.36   |
| Total senior floating Subordinated debentures     |             | 26,118      | 5.54   |             | 31,328      | 4.14   |
|   | 2019        | 5,357       | 9.96   | 2019        | 5,106       | 9.93   |
| Secured borrowings <sup>(6)</sup>                 | 2021 - 2022 | 64          | 1.66   | 2021 - 2022 | 78          | 1.70   |
| Total long-term debt of Fannie Mae <sup>(7)</sup> |             | 224,964     | 2.66   |             | 243,375     | 2.40   |
| Debt of consolidated trusts                       | 2018 - 2057 | 3,086,460   | 2.84   | 2018 - 2057 | 3,052,923   | 2.80   |
| Total long-term debt                              |             | \$3,311,424 | 2.83 % |             | \$3,296,298 | 2.77 % |

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

Fannie  
Mae  
(In  
conservatorship)  
~~Second~~  
Quarter  
2018  
Form  
10-Q

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Short-Term  
and  
Long-Term  
Debt

- (2) Includes long-term debt with an original contractual maturity of greater than 1 year and up to 10 years, excluding zero-coupon debt.
- (3) Includes other long-term debt with an original contractual maturity of greater than 10 years and foreign exchange bonds.
- (4) Credit risk-sharing securities that transfer a portion of the credit risk on specified pools of single-family mortgage loans to the investors in these securities, a portion of which is reported at fair value.
- (5) Consists of structured debt instruments that are reported at fair value.
- (6) Represents our remaining liability resulting from the transfer of financial assets from our condensed consolidated balance sheets that did not qualify as a sale under the accounting guidance for the transfer of financial instruments.
- (7) Includes unamortized discounts and premiums, other cost basis adjustments and fair value adjustments of \$517 million and \$752 million as of June 30, 2018 and December 31, 2017, respectively.

8. Derivative Instruments

Derivative instruments are an integral part of our strategy in managing interest rate risk. Derivative instruments may be privately-negotiated, bilateral contracts, or they may be listed and traded on an exchange. We refer to our derivative transactions made pursuant to bilateral contracts as our over-the-counter (“OTC”) derivative transactions and our derivative transactions accepted for clearing by a derivatives clearing organization as our cleared derivative transactions. We typically do not settle the notional amount of our risk management derivatives; rather, notional amounts provide the basis for calculating actual payments or settlement amounts. The derivatives we use for interest rate risk management purposes consist primarily of interest rate swaps and interest rate options.

We enter into various forms of credit risk sharing agreements, including credit risk transfer transactions, swap credit enhancements and mortgage insurance contracts, that we account for as derivatives. The majority of our credit-related derivatives are credit risk transfer transactions, whereby a portion of the credit risk associated with losses on a reference pool of mortgage loans is transferred to a third party.

We enter into forward purchase and sale commitments that lock in the future delivery of mortgage loans and mortgage-related securities at a fixed price or yield. Certain commitments to purchase mortgage loans and purchase or sell mortgage-related securities meet the criteria of a derivative. We typically settle the notional amount of our mortgage commitments that are accounted for as derivatives.

We recognize all derivatives as either assets or liabilities in our condensed consolidated balance sheets at their fair value on a trade date basis. Fair value amounts, which are netted to the extent a legal right of offset exists and is enforceable by law at the counterparty level and are inclusive of the right or obligation associated with the cash collateral posted or received, are recorded in “Other assets” or “Other liabilities” in our condensed consolidated balance sheets. See “Note 13, Fair Value” for additional information on derivatives recorded at fair value. We present cash flows from derivatives as operating activities in our condensed consolidated statements of cash flows.

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter

2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Derivative  
Instruments

### Notional and Fair Value Position of our Derivatives

The following table displays the notional amount and estimated fair value of our asset and liability derivative instruments.

|   | As of June 30, 2018 |                      |                       |                      | As of December 31, 2017 |                      |                       |                      |
|---|---------------------|----------------------|-----------------------|----------------------|-------------------------|----------------------|-----------------------|----------------------|
|   | Asset Derivatives   |                      | Liability Derivatives |                      | Asset Derivatives       |                      | Liability Derivatives |                      |
|   | Notional Amount     | Estimated Fair Value | Notional Amount       | Estimated Fair Value | Notional Amount         | Estimated Fair Value | Notional Amount       | Estimated Fair Value |
| (Dollars in millions)                                     |                     |                      |                       |                      |                         |                      |                       |                      |
| Risk management derivatives:                              |                     |                      |                       |                      |                         |                      |                       |                      |
| Swaps:  |                     |                      |                       |                      |                         |                      |                       |                      |
| Pay-fixed   | \$93,391            | \$ 723               | \$19,845              | \$(674)              | \$52,732                | \$ 772               | \$70,211              | \$(2,120)            |
| Receive-fixed   | 106,673             | 1,123                | 63,209                | (1,296)              | 31,671                  | 2,391                | 138,852               | (1,764)              |
| Basis   | 273                 | 98                   | 600                   | —                    | 873                     | 124                  | —                     | —                    |
| Foreign currency  | 229                 | 37                   | 231                   | (59)                 | 234                     | 59                   | 236                   | (56)                 |
| Swaptions:  |                     |                      |                       |                      |                         |                      |                       |                      |
| Pay-fixed   | 11,525              | 254                  | 600                   | (2)                  | 9,750                   | 95                   | 4,000                 | (20)                 |
| Receive-fixed   | 500                 | 19                   | 7,375                 | (336)                | 250                     | 13                   | 9,250                 | (304)                |
| Other <sup>(1)</sup>                                      | 24,716              | 20                   | —                     | (1)                  | 13,240                  | 22                   | 7,315                 | (1)                  |
| Total gross risk management derivatives                   | 237,307             | 2,274                | 91,860                | (2,368)              | 108,750                 | 3,476                | 229,864               | (4,265)              |
| Accrued interest receivable (payable)                     | —                   | 418                  | —                     | (438)                | —                       | 835                  | —                     | (814)                |
| Netting adjustment <sup>(2)</sup>                         | —                   | (2,608)              | —                     | 2,756                | —                       | (4,272)              | —                     | 4,979                |
| Total net risk management derivatives                     | \$237,307           | \$ 84                | \$91,860              | \$(50)               | \$108,750               | \$ 39                | \$229,864             | \$(100)              |
| Mortgage commitment derivatives:                          |                     |                      |                       |                      |                         |                      |                       |                      |
| Mortgage commitments to purchase whole loans              | \$6,025             | \$ 20                | \$1,506               | \$(1)                | \$4,143                 | \$ 9                 | \$1,570               | \$(2)                |
| Forward contracts to purchase mortgage-related securities | 80,636              | 263                  | 11,060                | (16)                 | 45,925                  | 108                  | 21,099                | (21)                 |
| Forward contracts to sell mortgage-related securities     | 5,498               | 5                    | 134,031               | (537)                | 19,320                  | 15                   | 85,556                | (205)                |
| Total mortgage commitment derivatives                     | 92,159              | 288                  | 146,597               | (554)                | 69,388                  | 132                  | 108,225               | (228)                |
| Derivatives at fair value                                 | \$329,466           | \$ 372               | \$238,457             | \$(604)              | \$178,138               | \$ 171               | \$338,089             | \$(328)              |

(1) Includes credit risk transfer transactions, futures, swap credit enhancements and mortgage insurance contracts that we account for as derivatives.

(2) The netting adjustment represents the effect of the legal right to offset under legally enforceable master netting arrangements to settle with the same counterparty on a net basis, including cash collateral posted and received.

Edgar Filing: FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE - Form 10-Q

Cash collateral posted was \$742 million and \$1.4 billion as of June 30, 2018 and December 31, 2017, respectively. Cash collateral received was \$594 million and \$649 million as of June 30, 2018 and December 31, 2017, respectively.

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---



Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Derivative  
Instruments

We record all derivative gains and losses, including accrued interest, in “Fair value gains (losses), net” in our condensed consolidated statements of operations and comprehensive income. The following table displays, by type of derivative instrument, the fair value gains and losses, net on our derivatives.

|  | For the Three<br>Months<br>Ended<br>June 30, |      | For the Six<br>Months<br>Ended June 30, |      |
|--|--|------|---|------|
|  | 2018   | 2017 | 2018                                    | 2017 |

(Dollars in millions)

Risk management derivatives:

Swaps:

|                  |       |         |         |     |
|------------------|-------|---------|---------|-----|
| Pay-fixed        | \$967 | \$(691) | \$3,750 | \$— |
| Receive-fixed    | (597) | 639     | (2,984) | 322 |
| Basis            | (3)   | 16      | (26)    | 23  |
| Foreign currency | (41)  | 11      | (25)    | 23  |

Swaptions:

|               |      |      |      |      |
|---------------|------|------|------|------|
| Pay-fixed     | 36   | (48) | 165  | (48) |
| Receive-fixed | (22) | (8)  | (38) | (26) |
| Other         | (16) | 3    | (4)  | (5)  |

|                                     |       |       |       |       |
|-------------------------------------|-------|-------|-------|-------|
| Net accrual of periodic settlements | (286) | (224) | (501) | (479) |
|-------------------------------------|-------|-------|-------|-------|

|  |    |       |     |       |
|--|----|-------|-----|-------|
| Total risk management derivatives fair value gains (losses), net | 38 | (302) | 337 | (190) |
|--|----|-------|-----|-------|

|  |      |       |     |       |
|--|------|-------|-----|-------|
| Mortgage commitment derivatives fair value gains (losses), net | (76) | (192) | 488 | (272) |
|--|------|-------|-----|-------|

|  |        |         |       |         |
|--|--------|---------|-------|---------|
| Total derivatives fair value gains (losses), net | \$(38) | \$(494) | \$825 | \$(462) |
|--|--------|---------|-------|---------|

Derivative Counterparty Credit Exposure

Our derivative counterparty credit exposure relates principally to interest rate derivative contracts. We are exposed to the risk that a counterparty in a derivative transaction will default on payments due to us, which may require us to seek a replacement derivative from a different counterparty. This replacement may be at a higher cost, or we may be unable to find a suitable replacement. We manage our derivative counterparty credit exposure relating to our risk management derivative transactions mainly through enforceable master netting arrangements, which allow us to net derivative assets and liabilities with the same counterparty or clearing organization and clearing member. For our OTC derivative transactions, we require counterparties to post collateral, which may include cash, U.S. Treasury securities, agency debt and agency mortgage-related securities.

See “Note 12, Netting Arrangements” for information on our rights to offset assets and liabilities.

9. Segment Reporting

We have two reportable business segments: Single-Family and Multifamily. Results of our two business segments are intended to reflect each segment as if it were a stand-alone business. The sum of the results for our two business segments equals our condensed consolidated results of operations.

Fannie  
Mae  
(In  
conservatorship)

Second  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Segment  
Reporting

The following table displays our segment results.

|  | For the Three Months Ended June 30, |             |          |               |             |          |
|--|-------------------------------------|-------------|----------|---------------|-------------|----------|
|  | 2018                                |             |          | 2017          |             |          |
|  | Single-Family                       | Multifamily | Total    | Single-Family | Multifamily | Total    |
|  | (Dollars in millions)               |             |          |               |             |          |
| Net interest income <sup>(1)</sup>             | \$4,723                             | \$ 654      | \$5,377  | \$4,366       | \$ 636      | \$5,002  |
| Fee and other income <sup>(2)</sup>            | 69                                  | 170         | 239      | 111           | 242         | 353      |
| Net revenues                                   | 4,792                               | 824         | 5,616    | 4,477         | 878         | 5,355    |
| Investment gains, net <sup>(3)</sup>           | 252                                 | 25          | 277      | 321           | 64          | 385      |
| Fair value gains (losses), net <sup>(4)</sup>  | 278                                 | (49 )       | 229      | (685 )        | (6 )        | (691 )   |
| Administrative expenses                        | (649 )                              | (106 )      | (755 )   | (600 )        | (86 )       | (686 )   |
| Credit-related income (expense) <sup>(5)</sup> |                                     |             |          |               |             |          |
| Benefit for credit losses                      | 1,295                               | 1           | 1,296    | 1,255         | 12          | 1,267    |
| Foreclosed property expense                    | (136 )                              | (3 )        | (139 )   | (32 )         | (2 )        | (34 )    |
| Total credit-related income (expense)          | 1,159                               | (2 )        | 1,157    | 1,223         | 10          | 1,233    |
| TCCA fees <sup>(6)</sup>                       | (565 )                              | —           | (565 )   | (518 )        | —           | (518 )   |
| Other expenses, net                            | (270 )                              | (96 )       | (366 )   | (155 )        | (136 )      | (291 )   |
| Income before federal income taxes             | 4,997                               | 596         | 5,593    | 4,063         | 724         | 4,787    |
| Provision for federal income taxes             | (1,044 )                            | (92 )       | (1,136 ) | (1,401 )      | (186 )      | (1,587 ) |
| Net income                                     | \$3,953                             | \$ 504      | \$4,457  | \$2,662       | \$ 538      | \$3,200  |

|  | For the Six Months Ended June 30, |             |          |               |             |          |
|--|-----------------------------------|-------------|----------|---------------|-------------|----------|
|  | 2018                              |             |          | 2017          |             |          |
|  | Single-Family                     | Multifamily | Total    | Single-Family | Multifamily | Total    |
|  | (Dollars in millions)             |             |          |               |             |          |
| Net interest income <sup>(1)</sup>             | \$9,284                           | \$ 1,325    | \$10,609 | \$9,122       | \$ 1,226    | \$10,348 |
| Fee and other income <sup>(2)</sup>            | 227                               | 332         | 559      | 187           | 415         | 602      |
| Net revenues                                   | 9,511                             | 1,657       | 11,168   | 9,309         | 1,641       | 10,950   |
| Investment gains, net <sup>(3)</sup>           | 494                               | 33          | 527      | 271           | 105         | 376      |
| Fair value gains (losses), net <sup>(4)</sup>  | 1,312                             | (38 )       | 1,274    | (697 )        | (34 )       | (731 )   |
| Administrative expenses                        | (1,292 )                          | (213 )      | (1,505 ) | (1,201 )      | (169 )      | (1,370 ) |
| Credit-related income (expense) <sup>(5)</sup> |                                   |             |          |               |             |          |
| Benefit for credit losses                      | 1,491                             | 22          | 1,513    | 1,655         | 8           | 1,663    |
| Foreclosed property expense                    | (298 )                            | (3 )        | (301 )   | (248 )        | (3 )        | (251 )   |
| Total credit-related income                    | 1,193                             | 19          | 1,212    | 1,407         | 5           | 1,412    |
| TCCA fees <sup>(6)</sup>                       | (1,122 )                          | —           | (1,122 ) | (1,021 )      | —           | (1,021 ) |
| Other expenses, net                            | (402 )                            | (167 )      | (569 )   | (411 )        | (262 )      | (673 )   |
| Income before federal income taxes             | 9,694                             | 1,291       | 10,985   | 7,657         | 1,286       | 8,943    |
| Provision for federal income taxes             | (2,060 )                          | (207 )      | (2,267 ) | (2,653 )      | (317 )      | (2,970 ) |
| Net income                                     | \$7,634                           | \$ 1,084    | \$8,718  | \$5,004       | \$ 969      | \$5,973  |

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Segment  
Reporting

(1) Net interest income primarily consists of guaranty fees received as compensation for assuming and managing the credit risk on loans underlying Fannie Mae MBS held by third parties for the respective business segment, and the difference between the interest income earned on the respective business segment's mortgage assets in our retained mortgage portfolio and the interest expense associated with the debt funding those assets. Revenues from single-family guaranty fees include revenues generated by the 10 basis point increase in guaranty fees pursuant to TCCA.

(2) Single-Family fee and other income primarily consists of compensation for engaging in structured transactions and providing other lender services, and income resulting from settlement agreements resolving certain claims relating to private-label securities we purchased or that we have guaranteed. Multifamily fee and other income consists of fees associated with multifamily business activities, including yield maintenance income.

(3) Investment gains and losses primarily consists of gains and losses on the sale of mortgage assets for the respective business segment.

(4) Single-Family fair value gains and losses primarily consist of fair value gains and losses on risk management and mortgage commitment derivatives, trading securities and other financial instruments associated with our single-family total book of business. Multifamily fair value gains and losses primarily consist of fair value gains and losses on MBS commitment derivatives, trading securities and other financial instruments associated with our multifamily total book of business.

(5) Credit-related income or expense is based on the guaranty book of business of the respective business segment and consists of the applicable segment's benefit or provision for credit losses and foreclosed property expense on loans underlying the segment's guaranty book of business.

(6) Consists of the portion of our single-family guaranty fees that is remitted to Treasury pursuant to the TCCA.

#### 10. Equity

The following table displays the activity in other comprehensive income (loss), net of tax, by major categories.

|   | For the Three<br>Months Ended<br>June 30,<br>2018 |         | For the Six<br>Months Ended<br>June 30,<br>2017 |         |
|---|---|---------|---|---------|
|   | 2018  | 2017    | 2018  | 2017    |
|   | (Dollars in millions)                             |         |   |         |
| Net income  | \$4,457   | \$3,200 | \$8,718   | \$5,973 |
| Other comprehensive income (loss), net of tax effect:   |   |         |   |         |
| Changes in net unrealized gains (losses) on AFS securities (net of tax of \$1 and \$6, respectively, for the three months ended and net of tax of \$14 and \$11, respectively, for the six months ended)  | 4   | 11      | (53   | ) 20    |
| Reclassification adjustments for gains on AFS securities and other-than-temporary impairment ("OTTI") recognized in net income (net of tax of \$0 and \$50, respectively, for the three months ended and \$70 and \$51, respectively, for the six months ended) | —   | (92     | ) (263  | ) (93   |
| Other   | (2  | ) (2    | ) (5  | ) (4    |
| Total other comprehensive income (loss)   | 2   | (83     | ) (321  | ) (77   |
| Total comprehensive income  | \$4,459   | \$3,117 | \$8,397   | \$5,896 |

The following table displays our accumulated other comprehensive income, net of tax, by major categories.

|  | As of                 |          |
|--|-----------------------|----------|
|  | June                  | December |
|  | 30,                   | 31,      |
|  | 2018                  | 2017     |
|  | (Dollars in millions) |          |
| Net unrealized gains on AFS securities for which we have not recorded OTTI | \$50                  | \$ 87    |
| Net unrealized gains on AFS securities for which we have recorded OTTI     | 254                   | 423      |
| Other  | 45                    | 43       |
| Accumulated other comprehensive income                                     | \$349                 | \$ 553   |

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Equity

The following table displays changes in accumulated other comprehensive income, net of tax.

|  | For the Three Months Ended June 30, |       |       | For the Six Months Ended June 30, |       |       |       |      |       |       |      |       |
|--|-------------------------------------|-------|-------|-----------------------------------|-------|-------|-------|------|-------|-------|------|-------|
|  | 2018                                | 2017  |       | 2018                              | 2017  |       |       |      |       |       |      |       |
|  | AFS <sup>(1)</sup>                  | Other | Total | AFS <sup>(1)</sup>                | Other | Total |       |      |       |       |      |       |
|  | (Dollars in millions)               |       |       |                                   |       |       |       |      |       |       |      |       |
| Beginning balance  | \$300                               | \$47  | \$347 | \$724                             | \$41  | \$765 | \$510 | \$43 | \$553 | \$716 | \$43 | \$759 |
| Reclassification of accumulated other comprehensive income to retained earnings resulting from the enactment of the Tax Cuts and Jobs Act <sup>(2)</sup> | —                                   | —     | —     | —                                 | —     | —     | 110   | 7    | 117   | —     | —    | —     |
| Other comprehensive income (loss) before reclassifications   | 4                                   | —     | 4     | 11                                | —     | 11    | (53)  | —    | (53)  | 20    | —    | 20    |
| Amounts reclassified from other comprehensive income (loss)  | —                                   | (2)   | (2)   | (92)                              | (2)   | (94)  | (263) | (5)  | (268) | (93)  | (4)  | (97)  |
| Net other comprehensive income (loss)  | 4                                   | (2)   | 2     | (81)                              | (2)   | (83)  | (316) | (5)  | (321) | (73)  | (4)  | (77)  |
| Ending balance   | \$304                               | \$45  | \$349 | \$643                             | \$39  | \$682 | \$304 | \$45 | \$349 | \$643 | \$39 | \$682 |

(1) The amounts reclassified from accumulated other comprehensive income represent the gain or loss recognized in earnings due to a sale of an AFS security or the recognition of a net impairment recognized in earnings, which are recorded in “Investment gains, net” in our condensed consolidated statements of operations and comprehensive income.

(2) Reclassification from accumulated other comprehensive income to retained earnings of the tax effects resulting from the enactment of tax legislation on December 22, 2017 that reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. This amount is not included in Net other comprehensive income (loss) for the period ending June 30, 2018.

## 11. Concentrations of Credit Risk

### Risk Characteristics of our Guaranty Book of Business

One of the measures by which we gauge our performance risk under our guaranty is the delinquency status of the mortgage loans we hold in our retained mortgage portfolio, or in the case of mortgage-backed securities, the mortgage loans underlying the related securities.

For single-family loans, management monitors the serious delinquency rate, which is the percentage of single-family loans 90 days or more past due or in the foreclosure process, and loans that have higher risk characteristics, such as high mark-to-market LTV ratios.

For multifamily loans, management monitors the serious delinquency rate, which is the percentage of multifamily loans, based on unpaid principal balance, that are 60 days or more past due, and other loans that have higher risk characteristics, to determine our overall credit quality indicator. Higher risk characteristics include, but are not limited to, current debt service coverage ratio (“DSCR”) below 1.0 and high original LTV ratios. We stratify multifamily loans into different internal risk categories based on the credit risk inherent in each individual loan.

For single-family and multifamily loans, we use this information, in conjunction with housing market and economic conditions, to structure our pricing and our eligibility and underwriting criteria to reflect the current risk of loans with

these higher-risk characteristics, and in some cases we decide to significantly reduce our participation in riskier loan product categories. Management also uses this data together with other credit risk measures to identify key trends that guide the development of our loss mitigation strategies.

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---



Notes to  
Condensed  
Consolidated  
Financial  
Statements I  
Concentrations  
of Credit Risk

The following tables display the delinquency status and serious delinquency rates for specified loan categories of our single-family conventional and total multifamily guaranty book of business.

|   | As of<br>June 30, 2018 <sup>(1)</sup> |                       |  |   | December 31, 2017 <sup>(1)</sup> |                       |  |   |
|---|---------------------------------------|-----------------------|--|---|----------------------------------|-----------------------|--|---|
|   | 30<br>Days<br>Delinquent              | 60 Days<br>Delinquent | Seriously<br>Delinquent <sup>(2)</sup> | % | 30<br>Days<br>Delinquent         | 60 Days<br>Delinquent | Seriously<br>Delinquent <sup>(2)</sup> | % |
| Percentage of single-family conventional guaranty book of business <sup>(3)</sup> | 1.14%                                 | 0.29%                 | 0.90%                                  |   | 1.42%                            | 0.43%                 | 1.15%                                  |   |
| Percentage of single-family conventional loans <sup>(4)</sup>                     | 1.34                                  | 0.34                  | 0.97                                   |   | 1.63                             | 0.50                  | 1.24                                   |   |

|   | As of<br>June 30, 2018 <sup>(1)</sup>  |  |  |   | December 31,<br>2017 <sup>(1)</sup>  |  |  |   |
|---|--|--|--|---|--|--|--|---|
|   | Percentage<br>of<br>Single-Family<br>Conventional<br>Guaranty<br>Book<br>of<br>Business <sup>(3)</sup> | Percentage<br>of<br>Single-Family<br>Conventional<br>Guaranty<br>Book<br>of<br>Business <sup>(3)</sup> | Seriously<br>Delinquent<br>Rate <sup>(2)</sup> | % | Percentage<br>of<br>Single-Family<br>Conventional<br>Guaranty<br>Book<br>of<br>Business <sup>(3)</sup> | Percentage<br>of<br>Single-Family<br>Conventional<br>Guaranty<br>Book<br>of<br>Business <sup>(3)</sup> | Seriously<br>Delinquent<br>Rate <sup>(2)</sup> | % |
| Estimated mark-to-market loan-to-value ratio: |  |  |  |   |  |  |  |   |
| Greater than 100%                             | 1  | 1  | 11.41%   |   | 1  | 11.70%   |  |   |
| Geographical distribution:                    |  |  |  |   |  |  |  |   |
| California                                    | 19   | 19   | 0.36%  |   | 19   | 0.42%  |  |   |
| Florida                                       | 6  | 6  | 2.51%  |   | 6  | 3.71%  |  |   |
| New Jersey                                    | 4  | 4  | 1.68%  |   | 4  | 2.15%  |  |   |
| New York                                      | 5  | 5  | 1.66%  |   | 5  | 2.02%  |  |   |
| All other states                              | 66   | 66   | 0.88%  |   | 66   | 1.09%  |  |   |
| Product distribution:                         |  |  |  |   |  |  |  |   |
| Alt-A   | 2  | 2  | 4.21%  |   | 2  | 4.95%  |  |   |
| Vintages:                                     |  |  |  |   |  |  |  |   |
| 2004 and prior                                | 3  | 4  | 3.00%  |   | 4  | 3.28%  |  |   |
| 2005-2008                                     | 6  | 6  | 5.54%  |   | 6  | 6.55%  |  |   |
| 2009-2018                                     | 91   | 90   | 0.41%  |   | 90   | 0.53%  |  |   |

Consists of the portion of our single-family conventional guaranty book of business for which we have detailed

(1) loan level information, which constituted approximately 99% of our total single-family conventional guaranty book of business as of June 30, 2018 and December 31, 2017.

(2) Consists of single-family conventional loans that were 90 days or more past due or in the foreclosure process as of June 30, 2018 and December 31, 2017.

(3)

Edgar Filing: FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE - Form 10-Q

Calculated based on the aggregate unpaid principal balance of single-family conventional loans for each category divided by the aggregate unpaid principal balance of loans in our single-family conventional guaranty book of business.

- (4) Calculated based on the number of single-family conventional loans that were delinquent divided by the total number of loans in our single-family conventional guaranty book of business.

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Concentrations  
of Credit Risk

|   | As of                           |                           | December 31,            |                           |
|---|---------------------------------|---------------------------|-------------------------|---------------------------|
|   | June 30, 2018 <sup>(1)(2)</sup> |                           | 2017 <sup>(1)(2)</sup>  |                           |
|   | 30                              | Seriously                 | 30                      | Seriously                 |
|   | Days                            | Delinquent <sup>(3)</sup> | Days                    | Delinquent <sup>(3)</sup> |
|   | Delinquent                      | %                         | Delinquent              | %                         |
| Percentage of multifamily guaranty book of business | 0.01 %                          | 0.10 %                    | 0.03 %                  | 0.11 %                    |
| As of   | June 30, 2018                   |                           | December 31, 2017       |                           |
| Percentage  | of                              |                           | of                      |                           |
| Multifamily   | Percentage                      |                           | Multifamily             |                           |
| Guaranty  | of                              |                           | Guaranty                |                           |
| Book  | of                              |                           | Book                    |                           |
| of  | of                              |                           | of                      |                           |
| Business <sup>(2)</sup>                             | Business <sup>(2)</sup>         |                           | Business <sup>(2)</sup> |                           |
| Original LTV ratio:                                 |                                 |                           |                         |                           |
| Greater than 80%                                    | 1 %                             | 0.19 %                    | 2 %                     | 0.21 %                    |
| Less than or equal to 80%                           | 99                              | 0.10                      | 98                      | 0.11                      |
| Current DSCR less than 1.0 <sup>(5)</sup>           | 2                               | 3.25                      | 2                       | 1.96                      |

Consists of the portion of our multifamily guaranty book of business for which we have detailed loan level information, which constituted approximately 99% of our total multifamily guaranty book of business as of June 30, 2018 and December 31, 2017, excluding loans that have been defeased.

(2) Calculated based on the aggregate unpaid principal balance of multifamily loans for each category divided by the aggregate unpaid principal balance of loans in our multifamily guaranty book of business.

(3) Consists of multifamily loans that were 60 days or more past due as of the dates indicated.

(4) Calculated based on the unpaid principal balance of multifamily loans that were seriously delinquent divided by the aggregate unpaid principal balance of multifamily loans for each category included in our guaranty book of business.

Our estimates of current DSCRs are based on the latest available income information for these properties.

(5) Although we use the most recently available results of our multifamily borrowers, there is a lag in reporting, which typically can range from 3 to 6 months but in some cases may be longer.

Other Concentrations

Mortgage Insurers. Mortgage insurance “risk in force” refers to our maximum potential loss recovery under the applicable mortgage insurance policies in force and is generally based on the loan level insurance coverage percentage and, if applicable, any aggregate pool loss limit, as specified in the policy.

The following table displays our total mortgage insurance risk in force by primary and pool insurance, as well as the total risk in force mortgage insurance coverage as a percentage of the single-family guaranty book of business.

|  | As of         |                   |
|--|---------------|-------------------|
|  | June 30, 2018 | December 31, 2017 |

Edgar Filing: FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE - Form 10-Q

|  | Risk in Force | Percentage of Single-Family Guaranty Book of Business | Risk in Force | Percentage of Single-Family Guaranty Book of Business |
|--|---------------|---|---------------|---|
| (Dollars in millions)                  |               |   |               |   |
| Mortgage insurance risk in force:      |               |   |               |   |
| Primary mortgage insurance             | \$144,023     |   | \$137,941     |   |
| Pool mortgage insurance                | 432           |   | 519           |   |
| Total mortgage insurance risk in force | \$144,455     | 5%  | \$138,460     | 5%  |

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Concentrations  
of Credit Risk

The table below displays our mortgage insurer counterparties that provided approximately 10% or more of the risk in force mortgage insurance coverage on the single-family loans in our guaranty book of business.

|  | Percentage of Total<br>Risk in Force<br>Mortgage Insurance<br>Coverage<br>As of |                      |  |
|--|---|----------------------|--|
|  | June 30,<br>2018  | December 31,<br>2017 |  |
| Counterparty: <sup>(1)</sup>           |   |                      |  |
| Arch Capital Group Ltd. <sup>(2)</sup> | 25 %  | 25 %                 |  |
| Radian Guaranty, Inc.                  | 21  | 21                   |  |
| Mortgage Guaranty Insurance Corp.      | 19  | 19                   |  |
| Genworth Mortgage Insurance Corp.      | 15  | 15                   |  |
| Essent Guaranty, Inc.                  | 11  | 11                   |  |
| Others                                 | 9   | 9                    |  |
| Total                                  | 100 %   | 100 %                |  |

(1) Insurance coverage amounts provided for each counterparty may include coverage provided by affiliates and subsidiaries of the counterparty.

(2) Arch Capital Group Ltd. is the parent company of Arch Mortgage Insurance Co. and United Guaranty Residential Insurance Co.

Three of our mortgage insurer counterparties that are currently not approved to write new business are in run-off: PMI Mortgage Insurance Co. (“PMI”), Triad Guaranty Insurance Corporation (“Triad”) and Republic Mortgage Insurance Company (“RMIC”). Entering run-off may close off a source of profits and liquidity that may have otherwise assisted a mortgage insurer in paying claims under insurance policies, and could also cause the quality and speed of its claims processing to deteriorate. These three mortgage insurers provided a combined \$5.4 billion, or 4%, of our risk in force mortgage insurance coverage of our single-family guaranty book of business as of June 30, 2018.

PMI and Triad have been paying only a portion of policyholder claims and deferring the remaining portion. PMI is currently paying 72.5% of claims under its mortgage insurance policies in cash and is deferring the remaining 27.5%, and Triad is currently paying 75% of claims in cash and deferring the remaining 25%. It is uncertain whether PMI or Triad will be permitted in the future to pay any remaining deferred policyholder claims and/or increase or decrease the amount of cash they pay on claims. RMIC is no longer deferring payments on policyholder claims and has paid us its previously outstanding deferred payment obligations as well as interest on those obligations; however, RMIC remains in run-off.

We have counterparty credit risk relating to the potential insolvency of, or non-performance by, mortgage insurers that insure single-family loans we purchase or guarantee. There is risk that these counterparties may fail to fulfill their obligations to pay our claims under insurance policies. If we determine that it is probable that we will not collect all of our claims from one or more of our mortgage insurer counterparties, it could increase our loss reserves, which could adversely affect our results of operations, liquidity, financial condition and net worth.

When we estimate the credit losses that are inherent in our mortgage loans and under the terms of our guaranty obligations we also consider the recoveries that we will receive on primary mortgage insurance, as mortgage insurance

recoveries would reduce the severity of the loss associated with defaulted loans. We evaluate the financial condition of our mortgage insurer counterparties and adjust the contractually due recovery amounts to ensure that only probable losses as of the balance sheet date are included in our loss reserve estimate. As a result, if our assessment of one or more of our mortgage insurer counterparties' ability to fulfill their respective obligations to us worsens, it could increase our combined loss reserves. As of June 30, 2018 and December 31, 2017, the amount by which our estimated benefit from mortgage insurance reduced our combined loss reserves was \$833 million and \$989 million, respectively.

Fannie  
Mae  
(In  
conservatorship)  
~~S~~cond  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Concentrations  
of Credit Risk

We had outstanding receivables of \$792 million recorded in “Other assets” in our condensed consolidated balance sheets as of June 30, 2018 and \$858 million as of December 31, 2017 related to amounts claimed on insured, defaulted loans excluding government-insured loans. Of this amount, \$47 million as of June 30, 2018 and \$75 million as of December 31, 2017 was due from our mortgage servicers or sellers. We assessed the total outstanding receivables for collectibility, and they are recorded net of a valuation allowance of \$568 million as of June 30, 2018 and \$593 million as of December 31, 2017. The valuation allowance reduces our claim receivable to the amount which is considered probable of collection as of June 30, 2018 and December 31, 2017.

**Mortgage Servicers and Sellers.** Mortgage servicers collect mortgage and escrow payments from borrowers, pay taxes and insurance costs from escrow accounts, monitor and report delinquencies, and perform other required activities on our behalf. Our mortgage servicers and sellers may also be obligated to repurchase loans or foreclosed properties, reimburse us for losses or provide other remedies under certain circumstances, such as if it is determined that the mortgage loan did not meet our underwriting or eligibility requirements, if certain loan representations and warranties are violated or if mortgage insurers rescind coverage. However, under our revised representation and warranty framework, we no longer require repurchase for loans that have breaches of certain selling representations and warranties if they have met specified criteria for relief.

Our business with mortgage servicers is concentrated. The table below displays the percentage of our single-family guaranty book of business serviced by our top five depository single-family mortgage servicers and top five non-depository single-family mortgage servicers, and identifies one servicer that serviced more than 10% of our single-family guaranty book of business.

|   | Percentage of<br>Single-Family<br>Guaranty Book of<br>Business<br>As of<br>June 30, December 31,<br>2018 2017 |   |    |   |
|---|---|---|----|---|
| Wells Fargo Bank, N.A. (together with its affiliates) | 18  | % | 18 | % |
| Remaining top five depository servicers               | 16  |   | 17 |   |
| Top five non-depository servicers                     | 21  |   | 20 |   |
| Total   | 55  | % | 55 | % |

The table below displays the percentage of our multifamily guaranty book of business serviced by our top five multifamily mortgage servicers, and identifies two servicers that serviced 10% or more of our multifamily guaranty book of business.

|   | Percentage of<br>Multifamily<br>Guaranty Book of<br>Business<br>As of<br>June 30, December 31,<br>2018 2017 |   |    |   |
|---|---|---|----|---|
| Wells Fargo Bank, N.A. (together with its affiliates) | 14  | % | 14 | % |
| Walker & Dunlop, LLC                                  | 11  |   | 12 |   |

|                              |      |      |
|------------------------------|------|------|
| Remaining top five servicers | 23   | 22   |
| Total                        | 48 % | 48 % |

If a significant mortgage servicer or seller counterparty, or a number of mortgage servicers or sellers, fails to meet their obligations to us, it could increase our credit losses and credit-related expense, and adversely affect our results of operations and financial condition.

For information on credit risk associated with our derivative transactions and repurchase agreements see “Note 8, Derivative Instruments” and “Note 12, Netting Arrangements.”

Fannie  
Mae  
(In  
conservatorship)  
~~80~~cond  
Quarter  
2018  
Form  
10-Q

---



Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Netting  
Arrangements

## 12. Netting Arrangements

We use master netting arrangements, which allow us to offset certain financial instruments and collateral with the same counterparty, to minimize counterparty credit exposure. The tables below display information related to derivatives, securities purchased under agreements to resell or similar arrangements, and securities sold under agreements to repurchase or similar arrangements, which are subject to an enforceable master netting arrangement or similar agreement that are either offset or not offset in our condensed consolidated balance sheets.

As of June 30, 2018

|  | Gross<br>Amount | Gross<br>Amount<br>Offset <sup>(1)</sup> | Net Amount<br>Presented in<br>our<br>Condensed<br>Consolidated<br>Balance<br>Sheets | Amounts Not Offset<br>in our Condensed<br>Consolidated Balance<br>Sheets | Financial<br>Instruments <sup>(2)</sup> | Collateral <sup>(3)</sup> | Net<br>Amount |
|--|-----------------|--|---|--|---|---------------------------|---------------|
| (Dollars in millions)  |                 |  |   |  |   |                           |               |
| Assets:  |                 |  |   |  |   |                           |               |
| OTC risk management derivatives  | \$2,672         | \$(2,630)                                | \$42  | \$—  | \$—                                     |                           | \$ 42         |
| Cleared risk management derivatives  | —               | 22                                       | 22  | —  | —                                       |                           | 22            |
| Mortgage commitment derivatives  | 288             | —  | 288   | (196 )   | —                                       |                           | 92            |
| Total derivative assets  | 2,960           | (2,608 )                                 | 352   | (196 )   | —                                       |                           | 156           |
| Securities purchased under agreements to resell or similar arrangements <sup>(5)</sup> | 27,350          | —  | 27,350  | —  | (27,350 )                               |                           | —             |
| Total assets   | \$30,310        | \$(2,608)                                | \$27,702  | \$(196)  | \$(27,350)                              |                           | \$ 156        |
| Liabilities:   |                 |  |   |  |   |                           |               |
| OTC risk management derivatives  | \$(2,805 )      | \$2,757                                  | \$(48 )   | \$—  | \$—                                     |                           | \$ (48 )      |
| Cleared risk management derivatives  | —               | (1 )                                     | (1 )  | —  | 1                                       |                           | —             |
| Mortgage commitment derivatives  | (554 )          | —  | (554 )  | 196  | 325                                     |                           | (33 )         |
| Total derivative liabilities   | (3,359 )        | 2,756                                    | (603 ) <sup>(4)</sup>   | 196  | 326                                     |                           | (81 )         |
| Total liabilities  | \$(3,359 )      | \$2,756                                  | \$(603 )  | \$196  | \$326                                   |                           | \$ (81 )      |

As of December 31, 2017

|                                     | Gross<br>Amount | Gross<br>Amount<br>Offset <sup>(1)</sup> | Net Amount<br>Presented in<br>our<br>Condensed<br>Consolidated<br>Balance<br>Sheets | Amounts Not Offset<br>in our Condensed<br>Consolidated Balance<br>Sheets | Financial<br>Instruments <sup>(2)</sup> | Collateral <sup>(3)</sup> | Net<br>Amount |
|-------------------------------------|-----------------|--|---|--|---|---------------------------|---------------|
| (Dollars in millions)               |                 |  |   |  |   |                           |               |
| Assets:                             |                 |  |   |  |   |                           |               |
| OTC risk management derivatives     | \$2,479         | \$(2,464)                                | \$15  | \$—  | \$—                                     |                           | \$ 15         |
| Cleared risk management derivatives | 1,811           | (1,808 )                                 | 3   | —  | —                                       |                           | 3             |
| Mortgage commitment derivatives     | 132             | —  | 132   | (117 )   | (1 )                                    |                           | 14            |

Edgar Filing: FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE - Form 10-Q

|  |            |           |          |     |           |             |          |
|--|------------|-----------|----------|-----|-----------|-------------|----------|
| Total derivative assets  | 4,422      | (4,272 )  | 150      | (4) | (117 )    | (1 )        | 32       |
| Securities purchased under agreements to resell or similar arrangements <sup>(5)</sup> | 44,670     | —         | 44,670   | —   | (44,670 ) | —           | —        |
| Total assets   | \$49,092   | \$(4,272) | \$44,820 |     | \$(117)   | \$(44,671 ) | \$ 32    |
| Liabilities:   |            |           |          |     |           |             |          |
| OTC risk management derivatives  | \$(3,045 ) | \$2,957   | \$(88 )  |     | \$—       | \$—         | \$(88 )  |
| Cleared risk management derivatives  | (2,033 )   | 2,022     | (11 )    |     | —         | 11          | —        |
| Mortgage commitment derivatives  | (228 )     | —         | (228 )   |     | 117       | 93          | (18 )    |
| Total derivative liabilities   | (5,306 )   | 4,979     | (327 )   | (4) | 117       | 104         | (106 )   |
| Total liabilities  | \$(5,306 ) | \$4,979   | \$(327 ) |     | \$117     | \$ 104      | \$(106 ) |

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Netting  
Arrangements

- 
- (1) Represents the effect of the right to offset under legally enforceable master netting arrangements to settle with the same counterparty on a net basis, including cash collateral posted and received and accrued interest. Mortgage commitment derivative amounts reflect where we have recognized both an asset and a liability with the same counterparty under an enforceable master netting arrangement but we have not elected to offset the related amounts in our condensed consolidated balance sheets.
- (2) Represents collateral received or posted that has not been offset in our condensed consolidated balance sheets. Does not include collateral held or posted in excess of our exposure. The fair value of non-cash collateral we pledged was \$2.2 billion and \$747 million as of June 30, 2018 and December 31, 2017, respectively, which the counterparty was permitted to sell or repledge. The fair value of non-cash collateral received was \$27.4 billion and \$44.7 billion, of which \$24.9 billion and \$42.5 billion could be sold or repledged as of June 30, 2018 and December 31, 2017, respectively. None of the underlying collateral was sold or repledged as of June 30, 2018 or December 31, 2017.
- (3) Excludes derivative assets of \$20 million and \$21 million as of June 30, 2018 and December 31, 2017, respectively, and derivative liabilities of \$1 million as of June 30, 2018 and December 31, 2017, recognized in our condensed consolidated balance sheets that are not subject to enforceable master netting arrangements.
- (4) Includes \$11.1 billion and \$25.2 billion in securities purchased under agreements to resell classified as “Cash and cash equivalents” in our condensed consolidated balance sheets as of June 30, 2018 and December 31, 2017. Derivative instruments are recorded at fair value and securities purchased under agreements to resell or similar arrangements are recorded at amortized cost in our condensed consolidated balance sheets. For how we determine our rights to offset the assets and liabilities presented above with the same counterparty, including collateral posted or received, see “Note 14, Netting Arrangements” in our 2017 Form 10-K.

### 13. Fair Value

We use fair value measurements for the initial recording of certain assets and liabilities and periodic remeasurement of certain assets and liabilities on a recurring or nonrecurring basis.

#### Fair Value Measurement

Fair value measurement guidance defines fair value, establishes a framework for measuring fair value, and sets forth disclosures around fair value measurements. This guidance applies whenever other accounting guidance requires or permits assets or liabilities to be measured at fair value. The guidance establishes a three-level fair value hierarchy that prioritizes the inputs into the valuation techniques used to measure fair value. The fair value hierarchy gives the highest priority, Level 1, to measurements based on unadjusted quoted prices in active markets for identical assets or liabilities. The next priority, Level 2, is given to measurements of assets and liabilities based on limited observable inputs or observable inputs for similar assets and liabilities. The lowest priority, Level 3, is given to measurements based on unobservable inputs.

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018

Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Fair Value

### Recurring Changes in Fair Value

The following tables display our assets and liabilities measured in our condensed consolidated balance sheets at fair value on a recurring basis subsequent to initial recognition, including instruments for which we have elected the fair value option.

|   | Fair Value Measurements as of June 30, 2018  |   |  |                                      |                         |
|---|--|---|--|--------------------------------------|-------------------------|
|   | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1)<br>(Dollars in millions) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Netting<br>Adjustment <sup>(1)</sup> | Estimated<br>Fair Value |
| Recurring fair value measurements:          |  |   |  |                                      |                         |
| Assets:                                     |  |   |  |                                      |                         |
| Cash equivalents <sup>(2)</sup>             | \$498  | \$ —  | \$ —   | \$ —                                 | \$498                   |
| Trading securities:                         |  |   |  |                                      |                         |
| Mortgage-related securities:                |  |   |  |                                      |                         |
| Fannie Mae                                  | —  | 1,617   | 79   | —                                    | 1,696                   |
| Other agency                                | —  | 3,494   | —  | —                                    | 3,494                   |
| Alt-A and subprime private-label securities | —  | 1,430   | —  | —                                    | 1,430                   |
| Mortgage revenue bonds                      | —  | —   | 1  | —                                    | 1                       |
| Non-mortgage-related securities:            |  |   |  |                                      |                         |
| U.S. Treasury securities                    | 35,663   | —   | —  | —                                    | 35,663                  |
| Other securities                            | —  | 97  | —  | —                                    | 97                      |
| Total trading securities                    | 35,663   | 6,638   | 80   | —                                    | 42,381                  |
| Available-for-sale securities:              |  |   |  |                                      |                         |
| Mortgage-related securities:                |  |   |  |                                      |                         |
| Fannie Mae                                  | —  | 1,700   | 204  | —                                    | 1,904                   |
| Other agency                                | —  | 298   | —  | —                                    | 298                     |
| Alt-A and subprime private-label securities | —  | 623   | 26   | —                                    | 649                     |
| Mortgage revenue bonds                      | —  | —   | 506  | —                                    | 506                     |
| Other                                       | —  | 9   | 357  | —                                    | 366                     |
| Total available-for-sale securities         | —  | 2,630   | 1,093  | —                                    | 3,723                   |
| Mortgage loans                              | —  | 8,610   | 1,018  | —                                    | 9,628                   |
| Other assets:                               |  |   |  |                                      |                         |
| Risk management derivatives:                |  |   |  |                                      |                         |
| Swaps                                       | —  | 2,291   | 108  | —                                    | 2,399                   |
| Swaptions                                   | —  | 273   | —  | —                                    | 273                     |
| Other                                       | —  | —   | 20   | —                                    | 20                      |
| Netting adjustment                          | —  | —   | —  | (2,608 )                             | (2,608 )                |
| Mortgage commitment derivatives             | —  | 287   | 1  | —                                    | 288                     |

Edgar Filing: FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE - Form 10-Q

|                            |          |           |          |             |          |
|----------------------------|----------|-----------|----------|-------------|----------|
| Total other assets         | —        | 2,851     | 129      | (2,608 )    | 372      |
| Total assets at fair value | \$36,161 | \$ 20,729 | \$ 2,320 | \$ (2,608 ) | \$56,602 |

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Fair Value

## Fair Value Measurements as of June 30, 2018

Quoted  
Prices  
in  
Active  
Markets  
for  
Identical  
Assets  
(Level  
1)  
(Dollars in millions)

Significant  
Other  
Observable  
Inputs  
(Level 2)

Significant  
Unobservable  
Inputs  
(Level 3)

Netting  
Adjustment<sup>(1)</sup>

Estimated  
Fair Value

## Liabilities:

## Long-term debt:

## Of Fannie Mae:

|                        |     |          |        |      |          |
|------------------------|-----|----------|--------|------|----------|
| Senior floating        | \$— | \$ 7,204 | \$ 354 | \$ — | \$ 7,558 |
| Total of Fannie Mae    | —   | 7,204    | 354    | —    | 7,558    |
| Of consolidated trusts | —   | 26,356   | 319    | —    | 26,675   |
| Total long-term debt   | —   | 33,560   | 673    | —    | 34,233   |

## Other liabilities:

## Risk management derivatives:

|                                 |     |           |        |             |           |
|---------------------------------|-----|-----------|--------|-------------|-----------|
| Swaps                           | —   | 2,466     | 1      | —           | 2,467     |
| Swaptions                       | —   | 338       | —      | —           | 338       |
| Other                           | —   | —         | 1      | —           | 1         |
| Netting adjustment              | —   | —         | —      | (2,756 )    | (2,756 )  |
| Mortgage commitment derivatives | —   | 544       | 10     | —           | 554       |
| Total other liabilities         | —   | 3,348     | 12     | (2,756 )    | 604       |
| Total liabilities at fair value | \$— | \$ 36,908 | \$ 685 | \$ (2,756 ) | \$ 34,837 |

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Fair Value

## Fair Value Measurements as of December 31, 2017

|   | Quoted<br>Prices in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level 1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Netting<br>Adjustment <sup>(1)</sup> | Estimated<br>Fair Value |
|---|---|---|--|--------------------------------------|-------------------------|
| (Dollars in millions)                       |   |   |  |                                      |                         |
| Recurring fair value measurements:          |   |   |  |                                      |                         |
| Assets:                                     |   |   |  |                                      |                         |
| Trading securities:                         |   |   |  |                                      |                         |
| Mortgage-related securities:                |   |   |  |                                      |                         |
| Fannie Mae                                  | \$—   | \$ 2,905  | \$ 971   | \$ —                                 | \$3,876                 |
| Other agency                                | —   | 1,083   | 35   | —                                    | 1,118                   |
| Alt-A and subprime private-label securities | —   | 259   | 194  | —                                    | 453                     |
| CMBS  | —   | 9   | —  | —                                    | 9                       |
| Mortgage revenue bonds                      | —   | —   | 1  | —                                    | 1                       |
| Non-mortgage-related securities:            |   |   |  |                                      |                         |
| U.S. Treasury securities                    | 29,222  | —   | —  | —                                    | 29,222                  |
| Total trading securities                    | 29,222  | 4,256   | 1,201  | —                                    | 34,679                  |
| Available-for-sale securities:              |   |   |  |                                      |                         |
| Mortgage-related securities:                |   |   |  |                                      |                         |
| Fannie Mae                                  | —   | 1,911   | 208  | —                                    | 2,119                   |
| Other agency                                | —   | 357   | —  | —                                    | 357                     |
| Alt-A and subprime private-label securities | —   | 1,237   | 77   | —                                    | 1,314                   |
| CMBS  | —   | 15  | —  | —                                    | 15                      |
| Mortgage revenue bonds                      | —   | —   | 671  | —                                    | 671                     |
| Other                                       | —   | 10  | 357  | —                                    | 367                     |
| Total available-for-sale securities         | —   | 3,530   | 1,313  | —                                    | 4,843                   |
| Mortgage loans                              | —   | 9,480   | 1,116  | —                                    | 10,596                  |
| Other assets:                               |   |   |  |                                      |                         |
| Risk management derivatives:                |   |   |  |                                      |                         |
| Swaps                                       | —   | 4,035   | 146  | —                                    | 4,181                   |
| Swaptions                                   | —   | 108   | —  | —                                    | 108                     |
| Other                                       | —   | —   | 22   | —                                    | 22                      |
| Netting adjustment                          | —   | —   | —  | (4,272 )                             | (4,272 )                |
| Mortgage commitment derivatives             | —   | 131   | 1  | —                                    | 132                     |
| Total other assets                          | —   | 4,274   | 169  | (4,272 )                             | 171                     |
| Total assets at fair value                  | \$29,222  | \$ 21,540   | \$ 3,799   | \$ (4,272 )                          | \$50,289                |



Fannie  
Mae  
(In  
conservatorship)  
85cond  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Fair Value

## Fair Value Measurements as of December 31, 2017

|                                     | Quoted<br>Prices<br>in<br>Active<br>Markets<br>for<br>Identical<br>Assets<br>(Level<br>1) | Significant<br>Other<br>Observable<br>Inputs<br>(Level 2) | Significant<br>Unobservable<br>Inputs<br>(Level 3) | Netting<br>Adjustment <sup>(1)</sup> | Estimated<br>Fair Value |
|-------------------------------------|---|---|--|--------------------------------------|-------------------------|
| (Dollars in millions)               |   |   |  |                                      |                         |
| <b>Liabilities:</b>                 |   |   |  |                                      |                         |
| <b>Long-term debt:</b>              |   |   |  |                                      |                         |
| <b>Of Fannie Mae:</b>               |   |   |  |                                      |                         |
| Senior floating                     | \$—   | \$ 7,810  | \$ 376   | \$ —                                 | \$8,186                 |
| Total of Fannie Mae                 | —   | 7,810   | 376  | —                                    | 8,186                   |
| Of consolidated trusts              | —   | 29,911  | 582  | —                                    | 30,493                  |
| Total long-term debt                | —   | 37,721  | 958  | —                                    | 38,679                  |
| <b>Other liabilities:</b>           |   |   |  |                                      |                         |
| <b>Risk management derivatives:</b> |   |   |  |                                      |                         |
| Swaps                               | —   | 4,721   | 33   | —                                    | 4,754                   |
| Swaptions                           | —   | 324   | —  | —                                    | 324                     |
| Other                               | —   | —   | 1  | —                                    | 1                       |
| Netting adjustment                  | —   | —   | —  | (4,979 )                             | (4,979 )                |
| Mortgage commitment derivatives     | —   | 227   | 1  | —                                    | 228                     |
| Total other liabilities             | —   | 5,272   | 35   | (4,979 )                             | 328                     |
| Total liabilities at fair value     | \$—   | \$ 42,993   | \$ 993   | \$ (4,979 )                          | \$39,007                |

Derivative contracts are reported on a gross basis by level. The netting adjustment represents the effect of the legal right to offset under legally enforceable master netting arrangements to settle with the same counterparty on a net basis, including cash collateral posted and received.

(2) Cash equivalents are comprised of U.S. Treasuries that have a maturity at the date of acquisition of three months or less.

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018

Form  
10-Q

---

Notes to  
 Condensed  
 Consolidated  
 Financial  
 Statements |  
 Fair Value

The following tables display a reconciliation of all assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3). The tables also display gains and losses due to changes in fair value, including realized and unrealized gains and losses, recognized in our condensed consolidated statements of operations and comprehensive income for Level 3 assets and liabilities. When assets and liabilities are transferred between levels, we recognize the transfer as of the end of the period.

 Fair Value Measurements Using Significant Unobservable Inputs (Level 3)  
 For the Three Months Ended June 30, 2018

|   | Total Gains (Losses)<br>(Realized/Unrealized) |                                 |   |           |        |         |                            | Net<br>Unrealized<br>Gains<br>(Losses)<br>Included<br>in Net<br>Income<br>Related<br>to<br>Assets<br>and<br>Liabilities<br>Still<br>Held as<br>of June<br>30,<br>2018 <sup>(5)(6)</sup> |                                 |                              |       |
|---|---|---------------------------------|---|-----------|--------|---------|----------------------------|---|---------------------------------|------------------------------|-------|
|   | Balance, Included<br>March<br>31,<br>2018     | Included<br>in<br>Net<br>Income | Included<br>in Total<br>Other<br>Comprehensive<br>Income<br>(Loss) <sup>(1)</sup> | Purchases | Sales  | Issues  | Settlements <sup>(2)</sup> | Transfers<br>out of<br>Level<br>3 <sup>(3)</sup>  | Transfers<br>into<br>Level<br>3 | Balance,<br>June 30,<br>2018 |       |
| (Dollars in millions)                       |   |                                 |   |           |        |         |                            |   |                                 |                              |       |
| Trading securities:                         |   |                                 |   |           |        |         |                            |   |                                 |                              |       |
| Mortgage-related:                           |   |                                 |   |           |        |         |                            |   |                                 |                              |       |
| Fannie Mae                                  | \$83  | \$(5 )                          | \$ —  | \$ —      | \$ —   | \$ —    | \$ —                       | \$ —  | \$ 1                            | \$79                         | \$ 3  |
| Mortgage revenue bonds                      | 1   | —                               | —   | —         | —      | —       | —                          | —   | —                               | 1                            | —     |
| Total trading securities                    | \$84  | \$(5 ) <sup>(6)(7)</sup>        | \$ —  | \$ —      | \$ —   | \$ —    | \$ —                       | \$ —  | \$ 1                            | \$80                         | \$ 3  |
| Available-for-sale securities:              |   |                                 |   |           |        |         |                            |   |                                 |                              |       |
| Mortgage-related:                           |   |                                 |   |           |        |         |                            |   |                                 |                              |       |
| Fannie Mae                                  | \$202   | \$ 1                            | \$ 4  | \$ —      | \$ —   | \$ (3 ) | \$ —                       | \$ —  | \$ —                            | \$204                        | \$ —  |
| Alt-A and subprime private-label securities | 27  | —                               | —   | —         | —      | (1 )    | —                          | —   | —                               | 26                           | —     |
| Mortgage revenue bonds                      | 539   | (11 )                           | 10  | —         | (7 )   | (25 )   | —                          | —   | —                               | 506                          | —     |
| Other                                       | 351   | 7                               | 10  | —         | —      | (11 )   | —                          | —   | —                               | 357                          | —     |
| Total available-for-sale securities         | \$1,119                                       | \$(3 ) <sup>(7)(8)</sup>        | \$ 24   | \$ —      | \$(7 ) | \$(40 ) | \$ —                       | \$ —  | \$ —                            | \$1,093                      | \$ —  |
| Mortgage loans                              | \$1,102                                       | \$ 11 <sup>(6)(7)</sup>         | \$ —  | \$ —      | \$ —   | \$(79 ) | \$(51 )                    | \$ 35   | \$ 35                           | \$1,018                      | \$ 8  |
| Net derivatives                             | 133   | (28 ) <sup>(6)</sup>            | —   | —         | —      | 12      | —                          | —   | —                               | 117                          | (14 ) |
| Long-term debt:                             |   |                                 |   |           |        |         |                            |   |                                 |                              |       |

Edgar Filing: FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE - Form 10-Q

Of Fannie Mae:

|                        |                             |      |      |      |       |        |         |          |      |
|------------------------|-----------------------------|------|------|------|-------|--------|---------|----------|------|
| Senior floating        | \$(357 ) \$3                | \$ — | \$ — | \$ — | \$ —  | \$ —   | \$ —    | \$(354 ) | \$ 3 |
| Of consolidated trusts | (462 ) 4                    | —    | —    | —    | 21    | 177    | (59 )   | (319 )   | (1 ) |
| Total long-term debt   | \$(819 ) \$7 <sup>(6)</sup> | \$ — | \$ — | \$ — | \$ 21 | \$ 177 | \$(59 ) | \$(673 ) | \$ 2 |

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Fair Value

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)  
For the Six Months Ended June 30, 2018

|   | Total Gains (Losses)<br>(Realized/Unrealized) |                              |   |                          |                      |                       |                            |                               |                             | Net<br>Unrealized<br>Gains<br>(Losses)<br>Included<br>in Net<br>Income<br>Related<br>to<br>Assets<br>and<br>Liabilities<br>Still<br>Held as<br>of June<br>30,<br>2018 <sup>(5)(6)</sup> |     |
|---|---|------------------------------|---|--------------------------|----------------------|-----------------------|----------------------------|-------------------------------|-----------------------------|---|-----|
|   | Balance,<br>December<br>31,<br>2017           | Included<br>in Net<br>Income | Included<br>in Total<br>Other<br>Comprehensive<br>Income<br>(Loss) <sup>(1)</sup> | Purchases <sup>(2)</sup> | Sales <sup>(2)</sup> | Issues <sup>(2)</sup> | Settlements <sup>(2)</sup> | Transfer<br>out of<br>Level 3 | Transfer<br>into<br>Level 3 | Balance,<br>June 30,<br>2018  |     |
| (Dollars in millions)                             |   |                              |   |                          |                      |                       |                            |                               |                             |   |     |
| Trading securities:                               |   |                              |   |                          |                      |                       |                            |                               |                             |   |     |
| Mortgage-related:                                 |   |                              |   |                          |                      |                       |                            |                               |                             |   |     |
| Fannie Mae  | \$971   | \$166                        | \$—   | \$ 1                     | \$(1,060)            | \$—                   | \$—                        | \$—                           | \$1                         | \$79  | \$3 |
| Other agency                                      | 35  | (1 )                         | —   | —                        | —                    | —                     | (1 )                       | (33 )                         | —                           | —   | —   |
| Alt-A and subprime<br>private-label<br>securities | 194   | (85 )                        | —   | —                        | —                    | —                     | (5 )                       | (104 )                        | —                           | —   | —   |
| Mortgage revenue<br>bonds                         | 1   | —                            | —   | —                        | —                    | —                     | —                          | —                             | —                           | 1   | —   |
| Total trading<br>securities                       | \$1,201                                       | \$80 <sup>(6)(7)</sup>       | \$—   | \$ 1                     | \$(1,060)            | \$—                   | \$(6 )                     | \$(137 )                      | \$1                         | \$80  | \$3 |
| Available-for-sale securities:                    |   |                              |   |                          |                      |                       |                            |                               |                             |   |     |
| Mortgage-related:                                 |   |                              |   |                          |                      |                       |                            |                               |                             |   |     |
| Fannie Mae  | \$208   | \$1                          | \$—   | \$—                      | \$—                  | \$—                   | \$(5 )                     | \$—                           | \$—                         | \$204   | \$— |
| Alt-A and subprime<br>private-label<br>securities | 77  | —                            | (45 )   | —                        | —                    | —                     | (2 )                       | (4 )                          | —                           | 26  | —   |
| Mortgage revenue<br>bonds                         | 671   | —                            | (3 )  | —                        | (18 )                | —                     | (144 )                     | —                             | —                           | 506   | —   |
| Other   | 357   | 14                           | 8   | —                        | —                    | —                     | (22 )                      | —                             | —                           | 357   | —   |
| Total<br>available-for-sale                       | \$1,313                                       | \$15 <sup>(7)(8)</sup>       | \$(40 )   | \$—                      | \$(18 )              | \$—                   | \$(173 )                   | \$(4 )                        | \$—                         | \$1,093   | \$— |



Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Fair Value

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)  
For the Three Months Ended June 30, 2017

|   | Total Gains (Losses)<br>(Realized/Unrealized) |                              |   |                          |                      |                       |                            |                                   |  | Net<br>Unrealized<br>Gains<br>(Losses)<br>Included<br>in Net<br>Income<br>Related<br>to<br>Assets<br>and<br>Liabilities<br>Still<br>Held as<br>of June<br>30,<br>2017 <sup>(5)(6)</sup> |     |
|---|---|------------------------------|---|--------------------------|----------------------|-----------------------|----------------------------|-----------------------------------|--|---|-----|
|   | Balance,<br>March<br>31,<br>2017              | Included<br>in Net<br>Income | Included<br>in Total<br>Other<br>Comprehensive<br>Income<br>(Loss) <sup>(1)</sup> | Purchases <sup>(2)</sup> | Sales <sup>(2)</sup> | Issues <sup>(2)</sup> | Settlements <sup>(3)</sup> | Transfers<br>out of<br>Level<br>3 | Transfers<br>into<br>Level<br>3 <sup>(4)</sup> | Balance,<br>June 30,<br>2017  |     |
| (Dollars in millions)                             |   |                              |   |                          |                      |                       |                            |                                   |  |   |     |
| Trading securities:                               |   |                              |   |                          |                      |                       |                            |                                   |  |   |     |
| Mortgage-related:                                 |   |                              |   |                          |                      |                       |                            |                                   |  |   |     |
| Fannie Mae  | \$856   | \$1                          | \$—   | \$63                     | \$—                  | \$—                   | \$(2)                      | \$(21)                            | \$974  | \$1,871   | \$— |
| Alt-A and subprime<br>private-label<br>securities | 272   | 3                            | —   | —                        | —                    | —                     | (11)                       | —                                 | —  | 264   | 2   |
| Mortgage revenue<br>bonds                         | 20  | 3                            | —   | —                        | (21)                 | —                     | (1)                        | —                                 | —  | 1   | —   |
| Total trading<br>securities                       | \$1,148                                       | \$7                          | \$(6) <sup>(7)</sup>  | \$63                     | \$(21)               | \$—                   | \$(14)                     | \$(21)                            | \$974  | \$2,136   | \$2 |
| Available-for-sale securities:                    |   |                              |   |                          |                      |                       |                            |                                   |  |   |     |
| Mortgage-related:                                 |   |                              |   |                          |                      |                       |                            |                                   |  |   |     |
| Fannie Mae  | \$232   | \$—                          | \$(3)   | \$—                      | \$—                  | \$—                   | \$(2)                      | \$(21)                            | \$—  | \$206   | \$— |
| Alt-A and subprime<br>private-label<br>securities | 205   | —                            | (21)  | —                        | —                    | —                     | (6)                        | —                                 | —  | 178   | —   |
| Mortgage revenue<br>bonds                         | 1,185   | 34                           | (11)  | —                        | (312)                | —                     | (23)                       | —                                 | —  | 873   | —   |
| Other   | 417   | —                            | (19)  | —                        | —                    | —                     | (18)                       | —                                 | —  | 380   | —   |
| Total<br>available-for-sale<br>securities         | \$2,039                                       | \$34                         | \$(7) <sup>(8)</sup>  | \$—                      | \$(312)              | \$—                   | \$(49)                     | \$(21)                            | \$—  | \$1,637   | \$— |



Edgar Filing: FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE - Form 10-Q

|                        |         |        |                   |     |     |     |     |        |        |         |           |        |
|------------------------|---------|--------|-------------------|-----|-----|-----|-----|--------|--------|---------|-----------|--------|
| Mortgage loans         | \$1,149 | \$24   | <sup>(6)(7)</sup> | \$— | \$— | \$— | \$— | \$(55) | \$(21) | \$22    | \$1,119   | \$19   |
| Net derivatives        | 113     | 27     | <sup>(6)</sup>    | —   | —   | —   | —   | (16)   | —      | —       | 124       | 9      |
| Long-term debt:        |         |        |                   |     |     |     |     |        |        |         |           |        |
| Of Fannie Mae:         |         |        |                   |     |     |     |     |        |        |         |           |        |
| Senior floating        | \$(350) | \$(15) |                   | \$— | \$— | \$— | \$— | \$—    | \$—    | \$—     | \$(365)   | \$(14) |
| Of consolidated trusts | (214)   | (5)    |                   | —   | —   | —   | —   | 12     | 22     | (575)   | (760)     | (5)    |
| Total long-term debt   | \$(564) | \$(20) | <sup>(6)</sup>    | \$— | \$— | \$— | \$— | \$12   | \$22   | \$(575) | \$(1,125) | \$(19) |

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Fair Value

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)  
For the Six Months Ended June 30, 2017

|   | Balance,<br>December<br>31,<br>2016 | Included<br>in Net<br>Income | Total Gains (Losses)<br>(Realized/Unrealized) | Included<br>in Total<br>Other<br>Comprehensive<br>Income<br>(Loss) <sup>(1)</sup> | Purchases <sup>(2)</sup> | Sales <sup>(2)</sup> | Issues <sup>(2)</sup> | Settlements <sup>(3)</sup> | Transfers<br>out of<br>Level<br>3 <sup>(3)</sup> | Transfers<br>into<br>Level<br>3 <sup>(4)</sup> | Balance,<br>June 30,<br>2017 | Net<br>Unrealized<br>Gains<br>(Losses)<br>Included<br>in Net<br>Income<br>Related<br>to<br>Assets<br>and<br>Liabilities<br>Still<br>Held as<br>of June<br>30,<br>2017 <sup>(5)(6)</sup> |
|---|-------------------------------------|------------------------------|---|---|--------------------------|----------------------|-----------------------|----------------------------|--|--|------------------------------|---|
| (Dollars in millions)                             |                                     |                              |   |   |                          |                      |                       |                            |  |  |                              |   |
| Trading securities:                               |                                     |                              |   |   |                          |                      |                       |                            |  |  |                              |   |
| Mortgage-related:                                 |                                     |                              |   |   |                          |                      |                       |                            |  |  |                              |   |
| Fannie Mae  | \$835                               | \$4                          | \$—   | \$63  | \$—                      | \$—                  | \$(5)                 | \$(22)                     | \$996  | \$1,871  | \$2                          |   |
| Alt-A and subprime<br>private-label<br>securities | 271                                 | 11                           | —   | —   | —                        | —                    | (18)                  | —                          | —  | 264  | 11                           |   |
| Mortgage revenue<br>bonds                         | 21                                  | 3                            | —   | —   | (21)                     | —                    | (2)                   | —                          | —  | 1  | —                            |   |
| Total trading<br>securities                       | \$1,127                             | \$18                         | <sup>(6)(7)</sup> \$—                         | \$63  | \$(21)                   | \$—                  | \$(25)                | \$(22)                     | \$996  | \$2,136  | \$13                         |   |
| Available-for-sale securities:                    |                                     |                              |   |   |                          |                      |                       |                            |  |  |                              |   |
| Mortgage-related:                                 |                                     |                              |   |   |                          |                      |                       |                            |  |  |                              |   |
| Fannie Mae  | \$230                               | \$1                          | \$(2)   | \$—   | \$—                      | \$—                  | \$(6)                 | \$(47)                     | \$30   | \$206  | \$—                          |   |
| Other agency                                      | 5                                   | —                            | —   | —   | (1)                      | —                    | —                     | (4)                        | —  | —  | —                            |   |
| Alt-A and subprime<br>private-label<br>securities | 217                                 | —                            | (15)  | —   | —                        | —                    | (24)                  | —                          | —  | 178  | —                            |   |
| Mortgage revenue<br>bonds                         | 1,272                               | 35                           | (12)  | —   | (324)                    | —                    | (98)                  | —                          | —  | 873  | —                            |   |
| Other   | 429                                 | —                            | (14)  | —   | —                        | —                    | (35)                  | —                          | —  | 380  | —                            |   |
| Total<br>available-for-sale                       | \$2,153                             | \$36                         | <sup>(7)(8)</sup> \$(43)                      | \$—   | \$(325)                  | \$—                  | \$(163)               | \$(51)                     | \$30   | \$1,637  | \$—                          |   |

Edgar Filing: FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE - Form 10-Q

|                        |         |        |                   |     |     |     |       |         |        |         |           |        |
|------------------------|---------|--------|-------------------|-----|-----|-----|-------|---------|--------|---------|-----------|--------|
| securities             |         |        |                   |     |     |     |       |         |        |         |           |        |
| Mortgage loans         | \$1,197 | \$32   | <sup>(6)(7)</sup> | \$— | \$— | \$— | \$—   | \$(117) | \$(67) | \$74    | \$1,119   | \$16   |
| Net derivatives        | 44      | 100    | <sup>(6)</sup>    | —   | —   | —   | —     | (24)    | 5      | (1)     | 124       | —      |
| Long-term debt:        |         |        |                   |     |     |     |       |         |        |         |           |        |
| Of Fannie Mae:         |         |        |                   |     |     |     |       |         |        |         |           |        |
| Senior floating        | \$(347) | \$(18) |                   | \$— | \$— | \$— | \$—   | \$—     | \$—    | \$—     | \$(365)   | \$(18) |
| Of consolidated trusts | (241)   | (4)    |                   | —   | —   | —   | (2)   | 19      | 88     | (620)   | (760)     | (4)    |
| Total long-term debt   | \$(588) | \$(22) | <sup>(6)</sup>    | \$— | \$— | \$— | \$(2) | \$19    | \$88   | \$(620) | \$(1,125) | \$(22) |

Gains (losses) included in other comprehensive income (loss) are included in “Changes in unrealized gains on AFS securities, net of reclassification adjustments and taxes” in our condensed consolidated statements of operations and comprehensive income.

(2) Purchases and sales include activity related to the consolidation and deconsolidation of assets of securitization trusts. For the first half of 2018, includes the dissolution of a Fannie Mae-wrapped private-label securities trust.

(3) Issues and settlements include activity related to the consolidation and deconsolidation of liabilities of securitization trusts.

Transfers of Fannie Mae trading securities into Level 3 during the second quarter and first half of 2017 consisted primarily of a Fannie Mae security backed by private-label mortgage-related securities. Prices for this security were based on inputs that were not readily available. Transfers of long-term debt of consolidated trusts into Level 3 during the second quarter and first half of 2017 consisted of securities for which prices were estimated using inputs that were not readily available.

(5) Amount represents temporary changes in fair value. Amortization, accretion and OTTI are not considered unrealized and are not included in this amount.

(6) Gains (losses) are included in “Fair value gains (losses), net” in our condensed consolidated statements of operations and comprehensive income.

(7) Gains (losses) are included in “Net interest income” in our condensed consolidated statements of operations and comprehensive income.

(8) Gains (losses) are included in “Investment gains, net” in our condensed consolidated statements of operations and comprehensive income.

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Fair Value

The following tables display valuation techniques and the range and the weighted average of significant unobservable inputs for our Level 3 assets and liabilities measured at fair value on a recurring basis.

Fair Value Measurements as of June 30, 2018

|   | Fair Value | Significant Valuation Techniques | Significant Unobservable Inputs <sup>(1)</sup> | Range <sup>(1)</sup> | Weighted - Average <sup>(1)</sup> |
|---|------------|----------------------------------|--|----------------------|-----------------------------------|
| (Dollars in millions)                       |            |                                  |  |                      |                                   |
| Recurring fair value measurements:          |            |                                  |  |                      |                                   |
| Trading securities:                         |            |                                  |  |                      |                                   |
| Mortgage-related securities:                |            |                                  |  |                      |                                   |
| Agency <sup>(2)</sup>                       | \$79       | Various                          |  |                      |                                   |
| Mortgage revenue bonds                      | 1          | Various                          |  |                      |                                   |
| Total trading securities                    | \$80       |                                  |  |                      |                                   |
| Available-for-sale securities:              |            |                                  |  |                      |                                   |
| Mortgage-related securities:                |            |                                  |  |                      |                                   |
| Agency <sup>(2)</sup>                       | \$204      | Various                          |  |                      |                                   |
| Alt-A and subprime private-label securities | 26         | Various                          |  |                      |                                   |
| Mortgage revenue bonds                      | 389        | Single Vendor                    | Spreads (bps)                                  | 1.5 -320.4           | 51.0                              |
|   | 117        | Various                          |  |                      |                                   |
| Total mortgage revenue bonds                | 506        |                                  |  |                      |                                   |
| Other                                       | 305        | Discounted Cash Flow             | Default Rate (%)                               | 3.8                  | 3.8                               |
|   |            |                                  | Prepayment Speed (%)                           | 6.5                  | 6.5                               |
|   |            |                                  | Severity (%)                                   | 95.0                 | 95.0                              |
|   |            |                                  | Spreads (bps)                                  | 68.5-400.0           | 399.0                             |
|   | 52         | Various                          |  |                      |                                   |
| Total other                                 | 357        |                                  |  |                      |                                   |
| Total available-for-sale securities         | \$1,093    |                                  |  |                      |                                   |
| Net derivatives                             | \$107      | Dealer Mark                      |  |                      |                                   |
|   | 10         | Various                          |  |                      |                                   |
| Total net derivatives                       | \$117      |                                  |  |                      |                                   |

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form

10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Fair Value

|   | Fair Value Measurements as of December 31, 2017 |                        |  |                      |        |                                   |
|---|---|------------------------|--|----------------------|--------|-----------------------------------|
|   | Fair Value                                      | Significant Techniques | Valuation Significant Unobservable Inputs <sup>(1)</sup> | Range <sup>(1)</sup> |        | Weighted - Average <sup>(1)</sup> |
|   | (Dollars in millions)                           |                        |  |                      |        |                                   |
| Recurring fair value measurements:                |   |                        |  |                      |        |                                   |
| Trading securities:                               |   |                        |  |                      |        |                                   |
| Mortgage-related securities:                      |   |                        |  |                      |        |                                   |
| Agency <sup>(2)</sup>                             | \$971   | Single Vendor          | Prepayment Speed (%)                                     | 0.0                  | -177.0 | 160.0                             |
|   |   |                        | Spreads (bps)  | 51.5                 | -375.0 | 200.1                             |
|   | 35  | Various                |  |                      |        |                                   |
| Total agency                                      | 1,006   |                        |  |                      |        |                                   |
| Alt-A and subprime private-label securities       | 154   | Consensus              |  |                      |        |                                   |
|   | 40  | Various                |  |                      |        |                                   |
| Total Alt-A and subprime private-label securities | 194   |                        |  |                      |        |                                   |
| Mortgage revenue bonds                            | 1   | Various                |  |                      |        |                                   |
| Total trading securities                          | \$1,201   |                        |  |                      |        |                                   |
| Available-for-sale securities:                    |   |                        |  |                      |        |                                   |
| Mortgage-related securities:                      |   |                        |  |                      |        |                                   |
| Agency <sup>(2)</sup>                             | \$112   | Single Vendor          | Prepayment Speed (%)                                     | 0.0                  | -175.7 | 147.1                             |
|   |   |                        | Spreads (bps)  | 150.0                | -210.0 | 182.3                             |
|   | 96  | Various                |  |                      |        |                                   |
| Total agency                                      | 208   |                        |  |                      |        |                                   |
| Alt-A and subprime private-label securities       | 77  | Various                |  |                      |        |                                   |
| Mortgage revenue bonds                            | 475   | Single Vendor          | Spreads (bps)  | (17.0)               | -248.0 | 39.0                              |
|   | 196   | Various                |  |                      |        |                                   |
| Total mortgage revenue bonds                      | 671   |                        |  |                      |        |                                   |
| Other   | 325   | Discounted Cash Flow   | Prepayment Speed (%)                                     | 1.6                  | -2.5   | 2.5                               |
|   |   |                        | Severity (%)   | 50.0                 | -88.0  | 86.6                              |
|   |   |                        | Spreads (bps)  | 84.8                 | -607.0 | 577.9                             |
|   | 32  | Various                |  |                      |        |                                   |
| Total other                                       | 357   |                        |  |                      |        |                                   |
| Total available-for-sale securities               | \$1,313   |                        |  |                      |        |                                   |
| Net derivatives                                   | \$113   | Dealer Mark            |  |                      |        |                                   |
|   | 21  | Various                |  |                      |        |                                   |
| Total net derivatives                             | \$134   |                        |  |                      |        |                                   |

(1)

Valuation techniques for which no unobservable inputs are disclosed generally reflect the use of third-party pricing services or dealers, and the range of unobservable inputs applied by these sources is not readily available or cannot be reasonably estimated. Where we have disclosed unobservable inputs for consensus and single vendor techniques, those inputs are based on our validations performed at the security level using discounted cash flows. The prepayment speed used for trading agency securities and available-for-sale agency securities is the Public Securities Association prepayment speed, which can be greater than 100%. For all other securities, the Conditional Prepayment Rate is used as the prepayment speed, which can be between 0% and 100%.

(2) Includes Fannie Mae and Freddie Mac securities.

In our condensed consolidated balance sheets certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when we evaluate loans for impairment). We had no Level 1 assets or liabilities held as of June 30, 2018 or December 31, 2017 that were measured at fair value on a nonrecurring basis. We held \$298 million and \$14 million in Level 2 assets, comprised of mortgage loans held for sale, and no Level 2 liabilities that were measured at fair value on a nonrecurring basis as of June 30, 2018 and December 31, 2017, respectively.

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Fair Value

The following table displays valuation techniques for our Level 3 assets measured at fair value on a nonrecurring basis. The significant unobservable inputs related to these techniques primarily relate to collateral dependent valuations. The related ranges and weighted averages are not meaningful when aggregated as they vary significantly from property to property.

|   | Valuation Techniques   | Fair Value Measurements as of |                   |
|---|------------------------|-------------------------------|-------------------|
|   |                        | June 30, 2018                 | December 31, 2017 |
| (Dollars in millions)   |                        |                               |                   |
| Nonrecurring fair value measurements:                                   |                        |                               |                   |
| Mortgage loans held for sale, at lower of cost or fair value            | Single Vendor          | \$618                         | \$ 1,880          |
|   | Consensus              | 4,427                         | 1,113             |
|   | Various                | 1                             | —                 |
| Total mortgage loans held for sale, at lower of cost or fair value      |                        | 5,046                         | 2,993             |
| Single-family mortgage loans held for investment, at amortized cost     | Internal Model         | 790                           | 1,623             |
| Multifamily mortgage loans held for investment, at amortized cost       | Asset Manager Estimate | 131                           | 163               |
|   | Various                | 24                            | 32                |
| Total multifamily mortgage loans held for investment, at amortized cost |                        | 155                           | 195               |
| Acquired property, net: <sup>(1)</sup>                                  |                        |                               |                   |
| Single-family   | Accepted Offers        | 181                           | 218               |
|   | Appraisals             | 386                           | 438               |
|   | Walk Forwards          | 154                           | 222               |
|   | Internal Model         | 211                           | 319               |
|   | Various                | 38                            | 113               |
| Total single-family   |                        | 970                           | 1,310             |
| Multifamily   | Various                | 16                            | 19                |
| Other assets  | Various                | 1                             | 2                 |
| Total nonrecurring assets at fair value                                 |                        | \$6,978                       | \$ 6,142          |

<sup>(1)</sup> The most commonly used techniques in our valuation of acquired property are proprietary home price model and third-party valuations (both current and walk forward). Based on the number of properties measured as of June 30, 2018, these methodologies comprised approximately 76% of our valuations, while accepted offers comprised approximately 19% of our valuations. Based on the number of properties measured as of December 31, 2017, these methodologies comprised approximately 77% of our valuations, while accepted offers comprised approximately 18% of our valuations.

We use valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. See “Note 15, Fair Value” in our 2017 Form 10-K for information on the valuation control processes and the valuation techniques we use for fair value measurement and disclosure as well as our basis for classifying these measurements as Level 1, Level 2 or Level 3 of the valuation hierarchy in more specific situations. We made no material changes to the valuation control processes or the valuation techniques for the six months ended June 30, 2018.



Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Fair Value

### Fair Value of Financial Instruments

The following table displays the carrying value and estimated fair value of our financial instruments. The fair value of financial instruments we disclose includes commitments to purchase multifamily and single-family mortgage loans that we do not record in our condensed consolidated balance sheets. The fair values of these commitments are included as “Mortgage loans held for investment, net of allowance for loan losses.” The disclosure excludes all non-financial instruments; therefore, the fair value of our financial assets and liabilities does not represent the underlying fair value of our total consolidated assets and liabilities.

|  | As of June 30, 2018   |  |   |   |                    |                      |
|--|-----------------------|--|---|---|--------------------|----------------------|
|  | Carrying Value        | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Netting Adjustment | Estimated Fair Value |
|  | (Dollars in millions) |  |   |   |                    |                      |
| <b>Financial assets:</b>   |                       |  |   |   |                    |                      |
| Cash and cash equivalents and restricted cash  | \$48,729              | \$37,679   | \$11,050                                      | \$ —                                      | \$ —               | \$48,729             |
| Federal funds sold and securities purchased under agreements to resell or similar arrangements | 16,300                | —  | 16,300  | —   | —                  | 16,300               |
| Trading securities   | 42,381                | 35,663   | 6,638   | 80  | —                  | 42,381               |
| Available-for-sale securities  | 3,723                 | —  | 2,630   | 1,093                                     | —                  | 3,723                |
| Mortgage loans held for sale   | 14,323                | —  | 1,436   | 13,894                                    | —                  | 15,330               |
| Mortgage loans held for investment, net of allowance for loan losses                           | 3,194,301             | —  | 2,917,541                                     | 231,082                                   | —                  | 3,148,623            |
| Advances to lenders  | 3,901                 | —  | 3,899   | 2   | —                  | 3,901                |
| Derivative assets at fair value  | 372                   | —  | 2,851   | 129                                       | (2,608)            | 372                  |
| Guaranty assets and buy-ups  | 151                   | —  | —   | 370                                       | —                  | 370                  |
| <b>Total financial assets</b>  | <b>\$3,324,181</b>    | <b>\$73,342</b>  | <b>\$2,962,345</b>                            | <b>\$246,650</b>                          | <b>\$(2,608)</b>   | <b>\$3,279,729</b>   |
| <b>Financial liabilities:</b>  |                       |  |   |   |                    |                      |
| <b>Short-term debt:</b>  |                       |  |   |   |                    |                      |
| Of Fannie Mae  | \$25,726              | \$—  | \$25,730                                      | \$ —                                      | \$ —               | \$25,730             |
| Of consolidated trusts   | 339                   | —  | —   | 338                                       | —                  | 338                  |
| <b>Long-term debt:</b>   |                       |  |   |   |                    |                      |
| Of Fannie Mae  | 224,964               | —  | 228,853                                       | 791                                       | —                  | 229,644              |
| Of consolidated trusts   | 3,086,460             | —  | 2,973,785                                     | 40,988                                    | —                  | 3,014,773            |
| Derivative liabilities at fair value   | 604                   | —  | 3,348   | 12  | (2,756)            | 604                  |
| Guaranty obligations   | 163                   | —  | —   | 121                                       | —                  | 121                  |
| <b>Total financial liabilities</b>   | <b>\$3,338,256</b>    | <b>\$—</b>   | <b>\$3,231,716</b>                            | <b>\$42,250</b>                           | <b>\$(2,756)</b>   | <b>\$3,271,210</b>   |

Fannie  
Mae  
(In  
conservatorship)  
~~9~~4cond  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Fair Value

|  | As of December 31, 2017  |   |   |                    |                      |                     |
|--|--|---|---|--------------------|----------------------|---------------------|
| Carrying Value   | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Netting Adjustment | Estimated Fair Value |                     |
| (Dollars in millions)  |  |   |   |                    |                      |                     |
| <b>Financial assets:</b>   |  |   |   |                    |                      |                     |
| Cash and cash equivalents and restricted cash  | \$ 60,260  | \$ 35,060                                     | \$ 25,200                                 | \$ —               | \$ —                 | \$ 60,260           |
| Federal funds sold and securities purchased under agreements to resell or similar arrangements | 19,470   | —   | 19,470                                    | —                  | —                    | 19,470              |
| Trading securities   | 34,679   | 29,222  | 4,256                                     | 1,201              | —                    | 34,679              |
| Available-for-sale securities  | 4,843  | —   | 3,530                                     | 1,313              | —                    | 4,843               |
| Mortgage loans held for sale   | 4,988  | —   | 101                                       | 5,333              | —                    | 5,434               |
| Mortgage loans held for investment, net of allowance for loan losses                           | 3,173,537  | —   | 2,886,470                                 | 315,719            | —                    | 3,202,189           |
| Advances to lenders  | 4,938  | —   | 4,936                                     | 2                  | —                    | 4,938               |
| Derivative assets at fair value  | 171  | —   | 4,274                                     | 169                | (4,272)              | 171                 |
| Guaranty assets and buy-ups  | 149  | —   | —   | 436                | —                    | 436                 |
| <b>Total financial assets</b>  | <b>\$ 3,303,035</b>  | <b>\$ 64,282</b>                              | <b>\$ 2,948,237</b>                       | <b>\$ 324,173</b>  | <b>\$ (4,272)</b>    | <b>\$ 3,332,420</b> |
| <b>Financial liabilities:</b>  |  |   |   |                    |                      |                     |
| <b>Short-term debt:</b>  |  |   |   |                    |                      |                     |
| Of Fannie Mae  | \$ 33,377  | \$ —  | \$ 33,379                                 | \$ —               | \$ —                 | \$ 33,379           |
| Of consolidated trusts   | 379  | —   | —   | 378                | —                    | 378                 |
| <b>Long-term debt:</b>   |  |   |   |                    |                      |                     |
| Of Fannie Mae  | 243,375  | —   | 249,780                                   | 837                | —                    | 250,617             |
| Of consolidated trusts   | 3,052,923  | —   | 3,014,250                                 | 40,683             | —                    | 3,054,933           |
| Derivative liabilities at fair value   | 328  | —   | 5,272                                     | 35                 | (4,979)              | 328                 |
| Guaranty obligations   | 258  | —   | —   | 456                | —                    | 456                 |
| <b>Total financial liabilities</b>   | <b>\$ 3,330,640</b>  | <b>\$ —</b>                                   | <b>\$ 3,302,681</b>                       | <b>\$ 42,389</b>   | <b>\$ (4,979)</b>    | <b>\$ 3,340,091</b> |

For a detailed description and classification of our financial instruments, see "Note 15, Fair Value" in our 2017 Form 10-K.

**Fair Value Option**

We elected the fair value option for our credit risk sharing debt securities issued under our CAS series issued prior to January 1, 2016 and certain loans and debt that contain embedded derivatives that would otherwise require bifurcation. Under the fair value option, we elected to carry these instruments at fair value instead of bifurcating the embedded derivative from such instruments.

We elected the fair value option for all long-term structured debt instruments that are issued in response to specific investor demand and have interest rates that are based on a calculated index or formula and are economically hedged with derivatives at the time of issuance. By electing the fair value option for these instruments, we are able to eliminate the volatility in our results of operations that would otherwise result from the accounting asymmetry created by recording these structured debt instruments at cost while recording the related derivatives at fair value.

Interest income for the mortgage loans is recorded in “Interest income—Mortgage loans” and interest expense for the debt instruments is recorded in “Interest expense—Long-term debt” in our condensed consolidated statements of operations and comprehensive income.

Fannie  
Mae  
(In  
conservatorship)  
5~~5~~cond  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Fair Value

The following table displays the fair value and unpaid principal balance of the financial instruments for which we have made fair value elections.

|                          | As of<br>June 30, 2018 |                                       |  | December 31, 2017    |                                       |  |
|--------------------------|------------------------|---------------------------------------|--|----------------------|---------------------------------------|--|
|                          | Loans <sup>(1)</sup>   | Long-Term<br>Debt of<br>Fannie<br>Mae | Long-Term<br>Debt of<br>Consolidated<br>Trusts | Loans <sup>(1)</sup> | Long-Term<br>Debt of<br>Fannie<br>Mae | Long-Term<br>Debt of<br>Consolidated<br>Trusts |
|                          | (Dollars in millions)  |                                       |  |                      |                                       |  |
| Fair value               | \$9,628                | \$ 7,558                              | \$ 26,675                                      | \$10,596             | \$ 8,186                              | \$ 30,493                                      |
| Unpaid principal balance | 9,510                  | 6,780                                 | 24,695   | 10,246               | 7,368                                 | 27,717   |

Includes nonaccrual loans with a fair value of \$181 million and \$227 million as of June 30, 2018 and December 31, 2017, respectively. The difference between unpaid principal balance and the fair value of these nonaccrual loans as of June 30, 2018 and December 31, 2017 was \$28 million and \$46 million, respectively. Includes loans <sup>(1)</sup> that are 90 days or more past due with a fair value of \$131 million and \$159 million as of June 30, 2018 and December 31, 2017, respectively. The difference between unpaid principal balance and the fair value of these 90 or more days past due loans as of June 30, 2018 and December 31, 2017 was \$22 million and \$34 million, respectively.

#### Changes in Fair Value under the Fair Value Option Election

We recorded losses of \$27 million and \$176 million for the three and six months ended June 30, 2018, respectively, and gains of \$94 million and \$136 million for the three and six months ended June 30, 2017, respectively, from changes in the fair value of loans recorded at fair value in “Fair value gains (losses), net” in our condensed consolidated statements of operations and comprehensive income.

We recorded gains of \$247 million and \$501 million for the three and six months ended June 30, 2018, respectively, and losses of \$288 million and \$457 million for the three and six months ended June 30, 2017, respectively, from changes in the fair value of long-term debt recorded at fair value in “Fair value gains (losses), net” in our condensed consolidated statements of operations and comprehensive income.

#### 14. Commitments and Contingencies

We are party to various types of legal actions and proceedings, including actions brought on behalf of various classes of claimants. We also are subject to regulatory examinations, inquiries and investigations, and other information gathering requests. In some of the matters, indeterminate amounts are sought. Modern pleading practice in the U.S. permits considerable variation in the assertion of monetary damages or other relief. Jurisdictions may permit claimants not to specify the monetary damages sought or may permit claimants to state only that the amount sought is sufficient to invoke the jurisdiction of the trial court. This variability in pleadings, together with our and our counsel’s actual experience in litigating or settling claims, leads us to conclude that the monetary relief that may be sought by plaintiffs bears little relevance to the merits or disposition value of claims.

On a quarterly basis, we review relevant information about all pending legal actions and proceedings for the purpose of evaluating and revising our contingencies, accruals and disclosures.

We have substantial and valid defenses to the claims in the proceedings described below and intend to defend these matters vigorously. However, legal actions and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. Accordingly, the outcome of any given matter and the amount or range of potential loss at particular points in time is frequently difficult to ascertain. Uncertainties can include how fact

finders will evaluate documentary evidence and the credibility and effectiveness of witness testimony, and how courts will apply the law. Disposition valuations are also subject to the uncertainty of how opposing parties and their counsel may view the evidence and applicable law.

We establish an accrual only for matters when a loss is probable and we can reasonably estimate the amount of such loss. We are often unable to estimate the possible losses or ranges of losses, particularly for proceedings that are in their early stages of development, where plaintiffs seek indeterminate or unspecified damages, where there may be novel or unsettled legal questions relevant to the proceedings, or where settlement negotiations have not occurred or progressed.

Given the uncertainties involved in any action or proceeding, regardless of whether we have established an accrual, the ultimate resolution of certain of these matters may be material to our operating results for a particular

Fannie  
Mae  
(In  
conservatorship)  
96cond  
Quarter  
2018  
Form  
10-Q

---

Notes to  
Condensed  
Consolidated  
Financial  
Statements |  
Commitments  
and  
Contingencies

period, depending on, among other factors, the size of the loss or liability imposed and the level of our net income or loss for that period.

In addition to the matters specifically described below, we are involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that we do not expect will have a material impact on our business or financial condition. We have also advanced fees and expenses of certain current and former officers and directors in connection with various legal proceedings pursuant to our bylaws and indemnification agreements.

#### Senior Preferred Stock Purchase Agreements Litigation

A consolidated class action and three non-class action lawsuits filed by Fannie Mae and Freddie Mac shareholders are pending in the U.S. District Court for the District of Columbia against us, FHFA as our conservator, and Freddie Mac that challenge the August 2012 amendment to each company's senior preferred stock purchase agreement with Treasury. In the consolidated class action ("In re Fannie Mae/Freddie Mac Senior Preferred Stock Purchase Agreement Class Action Litigations"), plaintiffs filed an amended complaint on November 1, 2017 that alleges the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendments nullified certain of the shareholders' rights, particularly the right to receive dividends. Plaintiffs allege claims for breach of contract, breach of the implied covenant of good faith and fair dealing, breach of fiduciary duties, and violations of Delaware and Virginia corporate law against us, FHFA and Freddie Mac, and breach of fiduciary duties claims derivatively on our and Freddie Mac's behalf against FHFA. Plaintiffs seek to represent several classes of preferred and/or common shareholders of Fannie Mae and/or Freddie Mac who held stock as of the public announcement of the August 2012 amendments. Plaintiffs seek unspecified damages, equitable and injunctive relief, and costs and expenses, including attorneys' fees. The defendants moved to dismiss the amended complaint on January 10, 2018.

In two of the non-class action suits, Arrowood Indemnity Company v. Fannie Mae and Fairholme Funds v. FHFA, the plaintiffs, Fannie Mae and Freddie Mac preferred shareholders, filed amended complaints on November 1, 2017 against us, FHFA as our conservator, the Director of FHFA (in his official capacity) and Freddie Mac alleging that the net worth sweep dividend provisions nullified certain rights of the preferred shareholders, particularly the right to receive dividends, and exceeded FHFA's statutory authority. Plaintiffs bring claims for breach of contract, breach of the implied covenant of good faith and fair dealing, breach of fiduciary duties and violations of Delaware and Virginia corporate law. They also assert claims for violation of the Administrative Procedure Act against FHFA. Plaintiffs seek damages, equitable and injunctive relief, and costs and expenses, including attorneys' fees. Defendants moved to dismiss both amended complaints on January 10, 2018.

On May 21, 2018, another Fannie Mae and Freddie Mac shareholder filed a pro se complaint for declaratory relief and compensatory damages against Fannie Mae (including certain members of its Board of Directors), Freddie Mac (including certain members of its Board of Directors) and FHFA, as conservator. Plaintiff in that case, Angel v. Federal Home Loan Mortgage Corporation, asserts claims for breach of contract, breach of implied covenants of good faith and fair dealing, and aiding and abetting the federal government in avoiding an alleged implicit guarantee of dividend payments. Defendants moved to dismiss the complaint on July 12, 2018.

On August 2, 2017, shareholder David J. Voacolo filed a lawsuit, Voacolo v. Fannie Mae, in the U.S. District Court for the District of New Jersey against Fannie Mae and the United States alleging that the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendments to the senior preferred stock purchase agreements were a violation of due process and an illegal exaction. Plaintiff seeks damages only. Defendants filed motions to dismiss on March 26, 2018. On May 4, 2018, the court granted defendants' motions



to dismiss.

Given the stage of these lawsuits, the substantial and novel legal questions that remain, and our substantial defenses, we are currently unable to estimate the reasonably possible loss or range of loss arising from this litigation.

Fannie  
Mae  
(In  
conservatorship)  
Second  
Quarter  
2018  
Form  
10-Q

---

Quantitative  
and  
Qualitative  
Disclosures  
about  
Market Risk

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Information about market risk is set forth in “MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management.”

Item 4. Controls and Procedures

Overview

We are required under applicable laws and regulations to maintain controls and procedures, which include disclosure controls and procedures as well as internal control over financial reporting, as further described below.

Evaluation of Disclosure Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures refer to controls and other procedures designed to provide reasonable assurance that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management was required to apply its judgment in evaluating and implementing possible controls and procedures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 under the Exchange Act, management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as in effect as of June 30, 2018, the end of the period covered by this report. As a result of management’s evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were not effective at a reasonable assurance level as of June 30, 2018 or as of the date of filing this report.

Our disclosure controls and procedures were not effective as of June 30, 2018 or as of the date of filing this report because they did not adequately ensure the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws. As a result, we were not able to rely upon the disclosure controls and procedures that were in place as of June 30, 2018 or as of the date of this filing, and we continue to have a material weakness in our internal control over financial reporting. This material weakness is described in more detail below under “Description of Material Weakness.” Based on discussions with FHFA and the structural nature of this material weakness, we do not expect to remediate this material weakness while we are under conservatorship.

Description of Material Weakness

The Public Company Accounting Oversight Board’s Auditing Standard 2201 defines a material weakness as a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the company’s annual or interim financial statements will not be prevented or detected on a timely basis.

Management has determined that we continued to have the following material weakness as of June 30, 2018 and as of the date of filing this report:

• **Disclosure Controls and Procedures.** We have been under the conservatorship of FHFA since September 6, 2008.

Under the GSE Act, FHFA is an independent agency that currently functions as both our conservator and our regulator with respect to our safety, soundness and mission. Because of the nature of the conservatorship under the

Edgar Filing: FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE - Form 10-Q

GSE Act, which places us under the “control” of FHFA (as that term is defined by securities laws), some of the information that we may need to meet our disclosure obligations may be solely within the knowledge of FHFA. As our conservator, FHFA has the power to take actions

Fannie  
Mae  
Second  
~~Q~~Quarter  
2018  
Form  
10-Q

---

## Controls and Procedures

without our knowledge that could be material to our shareholders and other stakeholders, and could significantly affect our financial performance or our continued existence as an ongoing business. Although we and FHFA attempted to design and implement disclosure policies and procedures that would account for the conservatorship and accomplish the same objectives as a disclosure controls and procedures policy of a typical reporting company, there are inherent structural limitations on our ability to design, implement, test or operate effective disclosure controls and procedures. As both our regulator and our conservator under the GSE Act, FHFA is limited in its ability to design and implement a complete set of disclosure controls and procedures relating to Fannie Mae, particularly with respect to current reporting pursuant to Form 8-K. Similarly, as a regulated entity, we are limited in our ability to design, implement, operate and test the controls and procedures for which FHFA is responsible.

Due to these circumstances, we have not been able to update our disclosure controls and procedures in a manner that adequately ensures the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws, including disclosures affecting our condensed consolidated financial statements. As a result, we did not maintain effective controls and procedures designed to ensure complete and accurate disclosure as required by GAAP as of June 30, 2018 or as of the date of filing this report. Based on discussions with FHFA and the structural nature of this weakness, we do not expect to remediate this material weakness while we are under conservatorship.

## Mitigating Actions Related to Material Weakness

As described above under “Description of Material Weakness,” we continue to have a material weakness in our internal control over financial reporting relating to our disclosure controls and procedures. However, we and FHFA have engaged in the following practices intended to permit accumulation and communication to management of information needed to meet our disclosure obligations under the federal securities laws:

FHFA has established the Division of Conservatorship, which is intended to facilitate operation of the company with the oversight of the conservator.

We have provided drafts of our SEC filings to FHFA personnel for their review and comment prior to filing. We also have provided drafts of external press releases, statements and speeches to FHFA personnel for their review and comment prior to release.

FHFA personnel, including senior officials, have reviewed our SEC filings prior to filing, including this quarterly report on Form 10-Q for the quarter ended June 30, 2018 (“Second Quarter 2018 Form 10-Q”), and engaged in discussions regarding issues associated with the information contained in those filings. Prior to filing our Second Quarter 2018 Form 10-Q, FHFA provided Fannie Mae management with a written acknowledgment that it had reviewed the Second Quarter 2018 Form 10-Q, and it was not aware of any material misstatements or omissions in the Second Quarter 2018 Form 10-Q and had no objection to our filing the Second Quarter 2018 Form 10-Q.

The Director of FHFA and our Chief Executive Officer have been in frequent communication and meet on a regular basis.

FHFA representatives attend meetings frequently with various groups within the company to enhance the flow of information and to provide oversight on a variety of matters, including accounting, credit and market risk management, external communications and legal matters.

Senior officials within FHFA’s Office of the Chief Accountant have met frequently with our senior finance executives regarding our accounting policies, practices and procedures.

## Changes in Internal Control Over Financial Reporting

## Overview

Management has evaluated, with the participation of our Chief Executive Officer and Chief Financial Officer, whether any changes in our internal control over financial reporting that occurred during our last fiscal quarter have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. Below we describe changes in our internal control over financial reporting since March 31, 2018 that management believes have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

---

Controls and Procedures

In the ordinary course of business, we review our system of internal control over financial reporting and make changes that we believe will improve these controls and increase efficiency, while continuing to ensure that we maintain effective internal controls. Changes may include implementing new, more efficient systems, automating manual processes, updating existing systems and retiring legacy systems. For example, we are currently implementing various financial system applications in stages across the company. As we continue to implement these financial system applications, each implementation may become a significant component of our internal control over financial reporting and prior components of our internal control over financial reporting may be retired. Additionally, we are working on an initiative to consolidate and modernize our data infrastructure and retire legacy data warehouses, which will impact some of our financial system applications and result in changes in our internal control over financial reporting.

Integration of Nonperforming Loans into the Single-Family Mortgage Loan Accounting Platform

In April 2018, we completed an initiative to integrate our accounting for nonperforming loans into our existing single-family performing loan accounting platform. As a result of this initiative, we redesigned, removed or replaced multiple existing internal controls that were previously considered effective with new controls. This new system was operating during the second quarter of 2018 and was used to prepare our second quarter 2018 condensed consolidated financial statements included in this report.

Fannie  
Mae  
Second  
~~Q~~arter  
2018  
Form  
10-Q

---

## Other Information

## PART II—OTHER INFORMATION

## Item 1. Legal Proceedings

The information in this item supplements and updates information regarding certain legal proceedings set forth in “Legal Proceedings” in our 2017 Form 10-K and our First Quarter 2018 Form 10-Q. We also provide information regarding material legal proceedings in “Note 14, Commitments and Contingencies,” which is incorporated herein by reference. In addition to the matters specifically described or incorporated by reference in this item, we are involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that do not have a material impact on our business. Litigation claims and proceedings of all types are subject to many factors that generally cannot be predicted accurately.

We establish an accrual for legal claims only when a loss is probable and we can reasonably estimate the amount of such loss. The actual costs of resolving legal claims may be substantially higher or lower than the amounts accrued for those claims. If certain of these matters are determined against us, FHFA or Treasury, it could have a material adverse effect on our results of operations, liquidity and financial condition, including our net worth.

## Senior Preferred Stock Purchase Agreements Litigation

Between June 2013 and June 2017, preferred and common stockholders of Fannie Mae and Freddie Mac filed lawsuits in multiple federal courts against one or more of the United States, Treasury and FHFA, challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac. Some of these lawsuits also contain claims against Fannie Mae and Freddie Mac. The legal claims being advanced by one or more of these lawsuits include challenges to the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendments to the agreements, the payment of dividends to Treasury under the net worth sweep dividend provisions, and FHFA’s decision to require Fannie Mae and Freddie Mac to draw funds from Treasury in order to pay dividends to Treasury prior to the August 2012 amendments. The plaintiffs seek various forms of equitable and injunctive relief, including rescission of the August 2012 amendments, as well as damages. The cases that remain pending or were terminated after March 31, 2018 are as follows:

District of Columbia. Fannie Mae is a defendant in four cases pending in the U.S. District Court for the District of Columbia. Three of the cases have been consolidated for pretrial proceedings. Defendants moved to dismiss the complaints in these cases on January 10, 2018. The fourth case was filed on May 21, 2018, and defendants moved to dismiss the case on July 12, 2018. All four of the cases are described in “Note 14, Commitments and Contingencies.” Northern District of Illinois. On March 20, 2017, the U.S. District Court for the Northern District of Illinois dismissed the case pending before it. On May 3, 2018, the U.S. Court of Appeals for the Seventh Circuit affirmed the district court’s judgment.

Northern District of Iowa. On March 27, 2017, the U.S. District Court for the Northern District of Iowa dismissed the case pending before it. Plaintiffs’ appeal is pending before the U.S. Court of Appeals for the Eighth Circuit.

Southern District of Texas. On May 22, 2017, the U.S. District Court for the Southern District of Texas dismissed the case pending before it. On July 16, 2018, the U.S. Court of Appeals for the Fifth Circuit found that FHFA’s structure violates the Constitution’s separation of powers, but affirmed the dismissal of plaintiffs’ statutory claims seeking to invalidate the net worth sweep dividend provisions.

Western District of Michigan and District of Minnesota. On June 1, 2017 and June 22, 2017, preferred and common stockholders of Fannie Mae and Freddie Mac filed complaints for declaratory and injunctive relief against FHFA and Treasury in the U.S. District Court for the Western District of Michigan and the U.S. District Court for the District of Minnesota. The complaints, which also ask the courts to set aside the net worth sweep dividend provisions of the senior preferred stock purchase agreements, allege that FHFA’s structure violates constitutional requirements, including: presidential removal authority; separation of powers; the appointments clause; the nondelegation doctrine; and the private nondelegation doctrine. FHFA and Treasury moved to dismiss the Michigan case on September 9, 2017 and the Minnesota case on September 15, 2017.

District of New Jersey. On August 2, 2017, shareholder David J. Voacolo filed a lawsuit against Fannie Mae and the United States in the U.S. District Court for the District of New Jersey alleging that the net worth sweep dividend

provisions of the senior preferred stock that were implemented in August 2012 were a violation of due

Fannie  
Mae  
Second  
~~Q~~arter  
2018  
Form  
10-Q

---



## Other Information

process and an illegal exaction. Plaintiff seeks damages only. On May 4, 2018, the court granted defendants' motions to dismiss.

U.S. Court of Federal Claims. Fannie Mae is a nominal defendant in two actions filed against the United States in the U.S. Court of Federal Claims: *Fisher v. United States of America*, filed on December 2, 2013, and *Rafter v. United States of America*, filed on August 14, 2014. Plaintiffs in these cases allege that the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendment to the senior preferred stock purchase agreement constitute a taking of Fannie Mae's property without just compensation in violation of the U.S. Constitution. The Fisher plaintiffs are pursuing this claim derivatively on behalf of Fannie Mae, while the Rafter plaintiffs are pursuing the claim both derivatively and directly against the United States. Plaintiffs in Rafter also allege direct and derivative breach of contract claims against the government. Plaintiffs in Fisher request just compensation to Fannie Mae in an unspecified amount. Plaintiffs in Rafter seek just compensation for themselves on their direct claims and payment of damages to Fannie Mae on their derivative claims. The United States filed a motion to dismiss the Fisher case on January 23, 2014; however, the court stayed proceedings in the Fisher and Rafter cases until discovery concluded in a related case, *Fairholme Funds v. United States*. That discovery is complete, and plaintiffs filed amended complaints on March 8, 2018.

District of Delaware. Fannie Mae is a nominal defendant in *Jacobs v. FHFA*, filed on August 17, 2015 against FHFA and Treasury in the U.S. District Court for the District of Delaware. Plaintiffs allege that the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendments to the agreements violate Delaware law. Plaintiffs are pursuing this claim derivatively on behalf of Fannie Mae and directly against the government. The court dismissed the case on November 27, 2017. Plaintiffs' appeal is pending before the U.S. Court of Appeals for the Third Circuit.

## Item 1A. Risk Factors

In addition to the information in this report, you should carefully consider the risks relating to our business that we identify in "Risk Factors" in our 2017 Form 10-K. This section supplements and updates that discussion. Please also refer to "MD&A—Risk Management" in this report and in our 2017 Form 10-K for more detailed descriptions of the primary risks to our business and how we seek to manage those risks.

The risks we face could materially adversely affect our business, results of operations, financial condition, liquidity and net worth, and could cause our actual results to differ materially from our past results or the results contemplated by forward-looking statements contained in this report. However, these are not the only risks we face. In addition to the risks we discuss below and in our 2017 Form 10-K, we face risks and uncertainties not currently known to us or that we currently believe are immaterial.

The Single Security Initiative may adversely affect our financial results and contribute to declines in the liquidity or market value of our MBS. The Single Security Initiative also increases our counterparty credit risk and operational risk.

In 2014, FHFA directed Fannie Mae and Freddie Mac to develop a single common mortgage-backed security that is fungible with then-outstanding Fannie Mae guaranteed mortgage pass-through certificates and Freddie Mac Participation Certificates ("Freddie Mac PCs"). The security to be developed will be known as a Uniform Mortgage-Backed Security or UMBS. The FHFA initiative to develop a UMBS (the "Single Security Initiative") is intended to maximize liquidity for both Fannie Mae and Freddie Mac mortgage-backed securities in the "to-be-announced" or TBA market. In March 2018, FHFA announced that Fannie Mae and Freddie Mac will start issuing UMBS in place of their current offerings of TBA-eligible mortgage-backed securities on June 3, 2019. The new UMBS will be issued by Fannie Mae and Freddie Mac through their joint venture, Common Securitization Solutions, LLC ("CSS"), using the Common Securitization Platform ("CSP").

Historically, Fannie Mae MBS have had a trading advantage over comparable Freddie Mac PCs. One of FHFA's stated objectives for the Single Security Initiative is to reduce the costs to Freddie Mac and taxpayers that result from differences in liquidity of Fannie Mae MBS and Freddie Mac PCs. As the implementation date of the Single Security Initiative approaches, some Fannie Mae MBS and comparable Freddie Mac PCs are trading closer to or at parity. If this trend continues, it could adversely affect our financial results. It is also possible that uncertainty surrounding the

implementation and overall impact of the Single Security Initiative could contribute to declines in the liquidity or market value of our Fannie Mae MBS.

Fannie  
Mae  
Second  
~~Q1~~ Quarter  
2018  
Form  
10-Q

---

## Other Information

The Single Security Initiative will also result in our credit and operational exposure to Freddie Mac. Once the initiative is implemented, investors will be able to commingle Fannie Mae UMBS and Freddie Mac UMBS in resecuritizations. When we resecuritize Freddie Mac UMBS, our guaranty of principal and interest would extend to the underlying Freddie Mac UMBS. Accordingly, in the event Freddie Mac were to fail (for credit or operational reasons) to make a payment on Freddie Mac UMBS that we resecuritized, we would be responsible for making the entire payment on the related Fannie Mae UMBS in order for any of our certificates to be paid. We do not intend to limit the amount of resecuritized Freddie Mac UMBS that we guarantee and we do not intend to modify our liquidity strategies to address this increased risk. As a result, we could be dependent on Freddie Mac and on the senior preferred stock purchase agreements that we and Freddie Mac each have with Treasury to avoid a liquidity event or a default under our guaranty. See “Risk Factors” in our 2017 Form 10-K for a discussion of other operational risks associated with our implementation of the Single Security Initiative and related internal infrastructure upgrades. Once we begin issuing UMBS, we plan to begin using CSS and the CSP to perform certain operational functions associated with issuing and managing these UMBS on our behalf. Accordingly, we will be reliant on CSS and the CSP for the operation of many of our securitization activities. Our business activities could be adversely affected and the market for Fannie Mae MBS could be disrupted if the CSP were to fail or otherwise become unavailable to us or if CSS were unable to perform its obligations to us. Any such failure or unavailability could have a significant adverse impact on our business, liquidity, financial condition, net worth and results of operations, and could adversely affect the liquidity or market value of our MBS.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

## Recent Sales of Unregistered Securities

Under the terms of our senior preferred stock purchase agreement with Treasury, we are prohibited from selling or issuing our equity interests, other than as required by (and pursuant to) the terms of a binding agreement in effect on September 7, 2008, without the prior written consent of Treasury. During the quarter ended June 30, 2018, we did not sell any equity securities.

## Information about Certain Securities Issuances by Fannie Mae

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

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

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

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

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

## Our Purchases of Equity Securities

We did not repurchase any of our equity securities during the second quarter of 2018.

Fannie  
Mae  
Second  
~~Quarter~~  
2018  
Form  
10-Q

---

Other Information

Dividend Restrictions

Our payment of dividends is subject to the following restrictions:

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

**Restrictions Under Senior Preferred Stock Purchase Agreement and Senior Preferred Stock.** The senior preferred stock purchase agreement prohibits us from declaring or paying any dividends on Fannie Mae equity securities (other than the senior preferred stock) without the prior written consent of Treasury. In addition, pursuant to the dividend provisions of the senior preferred stock and quarterly directives from our conservator, we are obligated to pay Treasury each quarter any dividends declared consisting of the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds \$3.0 billion. As a result, our net income is not available to common stockholders. For more information on the terms of the senior preferred stock purchase agreement and senior preferred stock, see "Business—Conservatorship and Treasury Agreements—Treasury Agreements—Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant" in our 2017 Form 10-K.

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

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

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

None.

Item 5. Other Information

None.

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

Other Information

Item 6. Exhibits

The exhibits listed below are being filed with or incorporated by reference into this report.

| Item        | Description   |
|-------------|---|
| 3.1         | <u>Fannie Mae Charter Act (12 U.S.C. § 1716 et seq.) as amended through May 24, 2018</u>  |
|             | <u>Fannie Mae Bylaws, as amended through July 21, 2016 (Incorporated by reference to Exhibit 3.2 to Fannie</u>                            |
| 3.2         | <u>Mae's Quarterly Report on Form 10-Q (Commission file number 000-50231) for the quarter ended June 30, 2016, filed August 4, 2016.)</u> |
| 10.1        | <u>Advisory Council Membership Agreement, dated as of February 3, 2017, by and between Fannie Mae and</u>                                 |
|             | <u>Antony Jenkins</u>   |
| 31.1        | <u>Certification of Chief Executive Officer pursuant to Securities Exchange Act Rule 13a-14(a)</u>  |
| 31.2        | <u>Certification of Chief Financial Officer pursuant to Securities Exchange Act Rule 13a-14(a)</u>  |
| 32.1        | <u>Certification of Chief Executive Officer pursuant to 18 U.S.C. Section 1350</u>  |
| 32.2        | <u>Certification of Chief Financial Officer pursuant to 18 U.S.C. Section 1350</u>  |
| 101.<br>INS | XBRL Instance Document*   |
| 101.<br>SCH | XBRL Taxonomy Extension Schema*   |
| 101.<br>CAL | XBRL Taxonomy Extension Calculation*  |
| 101.<br>DEF | XBRL Taxonomy Extension Definition*   |
| 101.<br>LAB | XBRL Taxonomy Extension Label*  |
| 101.<br>PRE | XBRL Taxonomy Extension Presentation*   |

---

\* The financial information contained in these XBRL documents is unaudited.

Fannie  
Mae  
Second  
Quarter  
2018  
Form  
10-Q

Signatures

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Federal National Mortgage Association

By: /s/ Timothy J. Mayopoulos

Timothy J. Mayopoulos  
President and Chief Executive Officer

Date: August 2, 2018

By: /s/ David C. Benson

David C. Benson  
Executive Vice President and  
Chief Financial Officer

Date: August 2, 2018

Fannie  
Mae  
Second  
~~Quarter~~  
2018  
Form  
10-Q

---

