FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-Q
May 09, 2013

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

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2013
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No.: 0-50231
Federal National Mortgage Association
(Exact name of registrant as specified in its charter)
Fannie Mae

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No þ
As of March 31, 2013, there were 1,158,077,970 shares of common stock of the registrant outstanding.

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MD&A TABLE REFERENCE

PART I — FINANCIAL INFORMATION

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

We have been under conservatorship, with the Federal Housing Finance Agency ("FHFA") acting as conservator, since September 6, 2008. As conservator, FHFA succeeded to all rights, titles, powers and privileges of the company, and of any shareholder, officer or director of the company with respect to the company and its assets. The conservator has since delegated specified authorities to our Board of Directors and has delegated to management the authority to conduct our day-to-day operations. Our directors do not have any fiduciary duties to any person or entity except to the conservator and, accordingly, are not obligated to consider the interests of the company, the holders of our equity or debt securities or the holders of Fannie Mae MBS unless specifically directed to do so by the conservator. We describe the rights and powers of the conservator, key provisions of our agreements with the U.S. Department of the Treasury ("Treasury"), and their impact on shareholders in our Annual Report on Form 10 K for the year ended December 31, 2012 ("2012 Form 10 K") in "Business—Conservatorship and Treasury Agreements."

You should read this Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A") in conjunction with our unaudited condensed consolidated financial statements and related notes and the more detailed information in our 2012 Form 10-K.

This report contains forward-looking statements that are based on management's current expectations and are subject to significant uncertainties and changes in circumstances. Please review "Forward-Looking Statements" for more information on the forward-looking statements in this report. Our actual results may differ materially from those reflected in our forward-looking statements due to a variety of factors including, but not limited to, those discussed in "Risk Factors" and elsewhere in this report and in "Risk Factors" in our 2012 Form 10-K.

You can find a "Glossary of Terms Used in This Report" in the "MD&A" of our 2012 Form 10-K.

INTRODUCTION

Fannie Mae is a government-sponsored enterprise ("GSE") that was chartered by Congress in 1938. Our public mission is to support liquidity and stability in the secondary mortgage market, where existing mortgage-related assets are purchased and sold, and increase the supply of affordable housing. Our charter does not permit us to originate loans and lend money directly to consumers in the primary mortgage market. However, as the leading source of residential mortgage credit in the secondary market, we indirectly enable families to buy, refinance or rent a home. Our most significant activity is securitizing mortgage loans originated by lenders into Fannie Mae mortgage-backed securities that we guarantee, which we refer to as Fannie Mae MBS. We also purchase mortgage loans and mortgage-related securities. We use the term "acquire" in this report to refer to both our securitizations and our purchases of mortgage-related assets. We obtain funds to support our business activities by issuing a variety of debt securities in the domestic and international capital markets.

We have taken a number of actions in conservatorship to strengthen our financial performance, including reducing losses on our legacy book of business, building a profitable new book of business with responsible underwriting standards and pricing for risk. These actions are supporting the housing recovery and strengthening our financial performance. As a result of our actions and continued improvement in the housing market, our financial results for the first quarter of 2013 showed significant improvement compared with our results for the first quarter of 2012, and, although our earnings will vary from quarter to quarter, we expect our annual earnings to remain strong over the next few years. We recorded net income of $58.7 billion for the first quarter of 2013, which reflects a benefit for federal income taxes of $50.6 billion that resulted from our release of the substantial majority of our valuation allowance against our deferred tax assets. Our pre-tax income for the first quarter of 2013, which does not reflect the deferred tax valuation allowance release, was $8.1 billion. In the second quarter of 2013, we will pay Treasury a senior preferred stock dividend of $59.4 billion, which equals the excess of our net worth over a $3.0 billion capital reserve applicable in 2013 under the terms of our senior preferred stock purchase agreement with Treasury. With this dividend payment, we will have paid $95.0 billion in dividends to Treasury. We have received a total of $116.1 billion in funds from Treasury under the senior preferred stock purchase agreement since 2008.

Like the mortgage finance industry we serve, Fannie Mae is undergoing significant transformation. Since entering into conservatorship in September 2008, our senior management, constituencies and priorities have changed. More than 80% of our current senior management team, and every member of our management committee, has been hired or promoted into their current role since we entered into conservatorship. More than half of our employees were hired after conservatorship began. Moreover, instead of being run for the benefit of shareholders, our company is managed in the overall interest of

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taxpayers, which is consistent with the substantial public investment in us. Ultimately, we help fill the role of enabling families to buy, refinance or rent a home. We have provided approximately $3.5 trillion in liquidity to the housing market since the beginning of 2009. By keeping liquidity flowing, we support the housing recovery, which strengthens the U.S. economy.

Our conservatorship has no specified termination date, and we do not know when or how the conservatorship will be terminated, whether we will continue to exist following conservatorship, or what changes to our business structure will be made during or following the conservatorship. Our agreements with Treasury that provide for financial support also include covenants that significantly restrict our business activities. We provide additional information on the conservatorship, the provisions of our agreements with Treasury, and their impact on our business in our 2012 Form 10 K in "Business—Conservatorship and Treasury Agreements" and "Risk Factors." We discuss the uncertainty of our future and its impact on us in "Executive Summary—Outlook" in this report and in "Risk Factors" in our 2012 Form 10 K.

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

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

EXECUTIVE SUMMARY

We are focused on paying Treasury for taxpayers' investment in Fannie Mae, which can be accomplished by supporting the economic recovery, helping struggling homeowners and laying the foundation for a better housing finance system going forward.

Our actions to accomplish these objectives are having a positive impact:

- Financial Results and Treasury Dividend Payments. We experienced significant improvement in our financial results for the first quarter of 2013, as compared with the first quarter of 2012. Our pre-tax income of $8.1 billion for the first quarter of 2013 was the largest quarterly pre-tax income in our history. With our net income of $58.7 billion for the first quarter of 2013, which reflects the benefit for federal income taxes of $50.6 billion that resulted from the release of our deferred tax assets valuation allowance, we ended the quarter with a positive net worth of $62.4 billion as of March 31, 2013. We will pay $59.4 billion of that net worth as a dividend to Treasury in the second quarter of 2013. We expect to remain profitable for the foreseeable future.
- Providing Liquidity and Support to the Mortgage Market. We continued to be a leading provider of liquidity to the mortgage market in the first quarter of 2013. As described below under "Contributions to the Housing and Mortgage Markets Since Entering Conservatorship—2013 Acquisitions and Market Share," we remained the largest single issuer of mortgage-related securities in the secondary market during the quarter and remained a constant source of liquidity in the multifamily market.
- Strong New Book of Business. Single-family loans we have acquired since the beginning of 2009 constituted 69% of our single-family guaranty book of business as of March 31, 2013, while the single-family loans we acquired prior to 2009 constituted 31% of our single-family book of business. We refer to the single-family loans we have acquired since the beginning of 2009 as our "new single-family book of business" and the single-family loans we acquired prior to 2009 as our "legacy book of business." As described below in "Strengthening Our Book of Business—Credit Risk Profile," we expect that our new single-family book of business will be profitable over its lifetime.
- Expected Increases in Guaranty Fee Revenue. Because we increased our guaranty fees in 2012 on loans acquired after the increase, we expect to benefit from receiving significantly more revenue from guaranty fees in future periods than we have in prior periods, even after we remit some of this revenue to Treasury as we are required to do under the Temporary Payroll Tax Cut Continuation Act of 2011 (the "TCCA"). We expect the rising guaranty fee revenue we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties will in a number of years become the primary source of our revenues. This will particularly be the case as we reduce the size of our retained mortgage portfolio to comply with the terms of the senior preferred stock purchase agreement. Our "retained mortgage portfolio" refers to the mortgage-related assets we hold excluding those that are held by consolidated MBS trusts owned by third parties. If current housing market conditions continue and if we are not required to sell more of

our retained mortgage portfolio assets than we currently anticipate selling, we expect increases in revenue from guaranty fees will generally offset expected declines in the revenues we generate from the

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difference between the interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt funding of those assets. We discuss expected changes in our guaranty fee revenue in "Strengthening Our Book of Business—Guaranty Fees on Recently Acquired Single-Family Loans," and in "Outlook—Future Revenues and Profitability."

- Credit Performance. Our single-family serious delinquency rate has declined from its peak of 5.59% as of February 28, 2010, and was 3.02% as of March 31, 2013, compared with 3.29% as of December 31, 2012. See "Credit Performance" below for additional information about the credit performance of the mortgage loans in our single-family guaranty book of business.
- Reducing Credit Losses and Helping Homeowners. We continued to execute on our strategies for reducing credit losses on our legacy book of business, which are addressed in "Business—Executive Summary—Reducing Credit Losses on Our Legacy Book of Business" in our 2012 Form 10– K As part of our strategy to reduce defaults, we provided more than 63,000 loan workouts in the first quarter of 2013 to help homeowners stay in their homes or otherwise avoid foreclosure.
- Helping to Build a New Housing Finance System. We continued our efforts to help build a new housing finance system, including pursuing the strategic goals identified by our conservator: build a new infrastructure for the secondary mortgage market; gradually contract our dominant presence in the marketplace while simplifying and shrinking our operations; and maintain foreclosure prevention activities and credit availability for new and refinanced mortgages. We discuss these goals in our 2012 Form 10-K in "Business—Executive Summary—Helping to Build a New Housing Finance System." In March 2013, the Acting Director of FHFA released 2013 corporate performance goals and related targets for Fannie Mae and Freddie Mac, referred to as the 2013 conservatorship scorecard, that build upon these strategic goals. See our Current Report on Form 8-K filed with the SEC on March 8, 2013 for a description of the 2013 conservatorship scorecard.

Summary of Our Financial Performance

We recognized comprehensive income of $59.3 billion in the first quarter of 2013, consisting of net income of $58.7 billion and other comprehensive income of $654 million. In comparison, we recognized comprehensive income of $3.1 billion in the first quarter of 2012, consisting of net income of $2.7 billion and other comprehensive income of $362 million.

Our net income in the first quarter of 2013 was driven primarily by the release of the substantial majority of our valuation allowance against our deferred tax assets, which resulted in a benefit for federal income taxes of $50.6 billion in our condensed consolidated statements of operations and comprehensive income. We discuss the factors that led to our conclusion to release the valuation allowance against our deferred tax assets in "Critical Accounting Policies and Estimates—Deferred Tax Assets" and "Note 10, Income Taxes."

Our pre-tax income, which excludes the benefit for federal income taxes, was $8.1 billion in the first quarter of 2013 compared with $2.7 billion in the first quarter of 2012. The increase in our pre-tax income for the first quarter of 2013 compared with the first quarter of 2012 was primarily due to the recognition of credit-related income of $1.2 billion in the first quarter of 2013 compared with credit-related expenses of $2.3 billion in the first quarter of 2012. This result was primarily driven by an increase in home prices, including higher average sales prices on our real estate owned ("REO") properties as the ratio of net proceeds to unpaid principal balance improved to 65% for the first quarter of 2013 compared with 56% for the first quarter of 2012. The improvement in our credit results was also due to a decline in the number of delinquent loans in our single family guaranty book of business. The number of seriously delinquent loans decreased 19% and the number of "early stage" delinquent loans (loans that are 30 to 89 days past due) decreased 7% compared with the first quarter of 2012.

In addition, net interest income increased $1.1 billion in the first quarter of 2013 compared with the first quarter of 2012. The increase in net interest income was driven, in large part, by a reduction in the amount of interest income not recognized for nonaccrual mortgage loans, which resulted from a 19% decline in the number of seriously delinquent loans and our resolution agreement with Bank of America in the first quarter of 2013. The resolution agreement resulted in the recognition of $518 million of unamortized cost basis adjustments on loans repurchased by Bank of America. See "Note 20, Subsequent Events" in our 2012 Form 10-K for additional information on this agreement.

We recognized other comprehensive income of $654 million in the first quarter of 2013 compared with other comprehensive income of $362 million in the first quarter of 2012. The other comprehensive income recognized in the first quarter of 2013 and 2012 was driven by a decrease in unrealized losses on non-agency available-for-sale securities primarily due to narrowing of credit spreads.

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

Net Worth

Our net worth increased to $62.4 billion as of March 31, 2013 from $7.2 billion as of December 31, 2012, primarily due to our comprehensive income of $59.3 billion, partially offset by our payment to Treasury of a $4.2 billion senior preferred stock dividend during the first quarter of 2013.

As a result of our positive net worth as of March 31, 2013, we are not requesting a draw from Treasury under the senior preferred stock purchase agreement. The aggregate liquidation preference on the senior preferred stock remains at $117.1 billion. Our dividend payment for the second quarter of 2013 will be $59.4 billion, which is calculated based on our net worth of $62.4 billion as of March 31, 2013 less the applicable capital reserve amount of $3.0 billion. As of June 30, 2013, we will have paid $95.0 billion in dividends to Treasury.

Table 1 below displays our Treasury draws and senior preferred stock dividend payments to Treasury since entering conservatorship on September 6, 2008.

Table 1: Treasury Draws and Senior Preferred Stock Dividend Payments

	2008	2009	2010	2011	2012	2013 (first quarter)	Cumulative Total
	(Dollars in billions)						
Treasury draws[1][2]	$(15.2)	$(60.0)	$(15.0)	$(25.9)	$—	$—	$(116.1)
Senior preferred stock dividends[3]	—	2.5	7.7	9.6	11.6	4.2	35.6

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(1) Represents the total draws received from Treasury based on our quarterly net worth deficits for the periods presented. Draw requests are funded in the quarter following each quarterly net worth deficit.

(2) Treasury draws do not include the initial $1.0 billion liquidation preference of the senior preferred stock, for which we did not receive any cash proceeds.

(3) Represents total quarterly cash dividends paid to Treasury during the periods presented.

The funding we have received under the senior preferred stock purchase agreement with Treasury provided us with the capital and liquidity needed to maintain our ability to fulfill our mission of providing liquidity and support to the nation's housing finance markets and to avoid a trigger of mandatory receivership under the Federal Housing Finance Regulatory Reform Act of 2008 (the "2008 Reform Act"). We have not received funds from Treasury since the first quarter of 2012. Through March 31, 2013, we have requested cumulative draws totaling $116.1 billion. Under the senior preferred stock purchase agreement, dividend payments cannot be used to offset prior Treasury draws. Accordingly, while we have paid Treasury $35.6 billion in dividends, Treasury still maintains a liquidation preference of $117.1 billion on the senior preferred stock.

Total Loss Reserves

Our total loss reserves consist of (1) our allowance for loan losses, (2) our allowance for accrued interest receivable, (3) our allowance for preforeclosure property taxes and insurance receivables, and (4) our reserve for guaranty losses. Our total loss reserves, which reflect our estimate of the probable losses we have incurred in our guaranty book of business, including concessions we granted borrowers upon modification of their loans, decreased to $60.2 billion as of March 31, 2013 from $62.6 billion as of December 31, 2012. Our total loss reserve coverage to total nonperforming loans was 25% as of March 31, 2013 and December 31, 2012.

Strengthening Our Book of Business

Credit Risk Profile

While making it possible for families to purchase, refinance or rent a home, we are setting responsible credit standards to protect homeowners as well as taxpayers. Since 2009, we have seen the effect of actions we took, beginning in 2008, to significantly strengthen our underwriting and eligibility standards and change our pricing to promote sustainable homeownership and stability in the housing market. While we do not yet know how the single-family loans we have acquired since January 1, 2009 will ultimately perform, given their strong credit risk profile and based on their performance so far, we expect that in the aggregate these loans, which constitute a growing majority of our single-family guaranty book of business, will be profitable over their lifetime, by which we mean that we expect our fee income on these loans to exceed our credit losses and administrative costs for them. In contrast, we expect that the single-family loans we acquired from 2005 through 2008, in the aggregate, will not be profitable over their lifetime.

Our expectations regarding the ultimate performance of our loans are based on numerous expectations and assumptions, including those relating to expected changes in home prices, borrower behavior, public policy and other macroeconomic factors. If future conditions are more unfavorable than our expectations, our new single-family book of business could become unprofitable. See "Outlook—Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations" and "Risk Factors" for a discussion of factors that could cause our expectations regarding the performance of the loans in our new single-family book of business to change.

Table 2 below displays information regarding the credit characteristics of the loans in our single-family conventional guaranty book of business as of March 31, 2013 by acquisition period, which illustrates the improvement in the credit risk profile of loans we acquired beginning in 2009 compared with loans we acquired in 2005 through 2008.

Table 2: Selected Credit Characteristics of Single-Family Conventional Loans Held, by Acquisition Period

	As of March 31, 2013			
	% of Single-Family Conventional Guaranty Book of Business[1]	Current Estimated Mark-to-Market LTV Ratio	Current Mark-to-Market LTV Ratio >100%[2]	Serious Delinquency Rate[3]
New Single-Family Book of Business	69 %	70 %	6 %	0.35 %
Legacy Book of Business:				
2005-2008	20	96	40	9.77
2004 and prior	11	56	6	3.57
Total Single-Family Book of Business	100 %	74 %	13 %	3.02 %

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(1) Calculated based on the aggregate unpaid principal balance of single-family loans for each category divided by the aggregate unpaid principal balance of loans in our single-family conventional guaranty book of business as of March 31, 2013.

(2) The majority of loans in our new single-family book of business as of March 31, 2013 with mark-to-market LTV ratios over 100% were loans acquired under the Home Affordable Refinance Program. See "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—HARP and Refi Plus Loans" for more information on our recent acquisitions of loans with high LTV ratios.

(3) The serious delinquency rates for loans acquired in more recent years will be higher after the loans have aged, but we do not expect them to approach the levels of the March 31, 2013 serious delinquency rates of loans in our legacy book of business.

Whether the loans we acquire in the future will exhibit an overall credit profile and performance similar to our more recent acquisitions will depend on a number of factors, including our future pricing and eligibility standards and those of mortgage insurers and the Federal Housing Administration ("FHA"), the percentage of loan originations representing refinancings, our future objectives, government policy, market and competitive conditions, and the volume and characteristics of loans we acquire under the Home Affordable Refinance Program ("HARP").

More detailed information on the risk characteristics of loans in our single-family book of business appears in "Table 31: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business." Information about the impact of HARP on the credit characteristics our new single-family book of business appears in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—HARP and Refi Plus Loans" and in "Table 32: Selected Credit Characteristics of Single-Family Conventional Loans Acquired under HARP and Refi Plus" in that section.

Guaranty Fees on Recently Acquired Single-Family Loans

Table 3 below displays information regarding our average charged guaranty fee on single-family loans we acquired in the first quarter of 2013 and 2012, as well as the volume of our single-family Fannie Mae MBS issuances, which is indicative of the volume of single-family loans we acquired.

Table 3: Single-Family Acquisitions Statistics

	For the Three Months Ended March 31,	
	2013	2012
Single-family average charged guaranty fee on new acquisitions (in basis points)(1)(2)	54.4	28.9
Single-family Fannie Mae MBS issuances (in millions)(3)	$221,865	$196,755

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(1) Pursuant to the TCCA, effective April 1, 2012, we increased the guaranty fee on all single-family residential mortgages delivered to us on or after that date for securitization by 10 basis points; the incremental revenue is remitted to Treasury. In our single-family business results, the resulting revenue is included in guaranty fee income, and the expense is included in other expenses. This increase in guaranty fee is included in the single-family charged guaranty fee.

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

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

The revenue we receive from guaranty fees depends on the volume of our single-family acquisitions, the charged guaranty fee at acquisition and the life of the loans. Because we increased our guaranty fees in 2012 on loans acquired after the increase, we expect to benefit from receiving significantly more revenue from guaranty fees in future periods than we have in prior periods, even after we remit some of this revenue to Treasury as we are required to do under the TCCA. The increase in our average charged guaranty fee on newly acquired single-family loans from the first quarter of 2012 to the first quarter of 2013 was primarily attributable to the 10 basis point increase on April 1, 2012 mandated by the TCCA, from which the incremental revenue is remitted to Treasury, and an average additional increase of 10 basis points implemented during the fourth quarter of 2012. These changes to guaranty fee pricing may help to encourage greater investment by banks and other investors in mortgage loans and mortgage-related securities, which is one of the goals set forth in FHFA's strategic plan for Fannie Mae's and Freddie Mac's conservatorships. See "Business—Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue" in our 2012 Form 10 K for more information on changes to our guaranty fee pricing.

Credit Performance

Table 4 presents information for each of the last five quarters about the credit performance of mortgage loans in our single-family guaranty book of business and our workouts. The term "workouts" refers to home retention solutions and foreclosure alternatives. The workout information in Table 4 does not reflect repayment plans and forbearances that have been initiated but not completed, nor does it reflect trial modifications that have not become permanent.

Table 4: Credit Statistics, Single-Family Guaranty Book of Business(1)

	2013 Q1	2012 Full Year	Q4	Q3	Q2	Q1
	(Dollars in millions)					
As of the end of each period:						
Serious delinquency rate(2)	3.02 %	3.29 %	3.29 %	3.41 %	3.53 %	3.67 %
Seriously delinquent loan count	527,529	576,591	576,591	599,430	622,052	650,918
Nonperforming loans(3)	$236,988	$247,823	$247,823	$250,678	$240,472	$243,981
Foreclosed property inventory:						
Number of properties(4)	101,449	105,666	105,666	107,225	109,266	114,157
Carrying value	$9,263	$9,505	$9,505	$9,302	$9,421	$9,721
Combined loss reserves(5)	$56,626	$58,809	$58,809	$63,100	$63,365	$69,633
Total loss reserves(6)	$59,114	$61,396	$61,396	$65,685	$66,694	$73,119
During the period:						
Foreclosed property (number of properties):						
Acquisitions(4)	38,717	174,479	41,112	41,884	43,783	47,700
Dispositions	(42,934)	(187,341)	(42,671)	(43,925)	(48,674)	(52,071)
Credit-related income (expenses)(7)	$1,034	$919	$2,419	$(2,130)	$3,015	$(2,385)
Credit losses(8)	$1,503	$14,392	$2,174	$3,485	$3,778	$4,955
REO net sales prices to unpaid principal balance(9)	65 %	59 %	62 %	61 %	59 %	56 %
Short sales net sales price to unpaid principal balance(10)	64 %	61 %	63 %	61 %	60 %	58 %
Loan workout activity (number of loans):						
Home retention loan workouts(11)	47,635	186,741	44,044	45,936	41,226	55,535
Short sales and deeds-in-lieu of foreclosure	16,126	88,732	19,184	23,322	24,013	22,213
Total loan workouts	63,761	275,473	63,228	69,258	65,239	77,748
Loan workouts as a percentage of delinquent loans in our guaranty book of business(12)	27.53 %	26.38 %	24.22 %	25.18 %	24.14 %	28.85 %

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

(2) Calculated based on the number of single-family conventional loans that are 90 days or more past due and loans that have been referred to foreclosure but not yet foreclosed upon, divided by the number of loans in our single-family conventional guaranty book of business. We include all of the single-family conventional loans that we own and those that back Fannie Mae MBS in the calculation of the single-family serious delinquency rate.

(3) Represents the total amount of nonperforming loans, including troubled debt restructurings ("TDR"). A TDR is a restructuring of a mortgage loan in which a concession is granted to a borrower experiencing financial difficulty. We generally classify loans as nonperforming when the payment of principal or interest on the loan is 60 days or more past due.

(4)

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

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

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

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

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

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

(10) Calculated as the amount of sale proceeds received on properties sold in short sale transactions during the respective period divided by the aggregate UPB 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.

(11) Consists of (a) modifications, which do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as TDRs, or repayment and forbearance plans that have been initiated but not completed and (b) repayment plans and forbearances completed. See "Table 36: Statistics on Single-Family Loan Workouts" in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Problem Loan Management—Loan Workout Metrics" for additional information on our various types of loan workouts.

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

We discuss our strategies and the actions we are taking to minimize our credit losses in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" in both this report and our 2012 Form 10-K.

Contributions to the Housing and Mortgage Markets Since Entering Conservatorship

Liquidity and Support Activities

We have provided approximately $3.5 trillion in liquidity to the housing market since 2009, enabling families to buy, refinance or rent a home. Since we entered into conservatorship in September 2008, we have provided critical liquidity and support to the U.S. mortgage market in a number of important ways:

- We serve as a stable source of liquidity for purchases of homes and financing of multifamily rental housing, as well as for refinancing existing mortgages. The approximately $3.5 trillion in liquidity we have provided to the mortgage market from 2009 through the first quarter of 2013 through our purchases and guarantees of loans enabled borrowers to complete 10.6 million mortgage refinancings and 2.9 million home purchases and provided financing for 1.8 million units of multifamily housing.
- We strengthened our underwriting and eligibility standards to support sustainable homeownership. As a result, our new single-family book of business has a strong credit risk profile. Our support enables borrowers to have access to a variety of mortgage products, including long-term, fixed-rate mortgages, such as the prepayable 30-year fixed-rate mortgage, which protects homeowners from interest rate swings.
- Through our loan workout efforts from 2009 through the first quarter of 2013, which included providing 921,986 loan modifications, we helped 1.3 million homeowners stay in their homes or otherwise avoid foreclosure. These efforts helped to support neighborhoods, home prices and the housing market.
- We helped borrowers refinance loans, including through our Refi Plus™ initiative, which offers refinancing flexibility to eligible Fannie Mae borrowers and includes HARP. From April 1, 2009, the date we began accepting delivery of Refi Plus loans, through March 31, 2013, we acquired approximately 3.2 million Refi Plus loans. Refinancings delivered to us through Refi Plus in the first quarter of 2013 reduced borrowers' monthly mortgage payments by an average of $246. Some borrowers' monthly payments increased as they took advantage of the ability to refinance through Refi Plus to reduce the term of their loan, to switch from an adjustable-rate mortgage to a fixed-rate mortgage or to switch from an interest-only mortgage to a fully amortizing mortgage.
- We support affordability in the multifamily rental market. Over 85% of the multifamily units we financed from 2009 through 2012 were affordable to families earning at or below the median income in their area.
- In addition to purchasing and guaranteeing loans, we provide funds to the mortgage market through short-term financing and other activities. These activities are described in more detail in our 2012 Form 10 K in "Business—Business Segments—Capital Markets."

2013 Acquisitions and Market Share

As the leading provider of residential mortgage credit, we enable families to buy, refinance or rent a home. In the first quarter of 2013, we purchased or guaranteed approximately $240 billion in single-family and multifamily loans, measured by unpaid principal balance, which includes $9.3 billion in delinquent loans we purchased from our single-family MBS trusts. Our activities enabled our lender customers to finance approximately 1.0 million single-family conventional loans and loans for approximately 143,000 units in multifamily properties during the first quarter of 2013.

One of FHFA's strategic goals for our conservatorship involves gradually contracting our dominant presence in the marketplace. Despite this goal, our market share remained large in the first quarter of 2013 as we have continued to meet the needs of the single-family mortgage market in the absence of substantial private capital. We remained the largest single issuer of mortgage-related securities in the secondary market during the first quarter of 2013, with an estimated market share of new single-family mortgage-related securities issuances of 48% in the first quarter of 2013 and the fourth quarter of 2012, compared with 51% in the first quarter of 2012.

We remain a constant source of liquidity in the multifamily market. We owned or guaranteed approximately 22% of the outstanding debt on multifamily properties as of December 31, 2012 (the latest date for which information is available).

Housing and Mortgage Market and Economic Conditions

Economic growth accelerated in the first quarter of 2013 compared with the fourth quarter of 2012. The inflation-adjusted U.S. gross domestic product, or GDP, rose by 2.5% on an annualized basis in the first quarter of 2013, according to the Bureau of Economic Analysis advance estimate, compared with an increase of 0.4% in the fourth quarter of 2012. While signs of a slowdown were clearly visible late in the first quarter of 2013, partly due to the impact of sequestration, we expect the slowdown to be temporary and are forecasting that growth will pick up modestly in the second half of 2013. The U.S. government may reach the limit on its borrowing authority later this year, but we do not yet know what the impact or timing of this will be, although the limit is not expected to be reached before the fall of 2013. The overall economy gained an estimated 618,000 jobs in the first quarter. According to the U.S. Bureau of Labor Statistics over the last 12 months ending in March 2013, the economy created 2.1 million non-farm jobs. The unemployment rate was 7.6% in March 2013, compared with 7.8% in December 2012. We expect that housing will continue to recover if the employment market continues to improve.

Housing activity showed improvement during the first quarter of 2013. Total existing home sales averaged 4.9 million units annualized in the first quarter of 2013, a 0.8% increase from the fourth quarter of 2012, according to data from the National Association of REALTORS®. Sales of foreclosed homes and preforeclosure, or "short," sales (together, "distressed sales") accounted for 21% of existing home sales in March 2013, compared with 24% in December 2012 and 29% in March 2012. New single-family home sales strengthened during the first quarter of 2013, averaging an annualized rate of 424,000 units, an 11% increase from the fourth quarter of 2012, according to the Bureau of the Census.

During first quarter of 2013, the number of months' supply, or the inventory/sales ratio, of available existing homes and of new homes each remained below its historical average, with existing homes declining to 4.5 months and new homes declining to 4.3 months, marking the lowest quarterly reading for each measure since the second quarter of 2005.

The overall mortgage market serious delinquency rate, which has trended down since peaking in the fourth quarter of 2009, remained historically high at 6.8% as of December 31, 2012, according to the Mortgage Bankers Association National Delinquency Survey. We provide information about Fannie Mae's serious delinquency rate, which also decreased, in "Credit Performance."

We estimate that home prices on a national basis declined by an estimated 19.3% from their peak in the third quarter of 2006 to the first quarter of 2013, based on our home price index, but increased by an estimated 5.9% from the first quarter of 2012 to the first quarter of 2013. Our home price estimates are based on preliminary data and are subject to change as additional data become available. The decline in home prices that began in 2006 left many homeowners with "negative equity" in their homes, which means their principal mortgage balance exceeds the current market value of their home. This increases the likelihood that borrowers will abandon their mortgage obligations and that the loans will become delinquent and proceed to foreclosure. According to CoreLogic, Inc. the number of residential properties with mortgages in a negative equity position in the fourth quarter of 2012 was approximately 10.4 million, down from 12.1 million in the fourth quarter of 2011. The percentage of properties with mortgages in a negative equity position in the fourth quarter of 2012 was 21.5%, down from 25.2% in the fourth quarter of 2011 and its peak of 25.7% reached in the fourth quarter of 2009.

During the first quarter of 2013, the national multifamily sector continued to benefit from rental demand despite a slowdown during the latter part of 2012. Underlying fundamentals, which include factors such as vacancy rates and

rents, remain stable and the estimated vacancy rate is at a historically low level. Preliminary third-party data for the first quarter of 2013 indicate that the national multifamily vacancy rate for institutional investment-type apartment properties decreased to an estimated 5.25% as of March 31, 2013, compared with an estimated 5.50% as of December 31, 2012 and an estimated 6.0% as of March 31, 2012.
In addition, preliminary third-party data indicate that asking rents increased in the first quarter of 2013 by an estimated 0.5% on a national basis. Ongoing multifamily rental demand is also reflected in an estimated positive net absorption (that is, the

net change in the number of occupied rental units after deducting new supply added during the period) of approximately 36,000 units during the first quarter, according to preliminary data from Reis, Inc.

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 continued improvement in these fundamentals have helped boost property values; as a result, there has been an increase in new multifamily construction development in a number of metropolitan areas.

Over 180,000 new multifamily units are expected to be completed and become available this year, according to Axiometrics, Inc. Most of this new construction is concentrated in certain metropolitan areas, which could result in localized, short-term oversupply. In addition, if the employment market does not continue to improve, future rent growth is likely to slow and vacancy rates are likely to increase. Multifamily properties located in areas affected by federal government sequestration cuts may be particularly impacted by adverse conditions in the employment market.

Outlook

Financial Results and Dividend Payments to Treasury. We experienced significant improvement in our financial results for the first quarter of 2013, as compared with the first quarter of 2012. After paying Treasury a $4.2 billion quarterly dividend during the first quarter of 2013, we ended the quarter with a positive net worth of $62.4 billion as of March 31, 2013. Our pre-tax income for the first quarter of 2013, which does not reflect the deferred tax valuation allowance release, was $8.1 billion. While our earnings will vary from quarter to quarter, we expect to remain profitable for the foreseeable future. Because loans remain in our book of business for a number of years, the credit quality of and guaranty fees we charge on the loans we acquire in a particular year affects our results for a period of years after we acquire them. Accordingly, we expect the improvements in the credit quality of our loan acquisitions since 2009 and the increases in our charged guaranty fees on recently acquired loans to benefit our results for years to come, especially because these loans have relatively low interest rates, making them less likely to be refinanced than loans with higher interest rates.

In compliance with our dividend obligation to Treasury, we will retain only a limited amount of any future earnings because we must pay Treasury each quarter the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount. This capital reserve amount is $3.0 billion for each quarter of 2013 and decreases annually until it reaches zero in 2018.

One of our objectives is to pay taxpayers for their investment in our company. Through March 31, 2013, we have received a total of $116.1 billion under the senior preferred stock purchase agreement. This funding has provided us with the capital and liquidity needed to fulfill our mission of providing liquidity and support to the nation's housing finance markets and to avoid a trigger of mandatory receivership under the 2008 Reform Act. We have not received funds from Treasury under the agreement since the first quarter of 2012. Under the terms of the senior preferred stock purchase agreement, dividend payments cannot be used to offset prior Treasury draws, and we are not permitted to pay down draws we have made under the agreement except in limited circumstances. Accordingly, Treasury still maintains a liquidation preference of $117.1 billion on the senior preferred stock, even though we have paid $35.6 billion in dividends through March 31, 2013 and, with our dividend payment of $59.4 billion in the second quarter of 2013, we will have paid $95.0 billion in dividends. Because we expect our annual earnings to remain strong over the next few years, we expect that the amount of dividends we pay Treasury will ultimately exceed the amounts we have drawn.

Overall Market Conditions. We expect that single-family mortgage loan delinquency and severity rates will continue their downward trend, but that single-family delinquency, default and severity rates will remain high compared with pre-housing crisis levels. Despite multifamily sector improvement at the national level, we expect certain local markets and properties will continue to exhibit weak fundamentals. We expect the level of multifamily foreclosures for 2013 overall will generally remain commensurate with 2012 levels. Conditions may worsen if the unemployment rate increases on either a national or regional basis.

We forecast that total originations in the U.S. single-family mortgage market in 2013 will decrease from 2012 levels by approximately 15% from an estimated $1.92 trillion to $1.63 trillion and that the amount of originations in the U.S. single-family mortgage market that are refinancings will decrease from an estimated $1.40 trillion in 2012 to $1.01 trillion in 2013. Our forecast of a decrease in refinancings is based in part on our expectation that mortgage rates will rise later this year. In the first quarter of 2013, refinancings comprised approximately 83% of our single-family business volume, compared with approximately 79% for all of 2012.

Home Prices. We estimate that home prices on a national basis declined by an estimated 19.3% from their peak in the third quarter of 2006 to the first quarter of 2013, based on our home price index, but increased by an estimated 5.9% from the first quarter of 2012 to the first quarter of 2013. The percentage of loans in our single-family conventional guaranty book of business with an unpaid principal balance greater than the current estimated value of the underlying home decreased to 13% as of March 31, 2013 from 19% as of March 31, 2012. Although home price growth may not continue at 2012 levels, we expect that, if current market trends continue, home prices will increase on a national basis overall in 2013. Future home price changes may be very different from our expectations as a result of significant inherent uncertainty in the current market environment, including uncertainty about the effect of actions the federal government has taken and may take with respect to tax policies, spending cuts, mortgage finance programs and policies and housing finance reform; the management of the Federal Reserve's MBS holdings; the impact of those actions on and changes generally in unemployment and the general economic and interest rate environment; and the impact on the U.S. economy of global economic conditions. Because of these uncertainties, the actual home price changes we experience may differ significantly from our expectations. We also expect significant regional variation in the timing and rate of home price growth.

Credit Losses. Our credit losses, which include our charge-offs, net of recoveries, reflect our realization of losses on our loans. We realize losses on loans, through our charge-offs, when foreclosure sales are completed or when we accept short sales or deeds-in-lieu of foreclosure. We expect our credit losses to remain elevated in 2013 relative to pre-housing crisis levels. In addition, to the extent the slow pace of foreclosures continues in 2013, our realization of some credit losses will be delayed.

Loss Reserves. Our total loss reserves were $60.2 billion as of March 31, 2013, down from their peak of $76.9 billion as of December 31, 2011. We expect our loss reserves will remain significantly elevated relative to historical levels for an extended period because (1) we expect future defaults on loans that we acquired prior to 2009 and the resulting charge-offs will occur over a period of years and (2) a significant portion of our reserves represents concessions granted to borrowers upon modification of their loans and our reserves will continue to reflect these concessions until the loans are fully repaid or default.

Future Revenues and Profitability. Historically, we have generated the majority of our net revenues from the difference between the interest income earned on the assets in our retained mortgage portfolio and the interest expense associated with the debt funding of those assets. As we discuss in our 2012 Form 10 K in "Conservatorship and Treasury Agreements—Treasury Agreements—Covenants under Treasury Agreements," we are required to reduce the size of our retained mortgage portfolio each year until we hold no more than $250 billion in mortgage assets by the end of 2018. As we reduce the size of our retained mortgage portfolio, our revenues generated by our retained mortgage portfolio assets will also decrease. If current housing market conditions continue and if we are not required to sell more of our retained mortgage portfolio assets than we currently anticipate selling, we expect that these declines in our revenues will generally be offset by rising guaranty fee revenue received for managing the credit risk on loans underlying Fannie Mae MBS held by third parties. We recognize almost all of our guaranty fee revenue in net interest income in our condensed consolidated statements of operations and comprehensive income. We expect that, in a number of years, guaranty fees will become the primary source of our revenues as a result of both the shrinking of our retained mortgage portfolio and the impact of guaranty fee increases in 2011 and 2012. Any future increases in guaranty fees will likely further increase our guaranty fee revenue. The amount of our guaranty fee revenue in future periods will be impacted by many factors, including adjustments to guaranty fee pricing we may make in the future, which we discuss in our 2012 Form 10 K in "Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue."

In addition to our expectation that our guaranty fee revenue will increase in future periods, we also expect our credit losses will decrease as a result of the higher credit quality of our new book of business, the decrease in our legacy book and anticipated positive home price growth, which reduces the level of defaults we expect on our new book of business and our legacy book and lowers severity at the time of charge-off.

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

In 2011, Treasury and the Department of Housing and Urban Development ("HUD") released a report to Congress on reforming America's housing finance market. The report states that the Administration will work with FHFA to determine the best way to responsibly wind down both Fannie Mae and Freddie Mac. We cannot predict the prospects for the enactment, timing or content of legislative proposals regarding long-term reform of the GSEs. See "Legislative and Regulatory Developments" in this report and "Business—Legislative and Regulatory Developments" in our 2012 Form 10 K for discussions of recent legislative reform of the financial services industry and proposals for GSE reform that could affect our business. See "Risk Factors" in our 2012 Form 10 K for a discussion of the risks to our business relating to the uncertain future of our company.

Factors that Could Cause Actual Results to be Materially Different from Our Estimates and Expectations. We present a number of estimates and expectations in this executive summary, including estimates and expectations regarding our future financial results and profitability, our future dividend payments to Treasury, our future revenues from guaranty fees, the profitability and performance of single-family loans we have acquired, our future acquisitions, our future REO inventory, our future delinquency, default and severity rates, our future credit losses and loss reserves, future housing market conditions, performance and volumes and future home prices. These estimates and expectations are forward-looking statements based on our current assumptions regarding numerous factors, especially future home prices and the future performance of our loans. Our future estimates of our performance, as well as the actual amounts, may differ materially from our current estimates and expectations as a result of: the timing and level of, as well as regional variation in, home price changes; changes in interest rates, unemployment rates and other macroeconomic and housing market variables; our future guaranty fee pricing; our future serious delinquency rates; future legislative or regulatory requirements that have a significant impact on our business, such as a requirement that we implement a principal forgiveness program; future updates to our models relating to our loss reserves, including the assumptions used by these models; future changes to accounting policies relating to our loss reserves; significant changes in modification and foreclosure activity; changes in borrower behavior, such as an increasing number of underwater borrowers who strategically default on their mortgage loan; the effectiveness of our loss mitigation strategies, management of our REO inventory and pursuit of contractual remedies; whether our counterparties meet their obligations in full; changes in the fair value of our assets and liabilities; impairments of our assets; changes in generally accepted accounting principles ("GAAP"); credit availability; natural and other disasters; and other factors, including those discussed in "Forward-Looking Statements," "Risk Factors" and elsewhere in this report. Due to the large size of our guaranty book of business, even small changes in these factors could have a significant impact on our financial results for a particular period.

LEGISLATIVE AND REGULATORY DEVELOPMENTS

The information in this section updates and supplements information regarding legislative and regulatory developments set forth in "Business—Legislative and Regulatory Developments" and "Business—Our Charter and Regulation of Our Activities" in our 2012 Form 10-K. Also see "Risk Factors" in our 2012 Form 10-K for a discussion of risks relating to legislative and regulatory matters.

GSE Reform

Policymakers and others have focused significant attention in recent years on how to reform the nation's housing finance system, including what role, if any, the GSEs should play. The Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), which was signed into law in July 2010, calls for enactment of meaningful structural reforms of Fannie Mae and Freddie Mac. The Dodd-Frank Act also required the Treasury Secretary to submit a report to Congress with recommendations for ending the conservatorships of Fannie Mae and Freddie Mac. The Administration's February 2011 report on the future of housing finance reform identifies a number of policy steps that could be used to wind down Fannie Mae and Freddie Mac, reduce the government's role in housing finance and help bring private capital back to the mortgage market. These steps include (1) increasing guaranty fees, (2) gradually increasing the level of required down payments so that any mortgages insured by Fannie Mae or Freddie Mac eventually have at least a 10% down payment, (3) reducing conforming loan limits to those established in the 2008 Reform Act, (4) encouraging Fannie Mae and Freddie Mac to pursue additional credit loss protection and (5) reducing Fannie Mae's and Freddie Mac's retained mortgage portfolios, consistent with Treasury's senior preferred stock purchase agreements with the companies. In addition, the report outlines three potential options for a new long-term structure for the housing finance system following the wind-down of Fannie Mae and Freddie Mac. The first option would privatize housing finance almost entirely. The second option would add a government guaranty mechanism that could scale up during times of crisis. The third option would involve the government offering catastrophic reinsurance behind private mortgage guarantors.

In 2012, the Acting Director of FHFA provided a strategic plan for Fannie Mae and Freddie Mac's conservatorships. On March 4, 2013, the Acting Director of FHFA released the 2013 Conservatorship Scorecard for Fannie Mae and Freddie Mac, which details specific priorities that build upon the goals in the strategic plan. At that time, FHFA announced that, to further the goal of building a common securitization platform that would be able to function like a market utility, a new business entity will be established by Fannie Mae and Freddie Mac that will be separate from the two companies. The new business entity will be designed to operate as a replacement for some of Fannie Mae and Freddie Mac's legacy infrastructure. The scorecard also established priorities relating to the goal that we contract our dominant presence in the marketplace. In support of this goal, FHFA set as goals that we (1) demonstrate the viability of multiple types of risk transfer transactions involving single-family mortgages with at least $30 billion of unpaid principal balances in 2013, (2) reduce the unpaid principal balance of new multifamily business relative to 2012 by at least 10% by tightening underwriting, adjusting pricing and limiting product offerings, while not increasing the proportion of our retained risk and (3) sell 5% of the assets we held in our retained mortgage portfolio as of December 31, 2012 that are not agency securities.

During the last congressional session, several bills were introduced in the House of Representatives and the Senate to reform the housing finance system. These bills would have placed the GSEs into receivership after a period of time and either granted federal charters to new entities to engage in activities similar to those currently engaged in by the GSEs or left secondary mortgage market activities to entities in the private sector.

In addition, numerous bills were referred to the Committee on Financial Services of the House of Representatives on discrete topics related to the activities and operations of the enterprises. Of these bills, only legislation that would have placed GSE employees on a government pay scale was approved by the full Committee.

Congress passed two bills that were signed into law relating to GSE operations or activities. These bills increased the guaranty fees of the GSEs in order to offset the cost of a two month extension of the payroll tax cut in 2012 and prohibited the payment of bonuses to senior executives at the GSEs during conservatorship. In addition, the House, but not the Senate, passed legislation that would have placed GSE obligations on the federal budget and made them subject to the debt ceiling, as well as required receipts and disbursements of the GSEs to be counted in the federal budget. For legislation to be considered in the congressional session that convened in January 2013 and runs through 2014, any previously introduced legislation must be reintroduced and begin the legislative process again.

During the current congressional session, the Senate passed an amendment to its budget resolution that would make it more difficult for Congress to require an increase in our guaranty fees to offset government spending. In addition, legislation has been introduced in the Senate (the “Jumpstart GSE Reform Act”), but not yet acted upon, that would prohibit an increase in guaranty fees to offset spending unrelated to the business operations at the GSEs. That legislation would also prohibit Treasury from disposing of its senior preferred stock of the GSEs until legislation has been enacted that includes specific instruction for its disposition.

We expect Congress to continue consideration of housing finance reform in the current congressional session, including hearings on GSE reform and the consideration of legislation that may alter the housing finance reform system or the activities or operations of the GSEs.

In sum, there continues to be uncertainty regarding the future of our company, including how long the company will continue to exist in its current form, the extent of our role in the market, what form we will have and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated. See “Risk Factors” in our 2012 Form 10-K for discussions of the risks to our business relating to the uncertain future of our company and of how the uncertain future of our company may adversely affect our ability to retain and recruit well-qualified employees, including senior management.

Dodd-Frank Act—Ability to Repay

The Dodd-Frank Act requires creditors to determine that borrowers have a “reasonable ability to repay” mortgage loans prior to making such loans. On January 10, 2013, the Consumer Financial Protection Bureau (the “CFPB”) issued a final rule pursuant to the Dodd-Frank Act that, among others things, requires creditors to determine a borrower’s “ability to repay” a mortgage loan under Regulation Z, which implements the Truth in Lending Act. If a creditor fails to comply, a borrower may be able to offset amounts owed in a foreclosure proceeding or recoup monetary damages. The rule offers several options for complying with the ability to repay requirement, including making loans that meet certain terms and characteristics (so-called “qualified mortgages”), which may provide creditors with special protection from liability. While Fannie Mae and Freddie Mac remain in conservatorship or, if earlier, until January 10, 2021, a loan will generally be a qualified mortgage under the rule if, among other things, (1) the points and fees paid in connection with the loan do not exceed 3% of the total loan amount, (2) the loan term does not exceed 30 years, (3) the loan is fully amortizing with no negative amortization, interest-only or balloon features and (4) the loan conforms to the standards set forth in Fannie Mae’s or Freddie Mac’s single-family selling guides or is determined to be eligible for purchase by Fannie Mae’s or Freddie Mac’s automated underwriting system. There are comparable provisions for loans insured or guaranteed by FHA, the VA or the Department of Agriculture. A loan that is not eligible for sale to a GSE pursuant to its selling guide or automated underwriting system can still be a qualified mortgage if it meets the other criteria listed above, the debt-to-income ratio on the loan does not exceed 43% using the maximum interest rate applicable in the first five years of the loan, taking into account all-mortgage related obligations, and the borrower’s income and assets are verified in accordance with the method prescribed in the rule. There is some uncertainty regarding the timing and final provisions of the rule as a result of legal challenges to the appointment of the CFPB's director.

In May 2013, FHFA directed Fannie Mae and Freddie Mac to limit our acquisition of single-family loans to loans that are qualified mortgages, or that are exempt from the ability-to-repay rule, such as loans made to investors. This prohibition will be effective for loans with application dates on or after the effective date of the ability-to-repay rule, which is scheduled for January 10, 2014. We are currently evaluating the potential impact of the rule and the uncertainty surrounding its adoption on our business.

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 2012 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 2012 Form 10-K for a discussion of the risks associated with the need for management to make judgments and estimates in applying our accounting policies and methods. We have identified four of our accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. These critical accounting policies and estimates are as follows:

- Fair Value Measurement
- Total Loss Reserves
- Other-Than-Temporary Impairment of Investment Securities
- Deferred Tax Assets

See “MD&A—Critical Accounting Policies and Estimates” in our 2012 Form 10-K for a detailed discussion of these critical accounting policies and estimates. We also describe any significant changes in the judgments and assumptions we made during the first three months of 2013 in applying our critical accounting policies and significant changes to critical estimates.

Deferred Tax Assets

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

Our framework for assessing the recoverability of deferred tax assets requires us to weigh all available evidence, including:

- the sustainability of recent profitability required to realize the deferred tax assets;
- whether or not there are cumulative net losses in our consolidated statements of operations in recent years;
- unsettled circumstances that, if unfavorably resolved, would adversely affect future operations and profit levels on a continuing basis in future years; and
- the carryforward periods for net operating losses and tax credits.

After weighing all of the evidence, we determined that the positive evidence in favor of releasing the valuation allowance, particularly the evidence that was objectively verifiable, outweighed the negative evidence against releasing the allowance as of March 31, 2013. Therefore, we concluded that it is more likely than not that our deferred tax assets, except the deferred tax assets relating to capital loss carryforwards, will be realized. As a result, we have released the valuation allowance on our deferred tax assets as of March 31, 2013, except for amounts that will be released against income before federal income taxes for the remainder of the year. However, we will retain $491 million of the valuation allowance that pertains to our capital loss carryforwards, which we believe will expire unused. The release of the valuation allowance resulted in the recognition of $50.6 billion as a benefit for federal income taxes in our condensed consolidated statements of operations and comprehensive income in the first quarter of 2013.

The positive evidence that weighed in favor of releasing the allowance as of March 31, 2013 and ultimately outweighed the negative evidence against releasing the allowance was the following:

- our profitability in 2012 and the first quarter of 2013 and our expectations regarding the sustainability of these profits;
- our three-year cumulative income position as of March 31, 2013;
- the strong credit profile of the loans we have acquired since 2009;
- the significant size of our guaranty book of business and our contractual rights for future revenue from this book of business;
- our taxable income for 2012 and our expectations regarding the likelihood of future taxable income; and
- that our net operating loss carryforwards will not expire until 2030 through 2031 and we expect to utilize all of these carryforwards within the next few years.

As discussed in our 2012 Form 10-K in "MD&A—Critical Accounting Policies and Estimates—Deferred Tax Assets," releasing all or a portion of the valuation allowance in any period after December 31, 2012 will not reduce the funding available to us under the senior preferred stock purchase agreement and therefore would not result in regulatory actions that would limit our business operations to ensure our safety and soundness. In addition, we transitioned from a three-year cumulative loss position over the three years ended December 31, 2012 to a three-year cumulative income position over the three years ended March 31, 2013. The change in these conditions during the first quarter of 2013 removed negative evidence that supported maintaining the valuation allowance against our net deferred tax assets as of December 31, 2012. The balance of our net deferred tax assets was $49.7 billion as of March 31, 2013 compared with a net deferred tax liability of $509 million as of December 31, 2012.

We expect that the remaining valuation allowance not related to capital loss carryforwards will be reduced against income before federal income taxes throughout the remaining quarters of 2013 until that amount is reduced to zero as of December 31, 2013. The timing of the reduction of this remaining valuation allowance will be determined by the timing of our estimated income recognition for 2013.

Income before federal income taxes recorded in the remainder of 2013 may be greater or less than our current estimate. If income before federal income taxes recorded for the remainder of 2013 is greater than our current estimate, we will recognize a provision for federal income taxes in subsequent periods of 2013. Conversely, if income before federal income taxes recorded for the remainder of 2013 is lower than our current estimate, we will recognize an additional benefit for income taxes in subsequent periods of 2013. Starting in 2014, we expect that our effective tax rate will approach the statutory tax rate.

CONSOLIDATED RESULTS OF OPERATIONS

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

Table 5 displays a summary of our condensed consolidated results of operations for the periods indicated.

Table 5: Summary of Condensed Consolidated Results of Operations

	For the Three Months Ended March 31,		
	2013	2012	Variance
	(Dollars in millions)		
Net interest income	$6,304	$5,197	$1,107
Fee and other income	568	375	193
Net revenues	6,872	5,572	1,300
Investment gains, net	118	116	2
Fair value gains, net	834	283	551
Administrative expenses	(641)	(564)	(77)
Credit-related income (expenses)			
Benefit (provision) for credit losses	957	(2,000)	2,957
Foreclosed property income (expense)	260	(339)	599
Total credit-related income (expenses)	1,217	(2,339)	3,556
Other non-interest expenses[1]	(286)	(350)	64
Income before federal income taxes	8,114	2,718	5,396
Benefit for federal income taxes	50,571	—	50,571
Net income	58,685	2,718	55,967
Less: Net loss attributable to noncontrolling interest	—	1	(1)
Net income attributable to Fannie Mae	$58,685	$2,719	$55,966
Total comprehensive income attributable to Fannie Mae	$59,339	$3,081	$56,258

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[1] Consists of net other-than-temporary impairments, debt extinguishment losses, net and other expenses.

Net Interest Income

Table 6 displays an analysis of our net interest income, average balances, and related yields earned on assets and incurred on liabilities for the periods indicated. For most components of the average balances, we use a daily weighted average of amortized cost. When daily average balance information is not available, such as for mortgage loans, we use monthly averages. Table 7 displays the change in our net interest income between periods and the extent to which that variance is attributable to: (1) changes in the volume of our interest-earning assets and interest-bearing liabilities or (2) changes in the interest rates of these assets and liabilities.

Table 6: Analysis of Net Interest Income and Yield

	For the Three Months Ended March 31,					
	2013			2012		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans of Fannie Mae	$345,077	$3,830	4.44 %	$378,344	$3,569	3.77 %
Mortgage loans of consolidated trusts	2,669,149	25,394	3.81	2,600,221	29,001	4.46
Total mortgage loans[1]	3,014,226	29,224	3.88	2,978,565	32,570	4.37
Mortgage-related securities	236,309	2,683	4.54	288,449	3,458	4.80
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(152,986)	(1,797)	4.70	(186,214)	(2,305)	4.95
Total mortgage-related securities, net	83,323	886	4.25	102,235	1,153	4.51
Non-mortgage securities[2]	42,879	13	0.12	68,936	23	0.13
Federal funds sold and securities purchased under agreements to resell or similar arrangements	69,804	27	0.15	37,485	13	0.14
Advances to lenders	6,085	30	1.97	5,050	25	1.96
Total interest-earning assets	$3,216,317	$30,180	3.75 %	$3,192,271	$33,784	4.23 %
Interest-bearing liabilities:						
Short-term debt[3]	$112,790	$42	0.15 %	$133,307	$41	0.12 %
Long-term debt	513,910	2,675	2.08	578,155	3,185	2.20
Total short-term and long-term funding debt	626,700	2,717	1.73	711,462	3,226	1.81
Debt securities of consolidated trusts	2,754,427	22,956	3.33	2,666,552	27,666	4.15
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(152,986)	(1,797)	4.70	(186,214)	(2,305)	4.95
Total debt securities of consolidated trusts held by third parties	2,601,441	21,159	3.25	2,480,338	25,361	4.09
Total interest-bearing liabilities	$3,228,141	$23,876	2.96 %	$3,191,800	$28,587	3.58 %
Net interest income/net interest yield		$6,304	0.78 %		$5,197	0.65 %
Net interest income/net interest yield of consolidated trusts[4]		2,438	0.37 %		1,335	0.21 %

	As of March 31,	
	2013	2012
Selected benchmark interest rates[5]		
3-month LIBOR	0.28 %	0.47 %
2-year swap rate	0.42	0.58
5-year swap rate	0.95	1.27
30-year Fannie Mae MBS par coupon rate	2.62	3.06

(1) Includes mortgage loans on nonaccrual status. Interest income on nonaccrual mortgage loans is recognized when cash is received.

(2) Includes cash equivalents.

(3) Includes federal funds purchased and securities sold under agreements to repurchase.

(4) Net interest income of consolidated trusts represents interest income from mortgage loans of consolidated trusts less interest expense from debt securities of consolidated trusts. Net interest yield is calculated based on net interest

income from consolidated trusts divided by average balance of mortgage loans of consolidated trusts.

(5) Data from British Bankers' Association, Thomson Reuters Indices and Bloomberg L.P.

Table 7: Rate/Volume Analysis of Changes in Net Interest Income

	For the Three Months Ended March 31, 2013 vs. 2012		
	Total Variance	Variance Due to:[1] Volume	Rate
	(Dollars in millions)		
Interest income:			
Mortgage loans of Fannie Mae	$261	$(332)	$593
Mortgage loans of consolidated trusts	(3,607)	752	(4,359)
Total mortgage loans	(3,346)	420	(3,766)
Total mortgage-related securities, net	(267)	(204)	(63)
Non-mortgage securities[2]	(10)	(8)	(2)
Federal funds sold and securities purchased under agreements to resell or similar arrangements	14	12	2
Advances to lenders	5	5	—
Total interest income	(3,604)	225	(3,829)
Interest expense:			
Short-term debt[3]	1	(7)	8
Long-term debt	(510)	(341)	(169)
Total short-term and long-term funding debt	(509)	(348)	(161)
Total debt securities of consolidated trusts held by third parties	(4,202)	1,281	(5,483)
Total interest expense	(4,711)	933	(5,644)
Net interest income	$1,107	$(708)	$1,815

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(1) Combined rate/volume variances are allocated to both rate and volume based on the relative size of each variance.
(2) Includes cash equivalents.
(3) Includes federal funds purchased and securities sold under agreements to repurchase.

Net interest income increased in the first quarter of 2013, compared with the first quarter of 2012, primarily due to accelerated net amortization income on loans and debt of consolidated trusts, lower interest expense on funding debt, a reduction in the amount of interest income not recognized for nonaccrual mortgage loans, higher interest income on mortgage loans of Fannie Mae as a result of our resolution agreement with Bank of America and higher guaranty fees. These factors were partially offset by lower interest income on mortgage loans of Fannie Mae and securities. The primary drivers of these changes were:

- accelerated net amortization income related to mortgage loans and debt of consolidated trusts driven by a high volume of prepayments due to declining interest rates;
- higher interest income on mortgage loans of Fannie Mae as a result of our resolution agreement with Bank of America. Upon settlement of the resolution agreement in the first quarter of 2013, the basis adjustments on the loans repurchased by Bank of America were recognized into interest income;
- higher coupon interest income recognized on mortgage loans due to a reduction in the amount of interest income not recognized for nonaccrual mortgage loans. The balance of nonaccrual loans in our condensed consolidated balance sheet declined as we continued to complete a high number of loan workouts and foreclosures, and fewer loans became seriously delinquent;
- higher guaranty fees primarily due to the 10 basis point increase related to the TCCA, which increased guaranty fees on all single-family residential mortgages delivered to Fannie Mae starting on April 1, 2012. The incremental guaranty fees are remitted to Treasury and recorded in "Other expenses" in our condensed consolidated statements of operations and comprehensive income; and
- lower interest income on mortgage loans of Fannie Mae and mortgage securities due to lower mortgage rates and a decrease in their average balance, as we continue to manage our retained mortgage portfolio to the requirements of the senior preferred stock purchase agreement. This decrease in interest income was partially offset by lower interest

expense on funding debt due to lower borrowing rates and funding needs, which allowed us to continue to replace higher-cost debt with lower-cost debt.

Net unamortized premiums on debt of consolidated trusts exceeded net unamortized premiums on the related mortgage loans by $19.8 billion as of March 31, 2013, compared with $16.8 billion as of December 31, 2012. These cost basis adjustments will be amortized as income over the contractual life of the underlying loans as a component of net interest income. The increase is primarily due to continued high refinancing volumes, which have significantly increased our portfolio securitization transactions.

We had $15.1 billion in net unamortized discounts and other cost basis adjustments on mortgage loans of Fannie Mae included in our condensed consolidated balance sheets as of March 31, 2013 compared with $15.8 billion as of December 31, 2012. The extent to which we may record these discounts and other cost basis adjustments as income in future periods will be based on the actual performance of the loans.

Table 8 displays the interest income not recognized for loans on nonaccrual status and the resulting reduction in our net interest yield on total interest earning assets for the periods indicated.

Table 8: Impact of Nonaccrual Loans on Net Interest Income

	For the Three Months Ended March 31,			
	2013		2012	
	Interest Income not Recognized for Nonaccrual Loans[1]	Reduction in Net Interest Yield[2]	Interest Income not Recognized for Nonaccrual Loans[1]	Reduction in Net Interest Yield[2]
	(Dollars in millions)			
Mortgage loans of Fannie Mae	$ (651)		$ (982)	
Mortgage loans of consolidated trusts	(112)		(180)	
Total mortgage loans	$ (763)	(10) bps	$ (1,162)	(15) bps

(1) Amount includes cash received for loans on nonaccrual status.

(2) Calculated based on annualized interest income not recognized divided by total interest-earning assets, expressed in basis points.

For a discussion of the interest income from the assets we have purchased and the interest expense from the debt we have issued, see the discussion of our Capital Markets group's net interest income in "Business Segment Results."

Fee and Other Income

Fee and other income includes transaction fees, technology fees and multifamily fees. Fee and other income increased in the first quarter of 2013 compared with the first quarter of 2012 primarily as a result of higher yield maintenance fees related to a large multifamily loan prepayment in the first quarter of 2013.

Fair Value Gains, Net

Table 9 displays the components of our fair value gains and losses.

Table 9: Fair Value Gains, Net

	For the Three Months Ended March 31,	
	2013	2012
	(Dollars in millions)	
Risk management derivatives fair value gains (losses) attributable to:		
Net contractual interest expense accruals on interest rate swaps	$(200)	$(374)
Net change in fair value during the period	631	553
Total risk management derivatives fair value gains, net	431	179
Mortgage commitment derivatives fair value gains (losses), net	131	(205)
Total derivatives fair value gains (losses), net	562	(26)
Trading securities gains, net	396	284
Other, net[1]	(124)	25
Fair value gains, net	$834	$283

	2013	2012
5-year swap rate:		
As of January 1	0.86%	1.22%
As of March 31	0.95%	1.27%

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

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

Risk Management Derivatives Fair Value Gains, Net

Risk management derivative instruments are an integral part of our interest rate risk management strategy. We supplement our issuance of debt securities with derivative instruments to further reduce duration risk, which includes prepayment risk. We recognized risk management derivative fair value gains in the first quarter of 2013 and 2012 primarily as a result of increases in the fair value of our pay-fixed derivatives due to increases in swap rates during the periods. Risk management derivative gains in the first quarter of 2013 were greater than the gains in the first quarter of 2012, primarily due to larger increases in swap rates in the first quarter of 2013 compared with the first quarter of 2012.

We present, by derivative instrument type, the fair value gains and losses on our derivatives for the three months ended March 31, 2013 and 2012 in "Note 9, Derivative Instruments."

Mortgage Commitment Derivatives Fair Value Gains (Losses), Net

We recognized fair value gains on our mortgage commitments in the first quarter of 2013 primarily due to gains on commitments to sell mortgage-related securities as a result of a decrease in prices as interest rates increased during the commitment period. We recognized fair value losses on our mortgage commitments in the first quarter of 2012 primarily due to losses on commitments to sell mortgage-related securities as a result of an increase in prices as interest rates decreased during the commitment period.

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Trading Securities Gains, Net

Gains from our trading securities in the first quarter of 2013 were primarily driven by higher prices on Alt-A and subprime private label securities, primarily due to the narrowing of credit spreads on these securities as well as an improvement in the credit outlook of certain financial guarantors of these securities. Gains from trading securities in the first quarter of 2012 were primarily due to the narrowing of credit spreads on commercial mortgage-backed securities ("CMBS").

Credit-Related (Income) Expenses

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

Benefit (Provision) for Credit Losses

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

Table 10 displays the components of our total loss reserves and our total fair value losses previously recognized on loans purchased out of unconsolidated MBS trusts reflected in our condensed consolidated balance sheets. Because these fair value losses lowered our recorded loan balances, we have fewer inherent losses in our guaranty book of business and consequently require lower total loss reserves. For these reasons, we consider these fair value losses as an "effective reserve," apart from our total loss reserves, to the extent that we expect to realize these amounts as credit losses on the acquired loans in the future. The fair value losses shown in Table 10 represent credit losses we expect to realize in the future or amounts that will eventually be recovered, either through net interest income for loans that cure or through foreclosed property income for loans where the sale of the collateral exceeds our recorded investment in the loan. We exclude these fair value losses from our credit loss calculation as described in "Credit Loss Performance Metrics."

Table 10: Total Loss Reserves

	As of March 31, 2013	December 31, 2012
	(Dollars in millions)	
Allowance for loan losses	$56,461	$58,795
Reserve for guaranty losses[1]	1,203	1,231
Combined loss reserves	57,664	60,026
Allowance for accrued interest receivable	1,602	1,737
Allowance for preforeclosure property taxes and insurance receivable[2]	903	866
Total loss reserves	60,169	62,629
Fair value losses previously recognized on acquired credit-impaired loans[3]	12,762	13,694
Total loss reserves and fair value losses previously recognized on acquired credit-impaired loans	$72,931	$76,323

(1) Amount included in "Other liabilities" in our condensed consolidated balance sheets.

(2) Amount included in "Other assets" in our condensed consolidated balance sheets.

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

The following table displays changes in the total allowance for loan losses, reserve for guaranty losses and the total combined loss reserves for the periods indicated.

Table 11: Allowance for Loan Losses and Reserve for Guaranty Losses (Combined Loss Reserves)

	For the Three Months Ended March 31, 2013	2012
	(Dollars in millions)	
Changes in combined loss reserves:		
Allowance for loan losses:		
Beginning balance	$58,795	$72,156
(Benefit) provision for loan losses	(984)	1,980
Charge-offs[1]	(2,720)	(4,796)
Recoveries	1,272	486
Other[2]	98	283
Ending balance	$56,461	$70,109
Reserve for guaranty losses:		
Beginning balance	$1,231	$994
Provision for guaranty losses	27	20
Charge-offs	(56)	(51)
Recoveries	1	34
Ending balance	$1,203	$997
Combined loss reserves:		
Beginning balance	$60,026	$73,150
Total (benefit) provision for credit losses	(957)	2,000
Charge-offs[1]	(2,776)	(4,847)
Recoveries	1,273	520
Other[2]	98	283
Ending balance	$57,664	$71,106

	As of March 31, 2013	December 31, 2012
	(Dollars in millions)	
Allocation of combined loss reserves:		
Balance at end of each period attributable to:		
Single-family	$56,626	$58,809
Multifamily	1,038	1,217
Total	$57,664	$60,026
Single-family and multifamily combined loss reserves as a percentage of applicable guaranty book of business:		
Single-family	2.00 %	2.08 %
Multifamily	0.51	0.59
Combined loss reserves as a percentage of:		
Total guaranty book of business	1.90 %	1.97 %
Recorded investment in nonperforming loans	23.99	23.92

(1) Includes accrued interest of $115 million and $273 million for the three months ended March 31, 2013 and 2012, respectively.

(2) Amounts represent the net activity recorded in our allowances for accrued interest receivable and preforeclosure property taxes and insurance receivable from borrowers. The provision for credit losses, charge-offs, recoveries and transfer activity included in this table

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reflects all changes for both the allowance for loan losses and the valuation allowances for accrued interest and preforeclosure property taxes and insurance receivable that relate to the mortgage loans.

Our provision, and in some cases benefit, for credit losses continues to be a key driver of our results for each period presented. The amount of our provision for credit losses varies from period to period based on changes in actual and expected home prices, borrower payment behavior, the types and volumes of loss mitigation activities and foreclosures completed, and actual and estimated recoveries from our lender and mortgage insurer counterparties. See “Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management” for information on mortgage insurers and outstanding mortgage seller/servicer repurchase obligations. In addition, our provision for credit losses and our loss reserves can be impacted by updates to our allowance for loan loss models that we use to estimate our loss reserves.

We recognized a benefit for credit losses of $957 million in the first quarter of 2013 compared with a provision for credit losses of $2.0 billion in the first quarter of 2012. This result was driven by an increase in home prices, including the sales prices of our REO properties in the first quarter of 2013, and lower single-family delinquency rates. Home prices increased in the first quarter of 2013, which decreases the likelihood that loans will default and reduces the amount of credit losses on loans that default. Sales prices on dispositions of our REO properties improved in the first quarter of 2013 as a result of strong demand compared with the prior year. We received net proceeds from our REO sales equal to 65% of the loans’ unpaid principal balance in the first quarter of 2013, compared with 56% in the first quarter of 2012. The increase in sales prices contributed to a reduction in the single-family initial charge-off severity rate to 27.18% for the first quarter of 2013 from 33.43% for the first quarter of 2012. The decrease in our charge-off severity rate indicates a lower amount of credit loss at foreclosure and, accordingly, a lower provision for credit loss.

The number of seriously delinquent loans declined 19% to approximately 528,000 as of March 31, 2013 from approximately 651,000 as of March 31, 2012 and the number of early stage delinquent loans declined 7% to approximately 392,000 as of March 31, 2013 from approximately 419,000 as of March 31, 2012. The reduction in the number of delinquent loans is due, in part, to our efforts since 2009 to improve our underwriting standards and the credit quality of our single-family guaranty book of business, which has resulted in a decrease in the number of loans becoming delinquent. A decline in the number of loans becoming delinquent or seriously delinquent reduces our total loss reserves and provision for credit losses.

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

Nonperforming Loans

Our balance of nonperforming single-family loans remained high as of March 31, 2013 due to high levels of loans modified as TDRs. When a TDR occurs, the loan may return to a current status, but it will continue to be classified as a nonperforming loan as the loan is not performing in accordance with its original terms. Table 12 displays the composition of our nonperforming loans, which includes our single-family and multifamily held-for-investment and held-for-sale mortgage loans. For information on the impact of TDRs and other individually impaired loans on our allowance for loan losses, see “Note 3, Mortgage Loans.”

Table 12: Nonperforming Single-Family and Multifamily Loans

	As of March 31, 2013	As of December 31, 2012
	(Dollars in millions)	
On-balance sheet nonperforming loans including loans in consolidated Fannie Mae MBS trusts:		
Nonaccrual loans	$105,204	$114,761
TDRs on accrual status	135,079	136,064
Total on-balance sheet nonperforming loans	240,283	250,825
Off-balance sheet nonperforming loans in unconsolidated Fannie Mae MBS trusts[1]	61	72
Total nonperforming loans	240,344	250,897
Allowance for loan losses and allowance for accrued interest receivable related to individually impaired on-balance sheet nonperforming loans	(45,479)	(45,776)

Total nonperforming loans, net of allowance	$194,865	$205,121
Accruing on-balance sheet loans past due 90 days or more(2)	$768	$3,580

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	For the Three Months Ended March 31,	
	2013	2012
	(Dollars in millions)	
Interest related to on-balance sheet nonperforming loans:		
Interest income forgone[3]	$1,998	$2,300
Interest income recognized for the period[4]	1,451	1,433

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(1) Represents loans that would meet our criteria for nonaccrual status if the loans had been on-balance sheet.

(2) Recorded investment in loans that, as of the end of each period, are 90 days or more past due and continuing to accrue interest. As of December 31, 2012, includes loans with a recorded investment of $2.8 billion which were repurchased in January 2013 pursuant to our resolution agreement with Bank of America. These loans were returned to accrual status to reflect the change in our assessment of collectibility resulting from this agreement. Also includes 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.

(3) Represents the amount of interest income we did not record but would have recorded during the period for on-balance sheet nonperforming loans as of the end of each period had the loans performed according to their original contractual terms.

(4) Represents interest income recognized during the period for on-balance sheet loans classified as nonperforming as of the end of each period. Primarily includes amounts accrued while the loans were performing and cash payments received on nonaccrual loans.

Foreclosed Property (Income) Expense

We recognized foreclosed property income of $260 million in the first quarter of 2013 compared with recording foreclosed property expense of $339 million in the first quarter of 2012 primarily due to improved sales prices on dispositions of our REO properties, resulting from strong demand in markets with limited REO supply. Additionally, we recognized foreclosed property income resulting from cash received under the terms of the resolution agreements with Bank of America and GMAC in the first quarter of 2013 related to previously charged off loans. See “MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management” and “Note 20, Subsequent Events” in our 2012 Form 10-K for additional information on these agreements.

Credit Loss Performance Metrics

Our credit-related (income) expenses should be considered in conjunction with our credit loss performance metrics. Our credit loss performance metrics, however, are not defined terms within GAAP and may not be calculated in the same manner as similarly titled measures reported by other companies. Because management does not view changes in the fair value of our mortgage loans as credit losses, we adjust our credit loss performance metrics for the impact associated with our acquisition of credit-impaired loans from unconsolidated MBS trusts. We also exclude interest forgone on nonperforming loans, other-than-temporary impairment losses resulting from deterioration in the credit quality of our mortgage-related securities and accretion of interest income on acquired credit-impaired loans from credit losses. We believe that credit loss performance metrics may be useful to investors as the losses are presented as a percentage of our book of business and have historically been used by analysts, investors and other companies within the financial services industry. Moreover, by presenting credit losses with and without the effect of fair value losses associated with the acquisition of credit-impaired loans, investors are able to evaluate our credit performance on a more consistent basis among periods. Table 13 displays the components of our credit loss performance metrics as well as our average single-family and multifamily default rates and initial charge-off severity rates.

Table 13: Credit Loss Performance Metrics

	For the Three Months Ended March 31,					
	2013			2012		
	Amount	Ratio[1]		Amount	Ratio[1]	
	(Dollars in millions)					
Charge-offs, net of recoveries	$1,503	19.8	bps	$4,327	56.8	bps
Foreclosed property (income) expense	(260)	(3.4)		339	4.5	
Credit losses including the effect of fair value losses on acquired credit-impaired loans	1,243	16.4		4,666	61.3	
Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property expense[2]	255	3.4		425	5.6	
Credit losses and credit loss ratio	$1,498	19.8	bps	$5,091	66.9	bps
Credit losses attributable to:						
Single-family	$1,503			$4,955		
Multifamily	(5)			136		
Total	$1,498			$5,091		
Single-family default rate		0.32	%		0.41	%
Single-family initial charge-off severity rate[3]		27.18	%		33.43	%
Average multifamily default rate		0.03	%		0.15	%
Average multifamily initial charge-off severity rate[3]		34.49	%		43.95	%

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

(2) Includes fair value losses from acquired credit-impaired loans.

(3) Single-family and multifamily rates exclude fair value losses on credit-impaired loans acquired from MBS trusts and any costs, gains or losses associated with REO after initial acquisition through final disposition; single-family rate excludes charge-offs from short sales and third-party sales.

Credit losses decreased in the first quarter of 2013 compared with the first quarter of 2012 primarily due to improved sales prices of our REO properties and lower REO acquisitions primarily driven by lower delinquencies in 2013. In addition, during the first quarter of 2013, we entered into agreements with Bank of America and GMAC relating to repurchase requests that resulted in recoveries of previously charged off loans. See “MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management” and “Note 20, Subsequent Events” in our 2012 Form 10-K for additional information on these agreements.

The slow pace of foreclosures has continued to impact the amount of charge-offs for the periods presented and we expect delays in foreclosures to continue for the remainder of 2013, which will postpone our realization of credit losses. Despite the slow pace of foreclosures, we expect our credit losses to remain elevated in 2013 relative to pre-housing crisis levels.

Our new single-family book of business accounted for approximately 6% of our single-family credit losses for the first quarter of 2013 compared with 3% of these losses for the first quarter of 2012. Credit losses on mortgage loans typically do not peak until the third through sixth years following origination; however, this range can vary based on many factors, including changes in macroeconomic conditions and foreclosure timelines. We provide more detailed credit performance information, including serious delinquency rates by geographic region and foreclosure activity, in “Risk Management—Credit Risk Management—Mortgage Credit Risk Management.”

Regulatory Hypothetical Stress Test Scenario

Under a September 2005 agreement with FHFA’s predecessor, the Office of Federal Housing Enterprise Oversight, we are required to disclose on a quarterly basis the present value of the change in future expected credit losses from our existing single-family guaranty book of business from an immediate 5% decline in single-family home prices for the entire United States followed by a return to the average of the possible growth rate paths used in our internal credit pricing models. The sensitivity results represent the difference between future expected credit losses under our base case scenario, which is derived from our internal home price path forecast, and a scenario that assumes an instantaneous nationwide 5% decline in home prices.

Table 14 displays the credit loss sensitivities as of the dates indicated for first-lien single-family loans that are in our retained mortgage portfolio or underlying Fannie Mae MBS, before and after consideration of projected credit risk sharing proceeds, such as private mortgage insurance claims and other credit enhancements.

Table 14: Single-Family Credit Loss Sensitivity[1]

	As of March 31, 2013	December 31, 2012
	(Dollars in millions)	
Gross single-family credit loss sensitivity	$14,680	$13,508
Less: Projected credit risk sharing proceeds	(1,457)	(2,206)
Net single-family credit loss sensitivity	$13,223	$11,302
Single-family loans in our retained mortgage portfolio and loans underlying Fannie Mae MBS	$2,768,644	$2,765,460
Single-family net credit loss sensitivity as a percentage of outstanding single-family loans in our retained mortgage portfolio and Fannie Mae MBS	0.48%	0.41%

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(1) Represents total economic credit losses, which consist of credit losses and forgone interest. Calculations are based on 98% of our total single-family guaranty book of business as of March 31, 2013 and December 31, 2012. The mortgage loans and mortgage-related securities that are included in these estimates consist of: (a) single-family Fannie Mae MBS (whether held in our retained mortgage portfolio or held by third parties), excluding certain whole loan REMICs and private-label wraps; (b) single-family mortgage loans, excluding mortgages secured only by second liens, subprime mortgages, manufactured housing chattel loans and reverse mortgages; and (c) long-term standby commitments. We expect the inclusion in our estimates of the excluded products may impact the estimated sensitivities set forth in this table.

Because these sensitivities represent hypothetical scenarios, they should be used with caution. Our regulatory stress test scenario is limited in that it assumes an instantaneous uniform 5% nationwide decline in home prices, which is not representative of the historical pattern of changes in home prices. Changes in home prices generally vary on a regional, as well as a local, basis. In addition, these stress test scenarios are calculated independently without considering changes in other interrelated assumptions, such as unemployment rates or other economic factors, which are likely to have a significant impact on our future expected credit losses.

Federal Income Taxes

We recognized a benefit for federal income taxes of $50.6 billion in the first quarter of 2013 due to the release of the substantial majority of the valuation allowance against our deferred tax assets. We did not recognize a provision or benefit for income taxes in the first quarter of 2012. We discuss the factors that led us to release our valuation allowance against our deferred tax assets in “Critical Accounting Policies and Estimates—Deferred Tax Assets” and “Note 10, Income Taxes.”

BUSINESS SEGMENT RESULTS

Results of our three business segments are intended to reflect each segment as if it were a stand-alone business. Under our segment reporting structure, the sum of the results for our three business segments does not equal our condensed consolidated results of operations as we separate the activity related to our consolidated trusts from the results generated by our three segments. In addition, because we apply accounting methods that differ from our condensed consolidated results for segment reporting purposes, we include an eliminations/adjustments category to reconcile our business segment results and the activity related to our consolidated trusts to our condensed consolidated results of operations. We describe the management reporting and allocation process used to generate our segment results in "Note 13, Segment Reporting" in our 2012 Form 10-K.

In this section, we summarize our segment results for the first quarter of 2013 and 2012 in the tables below and provide a comparative discussion of these results. This section should be read together with our comparative discussion of our condensed consolidated results of operations in "Consolidated Results of Operations." See "Note 12, Segment Reporting" for a reconciliation of our segment results to our condensed consolidated results.

During the first quarter of 2013, we released the substantial majority of our valuation allowance against our deferred tax assets, except for the portion of the valuation allowance that pertains to our capital loss carryforwards. This resulted in a significant benefit for income taxes during the first quarter of 2013. See "Critical Accounting Policies and Estimates—Deferred Tax Assets" and "Note 10, Income Taxes" for additional information regarding the factors that led to our conclusion to release the valuation allowance against our deferred tax assets. The benefit for income taxes allocated to each business segment represents the release of the valuation allowance against deferred tax assets that primarily are directly attributable to that segment based on the nature of the item.

Single-Family Business Results

Table 15 displays the financial results of our Single-Family business for the periods indicated. For a discussion on Single-Family credit risk management, including information on serious delinquency rates and loan workouts, see "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management." The primary source of revenue for our Single-Family business is guaranty fee income. Expenses and other items that impact income or loss primarily include credit-related income (expenses), net interest income (loss) and administrative expenses.

Table 15: Single-Family Business Results

	For the Three Months Ended March 31,		
	2013	2012	Variance
	(Dollars in millions)		
Net interest income (loss)(1)	$520	$(379)	$899
Guaranty fee income(2)(3)	2,375	1,911	464
Credit-related income (expenses)(4)	1,034	(2,385)	3,419
Other expenses(3)(5)	(608)	(415)	(193)
Income (loss) before federal income taxes	3,321	(1,268)	4,589
Benefit for federal income taxes(6)	31,578	—	31,578
Net income (loss) attributable to Fannie Mae	$34,899	$(1,268)	$36,167
Other key performance data:			
Single-family effective guaranty fee rate (in basis points)(3)(7)	33.5	26.8	
Single-family average charged guaranty fee on new acquisitions (in basis points)(3)(8)	54.4	28.9	
Average single-family guaranty book of business(9)	$2,834,490	$2,850,007	
Single-family Fannie Mae MBS issuances(10)	$221,865	$196,755	

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(1) Primarily includes the cost to reimburse the Capital Markets group for interest income not recognized for loans in our retained mortgage portfolio on nonaccrual status, the cost to reimburse MBS trusts for interest income not recognized for loans in consolidated trusts on nonaccrual status and income from cash payments received on loans that have been placed on nonaccrual status.

(2) Guaranty fee income is included in fee and other income in our condensed consolidated statements of operations and comprehensive income.

(3) Pursuant to the TCCA, effective April 1, 2012, we increased the guaranty fee on all single-family residential mortgages delivered to us on or after that date for securitization by 10 basis points, and the incremental revenue must be remitted to Treasury. The resulting revenue is included in guaranty fee income and the expense is included in other expenses. This increase in guaranty fee is also included in the single-family charged guaranty fee.

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

(5) Consists of investment gains, net, fair value losses, net, fee and other income, administrative expenses and other expenses.

(6) The 2013 benefit represents the release of the substantial majority of our valuation allowance against the portion of our deferred tax assets that we attribute to our single-family segment based on the nature of the item.

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

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

(9) Consists of single-family mortgage loans held in our retained mortgage portfolio, single-family mortgage loans held by consolidated trusts, single-family Fannie Mae MBS issued from unconsolidated trusts held by either third parties or within our retained mortgage portfolio and other credit enhancements that we provide on single-family mortgage assets. Excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

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

Pre-tax income in the first quarter of 2013 compared with pre-tax loss in the first quarter of 2012 was primarily due to credit-related income in the first quarter of 2013 compared with credit-related expenses in the first quarter of 2012, driven primarily by a significant improvement in the profile of our single-family book of business resulting from an increase in actual home prices, including the sales prices of our REO properties in the first quarter of 2013, and lower single-family delinquency rates. Our single-family credit-related income represents the substantial majority of our consolidated activity. We provide a discussion of our credit-related income (expenses) and credit losses in “Consolidated Results of Operations—Credit-Related (Income) Expenses.”

Net interest income in the first quarter of 2013 compared with net interest loss in the first quarter of 2012 was primarily due to a reduction in the amount of interest income not recognized for nonaccrual mortgage loans in our condensed consolidated balance sheets as we continued to complete a high number of loan workouts and foreclosures. In addition, as loans with stronger credit profiles become a larger portion of our single-family guaranty book of business, a smaller percentage of our loans are becoming seriously delinquent. Net interest income during the first quarter of 2013 was positively impacted by our resolution agreement with Bank of America, which resulted in the recovery of unamortized cost basis adjustments on the loans repurchased by Bank of America. See “Note 20, Subsequent Events” in our 2012 Form 10-K for additional information on this agreement.

Guaranty fee income increased in the first quarter of 2013 compared with the first quarter of 2012 due to the impact of price increases and higher amortization income on risk-based fees. As described in “Business—Legislative and Regulatory Developments—Changes to Our Single-Family Guaranty Fee Pricing and Revenue” in our 2012 Form 10-K, in December 2011, Congress enacted the TCCA which, among other provisions, required that we increase our single-family guaranty fees by at least 10 basis points and remit this increase to Treasury, rather than retaining the incremental revenue. Effective April 1, 2012, the guaranty fee on all single-family residential mortgages delivered to

Fannie Mae and Freddie Mac on or after that date for securitization was increased by 10 basis points; accordingly, the single-family average charged guaranty fee increased. The resulting revenue is included in guaranty fee income, and the expense is included in other expenses. We recorded other expenses of $186 million for the first quarter of 2013 for this obligation due to Treasury. We expect the guaranty fees collected and expenses incurred to increase in the future.

Net income in the first quarter of 2013 included a benefit for federal income taxes that represents the release of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our single-family segment. Those assets primarily related to the allowance for loan losses and guaranty fee income.

The increase in the single-family average charged guaranty fee on new acquisitions in the first quarter of 2013 compared with the first quarter of 2012 was primarily due to the 10 basis point TCCA increase noted above, which is remitted to Treasury, and an additional average increase of 10 basis points implemented during the fourth quarter of 2012. These increases in our guaranty fee pricing may help to encourage greater investment by banks and other investors in mortgage loans and mortgage-related securities, which is one of the goals set forth in FHFA's strategic plan, as well as to more appropriately price for the credit risk taken. We expect that any future increases to guaranty fee pricing will further increase our guaranty fee revenue.

Our estimated market share of new single-family mortgage-related securities issuances, which excludes previously securitized mortgages, remained high at 48% for the first quarter of 2013. Despite our continued high market share, our average single-family guaranty book of business remained flat in the first quarter of 2013 compared with the first quarter of 2012, primarily due to the decline in U.S. residential mortgage debt outstanding.

Multifamily Business Results

Multifamily business results primarily reflect our multifamily guaranty business. Our multifamily business results also include activity relating to our low-income housing tax credit ("LIHTC") and equity investments. Although we are no longer making new LIHTC or equity investments, we continue to make contractually required contributions for our legacy investments. Activity from multifamily products is also reflected in the Capital Markets group results, which include net interest income related to multifamily loans and securities, gains and losses from the sale of multifamily Fannie Mae MBS and re-securitizations and other miscellaneous income.

Table 16 displays the financial results of our Multifamily business for the periods indicated. The primary sources of revenue for our multifamily business are guaranty fee income and fee and other income. Expenses and other items that impact income or loss primarily include credit-related income and administrative expenses.

Table 16: Multifamily Business Results

	For the Three Months Ended March 31,		
	2013	2012	Variance
	(Dollars in millions)		
Guaranty fee income[1]	$291	$243	$48
Fee and other income	51	47	4
Gains from partnership investments[2]	59	11	48
Credit-related income[3]	183	46	137
Other expenses[4]	(73)	(68)	(5)
Income before federal income taxes	511	279	232
Benefit for federal income taxes[5]	7,988	—	7,988
Net income attributable to Fannie Mae	$8,499	$279	$8,220
Other key performance data:			
Multifamily effective guaranty fee rate (in basis points)[6]	56.6	49.6	
Average multifamily guaranty book of business[7]	$205,800	$196,019	
Multifamily new business volumes[8]	$8,216	$7,159	
Multifamily units financed from new business volumes	143,000	117,000	
Multifamily Fannie Mae MBS issuances[9]	$9,074	$8,851	
Multifamily Fannie Mae structured securities issuances (issued by Capital Markets group)	$3,236	$2,238	
Additional net interest income earned on Fannie Mae multifamily mortgage loans and MBS (included in Capital Markets group's results)[10]	$198	$204	
Average Fannie Mae multifamily mortgage loans and MBS in Capital Markets group's mortgage portfolio[11]	$85,715	$103,989	

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	As of March 31, 2013		December 31, 2012	
	(Dollars in millions)			
Multifamily serious delinquency rate	0.39	%	0.24	%
Percentage of multifamily guaranty book of business with credit enhancement	90	%	90	%
Multifamily Fannie Mae MBS outstanding(12)	$134,985		$128,477	

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(1) Guaranty fee income is included in fee and other income in our condensed consolidated statements of operations and comprehensive income.

(2) Gains from partnership investments are included in other expenses in our condensed consolidated statements of operations and comprehensive income. Gains from partnership investments are reported using the equity method of accounting. As a result, net income attributable to noncontrolling interest from partnership investments is not included in income for the Multifamily segment.

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

(4) Consists of net interest loss, investment gains, administrative expenses and other income (expenses).

(5) The 2013 benefit represents the release of the substantial majority of our valuation allowance against the portion of our deferred tax assets that we attribute to our multifamily segment based on the nature of the item.

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

(7) Consists of multifamily mortgage loans held in our retained mortgage portfolio, multifamily mortgage loans held by consolidated trusts, multifamily Fannie Mae MBS issued from unconsolidated trusts and other credit enhancements that we provide on multifamily mortgage assets. Excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty.

(8) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued (excluding portfolio securitizations) and multifamily loans purchased during the period.

(9) Reflects unpaid principal balance of multifamily Fannie Mae MBS issued during the period. Includes (a) issuances of new MBS, (b) Fannie Mae portfolio securitization transactions of $825 million and $1.6 billion for the three months ended March 31, 2013 and 2012, respectively, and (c) conversions of adjustable-rate loans to fixed-rate loans and discount MBS (“DMBS”) to MBS of $44 million and $163 million for the three months ended March 31, 2013 and 2012, respectively.

(10) Interest expense estimate is based on allocated duration-matched funding costs. Net interest income was reduced by guaranty fees allocated to Multifamily from the Capital Markets Group on multifamily loans in Fannie Mae’s retained mortgage portfolio.

(11) Based on unpaid principal balance.

(12) Includes $27.3 billion and $28.1 billion of Fannie Mae multifamily MBS held in the retained mortgage portfolio, the vast majority of which have been consolidated to loans in our condensed consolidated balance sheets, as of March 31, 2013 and December 31, 2012, respectively, and $1.3 billion of Fannie Mae MBS collateralized by bonds issued by state and local housing finance agencies as of March 31, 2013 and December 31, 2012, respectively.

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

Credit-related income increased in the first quarter of 2013 compared with the first quarter of 2012, primarily due to improvements in the sales prices of our REO properties and reductions to our total loss reserves resulting from an improvement in national multifamily market fundamentals.

Guaranty fee income increased in the first quarter of 2013 compared with the first quarter of 2012 as we continue to acquire loans with higher guaranty fees. Loans with higher guaranty fees have become a larger part of our multifamily guaranty book of business, while loans with lower guaranty fees continue to liquidate.

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

Net income in the first quarter of 2013 included a benefit for federal income taxes that represents the release of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our multifamily segment. Those assets primarily related to partnership and other equity investment losses and credits.

We remain a constant source of liquidity in the multifamily market. We owned or guaranteed approximately 22% of the outstanding debt on multifamily properties as of December 31, 2012 (the latest date for which information is available).

Capital Markets Group Results

Table 17 displays the financial results of our Capital Markets group for the periods indicated. Following the table we discuss the Capital Markets group's financial results and describe the Capital Markets group's mortgage portfolio. For a discussion of the debt issued by the Capital Markets group to fund its investment activities, see "Liquidity and Capital Management." For a discussion of the derivative instruments that the Capital Markets group uses to manage interest rate risk, see "Risk Management—Market Risk Management, Including Interest Rate Risk Management—Derivative Instruments" in our 2012 Form 10-K and "Note 9, Derivative Instruments" in this report and our 2012 Form 10-K. The primary sources of revenue for our Capital Markets group are net interest income and fee and other income. Expenses and other items that impact income or loss primarily include fair value gains, investment gains, allocated guaranty fee expense and administrative expenses.

Table 17: Capital Markets Group Results

	For the Three Months Ended March 31,		
	2013	2012	Variance
	(Dollars in millions)		
Net interest income[(1)]	$2,742	$3,541	$(799)
Investment gains, net[(2)]	1,349	1,007	342
Fair value gains, net[(3)]	875	170	705
Fee and other income	349	180	169
Other expenses[(4)]	(435)	(594)	159
Income before federal income taxes	4,880	4,304	576
Benefit for federal income taxes[(5)]	11,005	—	11,005
Net income attributable to Fannie Mae	$15,885	$4,304	$11,581

(1) Includes contractual interest income, excluding recoveries, on nonaccrual loans received from the Single-Family segment of $1.1 billion and $1.4 billion for the three months ended March 31, 2013 and 2012, respectively. The Capital Markets group's net interest income is reported based on the mortgage-related assets held in the segment's retained mortgage portfolio and excludes interest income on mortgage-related assets held by consolidated MBS trusts that are owned by third parties and the interest expense on the corresponding debt of such trusts.

(2) We include the securities that we own regardless of whether the trust has been consolidated in reporting of gains and losses on securitizations and sales of available-for-sale securities.

(3) Includes fair value gains or losses on derivatives and trading securities that we own, regardless of whether the trust has been consolidated.

(4) Includes allocated guaranty fee expense, debt extinguishment losses, net, administrative expenses, net other-than-temporary impairments and other income (expenses). Gains or losses related to the extinguishment of debt issued by consolidated trusts are excluded from the Capital Markets group's results because purchases of securities are recognized as such.

(5) The 2013 benefit represents the release of the substantial majority of our valuation allowance against the portion of our deferred tax assets that we attribute to our Capital Markets group based on the nature of the item.

Pre-tax income increased in the first quarter of 2013 compared with the first quarter of 2012 primarily due to increased fair value gains and increased investment gains, partially offset by a decrease in net interest income.

Fair value gains increased in the first quarter of 2013 compared with the first quarter of 2012 primarily due to derivatives fair value gains in the first quarter of 2013 compared with derivatives fair value losses in the first quarter of 2012. The derivatives fair value gains and losses that are reported for the Capital Markets group are consistent with the gains and losses reported in our condensed consolidated statements of operations and comprehensive income. We discuss our derivatives fair value gains in "Consolidated Results of Operations—Fair Value Gains, Net."

Investment gains increased in the first quarter of 2013 compared with the first quarter of 2012 primarily due to a higher volume of portfolio securitizations. In the first quarter of 2013, the continuation of low mortgage rates and high acquisitions of HARP loans contributed to elevated portfolio securitization volumes.

The decrease in net interest income in the first quarter of 2013 compared with the first quarter of 2012 was primarily due to a decrease in the balance of mortgage-related securities and lower interest rates on loans in our Capital Market group's mortgage portfolio. This decrease in interest income on our interest-earning mortgage assets was partially offset by a decline in interest expense due to lower funding needs and lower borrowing rates, which allowed us to continue to replace higher-cost debt with lower-cost debt.

We supplement our issuance of debt securities with derivative instruments to further reduce duration risk, which includes prepayment risk. The effect of these derivatives, in particular the periodic net interest expense accruals on interest rate swaps, is not reflected in the Capital Markets group's net interest income but is included in our results as a component of "Fair value gains, net" and is displayed in "Table 9: Fair Value Gains, Net." If we had included the economic impact of adding the net contractual interest accruals on our interest rate swaps in our Capital Markets group's interest expense, the Capital Markets group's net interest income would have decreased by $200 million in the first quarter of 2013 compared with a decrease of $374 million in the first quarter of 2012.

Net income in the first quarter of 2013 included a benefit for federal income taxes that represents the release of the substantial majority of the valuation allowance against the portion of our deferred tax assets that we attributed to our Capital Markets group. Those assets primarily related to debt and derivative instruments and mortgage and mortgage-related assets.

The Capital Markets Group's Mortgage Portfolio

The Capital Markets group's mortgage portfolio, which we also refer to as our retained mortgage portfolio, consists of mortgage loans and mortgage-related securities that we own. Mortgage-related securities held by the Capital Markets group include Fannie Mae MBS and non-Fannie Mae mortgage-related securities. The Fannie Mae MBS that we own are maintained as securities on the Capital Markets group's balance sheets. Mortgage-related assets held by consolidated MBS trusts that are owned by third-parties are not included in the Capital Markets group's mortgage portfolio.

The amount of mortgage assets that we may own is restricted by our senior preferred stock purchase agreement with Treasury. By December 31 of each year, we are required to reduce our mortgage assets to 85% of the maximum allowable amount that we were permitted to own as of December 31 of the immediately preceding calendar year, until the amount of our mortgage assets reaches $250 billion. Under the agreement, the maximum allowable amount of mortgage assets we may own as of December 31, 2013 is $552.5 billion. As of March 31, 2013, we owned $597.8 billion in mortgage assets, compared with $633.1 billion as of December 31, 2012. Additionally, our 2013 conservatorship scorecard includes a goal to sell 5% of the assets we held in our retained mortgage portfolio as of December 31, 2012 that are not agency securities. See "Legislative and Regulatory Developments" for additional information regarding our 2013 conservatorship scorecard.

Table 18 displays our Capital Markets group's mortgage portfolio activity for the periods indicated.

Table 18: Capital Markets Group's Mortgage Portfolio Activity[1]

	For the Three Months Ended March 31,	
	2013	2012
	(Dollars in millions)	
Mortgage loans:		
Beginning balance	$371,708	$398,271
Purchases	72,264	53,925
Securitizations[2]	(64,787)	(38,372)
Liquidations[3]	(27,186)	(19,047)
Mortgage loans, ending balance	351,999	394,777
Mortgage securities:		
Beginning balance	261,346	310,143
Purchases[4]	9,462	4,971
Securitizations[2]	64,787	38,372
Sales	(75,207)	(41,246)
Liquidations[3]	(14,608)	(15,354)
Mortgage securities, ending balance	245,780	296,886

Total Capital Markets group’s mortgage portfolio	$597,779	$691,663

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

Table 19 displays the composition of the Capital Markets group's mortgage portfolio as of March 31, 2013 and December 31, 2012.

Table 19: Capital Markets Group's Mortgage Portfolio Composition[1]

	As of March 31, 2013	December 31, 2012
	(Dollars in millions)	
Capital Markets group's mortgage loans:		
Single-family loans:		
Government insured or guaranteed	$40,763	$40,886
Conventional:		
Long-term, fixed-rate	230,428	240,791
Intermediate-term, fixed-rate	9,906	10,460
Adjustable-rate	16,568	18,008
Total single-family conventional	256,902	269,259
Total single-family loans	297,665	310,145
Multifamily loans:		
Government insured or guaranteed	305	312
Conventional:		
Long-term, fixed-rate	3,172	3,245
Intermediate-term, fixed-rate	41,785	45,662
Adjustable-rate	9,072	12,344
Total multifamily conventional	54,029	61,251
Total multifamily loans	54,334	61,563
Total Capital Markets group's mortgage loans	351,999	371,708
Capital Markets group's mortgage-related securities:		
Fannie Mae	170,208	183,964
Freddie Mac	11,170	11,274
Ginnie Mae	1,244	1,049
Alt-A private-label securities	16,463	17,079
Subprime private-label securities	14,759	15,093
CMBS	20,190	20,587
Mortgage revenue bonds	8,030	8,486
Other mortgage-related securities	3,716	3,814
Total Capital Markets group's mortgage-related securities[2]	245,780	261,346
Total Capital Markets group's mortgage portfolio	$597,779	$633,054

(1) Based on unpaid principal balance.
(2) The fair value of these mortgage-related securities was $254.1 billion and $269.9 billion as of March 31, 2013 and December 31, 2012, respectively.

The Capital Markets group's mortgage portfolio decreased as of March 31, 2013 compared with December 31, 2012 primarily due to sales and liquidations, partially offset by purchases of delinquent loans from MBS trusts, as discussed below. Although the Capital Markets group's mortgage portfolio decreased overall period over period, purchases, securitizations and sales activity increased in the first quarter of 2013 compared with the first quarter of 2012 primarily due to the continuation of low interest rates and the implementation of changes to HARP. Liquidations of loans were higher in the first quarter of 2013 compared with the first quarter of 2012 due to Bank of America's repurchase of loans pursuant to our resolution agreement.

We expect to continue to purchase loans from MBS trusts as they become four or more consecutive monthly payments delinquent subject to market conditions, economic benefit, servicer capacity, and other factors including the limit on the mortgage assets that we may own pursuant to the senior preferred stock purchase agreement. We purchased approximately 59,000 delinquent loans with an unpaid principal balance of $9.3 billion from our single-family MBS trusts in the first three months of 2013. As of March 31, 2013, the total unpaid principal balance of all loans in single-family MBS trusts that were delinquent for four or more consecutive monthly payments was $3.1 billion.

As a result of purchasing these delinquent loans and our portfolio declining to meet the requirements of our senior preferred stock purchase agreement with Treasury, an increasing portion of the Capital Market group's mortgage portfolio is comprised of nonperforming loans. The total unpaid principal balance of nonperforming loans in the Capital Markets group's mortgage portfolio was $222.8 billion or 37% of the Capital Markets group's mortgage portfolio as of March 31, 2013, compared with $230.3 billion or 36% of the Capital Markets group's mortgage portfolio as of December 31, 2012. This population includes loans that have been modified and classified as TDRs, of which $129.2 billion as of March 31, 2013 and $130.2 billion as of December 31, 2012 were TDRs on accrual status, as well as unmodified delinquent loans that are on nonaccrual status in our consolidated financial statements.

CONSOLIDATED BALANCE SHEET ANALYSIS

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

Table 20 displays a summary of our condensed consolidated balance sheets as of March 31, 2013 and December 31, 2012.

Table 20: Summary of Condensed Consolidated Balance Sheets

	As of March 31, 2013	December 31, 2012	Variance
	(Dollars in millions)		
Assets			
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	$102,763	$53,617	$49,146
Restricted cash	57,231	67,919	(10,688)
Investments in securities[1]	112,720	103,876	8,844
Mortgage loans:			
Of Fannie Mae	336,936	355,936	(19,000)
Of consolidated trusts	2,678,161	2,652,265	25,896
Allowance for loan losses	(56,461)	(58,795)	2,334
Mortgage loans, net of allowance for loan losses	2,958,636	2,949,406	9,230
Deferred tax assets, net	49,738	—	49,738
Other assets[2]	39,587	47,604	(8,017)
Total assets	$3,320,675	$3,222,422	$98,253
Liabilities and equity			
Debt:			
Of Fannie Mae	$630,260	$615,864	$14,396
Of consolidated trusts	2,602,283	2,573,653	28,630
Other liabilities[3]	25,764	25,681	83
Total liabilities	3,258,307	3,215,198	43,109
Senior preferred stock	117,149	117,149	—
Other deficit[4]	(54,781)	(109,925)	55,144
Total equity	62,368	7,224	55,144
Total liabilities and equity	$3,320,675	$3,222,422	$98,253

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(1) Includes $28.4 billion as of March 31, 2013 and $18.0 billion as of December 31, 2012 of non-mortgage-related securities that are included in our other investments portfolio, which we present in "Table 28: Cash and Other Investments Portfolio."

(2) Consists of accrued interest receivable, net; acquired property, net; and other assets.

(3) Consists of accrued interest payable, federal funds purchased and securities sold under agreements to repurchase, and other liabilities.

(4) Consists of preferred stock, common stock, accumulated deficit, accumulated other comprehensive income, treasury stock, and noncontrolling interest.

Cash and Other Investments Portfolio

Our cash and other investments portfolio consists of cash and cash equivalents, federal funds sold and securities purchased under agreements to resell or similar arrangements, and investments in non-mortgage-related securities. See "Liquidity and Capital Management—Liquidity Management—Cash and Other Investments Portfolio" for additional information on our cash and other investments portfolio.

Restricted Cash

Restricted cash primarily includes unscheduled borrower payments received by the servicer or consolidated trusts due to be remitted to the MBS certificateholders in the subsequent month. Our restricted cash decreased as of March 31, 2013 compared with the balance as of December 31, 2012, resulting from a decrease in unscheduled payments received.

Investments in Mortgage-Related Securities

Our investments in mortgage-related securities are classified in our condensed consolidated balance sheets as either trading or available-for-sale and are measured at fair value. Unrealized and realized gains and losses on trading securities are included as a component of "Fair value gains, net" and unrealized gains and losses on available-for-sale securities are included in "Other comprehensive income" in our condensed consolidated statements of operations and comprehensive income. Realized gains and losses on available-for-sale securities are recognized when securities are sold in "Investment gains, net" in our condensed consolidated statements of operations and comprehensive income. We recognize the credit component of other-than-temporary impairments of debt securities we own in "Net other-than-temporary impairments" and the noncredit component in "Other comprehensive income" in our condensed consolidated statements of operations and comprehensive income for those securities that we do not intend to sell and for which it is not more likely than not that we will be required to sell before recovery.

Table 21 displays the fair value of our investments in mortgage-related securities, including trading and available-for-sale securities, as of the dates indicated. We classify private-label securities as Alt-A, subprime, CMBS or manufactured housing if the securities were labeled as such when issued. We have also invested in subprime private-label mortgage-related securities that we have resecuritized to include our guaranty ("wraps").

Table 21: Summary of Mortgage-Related Securities at Fair Value

	As of	
	March 31, 2013	December 31, 2012
	(Dollars in millions)	
Mortgage-related securities:		
Fannie Mae	$15,179	$16,683
Freddie Mac	12,007	12,173
Ginnie Mae	1,388	1,188
Alt-A private-label securities	12,583	12,405
Subprime private-label securities	9,314	8,766
CMBS	22,604	22,923
Mortgage revenue bonds	8,016	8,517
Other mortgage-related securities	3,223	3,271
Total	$84,314	$85,926

See "Note 5, Investments in Securities" for additional information on our investments in mortgage-related securities, including the composition of our trading and available-for-sale securities at amortized cost and fair value and the gross unrealized gains and losses related to our available-for-sale securities as of March 31, 2013 and December 31, 2012.

Mortgage Loans

The increase in mortgage loans, net of the allowance for loan losses, as of March 31, 2013 compared with the balance as of December 31, 2012 was primarily driven by securitization activity from our lender swap and portfolio securitization programs. For additional information on our mortgage loans, see "Note 3, Mortgage Loans." For additional information on the mortgage loan purchase and sale activities reported by our Capital Markets group, see "Business Segment Results—Capital Markets Group Results."

Deferred Tax Assets, Net

We recognize deferred tax assets and liabilities for future tax consequences arising from differences between the carrying amounts of existing assets and liabilities under GAAP and their respective tax bases, and for net operating loss carryforwards and tax credit carryforwards. For additional information on our deferred tax assets and liabilities, see "Note 10, Income Taxes."

Debt

Debt of Fannie Mae is the primary means of funding our mortgage investments. We provide a summary of the activity of the debt of Fannie Mae and a comparison of the mix between our outstanding short-term and long-term debt in "Liquidity and

Capital Management—Liquidity Management—Debt Funding.” Also see “Note 8, Short-Term Borrowings and Long-Term Debt” for additional information on our outstanding debt.

Debt of consolidated trusts represents the amount of Fannie Mae MBS issued from consolidated trusts and held by third-party certificateholders. The increase in debt of consolidated trusts as of March 31, 2013 compared with the balance as of December 31, 2012 was primarily driven by securitization activity from our lender swap and portfolio securitization programs.

Stockholders’ Equity (Deficit)

Our net equity increased as of March 31, 2013 compared with December 31, 2012. See “Table 22: Comparative Measures—GAAP Change in Stockholders’ Equity (Deficit) and Non-GAAP Change in Fair Value of Net Assets (Net of Tax Effect)” for details of the change in our net equity.

SUPPLEMENTAL NON-GAAP INFORMATION—FAIR VALUE BALANCE SHEETS

As part of our disclosure requirements with FHFA, we disclose on a quarterly basis supplemental non-GAAP consolidated fair value balance sheets, which reflect our assets and liabilities at estimated fair value.

Table 22 summarizes changes in our stockholders’ equity (deficit) reported in our GAAP condensed consolidated balance sheets and in the estimated fair value of our net assets in our non-GAAP consolidated fair value balance sheets for the three months ended March 31, 2013. The estimated fair value of our net assets is calculated based on the difference between the fair value of our assets and the fair value of our liabilities, adjusted for noncontrolling interests. We use various valuation techniques to estimate fair value, some of which incorporate internal assumptions that are subjective and involve a high degree of management judgment. We describe the specific valuation techniques used to determine fair value and disclose the carrying value and fair value of our financial assets and liabilities in “Note 16, Fair Value.”

Table 22: Comparative Measures—GAAP Change in Stockholders’ Equity (Deficit) and Non-GAAP Change in Fair Value of Net Assets (Net of Tax Effect)

	For the Three Months Ended March 31, 2013 (Dollars in millions)
GAAP consolidated balance sheets:	
Fannie Mae stockholders’ equity as of December 31, 2012[1]	$7,183
Total comprehensive income	59,339
Senior preferred stock dividend paid	(4,224)
Other	29
Fannie Mae stockholders’ equity as of March 31, 2013[1]	$62,327
Non-GAAP consolidated fair value balance sheets:	
Estimated fair value of net assets as of December 31, 2012	$(66,492)
Senior preferred stock dividend paid	(4,224)
Senior preferred stock dividend payable[2]	(59,368)
Increase in deferred tax assets, net[3]	49,738
Change in estimated fair value of net assets excluding the senior preferred stock dividend paid, the senior preferred stock dividend payable and the increase in deferred tax assets	23,083
Increase in estimated fair value of net assets, net	9,229
Estimated fair value of net assets as of March 31, 2013	$(57,263)

(1) Our net worth, as defined under the senior preferred stock purchase agreement, is equivalent to the “Total equity (deficit)” amount reported in our condensed consolidated balance sheets, which consists of “Total Fannie Mae stockholders’ equity (deficit)” and “Noncontrolling interest.”

(2)

Represents the dividend payment we will pay Treasury under the senior preferred stock purchase agreement, which, for purposes of our non-GAAP fair value balance sheets, we present as a liability.

(3) Represents an increase in the carrying value of our deferred tax assets as of March 31, 2013 compared with December 31, 2012, as we released the substantial majority of our valuation allowance against our deferred tax assets in the first quarter of 2013.

During the first quarter of 2013, the estimated fair value of our net assets (excluding the senior preferred stock dividend paid, the senior preferred stock dividend payable and the increase in deferred tax assets) increased by approximately $23 billion. This increase was primarily driven by an improvement in credit-related items due to overall improved housing market and economic conditions, including higher actual and expected home prices experienced in the first quarter of 2013, which lowered the expected losses on our guaranty book of business. We estimate that home prices increased by 1.1% in the first quarter of 2013. Changes in single-family home prices, regardless of magnitude, may cause volatility in our fair value measurements due to our $2.8 trillion single-family guaranty book of business. In addition, the income from the interest spread between our mortgage assets and associated debt and derivatives contributed approximately $6 billion to the increase in the estimated fair value of our net assets.

Cautionary Language Relating to Supplemental Non-GAAP Financial Measures

In reviewing our non-GAAP consolidated fair value balance sheets, there are a number of important factors and limitations to consider. The estimated fair value of our net assets is calculated as of a particular point in time based on our existing assets and liabilities. It does not incorporate other factors that may have a significant impact on our long-term fair value, including revenues generated from future business activities in which we expect to engage, the value from our foreclosure and loss mitigation efforts or the impact that legislation or potential regulatory actions may have on us. As a result, the estimated fair value of our net assets presented in our non-GAAP consolidated fair value balance sheets does not represent an estimate of our net realizable value, liquidation value or our market value as a whole. Amounts we ultimately realize from the disposition of assets or settlement of liabilities may vary materially from the estimated fair values presented in our non-GAAP consolidated fair value balance sheets.

In addition, the fair value of our net assets presented in our fair value balance sheet does not represent an estimate of the value we expect to realize from operating the company, primarily because:

- The estimated fair value of our credit exposures significantly exceeds the projected credit losses we would expect to incur if we were to retain the credit exposure, as fair value takes into account certain assumptions about liquidity and required rates of return that a market participant may demand in assuming a credit obligation, and
- The fair value of our net assets reflects a point in time estimate of the fair value of our existing assets and liabilities, and does not incorporate the value associated with new business that may be added in the future.

The fair value of our net assets is not a measure defined within GAAP and may not be comparable to similarly titled measures reported by other companies.

Supplemental Non-GAAP Consolidated Fair Value Balance Sheets

We display our non-GAAP fair value balance sheets as of the dates indicated in Table 23.

Table 23: Supplemental Non-GAAP Consolidated Fair Value Balance Sheets

	As of March 31, 2013			As of December 31, 2012		
	GAAP Carrying Value	Fair Value Adjustment(1)	Estimated Fair Value	GAAP Carrying Value	Fair Value Adjustment(1)	Estimated Fair Value
	(Dollars in millions)					
Assets:						
Cash and cash equivalents	$80,644	$ —	$80,644	$89,036	$ —	$89,036
Federal funds sold and securities purchased under agreements to resell or similar arrangements	79,350	—	79,350	32,500	—	32,500
Trading securities	52,391	—	52,391	40,695	—	40,695
Available-for-sale securities	60,329	—	60,329	63,181	—	63,181
Mortgage loans:						
Mortgage loans held for sale	455	13	468	464	11	475
Mortgage loans held for investment, net of allowance for loan losses:						
Of Fannie Mae	287,033	(27,436)	259,597	305,025	(33,837)	271,188
Of consolidated trusts	2,671,148	102,562 (2)	2,773,710 (3)	2,643,917	118,511 (2)	2,762,428 (3)
Total mortgage loans	2,958,636	75,139	3,033,775 (4)	2,949,406	84,685	3,034,091 (4)
Advances to lenders	4,442	(54)	4,388 (5)(6)	7,592	(84)	7,508 (5)(6)
Derivative assets at fair value	519	—	519 (5)(6)	435	—	435 (5)(6)
Guaranty assets and buy-ups, net	308	380	688 (5)(6)	327	365	692 (5)(6)
Total financial assets	3,236,619	75,465	3,312,084 (7)	3,183,172		