FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-Q
November 05, 2015

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

þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2015
OR
o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No.: 0-50231
Federal National Mortgage Association
(Exact name of registrant as specified in its charter)
Fannie Mae

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

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ
As of September 30, 2015, there were 1,158,082,750 shares of common stock of the registrant outstanding.

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MD&A TABLE REFERENCE

PART I—FINANCIAL INFORMATION

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

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

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

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

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

INTRODUCTION

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

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

Our conservatorship has no specified termination date, and we do not know when or how the conservatorship will terminate, whether we will continue to exist following conservatorship, what changes to our business structure will be made during or following the conservatorship, or what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated. In addition, our agreements with Treasury that provide for financial support include covenants that significantly restrict our business activities and provide for dividends to accrue at a rate equal to our net worth less a capital reserve amount, which continues to decrease annually until it reaches zero, allowing us to retain only a limited and decreasing amount of our net worth. We provide additional information on the conservatorship, the provisions of our agreements with Treasury, and their impact on our business in our 2014 Form 10-K in "Business—Conservatorship and Treasury Agreements" and "Risk Factors." We discuss the uncertainty of our future in "Executive Summary—Outlook" and "Risk Factors" in this report. We discuss proposals for housing finance reform that could materially affect our business in "Legislative and Regulatory Developments—Housing Finance Reform" in this report and in our quarterly report on Form 10 Q for the quarter ended June 30, 2015 ("Second Quarter 2015 Form 10-Q"), as well as in "Business—Housing Finance Reform" in our 2014 Form 10-K.

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

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

EXECUTIVE SUMMARY

Our Strategy

We are focused on:

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

Achieving strong financial and credit performance

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

- Financial Performance. We reported net income of $2.0 billion for the third quarter of 2015, compared with net income of $3.9 billion for the third quarter of 2014. See "Summary of Our Financial Performance" below for an overview of our financial performance for the third quarter and first nine months of 2015, compared with the third quarter and first nine months of 2014. We expect to remain profitable on an annual basis for the foreseeable future; however, certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year. For more information regarding our expectations for our future financial performance, see "Outlook—Financial Results" and "Outlook—Revenues" below.
- Dividend Payments to Treasury. With our expected December 2015 dividend payment to Treasury, we will have paid a total of $144.8 billion in dividends to Treasury on our senior preferred stock. The aggregate amount of draws we have received from Treasury to date under the senior preferred stock purchase agreement is $116.1 billion. Under the terms of the senior preferred stock purchase agreement, dividend payments do not offset prior Treasury draws. See "Treasury Draws and Dividend Payments" and "Outlook—Dividend Obligations to Treasury" below for more information regarding our dividend payments to Treasury.
- Book of Business and Credit Performance. Beginning in 2008, we made changes to strengthen our underwriting and eligibility standards that have improved the credit quality of our single-family guaranty book of business and contributed to improvement in our credit performance. Our single-family serious delinquency rate has decreased each quarter since the first quarter of 2010, and was 1.59% as of September 30, 2015, compared with 1.89% as of December 31, 2014. Single-family seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. See "Single-Family Guaranty Book of Business" below for information on the credit performance of the mortgage loans in our single-family guaranty book of business and on our recent single-family acquisitions.

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

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We remain under conservatorship and subject to the restrictions of the senior preferred stock purchase agreement with Treasury. As a result of the senior preferred stock purchase agreement and directives from our conservator, we are not permitted to retain our net worth (other than a limited amount that will decrease to zero by 2018), rebuild our capital position or pay dividends or other distributions to stockholders other than Treasury. See “Business—Conservatorship and Treasury Agreements” in our 2014 Form 10-K for more information regarding our conservatorship and our senior preferred stock purchase agreement with Treasury. In addition, the future of our company remains uncertain. Congress continues to consider options for reform of the housing finance system, including the GSEs, and we cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation. See “Legislative and Regulatory Developments—Housing Finance Reform” in this report and in our Second Quarter 2015 Form 10-Q, as well as “Business—Housing Finance Reform” in our 2014 Form 10-K for information on recent proposals for housing finance reform.

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

We continued our efforts to support the housing recovery in the third quarter of 2015. We were one of the largest issuers of mortgage-related securities in the single-family secondary market during the third quarter of 2015 and a continuous source of liquidity in the multifamily market. We also continued to help struggling homeowners. In the third quarter of 2015, we provided approximately 29,000 loan workouts to help homeowners stay in their homes or otherwise avoid foreclosure. We discuss our activities to support the housing and mortgage markets in “Contributions to the Housing and Mortgage Markets” below.

Serving customer needs and improving our business efficiency

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

Helping to build a sustainable housing finance system

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

Summary of Our Financial Performance

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

Comprehensive Income

Quarterly Results

We recognized comprehensive income of $2.2 billion in the third quarter of 2015, consisting of net income of $2.0 billion and other comprehensive income of $253 million. In comparison, we recognized comprehensive income of $4.0 billion in the third quarter of 2014, consisting of net income of $3.9 billion and other comprehensive income of $95 million. The decrease in comprehensive income was primarily due to an increase in fair value losses. Additionally, the decrease in comprehensive income was driven by revenue of $538 million recognized in the third quarter of 2014 resulting from settlement agreements resolving certain lawsuits relating to private-label mortgage-related securities (“PLS”) sold to us. These decreases were partially offset by higher net interest income primarily due to an increase in amortization income as a result of higher prepayments in the third quarter of 2015.

Fair value losses increased to $2.6 billion in the third quarter of 2015 compared with $207 million in the third quarter of 2014. Fair value losses in the third quarter of 2015 were primarily driven by decreases in longer-term swap rates during the period. Fair value losses in the third quarter of 2014 were primarily driven by increases in shorter-term swap rates during the period.

Year-to-Date Results

We recognized comprehensive income of $8.4 billion in the first nine months of 2015, consisting of net income of $8.5 billion and other comprehensive loss of $120 million. In comparison, we recognized comprehensive income of $13.4 billion in the first nine months of 2014, consisting of net income of $12.9 billion and other comprehensive income of $512 million. The decrease in comprehensive income was driven by revenue of $4.8 billion recognized in the first nine months of 2014 resulting from settlement agreements resolving certain lawsuits relating to PLS sold to us and a shift to credit-related expense from credit-related income.

We recognized credit-related expense of $102 million in the first nine months of 2015 comprised of foreclosed property expense partially offset by a benefit for credit losses. Foreclosed property expense was primarily driven by property preservation costs, which include property tax and insurance expenses relating to our single-family foreclosed properties. The benefit for credit losses was primarily driven by an increase in home prices. This was partially offset by the impact from the redesignation of certain nonperforming single-family loans from held for investment ("HFI") to held for sale ("HFS"). These loans were adjusted to the lower of cost or fair value, which reduced our benefit for credit losses by approximately $600 million. Additionally, mortgage interest rates increased during the first nine months of 2015, which also partially offset our benefit for credit losses. As interest rates increase, we expect a decline in future prepayments on individually impaired loans, including modified loans. Lower expected prepayments lengthen the expected lives of modified loans, which increases the impairment related to concessions provided on these loans and results in an increase in the provision for credit losses. We recognized credit-related income of $3.7 billion in the first nine months of 2014 primarily due to an increase in home prices and income from the resolution of compensatory fees and representation and warranty matters.

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

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

Net Worth

Our net worth increased to $4.0 billion as of September 30, 2015 from $3.7 billion as of December 31, 2014 primarily due to our comprehensive income of $8.4 billion, partially offset by our payments to Treasury of $8.1 billion in senior preferred stock dividends during the first nine months of 2015. Our expected dividend payment of $2.2 billion for the fourth quarter of 2015 is calculated based on our net worth of $4.0 billion as of September 30, 2015 less the applicable capital reserve amount of $1.8 billion.

Single-Family Guaranty Book of Business

Credit Performance

We continued to achieve strong credit performance in the third quarter of 2015. In addition to acquiring loans with strong credit profiles, we continued to execute on our strategies for reducing credit losses, such as helping eligible Fannie Mae borrowers with high loan-to-value ("LTV") ratio loans refinance into more sustainable loans through the Administration's Home Affordable Refinance Program® ("HARP®"), offering borrowers loan modifications that can significantly reduce their monthly payments, pursuing foreclosure alternatives and managing our real estate owned

("REO") inventory to appropriately manage costs and maximize sales proceeds. As we work to reduce credit losses, we also seek to assist struggling homeowners, help stabilize communities and support the housing market.

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

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

	2015				2014				
	Q3 YTD	Q3	Q2	Q1	Full Year	Q4	Q3	Q2	Q1
	(Dollars in millions)								
As of the end of each period:									
Serious delinquency rate[2]	1.59 %	1.59 %	1.66 %	1.78 %	1.89 %	1.89 %	1.96 %	2.05 %	2.19 %
Seriously delinquent loan count	275,548	275,548	287,372	308,546	329,590	329,590	340,897	357,267	383,810
Foreclosed property inventory:									
Number of properties[3]	60,958	60,958	68,717	79,319	87,063	87,063	92,386	96,796	102,398
Carrying value	$7,245	$7,245	$7,997	$8,915	$9,745	$9,745	$10,209	$10,347	$10,492
Total loss reserves[4]	29,677	29,677	31,770	32,532	37,762	37,762	39,330	41,657	44,760
During the period:									
Credit-related income (expense)[5]	$(216)	$1,029	$(1,238)	$(7)	$3,625	$94	$748	$1,781	$1,002
Credit losses[6]	8,650	1,168	2,109	5,373	5,978	1,616	1,738	1,497	1,127
REO net sales prices to unpaid principal balance[7]	71 %	72 %	72 %	70 %	69 %	69 %	69 %	69 %	68 %
Short sales net sales price to unpaid principal balance[8]	73 %	74 %	74 %	73 %	72 %	72 %	72 %	72 %	71 %
Loan workout activity (number of loans):									
Home retention loan workouts[9]	79,908	23,571	27,769	28,568	130,132	27,610	30,584	33,639	38,299
Short sales and deeds-in-lieu of foreclosure	17,316	5,531	6,128	5,657	34,480	6,845	7,992	9,516	10,127
	97,224	29,102	33,897	34,225	164,612	34,455	38,576	43,155	48,426

Total loan workouts									
Loan workouts as a percentage of delinquent loans in our guaranty book of business[10]	21.00 %	19.28 %	22.69 %	21.71 %	23.20 %	20.45 %	22.46 %	24.69 %	25.70 %

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

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

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

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

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

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

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

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

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

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

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

We continue to experience disproportionately higher credit losses and serious delinquency rates from single-family loans originated in 2005 through 2008 than from loans originated in other years. Single-family loans originated in 2005 through 2008 constituted 11% of our single-family book of business as of September 30, 2015 but constituted 58% of our seriously delinquent single-family loans as of September 30, 2015 and drove 66% of our single-family credit losses in the third quarter of 2015. For information on the credit performance of our single-family book of business based on loan vintage, see "Table 11: Credit Loss Concentration Analysis" in "Consolidated Results of Operations—Credit-Related Income (Expense)—Credit Loss Performance Metrics" and "Table 29: Single-Family Conventional Seriously Delinquent Loan Concentration Analysis" in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management." For information on certain credit characteristics of our single-family book of business based on the period in which we acquired the loans, see "Table 24: Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period" in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

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

We provide more information on our efforts to reduce our credit losses in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" and "Risk Management—Credit Risk

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

Recently Acquired Single-Family Loans

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

Table 2: Single-Family Acquisitions Statistics

	2015			2014			
	Q3	Q2	Q1	Q4	Q3	Q2	Q1
	(Dollars in millions)						
Single-family average charged guaranty fee on new acquisitions (in basis points)[(1)(2)]	60.6	59.9	61.2	62.5	63.5	62.6	63.0
Single-family Fannie Mae MBS issuances	$126,144	$130,974	$110,994	$109,045	$105,563	$84,096	$76,972
Select risk characteristics of single-family conventional acquisitions:[(3)]							
Weighted average FICO® credit score at origination	747	750	748	745	744	744	741
FICO credit score at origination less than 660	6 %	5 %	5 %	6 %	7 %	7 %	8 %
Weighted average original LTV ratio[(4)]	76 %	74 %	74 %	76 %	77 %	77 %	77 %
Original LTV ratio over 80%[(4)(5)]	30 %	27 %	26 %	30 %	32 %	32 %	31 %
Original LTV ratio over 95%[(4)]	3 %	3 %	2 %	2 %	3 %	4 %	7 %
Loan purpose:							
Purchase	54 %	40 %	37 %	50 %	57 %	54 %	45 %
Refinance	46 %	60 %	63 %	50 %	43 %	46 %	55 %

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

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

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

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

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

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

The average charged guaranty fee on newly-acquired single-family loans varies from period to period as a result of shifts in the loan level price adjustments we charge and changes we make to our contractual fee rates. Loan level price adjustments refer to one-time cash fees that we charge at the time we acquire a loan based on the credit characteristics of the loan. Loans with lower LTV ratios, which is typical of non-HARP refinance loans, or higher FICO credit scores generally result in lower loan level price adjustments. As a result, our average charged guaranty fee is lower than it would otherwise be in periods with high volumes of non-HARP refinance loans. The contractual fee rates we charge vary to the extent we make changes in our pricing strategy in response to the market and competitive environment. The decrease in our average charged guaranty fee on newly-acquired single-family loans in the third quarter of 2015 as compared with the third quarter of 2014 was driven by a decrease in loan level price adjustments charged on our acquisitions in the third quarter of 2015 and by changes we made in our contractual fee rates.

For more information on the credit risk profile of our single-family conventional loan acquisitions in the third quarter of 2015, see "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management," including "Table 27: Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business" in that section.

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

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

Providing Access to Credit Opportunities for Creditworthy Borrowers

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

As part of meeting this scorecard objective, in 2014 we worked with FHFA to revise our eligibility criteria to address a targeted segment of creditworthy borrowers—those who can afford a mortgage but who lack resources for a substantial down payment—in a responsible manner by taking into account factors that would compensate for the high LTV ratios of their loans. Specifically, we changed our eligibility requirements to increase our maximum LTV ratio from 95% to 97% for loans meeting certain criteria. Our eligibility requirements for these loans include compensating factors and risk mitigants, which reduce the incidence of loans with multiple higher-risk characteristics, or "risk layering." For purchase transactions, at least one borrower on the loan must be a first-time home buyer and occupy the property as his or her principal residence. In some cases, we also require the borrower to receive housing counseling before obtaining the loan. Eligibility for refinance transactions is limited to existing Fannie Mae loans to provide support for borrowers who may not otherwise be eligible for our Refi Plus™ initiative. For both purchase and refinance loans, the loans must have fixed-rate terms and must be underwritten through Desktop Underwriter®, our proprietary automated underwriting system. Desktop Underwriter provides a comprehensive credit risk assessment on loan applications submitted through the system, assessing risk layers and compensating factors, and identifying loan applications that do not meet our eligibility requirements.

More recently, in August 2015 we announced that we are introducing an improved affordable lending product, HomeReady™, which is designed for creditworthy borrowers with lower and moderate incomes and will provide expanded eligibility for financing homes in designated low-income, minority, and disaster-impacted communities. Under our HomeReady guidelines, evidence of income from a non-borrower household member can be considered as a factor to allow a borrower to qualify with a higher debt-to-income ratio for the loan, helping multi-generational and extended households obtain homeownership. Our research indicates that these extended households tend to have incomes that are as stable as or more stable than households without significant non-borrower income. Other HomeReady flexibilities include allowing income from non-occupant borrowers, such as parents, and rental payments, such as from a basement apartment, to augment the borrower's qualifying income. HomeReady will be available to eligible first-time and repeat homebuyers whose loans have LTV ratios of up to 97%. HomeReady loans must be underwritten through Desktop Underwriter. In addition, HomeReady borrowers will be required to complete an online education course preparing them for the home buying process and providing post-purchase support for sustainable homeownership. We expect to begin acquiring loans under HomeReady in the fourth quarter of 2015.

Although a higher LTV ratio may indicate that a loan presents a higher credit risk than a loan with a lower LTV ratio, we expect our acquisition of these loans under our revised eligibility criteria and under HomeReady will not materially affect our overall credit risk because we expect that (1) these loans will constitute a small portion of our acquisitions overall and (2) the eligibility requirements these loans must meet, which are discussed above, will limit their effect on our overall credit risk. In addition, we have experience managing the credit risk associated with loans with LTV ratios in this range.

In the first nine months of 2015, pursuant to the revised eligibility criteria we introduced in 2014, we acquired approximately 17,000 single-family loans with 95.01% to 97% LTV ratios from approximately 700 lenders. These loans represented 1% of the single-family loans we acquired in the first nine months of 2015. While we expect the volume of loans we acquire under these criteria and HomeReady to increase, we expect they will continue to constitute only a small portion of our overall acquisitions. We require mortgage insurance or other appropriate credit enhancement for all acquisitions of non-HARP loans with LTV ratios greater than 80%.

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

Contributions to the Housing and Mortgage Markets

Liquidity and Support Activities

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

- We serve as a stable source of liquidity for purchases of homes and financing of multifamily rental housing, as well as for refinancing existing mortgages. We provided approximately $132 billion in liquidity to the mortgage market in the third quarter of 2015 through our purchases of loans and guarantees of loans and securities. This liquidity enabled borrowers to complete approximately 275,000 mortgage refinancings and approximately 297,000 home purchases, and provided financing for approximately 118,000 units of multifamily housing.
- Our role in the market enables qualified borrowers to have reliable access to affordable mortgage credit, including a variety of conforming mortgage products such as the prepayable 30-year fixed-rate mortgage that protects homeowners from fluctuations in interest rates.
- We provided approximately 29,000 loan workouts in the third quarter of 2015 to help homeowners stay in their homes or otherwise avoid foreclosure. Our loan workout efforts have helped to stabilize neighborhoods, home prices and the housing market.
- We helped borrowers refinance loans, including through our Refi Plus initiative, which offers additional refinancing flexibility to eligible borrowers who are current on their loans, whose loans are owned or guaranteed by us and who meet certain additional criteria. We acquired approximately 45,000 Refi Plus loans in the third quarter of 2015. Refinancings delivered to us through Refi Plus in the third quarter of 2015 reduced borrowers' monthly mortgage payments by an average of $182.
- We support affordability in the multifamily rental market. Over 80% of the multifamily units we financed in the third quarter of 2015 were affordable to families earning at or below the median income in their area.
- In addition to purchasing and guaranteeing loans, we provide funds to the mortgage market through short-term financing and other activities. These activities are described in our 2014 Form 10-K in "Business—Business

Segments—Capital Markets."

2015 Market Share

We were one of the largest issuers of mortgage-related securities in the secondary market during the third quarter of 2015, with an estimated market share of new single-family mortgage-related securities issuances of 36%, compared with 37% in the second quarter of 2015 and 38% in the third quarter of 2014. Our market share decreased in the third quarter of 2015 compared with the second quarter of 2015 primarily as a result of competition from Ginnie Mae.

We remained a continuous source of liquidity in the multifamily market in the third quarter and first nine months of 2015. We owned or guaranteed approximately 19% of the outstanding debt on multifamily properties as of June 30, 2015 (the latest date for which information is available). FHFA's 2015 conservatorship scorecard includes an objective to maintain the dollar volume of new multifamily business at or below $30 billion, excluding certain targeted business segments.

Serving Customer Needs and Improving Our Business Efficiency

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

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

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

we enhanced our EarlyCheck™ loan verification tool with additional loan-level data integrity capabilities, to give lenders confidence that the loans they deliver to us have accurate, complete data and meet our requirements;

we announced alternatives to repurchase that may be offered to lenders in the event of underwriting defects, and we provided specific guidance on what types of loan defects could lead to a repurchase request or an alternative remedy;

we announced that lenders would be required to use trended credit data for loans underwritten using Desktop Underwriter; among other benefits, this data will allow lenders to determine if a borrower tends to pay off revolving credit lines such as credit cards each month, or if the borrower tends to carry a balance from month-to-month; we expect Desktop Underwriter will be updated to use trended credit data by mid-2016;

we announced that we are building a new capability to help lenders more efficiently serve borrowers who do not have a traditional credit history by permitting lenders to underwrite loans to these borrowers through Desktop Underwriter; we expect this new functionality will be available in 2016;

we announced that in November 2015 we plan to introduce Fannie Mae Connect™, a new self-service portal for lenders to access the data and analytics they need through a one stop source that will replace multiple legacy systems;

we announced that we expect to offer data validation services through Desktop Underwriter in 2016 to help lenders originate loans with greater simplicity and certainty by enabling lenders to validate a borrower's income through Desktop Underwriter with data provided by Equifax's The Work Number®; and

- in the fourth quarter of 2015, we expect to make available a new loan delivery platform for lenders that is designed to help lenders deliver loans more efficiently and with greater transparency and certainty.

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

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

Helping to Build a Sustainable Housing Finance System

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

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

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

Credit Risk Transfer Transactions: Connecticut Avenue Securities and Credit Insurance Risk Transfer. FHFA's 2015 conservatorship scorecard includes an objective that we transact credit risk transfers on reference pools of single-family mortgages with an unpaid principal balance of at least $150 billion in 2015, utilizing at least two types of risk transfer structures. The goal of these transactions is, to the extent economically sensible, to transfer a portion of the existing credit risk on a portion of our single-family guaranty book of business in order to reduce the risk to taxpayers of future borrower defaults. Our primary method of achieving this objective has been through the issuance of our Connecticut Avenue Securities™ ("CAS"), which transfer a portion of the credit risk associated with losses on a reference pool of mortgage loans to investors in these securities. From January 2015 to September 2015, we issued $4.5 billion in CAS, transferring a portion of the credit risk on single-family mortgages with an unpaid principal balance of $143.5 billion. See "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards—Risk-Sharing Transactions" for more information on our CAS transactions, including information on the transaction we completed in October 2015. This October 2015 CAS transaction was the first that calculates losses based on the actual loss experience associated with the reference pool of mortgage loans, generally following the final disposition of the underlying properties. During the first nine months of 2015, we completed three credit insurance risk transfer™ ("CIRT™") transactions, shifting to panels of reinsurers a portion of the credit risk on reference pools of single-family mortgage loans with an aggregate unpaid principal balance of approximately $19.8 billion. See "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Credit Guarantors—Reinsurer for more information on our CIRT transactions.

Through October 2015, we transferred a significant portion of the mortgage credit risk on over 90% of the single-family loans we acquired during the twelve months ended September 30, 2014 that were eligible to be included in our credit risk transfer transactions. Generally, only fixed-rate 30-year single-family loans that meet certain credit performance characteristics, are non-Refi Plus and have LTV ratios between 60% and 97% have been eligible for our risk-sharing transactions. Based on their characteristics at the time we acquired them, approximately 50% of the single-family loans we acquired during the twelve months ended September 30, 2014 have been eligible for our credit risk transfer transactions.

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

June 2015 and an additional sale in the third quarter of 2015. In these two sales, we sold approximately 5,600 nonperforming loans with an aggregate unpaid principal balance of $1.2 billion. In October 2015, we announced our third nonperforming loan sale. We plan to complete additional nonperforming loan sales.

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

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

Single Security. FHFA's 2015 conservatorship scorecard includes objectives relating to the development of a single mortgage-backed security for Fannie Mae and Freddie Mac. Specifically, the 2015 scorecard requires that we finalize the single security structure (including security features, disclosure standards and related requirements) and develop a plan to implement the single security in the market. FHFA believes a single security would increase liquidity in the housing finance market. The development of the single security is expected to be a multi-year initiative. In the first nine months of 2015, we worked on a variety of issues relating to the implementation of the single security, including accounting matters, communication planning, industry outreach, risk assessments, legal and contractual issues, trust matters, disclosures, and system development and testing work with the common securitization platform. In May 2015, FHFA issued an update on the structure of the single security that outlined its determinations regarding the key features of the single security structure and requested feedback on its determinations. In addition, in July 2015, we, Freddie Mac and Common Securitization Solutions, LLC announced the creation of an industry advisory group to provide feedback and share information on efforts to build the common securitization platform and implement the single security. In September 2015, FHFA issued an Update on the Common Securitization Platform that provides details on the progress made by Fannie Mae and Freddie Mac in developing the platform. See "Legislative and Regulatory Developments—Housing Finance Reform—Conservator Developments" in our Second Quarter 2015 Form 10-Q, and "Housing Finance Reform—Conservator Developments" in our 2014 Form 10-K for additional information on FHFA's single security proposal and the common securitization platform and "Risk Factors" in our 2014 Form 10-K for a discussion of the risks to our business associated with a single security for Fannie Mae and Freddie Mac, including the risks that implementation of a single security would likely reduce, and could eliminate, the trading advantage that Fannie Mae MBS have over Freddie Mac mortgage-backed securities and that, if this occurs, it would negatively affect our ability to compete for mortgage assets in the secondary market and could adversely affect our results of operations.

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

Treasury Draws and Dividend Payments

From 2009 through the first quarter of 2012, we received a total of $116.1 billion from Treasury under the senior preferred stock purchase agreement. This funding provided us with the capital and liquidity needed to fulfill our mission of providing liquidity and support to the nation's housing finance markets and to avoid a trigger of mandatory receivership under the Federal Housing Finance Regulatory Reform Act of 2008 (the "2008 Reform Act"). In addition, a portion of the $116.1 billion we received from Treasury was drawn to pay dividends to Treasury because, prior to 2013, our dividend payments on the senior preferred stock accrued at an annual rate of 10%, and we were directed by our conservator to pay these dividends to Treasury each quarter even when we did not have sufficient income to pay the dividend. We have not received funds from Treasury under the agreement since the first quarter of 2012. As of the date of this filing, the maximum amount of remaining funding under the agreement is $117.6 billion. From 2008 through the third quarter of 2015, we paid a total of $142.5 billion in dividends to Treasury on the senior preferred stock. Under the terms of the senior preferred stock purchase agreement, dividend payments do not offset prior Treasury draws, and we are not permitted to pay down draws we have made under the agreement except in limited circumstances. Accordingly, the current aggregate liquidation preference of the senior preferred

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stock is \$117.1 billion, due to the initial \$1.0 billion liquidation preference of the senior preferred stock (for which we did not receive cash proceeds) and the \$116.1 billion we have drawn from Treasury.

The Director of FHFA directs us to make dividend payments on the senior preferred stock on a quarterly basis. We expect to pay Treasury a senior preferred stock dividend of \$2.2 billion by December 31, 2015 for the fourth quarter of 2015.

Housing and Mortgage Market and Economic Conditions

Economic growth moderated in the third quarter of 2015. According to the U.S. Bureau of Economic Analysis advance estimate, the inflation-adjusted U.S. gross domestic product, or GDP, rose by 1.5% on an annualized basis in the third quarter of 2015, compared with an increase of 3.9% in the second quarter of 2015. The overall economy gained an estimated 501,000 non-farm jobs in the third quarter of 2015. According to the U.S. Bureau of Labor Statistics, over the 12 months ending in September 2015, the economy created an estimated 2.7 million non-farm jobs. The unemployment rate was 5.1% in September 2015, compared with 5.3% in June 2015.

According to the Federal Reserve, total U.S. residential mortgage debt outstanding, which includes \$9.9 trillion of single-family debt outstanding, was estimated to be approximately \$10.9 trillion as of both June 30, 2015 (the latest date for which information is available) and March 31, 2015.

Housing sales increased in the third quarter of 2015 as compared with the second quarter of 2015. Total existing home sales averaged 5.5 million units annualized in the third quarter of 2015, a 3.4% increase from the second quarter of 2015, according to data from the National Association of REALTORS®. Sales of foreclosed homes and preforeclosure, or “short,” sales (together, “distressed sales”) accounted for 7% of existing home sales in September 2015, compared with 8% in June 2015 and 10% in September 2014. According to the U.S. Census Bureau, new single-family home sales increased during the third quarter of 2015, averaging an annualized rate of 500,000 units, a 0.7% gain from the second quarter of 2015.

The number of months’ supply, or the inventory/sales ratio, of available existing homes and of new homes was mixed in the third quarter of 2015. According to the U.S. Census Bureau, the months’ supply of new single-family unsold homes was 5.8 months as of September 30, 2015, compared with 5.6 months as of June 30, 2015. According to the National Association of REALTORS®, the months’ supply of existing unsold homes was 4.8 months as of September 30, 2015, compared with a 4.9 months’ supply as of June 30, 2015.

The overall mortgage market serious delinquency rate, which has trended down since peaking in the fourth quarter of 2009, remained above long-term averages at 4.0% as of June 30, 2015 (the latest date for which information is available), according to the Mortgage Bankers Association’s National Delinquency Survey, compared with 4.2% as of March 31, 2015. We provide information about Fannie Mae’s serious delinquency rate, which also decreased in the second quarter of 2015, in “Single-Family Guaranty Book of Business—Credit Performance.”

Based on our home price index, we estimate that home prices on a national basis increased by 1.3% in the third quarter of 2015 and by 5.4% in the first nine months of 2015, following increases of 4.4% in 2014 and 7.9% in 2013. Despite the recent increases in home prices, we estimate that, through September 30, 2015, home prices on a national basis remained 5.6% below their peak in the third quarter of 2006. Our home price estimates are based on preliminary data and are subject to change as additional data become available.

Despite the recent increases in home prices, many homeowners continue to have “negative equity” in their homes as a result of declines in home prices since 2006, which means their mortgage principal balance exceeds the current market value of their home. This increases the likelihood that borrowers will abandon their mortgage obligations and that the loans will become delinquent and proceed to foreclosure. According to CoreLogic, Inc. the number of residential properties with mortgages in a negative equity position in the second quarter of 2015 was approximately 4.4 million, down from 5.1 million in the first quarter of 2015 and from 5.4 million in the second quarter of 2014. The percentage of properties with mortgages in a negative equity position in the second quarter of 2015 was 8.7%, down from 10.2% in the first quarter of 2015 and from 10.9% in the second quarter of 2014.

Thirty-year fixed-rate mortgage rates ended the quarter at 3.85% for the week of October 1, 2015, down from 4.08% for the week of July 2, 2015, according to the Freddie Mac Primary Mortgage Market Survey®.

During the third quarter of 2015, the multifamily sector exhibited steady fundamentals, according to preliminary third-party data, with a stable national vacancy level and increasing rent growth. The estimated national multifamily vacancy rate for institutional investment-type apartment properties was 4.75% as of September 30, 2015, June 30, 2015 and September 30, 2014. National asking rents increased by an estimated 1.25% during the third quarter of 2015, compared with 1.0% during the second quarter of 2015. Because estimated multifamily rent growth has outpaced wage growth over the past few years, multifamily rental housing affordability has declined in recent years.

Continued demand for multifamily rental units was reflected in the estimated positive net absorption (that is, the net change in the number of occupied rental units during the time period) of approximately 34,000 units during the third quarter of 2015, according to preliminary data from Reis, Inc., compared with approximately 49,000 units during the second quarter of 2015. As a result of the continued demand for multifamily rental units over the past few years, there has been an increase in the amount of new multifamily construction development nationally. More than 300,000 new multifamily units are expected to be completed this year. The bulk of this new supply is concentrated in a limited number of metropolitan areas. We believe this increase in supply will result in a temporary slowdown in the growth of net absorption rates, occupancy levels and effective rents in those areas. We expect overall national rental market supply and demand to remain in balance over the longer term, based on expected construction completions, expected obsolescence, positive rental household formation trends and expected increases in the population of 25- to 34-year olds, which is the primary age group that tends to rent multifamily housing.

Outlook

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

We cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation. See “Legislative and Regulatory Developments—Housing Finance Reform” in this report and in our Second Quarter 2015 Form 10-Q, as well as “Business—Housing Finance Reform” in our 2014 Form 10-K for discussion of proposals for reform of the housing finance system, including the GSEs, that could materially affect our business, including proposals to wind down Fannie Mae and Freddie Mac. See “Risk Factors” in this report for a discussion of the risks to our business relating to the uncertain future of our company.

Financial Results. Our financial results continued to be strong in the third quarter of 2015, with net income of $2.0 billion. We expect to remain profitable on an annual basis for the foreseeable future; however, we expect our earnings in 2015 and future years will be substantially lower than our earnings for 2014, primarily due to our expectation of substantially lower income from resolution agreements, continued declines in net interest income from our retained mortgage portfolio assets and lower credit-related income or a shift to credit-related expense. In addition, certain factors, such as changes in interest rates or home prices, could result in significant volatility in our financial results from quarter to quarter or year to year. Our future financial results also will be affected by a number of other factors, including: our guaranty fee rates; the volume of single-family mortgage originations in the future; the size, composition and quality of our retained mortgage portfolio and guaranty book of business; and economic and housing market conditions. Our expectations for our future financial results do not take into account the impact on our business of potential future legislative or regulatory changes, which could have a material impact on our financial results, particularly the enactment of housing finance reform legislation as noted in “Uncertainty Regarding our Future Status” above.

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

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

2012 and the shrinking of our retained mortgage portfolio. We estimate that a majority of our net interest income for the first nine months of 2015 was derived from guaranty fees on loans underlying our Fannie Mae MBS. We expect that guaranty fees will continue to account for an increasing portion of our net interest income.

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

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

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

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

We forecast that total originations in the U.S. single-family mortgage market in 2015 will increase from 2014 levels by approximately 30%, from an estimated $1.3 trillion in 2014 to $1.7 trillion in 2015, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will increase from an estimated $518 billion in 2014 to $779 billion in 2015.

Home Prices. Based on our home price index, we estimate that home prices on a national basis increased by 1.3% in the third quarter of 2015 and by 5.4% in the first nine months of 2015. We expect the rate of home price appreciation in 2015 to be similar to the rate in 2014. Future home price changes may be very different from our expectations as a result of significant inherent uncertainty in the current market environment, including uncertainty about the effect of recent and future changes in mortgage rates; actions the federal government has taken and may take with respect to fiscal policies, mortgage finance programs and policies, and housing finance reform; the Federal Reserve’s purchases and sales of mortgage-backed securities; the impact of those actions on and changes generally in unemployment and the general economic and interest rate environment; and the impact on the U.S. economy of global economic and political conditions. We also expect significant regional variation in the timing and rate of home price growth.

Credit Losses. Our credit losses, which include our charge-offs, net of recoveries, reflect our realization of losses on our loans. Our credit losses were $8.7 billion for the first nine months of 2015, compared with $4.3 billion in the first nine months of 2014. The increase in our credit losses in the first nine months of 2015 compared with the first nine months of 2014 was primarily due to our approach to adopting the charge-off provisions of FHFA’s Advisory Bulletin AB 2012-02, “Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention” (the “Advisory Bulletin”) on January 1, 2015, a change in accounting policy for nonaccrual loans, and the recognition of losses associated with the redesignation of certain nonperforming single-family loans with an aggregate unpaid principal balance of $5.3 billion from HFI to HFS. Our credit losses for the first nine months of 2015 reflect $2.5 billion in initial charge-offs associated with our approach to adopting the charge-off provisions of the Advisory Bulletin and $1.1 billion in charge-offs relating to the change in accounting policy for nonaccrual loans. Our credit losses were $1.2 billion in the third quarter of 2015, compared with $2.1 billion in the second quarter of 2015 and $1.7 billion in the third quarter of 2014. We expect our credit losses generally to continue to decline in future years, absent further redesignations or accounting policy changes. For further information about our implementation of the Advisory Bulletin and our change in accounting policy for nonaccrual loans, see "Note 1, Summary of Significant Accounting Policies." For further information about our credit losses for the third quarter and first nine months of 2015 as compared with the third quarter and first nine months of 2014, see "Consolidated Results of Operations—Credit-Related Income (Expense)—Credit Loss Performance Metrics."

Loss Reserves. Our total loss reserves consist of (1) our allowance for loan losses, (2) our allowance for preforeclosure property taxes and insurance receivable and (3) our reserve for guaranty losses. Our total loss reserves were $30.0 billion as of September 30, 2015, down from $38.2 billion as of December 31, 2014. Our loss reserves have declined substantially from their peak and are expected to decline further.

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

LEGISLATIVE AND REGULATORY DEVELOPMENTS

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

Housing Finance Reform

Congress continues to consider housing finance reform that could result in significant changes in our structure and role in the future. In the first session of the 114th Congress, which convened in January 2015, a number of bills have been introduced and considered in the Senate and the House of Representatives relating to Fannie Mae, Freddie Mac and the housing finance system.

Since July 1, 2015, action was taken in Congress on the following bills relating to Fannie Mae:

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The Senate approved a surface transportation reauthorization bill that includes a provision to extend by an additional four years the 10 basis point guaranty fee increase implemented pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011 (the "TCCA"), which fees we are required to remit to Treasury.

- The Senate approved the Equity in Government Compensation Act of 2015. This bill directs the Director of the Federal Housing Finance Agency ("FHFA") to suspend the current compensation packages of Fannie Mae's and Freddie Mac's chief executive officers and, in lieu of these packages, to establish the compensation and benefits that were in effect for these officers as of January 1, 2015. The bill also provides that these officers' compensation and benefits may not thereafter be increased and these restrictions on chief executive officer compensation are applicable as long as Fannie Mae and Freddie Mac are in conservatorship or receivership.

As described in our 2014 Form 10-K, the total target direct compensation of our Chief Executive Officer in effect as of January 1, 2015 consisted solely of a base salary of $600,000. As described in our current report on Form 8-K filed with the SEC on July 1, 2015, on June 29, 2015, FHFA approved an increase in our Chief Executive Officer's compensation to an annual direct compensation target of $4,000,000, which became effective on July 1, 2015. Accordingly, if this legislation becomes law, upon action by the Director of FHFA our Chief Executive Officer's total annual target direct compensation would be reduced from $4,000,000 to $600,000 and frozen at this level as long as Fannie Mae remains in conservatorship or is in receivership. This cap on chief executive officer compensation would negatively affect our ability to retain our Chief Executive Officer and engage in effective succession planning for this critical role. For more information on our executive compensation program, see "Item 11. Executive Compensation" in our 2014 Form 10-K. For more information on the risks to our business if we are unable to retain and recruit well-qualified employees, see "Risk Factors."

- The "Jumpstart GSE Reform Act," was reintroduced in the Senate. This bill, which was initially introduced in the Senate in March 2013, would prohibit Congress from increasing the GSEs' guaranty fees to offset spending unrelated to the business operations of the GSEs and also would prohibit Treasury from disposing of its GSE senior preferred stock until legislation has been enacted that includes specific instruction for its disposition.

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

2014 Housing Goals Performance

We are subject to housing goals, which establish specified requirements for our mortgage acquisitions relating to affordability or location. Our single-family performance is measured against the lower of benchmarks established by FHFA or goals-qualifying originations in the primary mortgage market. Multifamily goals are established as a number of units to be financed. In October 2015, after the release of data reported under the Home Mortgage Disclosure Act ("HMDA"), FHFA notified us that it had preliminarily determined that we met all of our single-family and multifamily housing goals for 2014. For the single-family very low-income families home purchase goal, FHFA preliminarily determined that our performance was 5.7% of our 2014 acquisitions of single-family owner-occupied purchase money mortgage loans, which failed to meet the FHFA-established benchmark of 7%, but met the overall market level for 2014 of 5.7%. See "Business—Our Charter and Regulation of Our Activities—The GSE Act—Housing Goals and Duty to Serve Undeserved Markets—Housing Goals for 2012 to 2014" in our 2014 Form 10-K for a more detailed discussion of our housing goals.

Housing Goals for 2015 to 2017

In September 2015, FHFA published a final rule establishing single-family and multifamily housing goals for Fannie Mae and Freddie Mac for 2015 to 2017.

The following single-family home purchase and refinance housing goal benchmarks were adopted for 2015 to 2017.

- Low-Income Families Home Purchase Benchmark: At least 24% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to low-income families (defined as income equal to or less than 80% of area median income). This is an increase from the 23% benchmark that applied for 2014.
- Very Low-Income Families Home Purchase Benchmark: At least 6% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to very low-income families (defined as income equal to or less than 50% of area median income). This is a decrease from the 7% benchmark that applied for 2014.

- Low-Income Areas Home Purchase Goal Benchmark: The benchmark level for our acquisitions of single-family owner-occupied purchase money mortgage loans for families in low-income areas is set annually by notice from FHFA, based on the benchmark level for the low-income areas home purchase subgoal (below), plus an adjustment

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factor reflecting the additional incremental share of mortgages for moderate-income families (defined as income equal to or less than 100% of area median income) in designated disaster areas. For 2015, FHFA set the overall low-income areas home purchase benchmark goal at 19%. This is an increase from the 18% benchmark that applied for 2014.

- Low-Income Areas Home Purchase Subgoal Benchmark: At least 14% of our acquisitions of single-family owner-occupied purchase money mortgage loans must be affordable to families in low-income census tracts or to moderate-income families in high-minority census tracts. This is an increase from the benchmark of 11% that applied for 2014.
- Low-Income Families Refinancing Benchmark: At least 21% of our acquisitions of single-family owner-occupied refinance mortgage loans must be affordable to low-income families. This is an increase from the benchmark of 20% that applied for 2014.

If we do not meet these benchmarks, we may still meet our goals. Our single-family housing goals performance is measured against benchmarks and against goals-qualifying originations in the primary mortgage market after the release of data reported under HMDA, which are typically released each year in the fall. We will be in compliance with the housing goals if we meet either the benchmarks or market share measures.

FHFA's final 2015 to 2017 housing goals rule also includes benchmarks for a multifamily special affordable housing goal and subgoal, and establishes a new subgoal for small multifamily properties (defined as those with 5 to 50 units) affordable to low-income families. FHFA's annual multifamily benchmark level for 2015 to 2017 for units affordable to low-income families is 300,000 units, an increase from 2014's benchmark level of 250,000 units. FHFA's annual multifamily benchmark level for 2015 to 2017 for units affordable to very low-income families is 60,000 units per year, consistent with 2014's annual level. FHFA's new annual subgoal for Fannie Mae for small multifamily properties affordable to low-income families increases each year: 6,000 units in 2015; 8,000 units in 2016; and 10,000 units in 2017. There is no market-based alternative measurement for the multifamily goal or subgoals.

Dodd-Frank Act—Proposed Amendments to FHFA Rule Regarding Stress Testing

In August 2015, FHFA published proposed amendments to its rule that requires us to conduct an annual stress test. If finalized, the amendments would change the timing of the testing, requiring us to base the tests on our data as of December 31 each year, rather than as of September 30, and requiring us to publicly disclose a summary of our stress test results for the severely adverse scenario by August 31 each year rather than April 30. These amendments would align FHFA's rule with rules adopted by other financial institution regulators that implement the Dodd-Frank stress testing requirements.

Dodd-Frank Act—Swap Transactions; Minimum Capital and Margin Requirements

The Dodd-Frank Act includes provisions requiring additional regulation of swap transactions. Because we are a user of interest rate swaps, the Dodd-Frank Act requires us, among other items, to submit new swap transactions for clearing to a derivatives clearing organization. Additionally, in October 2015, the Federal Reserve Board, the Federal Deposit Insurance Corporation ("FDIC"), FHFA, the Farm Credit Administration and the Office of the Comptroller of the Currency issued final rules under the Dodd-Frank Act governing margin and capital requirements applicable to entities that are subject to their oversight. These rules require that, for all trades that have not been submitted to a derivatives clearing organization, we collect from and provide to our counterparties collateral in excess of the amounts we have historically collected or provided relative to our level of activity.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the condensed consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We describe our most significant accounting policies in "Note 1, Summary of Significant Accounting Policies" in this report and in our 2014 Form 10-K.

We evaluate our critical accounting estimates and judgments required by our policies on an ongoing basis and update them as necessary based on changing conditions. Management has discussed any significant changes in judgments and assumptions in applying our critical accounting policies with the Audit Committee of our Board of Directors. See "Risk Factors" in our 2014 Form 10-K for a discussion of the risks associated with the need for management to make judgments and estimates in

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applying our accounting policies and methods. We have identified three of our accounting policies as critical because they involve significant judgments and assumptions about highly complex and inherently uncertain matters, and the use of reasonably different estimates and assumptions could have a material impact on our reported results of operations or financial condition. These critical accounting policies and estimates are as follows:

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

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

CONSOLIDATED RESULTS OF OPERATIONS

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

Table 3: Summary of Condensed Consolidated Results of Operations

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2015	2014	Variance	2015	2014	Variance
	(Dollars in millions)					
Net interest income	$5,588	$5,184	$404	$16,332	$14,826	$1,506
Fee and other income	259	826	(567)	1,123	5,564	(4,441)
Net revenues	5,847	6,010	(163)	17,455	20,390	(2,935)
Investment gains, net	299	171	128	1,155	749	406
Fair value losses, net	(2,589)	(207)	(2,382)	(1,902)	(2,331)	429
Administrative expenses	(952)	(706)	(246)	(2,364)	(2,075)	(289)
Credit-related income (expense)						
Benefit for credit losses	1,550	1,085	465	1,050	3,498	(2,448)
Foreclosed property income (expense)	(497)	(249)	(248)	(1,152)	227	(1,379)
Total credit-related income (expense)	1,053	836	217	(102)	3,725	(3,827)
Temporary Payroll Tax Cut Continuation Act of 2011 ("TCCA") fees	(413)	(351)	(62)	(1,192)	(1,008)	(184)
Other non-interest expenses[1]	(215)	(61)	(154)	(412)	(430)	18
Income before federal income taxes	3,030	5,692	(2,662)	12,638	19,020	(6,382)
Provision for federal income taxes	(1,070)	(1,787)	717	(4,150)	(6,123)	1,973
Net income	1,960	3,905	(1,945)	8,488	12,897	(4,409)
Less: Net income attributable to noncontrolling interest	—	—	—	—	(1)	1
Net income attributable to Fannie Mae	$1,960	$3,905	$(1,945)	$8,488	$12,896	$(4,408)
Total comprehensive income attributable to Fannie Mae	$2,213	$4,000	$(1,787)	$8,368	$13,408	$(5,040)

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

Net Interest Income

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

Table 4 displays an analysis of our net interest income, average balances, and related yields earned on assets and incurred on liabilities. For most components of the average balances, we use a daily weighted average of amortized cost. When daily average balance information is not available, such as for mortgage loans, we use monthly averages. Table 5 displays the

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

Table 4: Analysis of Net Interest Income and Yield

	For the Three Months Ended September 30,					
	2015			2014		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans of Fannie Mae	$252,272	$2,443	3.87 %	$282,019	$2,562	3.63 %
Mortgage loans of consolidated trusts	2,796,172	24,537	3.51	2,762,984	25,217	3.65
Total mortgage loans[1]	3,048,444	26,980	3.54	3,045,003	27,779	3.65
Mortgage-related securities	106,939	1,153	4.31	140,357	1,652	4.71
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(74,903)	(810)	4.33	(96,785)	(1,113)	4.60
Total mortgage-related securities, net	32,036	343	4.28	43,572	539	4.95
Non-mortgage-related securities[2]	47,794	17	0.14	32,283	7	0.08
Federal funds sold and securities purchased under agreements to resell or similar arrangements	26,110	15	0.23	38,488	9	0.09
Advances to lenders	4,354	22	1.98	3,794	20	2.06
Total interest-earning assets	$3,158,738	$27,377	3.47 %	$3,163,140	$28,354	3.59 %
Interest-bearing liabilities:						
Short-term funding debt	$83,870	$36	0.17 %	$101,497	$25	0.10 %
Long-term funding debt	331,417	1,861	2.25	383,412	2,050	2.14
Total short-term and long-term funding debt	415,287	1,897	1.83	484,909	2,075	1.71
Debt securities of consolidated trusts	2,835,104	20,702	2.92	2,820,711	22,208	3.15
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(74,903)	(810)	4.33	(96,785)	(1,113)	4.60
Total debt securities of consolidated trusts held by third parties	2,760,201	19,892	2.88	2,723,926	21,095	3.10
Total interest-bearing liabilities	$3,175,488	$21,789	2.74 %	$3,208,835	$23,170	2.89 %
Net interest income/net interest yield		$5,588	0.71 %		$5,184	0.66 %

	For the Nine Months Ended September 30,					
	2015			2014		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid
	(Dollars in millions)					
Interest-earning assets:						
Mortgage loans of Fannie Mae	$261,794	$7,280	3.71 %	$289,028	$7,828	3.61 %
Mortgage loans of consolidated trusts	2,789,593	73,426	3.51	2,766,787	76,704	3.70
Total mortgage loans[(1)]	3,051,387	80,706	3.53	3,055,815	84,532	3.69
Mortgage-related securities	114,732	3,869	4.50	148,195	5,190	4.67
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(79,914)	(2,650)	4.42	(101,608)	(3,542)	4.65
Total mortgage-related securities, net	34,818	1,219	4.67	46,587	1,648	4.72
Non-mortgage-related securities[(2)]	44,836	42	0.12	33,435	22	0.09
Federal funds sold and securities purchased under agreements to resell or similar arrangements	30,708	40	0.17	33,557	20	0.08
Advances to lenders	4,166	64	2.02	3,303	57	2.28
Total interest-earning assets	$3,165,915	$82,071	3.46 %	$3,172,697	$86,279	3.63 %
Interest-bearing liabilities:						
Short-term funding debt	$90,707	$98	0.14 %	$81,844	$65	0.10 %
Long-term funding debt	345,503	5,706	2.20	409,633	6,524	2.12
Total short-term and long-term funding debt	436,210	5,804	1.77	491,477	6,589	1.79
Debt securities of consolidated trusts	2,843,823	62,585	2.93	2,820,774	68,406	3.23
Elimination of Fannie Mae MBS held in retained mortgage portfolio	(79,914)	(2,650)	4.42	(101,608)	(3,542)	4.65
Total debt securities of consolidated trusts held by third parties	2,763,909	59,935	2.89	2,719,166	64,864	3.18
Total interest-bearing liabilities	$3,200,119	$65,739	2.74 %	$3,210,643	$71,453	2.97 %
Net interest income/net interest yield		$16,332	0.69 %		$14,826	0.62 %

	As of September 30,	
	2015	2014
Selected benchmark interest rates		
3-month LIBOR	0.33 %	0.24 %
2-year swap rate	0.75	0.82
5-year swap rate	1.38	1.93
10-year swap rate	2.00	2.64
30-year Fannie Mae MBS par coupon rate	2.80	3.20

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(1) Average balance includes mortgage loans on nonaccrual status. Interest income not recognized for loans on nonaccrual status was $409 million and $1.3 billion, respectively, for the third quarter and first nine months of 2015 compared with $436 million and $1.4 billion, respectively, for the third quarter and first nine months of 2014. Effective January 1, 2015, we changed our policy for the treatment of interest previously accrued, but not collected, at the date loans are placed on nonaccrual status. See "Note 1, Summary of Significant Accounting Policies" for information on this policy change.

(2) Includes cash equivalents.

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

	For the Three Months Ended September 30, 2015 vs. 2014			For the Nine Months Ended September 30, 2015 vs. 2014		
	Total	Variance Due to:[1]		Total	Variance Due to:[1]	
	Variance	Volume	Rate	Variance	Volume	Rate
	(Dollars in millions)					
Interest income:						
Mortgage loans of Fannie Mae	$(119)	$(281)	$162	$(548)	$(753)	$205
Mortgage loans of consolidated trusts	(680)	300	(980)	(3,278)	628	(3,906)
Total mortgage loans	(799)	19	(818)	(3,826)	(125)	(3,701)
Total mortgage-related securities, net	(196)	(129)	(67)	(429)	(409)	(20)
Non-mortgage-related securities[2]	10	4	6	20	9	11
Federal funds sold and securities purchased under agreements to resell or similar arrangements	6	(4)	10	20	(2)	22
Advances to lenders	2	3	(1)	7	14	(7)
Total interest income	$(977)	$(107)	$(870)	$(4,208)	$(513)	$(3,695)
Interest expense:						
Short-term funding debt	11	(5)	16	33	8	25
Long-term funding debt	(189)	(288)	99	(818)	(1,052)	234
Total short-term and long-term funding debt	(178)	(293)	115	(785)	(1,044)	259
Total debt securities of consolidated trusts held by third parties	(1,203)	353	(1,556)	(4,929)	1,281	(6,210)
Total interest expense	$(1,381)	$60	$(1,441)	$(5,714)	$237	$(5,951)
Net interest income	$404	$(167)	$571	$1,506	$(750)	$2,256

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

(2) Includes cash equivalents.

Net interest income and net interest yield increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 primarily due to an increase in amortization income as increased prepayments on mortgage loans of consolidated trusts accelerated the amortization of cost basis adjustments. Higher guaranty fee income also contributed to an increase in net interest income as loans with higher guaranty fees have become a larger part of our guaranty book of business. We recognize almost all of our guaranty fee revenue in net interest income due to the consolidation of the substantial majority of loans underlying our MBS trusts on our balance sheet. The increase in net interest income was partially offset by a decline in the average balance of our retained mortgage portfolio, as we continued to reduce this portfolio pursuant to the requirements of our senior preferred stock purchase agreement with Treasury and FHFA's additional portfolio cap. The average balance of our retained mortgage portfolio was 15% lower in the third quarter of 2015 than in the third quarter of 2014 and 14% lower in the first nine months of 2015 than in the first nine months of 2014. See "Business Segment Results—The Capital Markets Group's Mortgage Portfolio" for more information about our retained mortgage portfolio.

Fee and Other Income

Fee and other income includes transaction fees, multifamily fees, technology fees and other miscellaneous income. Fee and other income decreased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 due to revenue recognized in 2014 as a result of settlement agreements resolving certain lawsuits relating to PLS sold to us that we did not have in 2015.

Starting in June 2015, we eliminated fees charged to customers for using our proprietary Desktop Underwriter and Desktop Originator systems, which is expected to allow more lenders to access these systems in their underwriting process. The elimination of these fees resulted in lower technology fees in the third quarter of 2015 compared with the third quarter of 2014.

Administrative Expenses

Administrative expenses increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 primarily due to the recognition of expenses related to the settlement of our defined benefit pension plan obligations in the third quarter of 2015. We transferred plan assets to an annuity provider and distributed lump sum payments to participants based on their elections. The actuarial losses of $305 million, previously recorded in "Accumulated other comprehensive income," were recognized in "Administrative expenses" and the associated tax amounts were recognized in "Provision for federal income taxes" in our condensed consolidated statements of operations and comprehensive income for the three and nine months ended September 30, 2015.

Fair Value Losses, Net

Table 6: Fair Value Losses, Net

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in millions)			
Risk management derivatives fair value losses attributable to:				
Net contractual interest expense accruals on interest rate swaps	$(266)	$(314)	$(694)	$(770)
Net change in fair value during the period	(2,138)	(93)	(916)	(1,513)
Total risk management derivatives fair value losses, net	(2,404)	(407)	(1,610)	(2,283)
Mortgage commitment derivatives fair value losses, net	(361)	(73)	(427)	(728)
Total derivatives fair value losses, net	(2,765)	(480)	(2,037)	(3,011)
Trading securities gains, net	13	50	69	444
Other, net[1]	163	223	66	236
Fair value losses, net	$(2,589)	$(207)	$(1,902)	$(2,331)

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

Risk Management Derivatives Fair Value Losses, Net

Risk management derivative instruments are an integral part of our interest rate risk management strategy. We supplement our issuance of debt securities with derivative instruments to further reduce interest rate risk. We recognized risk management derivative fair value losses in the third quarter and first nine months of 2015 primarily as a result of decreases in the fair value of our pay-fixed derivatives due to declines in longer-term swap rates during the respective periods. We recognized risk management derivative fair value losses in the third quarter of 2014 primarily due to increases in shorter-term swap rates. We recognized risk management derivative fair value losses in the first nine months of 2014 primarily as a result of decreases in the fair value of our pay-fixed derivatives due to declines in longer-term swap rates during the period.

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

Mortgage Commitment Derivatives Fair Value Losses, Net

We recognized fair value losses on our mortgage commitments in the third quarter and first nine months of 2015 and 2014 primarily due to losses on commitments to sell mortgage-related securities driven by an increase in prices as interest rates decreased during the commitment periods.

Credit-Related Income (Expense)

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

Benefit for Credit Losses

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

Table 7: Total Loss Reserves

	As of September 30, 2015	As of December 31, 2014
	(Dollars in millions)	
Allowance for loan losses	$29,135	$35,541
Reserve for guaranty losses	560	1,246
Combined loss reserves	29,695	36,787
Other[(1)]	273	1,386
Total loss reserves	29,968	38,173
Fair value losses previously recognized on acquired credit-impaired loans[(2)]	8,593	9,864
Total loss reserves and fair value losses previously recognized on acquired credit-impaired loans	$38,561	$48,037

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

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

Table 8: Changes in Combined Loss Reserves

	For the Three Months Ended September 30, 2015	2014	For the Nine Months Ended September 30, 2015	2014
	(Dollars in millions)			
Changes in combined loss reserves:				
Beginning balance	$31,808	$40,451	$36,787	$45,295
Benefit for credit losses	(1,550)	(1,085)	(1,050)	(3,498)
Charge-offs[(1)]	(801)	(1,587)	(8,287)	(5,174)
Recoveries	250	275	1,132	1,119
Other[(2)]	(12)	201	1,113	513
Ending balance	$29,695	$38,255	$29,695	$38,255

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	As of September 30, 2015		December 31, 2014	
	(Dollars in millions)			
Allocation of combined loss reserves:				
Balance at end of each period attributable to:				
Single-family	$29,404		$36,383	
Multifamily	291		404	
Total	$29,695		$36,787	
Single-family and multifamily combined loss reserves as a percentage of applicable guaranty book of business:				
Single-family	1.04	%	1.28	%
Multifamily	0.14		0.20	
Combined loss reserves as a percentage of:				
Total guaranty book of business	0.97	%	1.20	%
Recorded investment in nonaccrual loans	58.04		56.63	

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(1) Includes, for the nine months ended September 30, 2015, charge-offs of (1) $1.8 billion in loans held for investment and $724 million in preforeclosure property taxes and insurance receivable in connection with our adoption of the Advisory Bulletin on January 1, 2015 and (2) $1.1 billion in accrued interest receivable in connection with our adoption of a change in accounting principle on January 1, 2015 related to the treatment of interest previously accrued, but not collected, at the date that loans are placed on nonaccrual status. See "Note 1, Summary of Significant Accounting Policies" for more information on these changes.

(2) Amounts represent changes in other loss reserves which are offset by amounts reflected in benefit for credit losses, charge-offs and recoveries.

Our provision or benefit for credit losses continues to be a key driver of our results. The amount of our provision or benefit for credit losses may vary from period to period based on factors such as changes in actual and expected home prices, borrower payment behavior, the types and volumes of loss mitigation activities, the volumes of foreclosures completed and fluctuations in mortgage interest rates. In addition, our provision or benefit for credit losses and our loss reserves can be impacted by updates to the models, assumptions and data used in determining our allowance for loan losses.

The following factors impacted our benefit for credit losses in the third quarter and first nine months of 2015:

- Home prices increased by 1.3% in the third quarter of 2015 and by 5.4% in the first nine months of 2015, which contributed to our benefit for credit losses in both the third quarter and first nine months of 2015. Higher home prices decrease the likelihood that loans will default and reduce the amount of credit loss on loans that do default, which impacts our estimate of losses and ultimately reduces our total loss reserves and provision for credit losses.
- Mortgage interest rates declined during the third quarter of 2015, which contributed to our benefit for credit losses in the third quarter of 2015. As interest rates decline, we expect an increase in future prepayments on individually impaired loans, including modified loans. Higher expected prepayments shorten the expected lives of modified loans, which decreases the impairment related to concessions provided on these loans and results in a decrease in the provision for credit losses. Mortgage interest rates increased during the first nine months of 2015, which partially offset our benefit for credit losses in the first nine months of 2015. As interest rates increase, we expect a decline in future prepayments on individually impaired loans, including modified loans. Lower expected prepayments lengthen the expected lives of modified loans, which increases the impairment related to concessions provided on these loans and results in an increase in the provision for credit losses.
- We redesignated certain nonperforming single-family loans with an aggregate unpaid principal balance of $5.3 billion from HFI to HFS in the first nine months of 2015. These loans were adjusted to the lower of cost or fair value, which partially offset our benefit for credit losses by approximately $600 million. These loans were redesignated to HFS as we intend to sell or have sold them. As described in "Executive Summary—Helping to Build a Sustainable Housing

Finance System," we plan to complete additional sales of nonperforming loans.

We recognized a benefit for credit losses in the third quarter and first nine months of 2014 primarily due to an increase in home prices. Home prices increased by 1.2% in the third quarter of 2014 and by 5.3% in the first nine months of 2014. In addition, in the third quarter of 2014, we updated the model and the assumptions used to estimate cash flows for individually impaired single-family loans within our allowance for loan losses, which resulted in a decrease to our allowance for loan losses and an incremental benefit for credit losses of approximately $600 million for the third quarter and first nine months of 2014. For additional information, see "MD&A—Critical Accounting Policies and Estimates—Total Loss Reserves—Single-Family Loss Reserves" in our 2014 Form 10-K.

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

Troubled Debt Restructurings and Nonaccrual Loans

Table 9 displays the composition of loans restructured in a troubled debt restructuring ("TDR") that are on accrual status and loans on nonaccrual status. The table includes our recorded investment in HFI and HFS 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 9: Troubled Debt Restructurings and Nonaccrual Loans

	As of September 30, 2015	As of December 31, 2014
	(Dollars in millions)	
TDRs on accrual status:		
Single-family	$142,882	$144,649
Multifamily	421	645
Total TDRs on accrual status	$143,303	$145,294
Nonaccrual loans:		
Single-family	$50,488	$64,136
Multifamily	679	823
Total nonaccrual loans	$51,167	$64,959
Accruing on-balance sheet loans past due 90 days or more[1]	$512	$585

	For the Nine Months Ended September 30, 2015	For the Nine Months Ended September 30, 2014
	(Dollars in millions)	
Interest related to on-balance sheet TDRs and nonaccrual loans:		
Interest income forgone[2]	$4,146	$4,628
Interest income recognized for the period[3]	4,393	4,628

(1) Includes loans that, as of the end of each period, are 90 days or more past due and continuing to accrue interest. The majority of these amounts consists of loans insured or guaranteed by the U.S. government and loans for which we have recourse against the seller in the event of a default.

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

(3) Represents interest income recognized during the period for loans classified as either nonaccrual loans or TDRs on accrual status as of the end of each period. Includes primarily amounts accrued while the loans were performing and cash payments received on nonaccrual loans.

Foreclosed Property Income (Expense)

Foreclosed property expense increased in the third quarter of 2015 compared with the third quarter of 2014 primarily due to increased operating expenses relating to our single-family foreclosed properties driven by an increase in property preservation costs, which include property tax and insurance expenses. We recognized foreclosed property expense in the first nine months of 2015 compared with foreclosed property income in the first nine months of 2014. This shift was primarily due to increased property preservation costs relating to our single-family foreclosed properties. Additionally, we recognized more income from the resolution of compensatory fees and representation and warranty matters in the first nine months of 2014 compared with the first nine months of 2015.

Credit Loss Performance Metrics

Our credit-related income (expense) 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 nonaccrual loans and TDRs, 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 10 displays the components of our credit loss performance metrics as well as our single-family and multifamily initial charge-off severity rates.

Table 10: Credit Loss Performance Metrics

	For the Three Months Ended September 30,						For the Nine Months Ended September 30,					
	2015			2014			2015			2014		
	Amount	Ratio[1]		Amount	Ratio[1]		Amount	Ratio[1]		Amount	Ratio[1]	
	(Dollars in millions)											
Charge-offs, net of recoveries	$551	7.2	bps	$1,312	17.2	bps	$3,600	15.8	bps	$4,055	17.6	bps
Adoption of Advisory Bulletin and change in accounting principle[2]	—	—		—	—		3,555	15.6		—	—	
Foreclosed property expense (income)	497	6.5		249	3.3		1,152	5.0		(227)	(1.0)	
Credit losses including the effect of fair value losses on acquired credit-impaired loans	1,048	13.7		1,561	20.5		8,307	36.4		3,828	16.6	
Plus: Impact of acquired credit-impaired loans on charge-offs and foreclosed property expense (income)[3]	103	1.4		158	2.1		349	1.5		493	2.1	
Credit losses and credit loss ratio	$1,151	15.1	bps	$1,719	22.6	bps	$8,656	37.9	bps	$4,321	18.7	bps
Credit losses attributable to:												
Single-family	$1,168			$1,738			$8,650			$4,362		
Multifamily[4]	(17)			(19)			6			(41)		
Total	$1,151			$1,719			$8,656			$4,321		
Single-family initial charge-off severity rate[5]		13.93	%		19.24	%		15.98	%		19.50	%
Multifamily initial charge-off severity rate[5]		17.00	%		28.21	%		23.43	%		24.18	%

(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, for the nine months ended September 30, 2015, charge-offs of (1) $1.8 billion in loans held for investment and $724 million in preforeclosure property taxes and insurance receivable in connection with our

adoption of the Advisory Bulletin on January 1, 2015 and (2) $1.1 billion in accrued interest receivable in connection with our adoption of a change in accounting principle on January 1, 2015 related to the treatment of interest previously accrued, but not collected, at the date that loans are placed on nonaccrual status. See “Note 1, Summary of Significant Accounting Policies” for additional information.

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

(4) Negative credit losses are the result of recoveries on previously charged-off amounts.

(5) 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 prior to foreclosure and other liquidations, short sales and third-party sales. Multifamily rate is net of risk-sharing agreements.

Credit losses and our credit loss ratio decreased in the third quarter of 2015 compared with the third quarter of 2014 primarily due to the impact of lower charge-off losses on foreclosures as well as fewer foreclosures in the third quarter of 2015.

Credit losses and our credit loss ratio increased in the first nine months of 2015 compared with the first nine months of 2014 primarily due to our adoption of the charge-off provisions of the Advisory Bulletin on January 1, 2015, as well as a change in our accounting policy for nonaccrual loans. See "Note 1, Summary of Significant Accounting Policies" for additional information.

We discuss our expectations regarding our future credit losses in "Executive Summary—Outlook—Credit Losses."

Table 11 displays concentrations of our single-family credit losses based on geography, credit characteristics and loan vintages.

Table 11: Credit Loss Concentration Analysis

	Percentage of Single-Family Conventional Guaranty Book of Business [1]			Percentage of Single-Family Credit Losses[2]			
	As of			For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	September 30, 2015	December 31, 2014	September 30, 2014	2015	2014	2015	2014
Geographical Distribution:							
California[3]	20 %	20 %	20 %	3 %	5 %	2 %	(1)%
Florida	6	6	6	10	29	23	34
New Jersey	4	4	4	14	7	21	7
New York	5	5	5	11	4	16	4
All other states	65	65	65	62	55	38	56
Select higher-risk product features[4]	22	22	23	60	58	61	47
Vintages:[5]							
2004 and prior	6	7	7	13	12	10	12
2005 - 2008	11	12	13	66	77	80	75
2009 - 2015	83	81	80	21	11	10	13

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(1) Calculated based on the unpaid principal balance of loans, where we have detailed loan-level information, for each category divided by the unpaid principal balance of our single-family conventional guaranty book of business as of the end of each period.

(2) Excludes the impact of recoveries resulting from resolution agreements related to representation and warranty matters and compensatory fee income related to servicing matters that have not been allocated to specific loans.

(3) Negative credit losses in 2014 are the result of recoveries on previously recognized credit losses.

(4) Includes Alt-A loans, subprime loans, interest-only loans, loans with original LTV ratios greater than 90% and loans with FICO credit scores less than 620.

(5) 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.

As shown in Table 11, the majority of our credit losses for the third quarter and the first nine months of 2015 continued to be driven by loans originated in 2005 through 2008. We provide more detailed single-family credit performance information, including serious delinquency rates share and foreclosure activity, in "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management."

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

Pursuant to the TCCA, which was enacted by Congress in December 2011, FHFA directed us to increase our single-family guaranty fees by 10 basis points and remit this increase to Treasury. This TCCA-related revenue is included in “Net interest income” and the expense is recognized as “TCCA fees.” We recognized $413 million and $351 million in TCCA fees during the three months ended September 30, 2015 and 2014, respectively, and $1.2 billion and $1.0 billion for the nine months ended September 30, 2015 and 2014, respectively, of which $413 million had not been remitted to Treasury as of September 30, 2015. We expect the guaranty fees collected and expenses incurred under the TCCA to continue to increase in the future.

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 2014 Form 10-K.

In this section, we summarize our segment results for the third quarter and first nine months of 2015 and 2014 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 11, Segment Reporting” for a reconciliation of our segment results to our condensed consolidated results.

Single-Family Business Results

Table 12 displays the financial results of our Single-Family business. For a discussion of 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. Other items that impact income or loss primarily include credit-related income (expense), TCCA fees and administrative expenses.

Table 12: Single-Family Business Results

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2015	2014	Variance	2015	2014	Variance
	(Dollars in millions)					
Guaranty fee income[1]	$3,145	$2,945	$200	$9,277	$8,708	$569
Credit-related income (expense)[2]	1,029	748	281	(216)	3,531	(3,747)
TCCA fees[1]	(413)	(351)	(62)	(1,192)	(1,008)	(184)
Other expenses[3]	(682)	(443)	(239)	(1,633)	(1,469)	(164)
Income before federal income taxes	3,079	2,899	180	6,236	9,762	(3,526)
Provision for federal income taxes	(1,040)	(837)	(203)	(2,040)	(2,897)	857
Net income attributable to Fannie Mae	$2,039	$2,062	$(23)	$4,196	$6,865	$(2,669)
Other key performance data:						
Securitization Activity/New Business						
Single-family Fannie Mae MBS issuances	$126,144	$105,563		$368,112	$266,631	
Credit Guaranty Activity						
Average single-family guaranty book of business[4]	$2,831,133	$2,858,362		$2,838,129	$2,871,507	
Single-family effective guaranty fee rate (in basis points)[1][5]	44.4	41.2		43.6	40.4	
Single-family average charged guaranty fee on new acquisitions (in basis points)[1][6]	60.6	63.5		60.5	63.0	
Single-family serious delinquency rate, at end of period[7]	1.59%	1.96%		1.59%	1.96%	
Market						
Single-family mortgage debt outstanding, at end of period (total U.S. market)[8]	$9,901,059	$9,870,670		$9,901,059	$9,870,670	
30-year mortgage rate, at end of period[9]	3.86%	4.20%		3.86%	4.20%	

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

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

(3) Consists of net interest income (loss), investment gains (losses), net, fair value gains (losses), net, gains (losses) from partnership investments, fee and other income (expense), administrative expenses and other expenses.

(4) 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.

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

(6) 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.

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

(8) Information labeled as of September 30, 2015 is as of June 30, 2015 and is based on the Federal Reserve's September 2015 mortgage debt outstanding release, the latest date for which the Federal Reserve has estimated mortgage debt outstanding for single-family residences. Prior period amounts may have been changed to reflect revised historical data from the Federal Reserve.

(9) Based on Freddie Mac's Primary Mortgage Market Survey® rate for the last week in the period, which represents the national average mortgage commitment rate to a qualified borrower exclusive of any fees and points required by the lender.

Pre-tax income increased in the third quarter of 2015 compared with the third quarter of 2014 primarily due to higher credit-related income and higher guaranty fee income in the third quarter of 2015 compared with the third quarter of 2014. This was partially offset by higher other expenses in the third quarter of 2015 compared with the third quarter of 2014. Pre-tax income decreased in the first nine months of 2015 compared with the first nine months of 2014 primarily due to credit-related expense recognized in the first nine months of 2015 compared with credit-related income recognized in the first nine months of 2014. This was partially offset by higher guaranty fee income in the first nine months of 2015 compared with the first nine months of 2014.

We recognized higher single-family credit-related income in the third quarter of 2015 compared with the third quarter of 2014. This increase was primarily attributable to home prices increasing at a faster pace as well as lower mortgage interest rates in the third quarter of 2015 compared with the third quarter of 2014. This was partially offset by an increase in foreclosed property expense in the third quarter of 2015 compared with the third quarter of 2014 primarily due to increased property tax and insurance expenses relating to our single-family foreclosed properties.

We recognized credit-related expense in the first nine months of 2015 comprised of foreclosed property expense, partially offset by a benefit for credit losses. Foreclosed property expense was primarily driven by higher property preservation costs, which include property tax and insurance expenses relating to our single-family foreclosed properties. The benefit for credit losses was primarily driven by an increase in home prices. This was partially offset by the impact from the redesignation of certain nonperforming single-family loans from HFI to HFS. These loans were adjusted to the lower of cost or fair value, which reduced our benefit for credit losses. Additionally, mortgage interest rates increased during the first nine months of 2015, which also partially offset our benefit for credit losses. As interest rates increase, we expect a decline in future prepayments on individually impaired loans, including modified loans. Lower expected prepayments lengthen the expected lives of modified loans, which increases the impairment related to concessions provided on these loans and results in an increase in the provision for credit losses. We recognized credit-related income in the first nine months of 2014 primarily due to an increase in home prices and income from the resolution of compensatory fees and representation and warranty matters. See "Consolidated Results of Operations—Credit-Related Income (Expense)" for more information on the drivers of our credit-related income (expense).

Guaranty fee income and our effective guaranty fee rate increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 as loans with higher guaranty fees have become a larger part of our single-family guaranty book of business primarily due to the cumulative impact of guaranty fee price increases implemented in 2012.

TCCA fees increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014, as single-family loans acquired since the implementation of the TCCA-related guaranty fee increase constituted a larger portion of our single-family guaranty book of business in the third quarter and first nine months of 2015. We expect the guaranty fees collected and expenses incurred under the TCCA to continue to increase in the future.

Other expenses increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 primarily as a result of the recognition of administrative expenses related to the settlement of our defined benefit pension plan obligations in the third quarter of 2015. Upon settlement of these obligations, we recognized actuarial losses previously recorded in "Accumulated other comprehensive income" as "Administrative expenses" in our condensed consolidated statements of operations and comprehensive income.

Our single-family acquisition volume and single-family Fannie Mae MBS issuances increased in the first nine months of 2015 compared with the first nine months of 2014, driven primarily by an increase in refinance activity. Higher refinance activity also drove an increase in liquidations of loans from our single-family guaranty book of business in the first nine months of 2015 compared with the first nine months of 2014. Accordingly, the size of our single-family guaranty book of business remained relatively flat.

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") investments and equity investments. Although we are not currently 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 held in our retained mortgage portfolio, gains and losses from the sale of multifamily Fannie Mae MBS, mortgage loans and re-securitizations, and other miscellaneous income.

Table 13 displays the financial results of our Multifamily business. The primary sources of revenue for our Multifamily business are guaranty fee income and fee and other income, which includes yield maintenance income. Other items that affect income or loss primarily include credit-related income (expense) and administrative expenses.

Table 13: Multifamily Business Results

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2015	2014	Variance	2015	2014	Variance
	(Dollars in millions)					
Guaranty fee income	$367	$332	$35	$1,064	$960	$104
Fee and other income	58	32	26	193	87	106
Gains from partnership investments[(1)]	7	52	(45)	262	131	131
Credit-related income[(2)]	24	88	(64)	114	194	(80)
Other expenses[(3)]	(115)	(83)	(32)	(332)	(245)	(87)
Income before federal income taxes	341	421	(80)	1,301	1,127	174
Provision for federal income taxes	(17)	(37)	20	(128)	(37)	(91)
Net income attributable to Fannie Mae	$324	$384	$(60)	$1,173	$1,090	$83
Other key performance data:						
Securitization Activity/New Business						
Multifamily new business volume[(4)]	$7,295	$9,090		$32,291	$17,253	
Multifamily units financed from new business volume	118,000	124,000		433,000	289,000	
Multifamily Fannie Mae MBS issuances[(5)]	$7,484	$9,689		$33,881	$20,087	
Multifamily Fannie Mae structured securities issuances (issued by Capital Markets group)	$2,016	$3,074		$8,467	$9,497	
Multifamily Fannie Mae MBS outstanding, at end of period[(6)]	$184,028	$159,707		$184,028	$159,707	
Credit Guaranty Activity						
Average multifamily guaranty book of business[(7)]	$212,654	$198,888		$208,828	$199,358	
Multifamily effective guaranty fee rate (in basis points)[(8)]	69.0	66.8		67.9	64.2	
Multifamily credit loss ratio (in basis points)[(9)]	(3.2)	(3.8)		0.4	(2.7)	
Multifamily serious delinquency rate, at end of period	0.05%	0.09%		0.05%	0.09%	
Percentage of multifamily guaranty book of business with credit enhancement, at end of period	94%	92%		94%	92%	
Fannie Mae percentage of total multifamily mortgage debt outstanding, at end of period[(10)]	19%	19%		19%	19%	
Portfolio Data						
Average Fannie Mae multifamily mortgage loans and Fannie Mae MBS in Capital Markets group's portfolio[(11)]	$31,036	$46,930		$35,321	$51,578	
Additional net interest income and yield maintenance income earned on Fannie Mae multifamily mortgage loans and MBS (included in Capital Markets group's results)[(12)]	$181	$193		$573	$545	

(1) 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.

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

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

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

(5) 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 $189 million and $597 million for the three months ended September 30, 2015 and 2014, respectively, and $1.6 billion and $2.9 billion for the nine months ended September 30, 2015 and 2014, respectively, and (c) conversions of adjustable-rate loans to fixed-rate loans and MBS reissuances of $3 million for the three months ended September 30, 2014, and $60 million and $3 million for the nine months ended September 30, 2015 and 2014, respectively. There were no conversions of adjustable-rate loans to fixed-rate loans or MBS reissuances for the three months ended September 30, 2015.

(6) Includes $13.8 billion and $18.8 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 September 30, 2015 and 2014, respectively.

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

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

(9) Calculated based on annualized Multifamily segment credit losses divided by the average multifamily guaranty book of business, expressed in basis points. Negative credit losses are the result of recoveries on previously charged-off amounts.

(10) Includes mortgage loans and Fannie Mae MBS guaranteed by the Multifamily segment. Information labeled as of September 30, 2015 is as of June 30, 2015 and is based on the Federal Reserve's September 2015 mortgage debt outstanding release, the latest date for which the Federal Reserve has estimated mortgage debt outstanding for multifamily residences. Prior period amounts may have been changed to reflect revised historical data from the Federal Reserve.

(11) Based on unpaid principal balance.

(12) 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 our retained mortgage portfolio. Yield maintenance income represents the investor portion of fees earned as a result of prepayments of multifamily loans and MBS in our retained mortgage portfolio. A portion of yield maintenance income is reported in Multifamily business results to the extent attributable to our multifamily guaranty business.

Pre-tax income decreased in the third quarter of 2015 compared with the third quarter of 2014 primarily as a result of decreases in credit-related income and gains from partnership investments, as well as an increase in other expenses, partially offset by increases in guaranty fee income and fee and other income. Pre-tax income increased in the first nine months of 2015 compared with the first nine months of 2014 primarily due to increases in gains from partnership investments, fee and other income and guaranty fee income, partially offset by a decrease in credit-related income and an increase in other expenses.

Guaranty fee income increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 as 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.

Fee and other income increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 as a result of an increase in yield maintenance income driven by higher prepayment volumes in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014.

Credit-related income decreased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 primarily driven by lower gains on the disposition of REO properties and smaller improvements in the valuation of our individually impaired loans in the third quarter and first nine months of 2015.

Gains from partnership investments decreased in the third quarter of 2015 compared with the third quarter of 2014 primarily as a result of lower sales activity. Gains from partnership investments increased in the first nine months of 2015 compared with the first nine months of 2014 as a result of sales of investments in markets with strong multifamily fundamentals.

Other expenses increased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 primarily as a result of the recognition of administrative expenses related to the settlement of our defined benefit pension plan obligations in the third quarter of 2015. Upon settlement of these obligations, we recognized actuarial losses previously recorded in "Accumulated other comprehensive income" as "Administrative expenses" in our condensed consolidated statements of operations and comprehensive income.

Multifamily new business volume increased in the first nine months of 2015 compared with the first nine months of 2014 driven by substantial growth in the overall multifamily market. FHFA's 2015 conservatorship scorecard includes an objective to maintain the dollar volume of new multifamily business at or below $30 billion, excluding certain targeted business segments. Approximately 68% of Fannie Mae's multifamily new business volume of $32.3 billion for the first nine months of 2015 counted towards FHFA's 2015 multifamily volume cap.

Capital Markets Group Results

Table 14 displays the financial results of our Capital Markets group. Following the table we discuss the Capital Markets group's financial results and describe the Capital Markets group's retained 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 "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management—Measurement of Interest Rate Risk" in our 2014 Form 10-K and "Note 9, Derivative Instruments" in this report and our 2014 Form 10-K. The primary sources of revenue for our Capital Markets group are net interest income and fee and other income. Other items that impact income or loss primarily include fair value gains and losses, investment gains and losses, as well as allocated guaranty fee expense and administrative expenses.

Table 14: Capital Markets Group Results

	For the Three Months Ended September 30,			For the Nine Months Ended September 30,		
	2015	2014	Variance	2015	2014	Variance
	(Dollars in millions)					
Net interest income[(1)]	$1,401	$1,845	$(444)	$4,516	$5,592	$(1,076)
Investment gains, net[(2)]	1,608	1,510	98	4,679	4,420	259
Fair value losses, net[(3)]	(2,697)	(335)	(2,362)	(2,112)	(2,770)	658
Fee and other income	83	579	(496)	288	4,848	(4,560)
Other expenses[(4)]	(405)	(404)	(1)	(1,163)	(1,235)	72
Income (loss) before federal income taxes	(10)	3,195	(3,205)	6,208	10,855	(4,647)
Provision for federal income taxes	(13)	(913)	900	(1,982)	(3,189)	1,207
Net income (loss) attributable to Fannie Mae	$(23)	$2,282	$(2,305)	$4,226	$7,666	$(3,440)

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(1) Includes contractual interest income, excluding recoveries, on nonaccrual loans received from the Single-Family segment of $480 million and $627 million for the three months ended September 30, 2015 and 2014, respectively, and $1.6 billion and $2.0 billion for the nine months ended September 30, 2015 and 2014, 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 (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 gains (losses), net, administrative expenses, and other 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.

Pre-tax income decreased in the third quarter of 2015 compared with the third quarter of 2014 primarily due to an increase in fair value losses and decreases in fee and other income and net interest income recognized in the third quarter of 2015 compared with the third quarter of 2014. Pre-tax income decreased in the first nine months of 2015 compared with the first nine months of 2014 primarily due to lower fee and other income and lower net interest income in the first nine months of 2015, partially offset by lower fair value losses in the first nine months of 2015 compared with the first nine months of 2014.

Fair value losses in the third quarter and first nine months of 2015 were primarily due to fair value losses on our risk management derivatives. The derivatives fair value gains and losses that are reported for the Capital Markets group are consistent with the amounts reported in our condensed consolidated statements of operations and comprehensive income. We discuss our derivatives fair value gains and losses in "Consolidated Results of Operations—Fair Value Losses, Net."

The decrease in net interest income in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 was primarily due to a decline in the average balance of our retained mortgage portfolio as we continued

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to reduce this portfolio pursuant to the requirements of our senior preferred stock purchase agreement with Treasury and FHFA's additional portfolio cap.

Fee and other income decreased in the third quarter and first nine months of 2015 compared with the third quarter and first nine months of 2014 due to a decrease in revenue recognized as a result of settlement agreements resolving certain lawsuits relating to PLS sold to us.

We supplement our issuance of debt securities with derivative instruments to further reduce interest rate 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 losses, net" and is displayed in "Table 6: Fair Value Losses, Net."

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. The portion of assets held by consolidated MBS trusts that back mortgage-related securities 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 in 2018. Under the agreement, the maximum allowable amount of mortgage assets we are permitted to own as of December 31, 2015 is $399.2 billion.

In 2014, FHFA requested that we submit a revised portfolio plan outlining how we will reduce the portfolio each year to 90% of the annual limit under our senior preferred stock purchase agreement with Treasury. FHFA's request noted that we may seek FHFA permission to increase this cap up to 95% of the annual limit under our senior preferred stock purchase agreement with Treasury upon written request and with a documented basis for exception, such as changed market conditions. Accordingly, under our revised portfolio plan, we plan to reduce our mortgage portfolio to no more than $359.3 billion as of December 31, 2015, in compliance with both our senior preferred stock purchase agreement with Treasury and FHFA's request.

As we continue to reduce the size of our retained mortgage portfolio, our revenues generated by our retained mortgage portfolio will continue to decrease. As of September 30, 2015, we owned $370.5 billion in mortgage assets, compared with $413.3 billion as of December 31, 2014. For additional information on the terms of the senior preferred stock purchase agreement with Treasury, see "Business—Conservatorship and Treasury Agreements—Treasury Agreements" in our 2014 Form 10-K.

Table 15 displays our Capital Markets group's mortgage portfolio activity based on unpaid principal balance.

Table 15: Capital Markets Group's Mortgage Portfolio Activity

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in millions)			
Mortgage loans:				
Beginning balance	$270,809	$298,683	$285,610	$314,664
Purchases	52,118	42,021	158,126	109,267
Securitizations[1]	(50,357)	(35,481)	(148,743)	(92,622)
Sales	(1,888)	—	(2,521)	(1,879)
Liquidations[2]	(10,694)	(12,680)	(32,484)	(36,887)
Mortgage loans, ending balance	259,988	292,543	259,988	292,543
Mortgage securities:				
Beginning balance	119,498	154,089	127,703	176,037
Purchases[3]	15,588	8,818	36,786	16,864
Securitizations[1]	50,357	35,481	148,743	92,622
Sales	(69,466)	(45,992)	(186,498)	(119,079)
Liquidations[2]	(5,515)	(6,839)	(16,272)	(20,887)
Mortgage securities, ending balance	110,462	145,557	110,462	145,557
Total Capital Markets group's mortgage portfolio	$370,450	$438,100	$370,450	$438,100

(1) Includes portfolio securitization transactions that do not qualify for sale treatment under GAAP.

(2) Includes scheduled repayments, prepayments, foreclosures, and lender repurchases.

(3) Includes purchases of Fannie Mae MBS issued by consolidated trusts.

Table 16 displays the composition of the unpaid principal balance of the Capital Markets group's mortgage portfolio and our assessment of the liquidity of these assets. Our assessment is based on the liquidity within the markets in which the assets are traded, the issuers of the assets and the nature of the collateral underlying the assets. Our unsecuritized mortgage loans, PLS and other non-agency securities are considered less liquid. Fannie Mae securities that are collateralized by non-agency mortgage-related securities are also considered to be less liquid.

Table 16: Capital Markets Group's Mortgage Portfolio Composition

	As of September 30, 2015			December 31, 2014		
	More Liquid	Less Liquid	Total	More Liquid	Less Liquid	Total
	(Dollars in millions)					
Mortgage loans:						
Single-family loans:						
Government insured or guaranteed	$—	$34,252	$34,252	$—	$36,442	$36,442
Conventional	—	210,318	210,318	—	225,800	225,800
Total single-family loans	—	244,570	244,570	—	262,242	262,242
Multifamily loans:						
Government insured or guaranteed	—	233	233	—	243	243
Conventional	—	15,185	15,185	—	23,125	23,125
Total multifamily loans	—	15,418	15,418	—	23,368	23,368
Total mortgage loans	—	259,988	259,988	—	285,610	285,610
Mortgage-related securities:						
Fannie Mae	73,838	11,722	85,560	80,377	12,442	92,819
Freddie Mac	5,621	—	5,621	6,368	—	6,368
Ginnie Mae	694	—	694	572	—	572
Alt-A private-label securities	—	4,225	4,225	—	7,745	7,745
Subprime private-label securities	—	5,844	5,844	—	8,913	8,913
Commercial mortgage-backed securities ("CMBS")	—	3,565	3,565	—	3,686	3,686
Mortgage revenue bonds	—	3,391	3,391	—	4,556	4,556
Other mortgage-related securities	—	1,562	1,562	—	3,044	3,044
Total mortgage-related securities[(1)]	80,153	30,309	110,462	87,317	40,386	127,703
Total Capital Markets group's mortgage portfolio	$80,153	$290,297	$370,450	$87,317	$325,996	$413,313

(1) The fair value of these mortgage-related securities was $116.7 billion and $133.5 billion as of September 30, 2015 and December 31, 2014, respectively.

The Capital Markets group's mortgage portfolio decreased as of September 30, 2015 compared with December 31, 2014, as we reduce the size of our retained mortgage portfolio to comply with the requirement of our senior preferred stock purchase agreement with Treasury and FHFA's request to further cap our portfolio.

As described in "Executive Summary—Helping to Build a Sustainable Housing Finance System," we completed our first nonperforming loan sale in June 2015. From June 2015 to September 2015, we completed two nonperforming loan sales with an aggregate unpaid principal balance of $1.2 billion, which reduced our less liquid assets as of September 30, 2015.

The loans we purchased in the first nine months of 2015 included $9.7 billion in delinquent loans we purchased from our single-family MBS trusts. We expect to continue purchasing 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 amount of mortgage assets that we may own pursuant to the senior preferred stock purchase agreement and FHFA's portfolio plan requirements. Table 17 displays the composition of loans restructured in a TDR that were on accrual status, loans on nonaccrual status and all other mortgage-related assets in our Capital Markets group's mortgage portfolio.

Table 17: Capital Markets Group's Mortgage Portfolio

	As of September 30, 2015		December 31, 2014	
	Unpaid Principal Balance	Percent of Total	Unpaid Principal Balance	Percent of Total
	(Dollars in millions)			
TDRs on accrual status	$139,424	38 %	$140,828	34 %
Nonaccrual loans	48,736	13	58,597	14
All other mortgage-related assets	182,290	49	213,888	52
Total Capital Markets group's mortgage portfolio	$370,450	100 %	$413,313	100 %

CONSOLIDATED BALANCE SHEET ANALYSIS

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

Table 18: Summary of Condensed Consolidated Balance Sheets

	As of September 30, 2015	December 31, 2014	Variance
	(Dollars in millions)		
Assets			
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	$46,515	$52,973	$(6,458)
Restricted cash	30,281	32,542	(2,261)
Investments in securities[1]	60,016	62,158	(2,142)
Mortgage loans:			
Of Fannie Mae	244,978	272,666	(27,688)
Of consolidated trusts	2,804,613	2,782,369	22,244
Allowance for loan losses	(29,135)	(35,541)	6,406
Mortgage loans, net of allowance for loan losses	3,020,456	3,019,494	962
Deferred tax assets, net	39,012	42,206	(3,194)
Other assets	34,502	38,803	(4,301)
Total assets	$3,230,782	$3,248,176	$(17,394)
Liabilities and equity			
Debt:			
Of Fannie Mae	$417,458	$460,443	$(42,985)
Of consolidated trusts	2,788,787	2,761,712	27,075
Other liabilities	20,534	22,301	(1,767)
Total liabilities	3,226,779	3,244,456	(17,677)
Total equity	4,003	3,720	283
Total liabilities and equity	$3,230,782	$3,248,176	$(17,394)

(1) Includes $27.0 billion as of September 30, 2015 and $19.5 billion as of December 31, 2014 of U.S. Treasury securities that are included in our other investments portfolio, which we present in "Table 22: Cash and Other Investments Portfolio."

Cash and Other Investments Portfolio

Our cash and other investments portfolio consists of cash and cash equivalents, securities purchased under agreements to resell or similar arrangements, and investments in U.S. Treasury securities. See "Liquidity and Capital Management—Liquidity Management—Cash and Other Investments Portfolio" for additional information on our cash and other investments portfolio.

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. Table 19 displays the fair value of our investments in mortgage-related securities, including trading and available-for-sale securities. We classify PLS as Alt-A, subprime or commercial mortgage-backed securities ("CMBS") 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 (which we refer to as "wraps").

Table 19: Summary of Mortgage-Related Securities at Fair Value

	As of September 30, 2015	December 31, 2014
	(Dollars in millions)	
Mortgage-related securities:		
Fannie Mae	$9,379	$ 10,579
Freddie Mac	6,073	6,897
Ginnie Mae	766	642
Alt-A private-label securities	3,800	6,598
Subprime private-label securities	4,373	6,547
CMBS	3,707	3,912
Mortgage revenue bonds	3,512	4,745
Other mortgage-related securities	1,445	2,772
Total	$33,055	$ 42,692

The decrease in mortgage-related securities at fair value from December 31, 2014 to September 30, 2015 was primarily driven by sales of PLS and mortgage revenue bonds in the first nine months of 2015.

Mortgage Loans

The decrease in mortgage loans from December 31, 2014 to September 30, 2015 was primarily due to liquidations outpacing acquisition volumes. 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."

The decrease in our allowance for loan losses from December 31, 2014 to September 30, 2015 was primarily driven by our approach to adopting the charge-off provisions of the Advisory Bulletin on January 1, 2015, liquidations of mortgage loans and improvement in home prices, which was partially offset by an increase in mortgage interest rates. See "Note 1, Summary of Significant Accounting Policies" for additional information.

Debt

Debt of Fannie Mae is the primary means of funding our mortgage investments. The decrease in debt of Fannie Mae from December 31, 2014 to September 30, 2015 was primarily driven by lower funding needs, as our retained mortgage portfolio decreased. 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 from December 31, 2014 to September 30, 2015 was primarily driven by sales of Fannie Mae MBS, which are accounted for as reissuances of debt of consolidated trusts in our condensed consolidated balance sheets, since the MBS certificate ownership is transferred from us to a third party.

Total Equity

Total equity increased as of September 30, 2015 compared with December 31, 2014 due to our comprehensive income recognized during the first nine months of 2015, partially offset by our payments of senior preferred stock dividends to Treasury during the first nine months of 2015.

LIQUIDITY AND CAPITAL MANAGEMENT

Liquidity Management

Our business activities require that we maintain adequate liquidity to fund our operations. Our liquidity risk management framework is designed to address our liquidity risk. Liquidity risk is the risk that we will not be able to meet our funding obligations in a timely manner. Liquidity risk management involves forecasting funding requirements, maintaining sufficient capacity to meet our needs based on our ongoing assessment of financial market liquidity and adhering to our regulatory requirements.

Our treasury function is responsible for implementing our liquidity and contingency planning strategies. We hold a portfolio of highly liquid investments and maintain access to alternative sources of liquidity which are designed to provide near term availability of cash in the event that our access to the debt markets becomes limited. While our liquidity contingency planning attempts to address stressed market conditions, we believe that our liquidity contingency plan may be difficult or impossible to execute for a company of our size and in our circumstances.

Our liquidity position could be adversely affected by many factors, both internal and external to our business, including: actions taken by our conservator, the Federal Reserve, U.S. Treasury or other government agencies; legislation relating to us or our business; a U.S. government payment default on its debt obligations; a downgrade in the credit ratings of our senior unsecured debt or the U.S. government’s debt from the major ratings organizations; a systemic event leading to the withdrawal of liquidity from the market; an extreme market-wide widening of credit spreads; public statements by key policy makers; a significant decline in our net worth; potential investor concerns about the adequacy of funding available to us under the senior preferred stock purchase agreement; loss of demand for our debt, or certain types of our debt, from a major group of investors; a significant credit event involving one of our major institutional counterparties; a sudden catastrophic operational failure in the financial sector; or elimination of our GSE status.

This section supplements and updates information regarding liquidity risk management contained in our 2014 Form 10-K. See “MD&A—Liquidity and Capital Management—Liquidity Management” and “Risk Factors” in our 2014 Form 10-K for additional information, including discussions of our primary sources and uses of funds, our liquidity risk management practices and liquidity contingency planning, factors that influence our debt funding activity, factors that may impact our access to or the cost of our debt funding, and factors that could adversely affect our liquidity.

Debt Funding

We fund our business primarily through the issuance of short-term and long-term debt securities in the domestic and international capital markets. Because debt issuance is our primary funding source, we are subject to “roll over,” or refinancing, risk on our outstanding debt.

Our debt funding needs and debt funding activity may vary from quarter to quarter depending on market conditions and are influenced by anticipated liquidity needs, the size of our retained mortgage portfolio and our dividend payment obligations to Treasury. See “Business Segment Results—Capital Markets Group Results—The Capital Markets Group’s Mortgage Portfolio” for information about our retained mortgage portfolio, our requirement to reduce the size of our retained mortgage portfolio and our portfolio reduction plan.

Fannie Mae Debt Funding Activity

Table 20 displays the activity in debt of Fannie Mae. This activity excludes the debt of consolidated trusts and intraday loans. The reported amounts of debt issued and paid off during the period represent the face amount of the debt at issuance and redemption, respectively. Activity for short-term debt of Fannie Mae relates to borrowings with an original contractual

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maturity of one year or less while activity for long-term debt of Fannie Mae relates to borrowings with an original contractual maturity of greater than one year.

Table 20: Activity in Debt of Fannie Mae

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2015	2014	2015	2014
	(Dollars in millions)			
Issued during the period:				
Short-term:				
Amount	$60,880	$66,584	$156,658	$161,296
Weighted-average interest rate	0.19 %	0.10 %	0.14 %	0.08 %
Long-term:[1]				
Amount	$14,486	$18,821	$47,727	$31,981
Weighted-average interest rate	1.24 %	2.00 %	1.50 %	1.90 %
Total issued:				
Amount	$75,366	$85,405	$204,385	$193,277
Weighted-average interest rate	0.39 %	0.52 %	0.46 %	0.38 %
Paid off during the period:[2]				
Short-term:				
Amount	$46,660	$60,098	$166,148	$136,196
Weighted-average interest rate	0.11 %	0.09 %	0.09 %	0.09 %
Long-term:				
Amount	$36,293	$27,793	$81,723	$112,192
Weighted-average interest rate	1.25 %	1.85 %	1.29 %	1.80 %
Total paid off:				
Amount	$82,953	$87,891	$247,871	$248,388
Weighted-average interest rate	0.61 %	0.65 %	0.48 %	0.86 %

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(1) Includes credit risk-sharing securities issued under our CAS series. For additional information on our credit risk-sharing transactions, see “Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards—Risk-Sharing Transactions.”

(2) Consists of all payments on debt, including regularly scheduled principal payments, payments at maturity, payments resulting from calls and payments for any other repurchases. Repurchases of debt and early retirements of zero-coupon debt are reported at original face value, which does not equal the amount of actual cash payment.

Outstanding Debt

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

Pursuant to the terms of the senior preferred stock purchase agreement, we are prohibited from issuing debt without the prior consent of Treasury if it would result in our aggregate indebtedness exceeding our outstanding debt limit, which is 120% of the amount of mortgage assets we were allowed to own under the senior preferred stock purchase agreement on December 31 of the immediately preceding calendar year. Our debt limit under the senior preferred stock purchase agreement was reduced to $563.6 billion in 2015. As of September 30, 2015, our aggregate indebtedness totaled $420.9 billion, which was $142.7 billion below our debt limit. The calculation of our indebtedness for purposes of complying with our debt limit reflects the unpaid principal balance and excludes debt basis adjustments and debt of consolidated trusts. Because of our debt limit, we may be restricted in the amount of debt we issue to fund our operations.

Table 21 displays information on our outstanding short-term and long-term debt based on its original contractual terms.

Table 21: Outstanding Short-Term Borrowings and Long-Term Debt[1]

	As of September 30, 2015				December 31, 2014			
	Maturities	Outstanding	Weighted-Average Interest Rate		Maturities	Outstanding	Weighted-Average Interest Rate	
	(Dollars in millions)							
Federal funds purchased and securities sold under agreements to repurchase[2]	—	$118	—	%	—	$50	—	%
Short-term debt of Fannie Mae	—	$95,427	0.21	%	—	$105,012	0.11	%
Debt of consolidated trusts	—	1,391	0.15		—	1,560	0.09	
Total short-term debt		$96,818	0.20	%		$106,572	0.11	%
Long-term debt:								
Senior fixed:								
Benchmark notes and bonds	2015 - 2030	$159,550	2.51	%	2015 - 2030	$173,010	2.41	%
Medium-term notes[3]	2015 - 2025	100,682	1.49		2015 - 2024	114,556	1.42	
Foreign exchange bonds	2021 - 2028	570	5.39		2021 - 2028	619	5.44	
Other	2015 - 2038	27,797	4.83		2015 - 2038	32,322	4.63	
Total senior fixed		288,599	2.39			320,507	2.29	
Senior floating:								
Medium-term notes[3]	2015 - 2019	19,164	0.22		2015 - 2019	24,469	0.15	
Connecticut Avenue Securities[4]	2023 - 2025	9,607	3.39		2023 - 2024	6,041	2.97	
Other[5]	2020 - 2037	369	8.25		2020 - 2037	363	8.71	
Total senior floating		29,140	1.36			30,873	0.81	
Subordinated debentures	2019	4,129	9.93		2019	3,849	9.93	
Secured borrowings[6]	2021 - 2022	163	1.35		2021 - 2022	202	1.90	
Total long-term debt of Fannie Mae		322,031	2.39			355,431	2.24	
Debt of consolidated trusts[5]	2015 - 2054	2,787,396	2.91		2015 - 2054	2,760,152	3.02	
Total long-term debt		$3,109,427	2.85	%		$3,115,583	2.93	%
Outstanding callable debt of Fannie Mae[7]		$97,544	1.85	%		$114,990	1.79	%

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(1) Outstanding debt amounts and weighted-average interest rates reported in this table include the effects of discounts, premiums and other cost basis adjustments. Reported outstanding amounts include fair value gains and losses associated with debt that we elected to carry at fair value. Reported amounts for total debt of Fannie Mae include unamortized discounts and premiums, other cost basis adjustments and fair value adjustments of $3.5 billion and $4.1 billion as of September 30, 2015 and December 31, 2014, respectively. The unpaid principal balance of outstanding debt of Fannie Mae, which excludes unamortized discounts, premiums and other cost basis adjustments, and debt of consolidated trusts, totaled $421.0 billion and $464.6 billion as of September 30, 2015 and December 31, 2014, respectively.

(2) Represents agreements to repurchase securities for a specified price, with repayment generally occurring on the following day.

(3) Includes long-term debt with an original contractual maturity of greater than 1 year and up to 10 years, excluding zero-coupon debt.

(4)

Credit risk-sharing securities that transfer a portion of the credit risk on specified pools of mortgage loans in our single-family guaranty book of business to the investors in these securities. Connecticut Avenue Securities are reported at fair value. For additional information on our credit risk-sharing transactions, see "Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards—Risk-Sharing Transactions."

(5) Includes a portion of structured debt instruments that is reported at fair value.

(6) Represents remaining liability resulting from the transfer of financial assets from our condensed consolidated balance sheets that did not qualify as a sale.

(7) Consists of the unpaid principal balance of long-term callable debt of Fannie Mae that can be paid off in whole or in part at our option at any time on or after a specified date.

Maturity Profile of Outstanding Debt of Fannie Mae

Our outstanding short-term debt, as a percentage of our total outstanding debt, was 23% as of September 30, 2015 and December 31, 2014. The weighted-average interest rate on our long-term debt increased to 2.39% as of September 30, 2015 from 2.24% as of December 31, 2014.

Our outstanding debt maturing within one year, including the current portion of our long-term debt and amounts we have announced for early redemption, as a percentage of our total outstanding debt, excluding debt of consolidated trusts, was 37% as of September 30, 2015 and December 31, 2014. The weighted-average maturity of our outstanding debt that is maturing within one year was 126 days as of September 30, 2015, compared with 131 days as of December 31, 2014. The weighted-average maturity of our outstanding debt maturing in more than one year was approximately 58 months as of September 30, 2015, compared with approximately 61 months as of December 31, 2014. We intend to repay our short-term and long-term debt obligations as they become due primarily through proceeds from the issuance of additional debt securities. We also may use proceeds from our mortgage assets to pay our debt obligations.

Cash and Other Investments Portfolio

Table 22 displays information on the composition of our cash and other investments portfolio. The balance of our cash and other investments portfolio fluctuates based on changes in our cash flows, overall liquidity in the fixed income markets and our liquidity risk management policies and practices. See “Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Counterparty Credit Exposure of Investments Held in our Cash and Other Investments Portfolio” for additional information on the risks associated with the assets in our cash and other investments portfolio.

Table 22: Cash and Other Investments Portfolio

	As of September 30, 2015	December 31, 2014
	(Dollars in millions)	
Cash and cash equivalents	$19,915	$22,023
Federal funds sold and securities purchased under agreements to resell or similar arrangements	26,600	30,950
U.S. Treasury securities	26,961	19,466
Total cash and other investments	$73,476	$72,439

Credit Ratings

As of September 30, 2015, our credit ratings have not changed since we filed our 2014 Form 10-K. For additional information on our credit ratings, see “MD&A—Liquidity and Capital Management—Fannie Mae Credit Ratings” in our 2014 Form 10-K.

Cash Flows

Nine Months Ended September 30, 2015. Cash and cash equivalents decreased by $2.1 billion from $22.0 billion as of December 31, 2014 to $19.9 billion as of September 30, 2015. The decrease was primarily driven by cash outflows from (1) the redemption of funding debt, which outpaced issuances, due to lower funding needs, (2) the acquisition of delinquent loans out of MBS trusts and (3) the payment of dividends to Treasury under our senior preferred stock purchase agreement.

Partially offsetting these cash outflows were cash inflows from (1) proceeds from repayment of loans of Fannie Mae, (2) the sale of Fannie Mae MBS to third parties, (3) the sale of our acquired property and (4) proceeds from the sale and liquidation of mortgage-related securities.

Nine Months Ended September 30, 2014. Cash and cash equivalents decreased by $2.9 billion from $19.2 billion as of December 31, 2013 to $16.3 billion as of September 30, 2014. The decrease was primarily driven by cash outflows from (1) the redemption of funding debt, which outpaced issuances, due to lower funding needs, (2) the payment of dividends to Treasury under our senior preferred stock purchase agreement and (3) the acquisition of delinquent loans out of MBS trusts.

Partially offsetting these cash outflows were cash inflows from (1) the sale of Fannie Mae MBS to third parties, (2) proceeds from repayments of loans of Fannie Mae, (3) the sale of our acquired property, (4) proceeds from the sale and liquidation of mortgage-related securities and (5) proceeds from resolution and settlement agreements related to PLS matters.

Capital Management

Regulatory Capital

FHFA has announced that, during the conservatorship, our existing statutory and FHFA-directed regulatory capital requirements will not be binding and that FHFA will not issue quarterly capital classifications. We submit capital reports to FHFA and FHFA monitors our capital levels. The deficit of our core capital over statutory minimum capital was $140.6 billion as of September 30, 2015 and $142.2 billion as of December 31, 2014.

Under the terms of the senior preferred stock, we are required to pay Treasury each quarter a dividend, when, as and if declared, equal to the excess of our net worth as of the end of the preceding quarter over an applicable capital reserve amount. Therefore, we do not expect to eliminate our deficit of core capital over statutory minimum capital. We expect to pay Treasury a dividend of $2.2 billion by December 31, 2015.

Senior Preferred Stock Purchase Agreement

As a result of the covenants under the senior preferred stock purchase agreement, Treasury's ownership of the warrant to purchase up to 79.9% of the total shares of our common stock outstanding and the significant uncertainty regarding our future, we effectively no longer have access to equity funding except through draws under the senior preferred stock purchase agreement.

Under the senior preferred stock purchase agreement, Treasury made a commitment to provide funding, under certain conditions, to eliminate deficiencies in our net worth. We have received a total of $116.1 billion from Treasury pursuant to the senior preferred stock purchase agreement as of September 30, 2015. The aggregate liquidation preference of the senior preferred stock, including the initial aggregate liquidation preference of $1.0 billion, remains at $117.1 billion.

While we had a positive net worth as of September 30, 2015 and have not received funds from Treasury under the agreement since the first quarter of 2012, we will be required to obtain additional funding from Treasury pursuant to the senior preferred stock purchase agreement if we have a net worth deficit in future periods. As of the date of this filing, the amount of remaining available funding under the senior preferred stock purchase agreement is $117.6 billion. If we draw additional funds from Treasury under the agreement in a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement. For additional information, see "Business—Conservatorship and Treasury Agreements—Treasury Agreements—Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant—Senior Preferred Stock Purchase Agreement" in our 2014 Form 10-K.

Our third quarter 2015 dividend of $4.4 billion was declared by FHFA and subsequently paid by us on September 30, 2015. For each dividend period from January 1, 2013 through and including December 31, 2017, when, as and if declared, the dividend amount will be 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. The capital reserve amount is $1.8 billion for dividend periods in 2015 and will continue to be reduced by $600 million each year until it reaches zero on January 1, 2018. For each dividend period beginning in 2018, the dividend amount will be the entire amount of our net worth, if any, as of the end of the immediately preceding fiscal quarter. Based on the terms of the senior preferred stock, we expect to pay Treasury a dividend for the fourth quarter of 2015 of $2.2 billion by December 31, 2015. The Director of FHFA directs us to make dividend payments on the senior preferred stock on a quarterly basis.

See "Risk Factors" in our 2014 Form 10-K for a discussion of the risks relating to our dividend obligations to Treasury on the senior preferred stock. See "Business—Conservatorship and Treasury Agreements—Treasury Agreements" in our 2014 Form 10-K for more information on the terms of the senior preferred stock and our senior preferred stock purchase agreement with Treasury.

OFF-BALANCE SHEET ARRANGEMENTS

Our maximum potential exposure to credit losses relating to our outstanding and unconsolidated Fannie Mae MBS and other financial guarantees is primarily represented by the unpaid principal balance of the mortgage loans underlying outstanding and unconsolidated Fannie Mae MBS and other financial guarantees of $28.3 billion as of September 30, 2015 and $31.7 billion as of December 31, 2014.

For a description of our off-balance sheet arrangements, see “MD&A—Off-Balance Sheet Arrangements” in our 2014 Form 10-K.

RISK MANAGEMENT

Our business activities expose us to the following three major categories of financial risk: credit risk, market risk (including interest rate and liquidity risk) and operational risk. We actively monitor and manage these risks by using an established risk management framework. In addition to our exposure to credit, market and operational risks, there is significant uncertainty regarding the future of our company, including how long we will continue to be in existence, which we discuss in more detail in “Risk Factors” and “Legislative and Regulatory Developments—Housing Finance Reform” in this report and in “Business—Housing Finance Reform” in our 2014 Form 10-K. This uncertainty, along with limitations on our employee compensation arising from our conservatorship, could affect our ability to retain and hire qualified employees.

We are also subject to a number of other risks that could adversely impact our business, financial condition, earnings and cash flow, including human capital, model, legal, regulatory and compliance, reputational, strategic and execution risks. These risks may arise due to a failure to comply with laws, regulations or ethical standards and codes of conduct applicable to our business activities and functions.

In this section we provide an update on our management of our major risk categories. For a more complete discussion of the primary risks we face and how we manage credit risk, market risk and operational risk, see “MD&A—Risk Management” in our 2014 Form 10-K and “Risk Factors” in this report and our 2014 Form 10-K.

Credit Risk Management

We are generally subject to two types of credit risk: mortgage credit risk and institutional counterparty credit risk. Mortgage credit risk is the risk that a borrower will fail to make required mortgage payments. Institutional counterparty credit risk is the risk that our institutional counterparties may fail to fulfill their contractual obligations to us.

Mortgage Credit Risk Management

We are exposed to credit risk on our mortgage credit book of business because we either hold mortgage assets, have issued a guaranty in connection with the creation of Fannie Mae MBS backed by mortgage assets or provided other credit enhancements on mortgage assets. While our mortgage credit book of business includes all of our mortgage-related assets, both on- and off-balance sheet, our guaranty book of business excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty. We provide information on the performance of non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio, including the impairment that we have recognized on these securities, in “Note 5, Investments in Securities.”

Mortgage Credit Book of Business

Table 23 displays the composition of our mortgage credit book of business based on unpaid principal balance. Our single-family mortgage credit book of business accounted for 93% of our mortgage credit book of business as of September 30, 2015 and December 31, 2014.

Table 23: Composition of Mortgage Credit Book of Business

	As of					
	September 30, 2015			December 31, 2014		
	Single-Family	Multifamily	Total	Single-Family	Multifamily	Total
	(Dollars in millions)					
Mortgage loans and Fannie Mae MBS(1)	$2,820,782	$196,805	$3,017,587	$2,837,211	$187,300	$3,024,511
Unconsolidated Fannie Mae MBS, held by third parties(2)	10,266	1,239	11,505	11,660	1,267	12,927
Other credit guarantees(3)	2,764	14,019	16,783	4,033	14,748	18,781
Guaranty book of business	$2,833,812	$212,063	$3,045,875	$2,852,904	$203,315	$3,056,219
Agency mortgage-related securities(4)	6,307	8	6,315	6,932	8	6,940
Other mortgage-related securities(5)	11,799	6,788	18,587	19,973	7,970	27,943
Mortgage credit book of business	$2,851,918	$218,859	$3,070,777	$2,879,809	$211,293	$3,091,102
Guaranty Book of Business Detail:						
Conventional Guaranty Book of Business(6)	$2,780,904	$210,601	$2,991,505	$2,795,666	$201,763	$2,997,429
Government Guaranty Book of Business(7)	$52,908	$1,462	$54,370	$57,238	$1,552	$58,790

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(1) Consists of mortgage loans and Fannie Mae MBS recognized in our condensed consolidated balance sheets. The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

(2) The principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

(3) Consists of single-family and multifamily credit enhancements that we have provided and that are not otherwise reflected in the table.

(4) Consists of mortgage-related securities issued by Freddie Mac and Ginnie Mae.

(5) Primarily includes mortgage revenue bonds, Alt-A and subprime PLS and CMBS.

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

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

The 2008 Reform Act requires us to set aside each year an amount equal to 4.2 basis points for each dollar of the unpaid principal balance of our total new business purchases to fund the U.S. Department of Housing and Urban Development's Housing Trust Fund and Treasury's Capital Magnet Fund. New business purchases consist of single-family and multifamily whole mortgage loans purchased during the period and single-family and multifamily mortgage loans underlying Fannie Mae MBS issued during the period pursuant to lender swaps. New business purchases were $399.7 billion in the first nine months of 2015. We recognized an expense of $168 million related to this obligation in the first nine months of 2015 and we expect to pay these funds, plus additional amounts to be accrued based on our new business purchases in the last three months of 2015, in February 2016. See "Business—Our Charter and Regulation of Our Activities—The GSE Act—Affordable Housing Allocations" in our 2014 Form 10-K for more information regarding this obligation.

In the following sections, we discuss the mortgage credit risk of the single-family and multifamily loans in our guaranty book of business. The credit statistics reported below, unless otherwise noted, pertain generally to the portion of our guaranty book of business for which we have access to detailed loan-level information, which constituted approximately 99% of each of our single-family conventional guaranty book of business and our multifamily guaranty book of business, excluding defeased loans, as of September 30, 2015 and December 31, 2014. We typically obtain this data from the sellers or servicers of the mortgage loans in our guaranty book of business and receive representations and warranties from them as to the accuracy of the information. While we perform various quality assurance checks by sampling loans to assess compliance with our underwriting and eligibility criteria, we do not independently verify all reported information and we rely on lender representations regarding the accuracy of the characteristics of loans in our guaranty book of business. See “Risk Factors” in our 2014 Form 10-K for a discussion of the risk that we could experience mortgage fraud as a result of this reliance on lender representations.

Single-Family Mortgage Credit Risk Management

Our strategy in managing single-family mortgage credit risk consists of four primary components: (1) our acquisition and servicing policies along with our underwriting and servicing standards, including the use of credit enhancements; (2) portfolio diversification and monitoring; (3) management of problem loans; and (4) REO management. These approaches may increase our expenses and may not be effective in reducing our credit-related expense or credit losses. We provide information on our credit-related income and credit losses in "Consolidated Results of Operations—Credit-Related Income (Expense)." For information on how we evaluate and factors that affect our single-family mortgage credit risk, see "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management" in our 2014 Form 10-K.

The single-family credit statistics we focus on and report in the sections below generally relate to our single-family conventional guaranty book of business, which represents the substantial majority of our total single-family guaranty book of business.

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

Our Single-Family business, with the oversight of our Enterprise Risk Management division, is responsible for pricing and managing credit risk relating to the portion of our single-family mortgage credit book of business consisting of single-family mortgage loans and Fannie Mae MBS backed by single-family mortgage loans (whether held in our portfolio or held by third parties). Desktop Underwriter, our proprietary automated underwriting system which measures credit risk by assessing the primary risk factors of a mortgage, is used to evaluate the majority of the loans we purchase or securitize.

We are undertaking various initiatives to better serve our customers' needs and improve our business efficiency. As part of these initiatives, we have implemented or will be implementing a number of changes in 2015 that are designed to help our customers originate mortgages with increased certainty, efficiency and lower cost, including the following:

- in January 2015, we made Collateral Underwriter available at no cost to lenders, giving them access to the same appraisal review tool we use so that they can address potential appraisal issues prior to delivering a loan to us;
- in April 2015, we integrated Collateral Underwriter with Desktop Underwriter, which we believe will enhance our lenders' risk management and underwriting capabilities;
- effective June 2015, we no longer charge customers for using our Desktop Underwriter and Desktop Originator systems, which we expect will allow more lenders to access these systems in their underwriting process;
- in October 2015, we enhanced our Early Check loan verification tool with additional loan-level data integrity capabilities, to give lenders confidence that the loans they deliver to us meet our requirements; and
- in the fourth quarter of 2015, we expect to make available a new loan delivery platform for lenders that is designed to help lenders deliver loans more efficiently and with greater transparency and certainty.

For information on our single-family acquisition and servicing policies and on our underwriting and servicing standards, see "MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards" in our 2014 Form 10-K.

Table 24 below displays information regarding the credit characteristics of the loans in our single-family conventional guaranty book of business by acquisition period.

Table 24: Selected Credit Characteristics of Single-Family Conventional Guaranty Book of Business, by Acquisition Period

	As of September 30, 2015							
	% of Single-Family Conventional Guaranty Book of Business[(1)]		Current Estimated Mark-to-Market LTV Ratio[(2)]		Current Estimated Mark-to-Market LTV Ratio>100%[(3)]		Serious Delinquency Rate[(4)]	
2009-2015 acquisitions, excluding HARP and other Refi Plus loans	65	%	58	%	*	%	0.22	%
HARP loans[(5)]	10		81		14		1.10	
Other Refi Plus loans[(6)]	8		48		*		0.39	
2005-2008 acquisitions	11		77		17		7.43	
2004 and prior acquisitions	6		45		1		3.10	
Total single-family book of business	100	%	61	%	3	%	1.59	%

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* Represents less than 0.5%

(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 September 30, 2015.

(2) The aggregate estimated mark-to-market LTV ratio is based on the unpaid principal balance of the loans as of the end of the period divided by the estimated current value of the properties, which we calculate using an internal valuation model that estimates periodic changes in home value. Excludes loans for which this information is not readily available.

(3) The current estimated mark-to-market LTV ratio greater than 100% is based on the unpaid principal balance of the loans with mark-to-market LTV ratios greater than 100% for each category as of the end of the period divided by the aggregate unpaid principal balance of loans for each category in our single-family conventional guaranty book of business as of September 30, 2015.

(4) 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 September 30, 2015 serious delinquency rates of loans acquired in 2005 through 2008.

(5) HARP loans, which we began to acquire in 2009, have LTV ratios at origination in excess of 80%. In the fourth quarter of 2012, we revised our presentation of the data to reflect all loans under our Refi Plus program with LTV ratios at origination in excess of 80% as HARP loans. Previously we did not reflect loans that were backed by second homes or investor properties as HARP loans.

(6) Other Refi Plus loans, which we began to acquire in 2009, includes all other Refi Plus loans that are not HARP loans.

Beginning with loans delivered in 2013, and in conjunction with our new representation and warranty framework, we have made changes in our quality control process that move the primary focus of our quality control review from the time a loan defaults to shortly after the loan is delivered to us. We have implemented new tools to help identify loans delivered to us that may not have met our underwriting or eligibility guidelines and use these tools to help select discretionary samples of performing loans for quality control review shortly after delivery. We also select random samples of performing loans for quality control review shortly after delivery. For a discussion of our new representation and warranty framework, see “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards” in our 2014 Form 10-K.

We derive an eligibility defect rate from our random reviews, which represents the proportion of loans in the sample population with underwriting defects that would make them potentially ineligible for delivery to us. The eligibility defect rate does not necessarily indicate how well the loans will ultimately perform. Instead, we use the eligibility defect rate to estimate the percentage of loans we acquired that potentially had a significant error in the underwriting process. As of September 30, 2015, the eligibility defect rate for our single-family non-Refi Plus loan acquisitions made during the twelve months ended October 31, 2014 was 1.18%. Because of enhancements to the sampling methodology of our random reviews that we implemented in 2013, the eligibility defect rate for our 2013 and 2014 loan acquisitions is not directly comparable to the "significant findings rate" we reported on our acquisitions in prior periods. We continue to work with lenders to reduce the number of defects.

If we determine that a mortgage loan did not meet our underwriting or eligibility requirements, loan representations or warranties were violated or a mortgage insurer rescinded coverage, then our mortgage sellers and/or servicers are obligated to either repurchase the loan or foreclosed property, reimburse us for our losses or provide other remedies, unless the loan is eligible for representation and warranty relief under our new representation and warranty framework described below. We refer to our demands that mortgage sellers and servicers meet these obligations collectively as repurchase requests. See “MD&A—Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Mortgage Sellers and Servicers” and “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards” in our 2014 Form 10-K for a discussion of our mortgage sellers and servicers’ repurchase obligations. As of September 30, 2015, we have issued repurchase requests on approximately 0.46% of the $379.1 billion of unpaid principal balance of single-family loans delivered to us in 2014, for which reviews have been substantially completed. The dollar amounts of our outstanding repurchase requests are based on the unpaid principal balance of the loans underlying the repurchase request, not the actual amount we have requested from the lenders. In some cases, we allow lenders to remit payment equal to our loss, including imputed interest, on the loan after we have disposed of the related REO, which is substantially less than the unpaid principal balance of the loan. As a result, we expect our actual cash receipts relating to these outstanding repurchase requests to be significantly lower than the unpaid principal balance of the loans. Amounts relating to repurchase requests originating from missing documentation or loan files where a full file review could not be completed are excluded from the total requests outstanding until we receive the missing documentation or loan files and a full underwriting review is completed. Total outstanding repurchase requests as of September 30, 2015 were $812 million, compared with $1.0 billion as of December 31, 2014.

Representation and Warranty Framework

Our representation and warranty framework for single-family mortgage loans delivered on or after January 1, 2013 seeks to provide lenders a higher degree of certainty and clarity regarding their repurchase exposure and liability on future deliveries, as well as consistency around repurchase timelines and remedies. Under the framework, lenders are relieved of repurchase liability for loans that meet specific payment history requirements and other eligibility requirements. For example, a lender would not be required to repurchase a mortgage loan in breach of certain underwriting and eligibility representations and warranties if the borrower has made timely payments for 36 months following the delivery date (or, for Refi Plus loans, including HARP loans, for 12 months following the delivery date), and the loan meets other specified eligibility requirements. For single-family loans delivered on or after July 1, 2014 the 36-month timely payment history requirement is relaxed to permit two instances of 30-day delinquency and adds an alternative path to relief if there is a satisfactory conclusion of a quality control review. For more information on our quality control process and our representation and warranty framework, see “MD&A—Risk Management—Credit Risk Management—Single-Family Mortgage Credit Risk Management—Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards” in our 2014 Form 10-K.

In October 2015, we announced alternatives to repurchase that may be offered to lenders in the event of underwriting defects, and we provided specific guidance on what types of loan defects could lead to a repurchase request or an alternative remedy. We continue to work with FHFA to identify opportunities to enhance our representation and warranty framework, providing the mortgage finance industry with more certainty and transparency regarding selling representation and warranty obligations.

As of September 30, 2015, approximately 36% of the outstanding loans in our single-family conventional guaranty book of business were acquired under the new representation and warranty framework. Table 25 below displays information regarding the relief status of single-family conventional loans, based on payment history, delivered to us beginning in 2013 under the new representation and warranty framework.

Table 25: Representation and Warranty Status of Single-Family Conventional Loans Acquired in 2013-2015

	As of September 30, 2015					
	Refi Plus		Non-Refi Plus		Total	
	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans	Unpaid Principal Balance	Number of Loans
	(Dollars in millions)					
Single-family conventional loans that:						
Obtained relief	$161,345	1,099,270	$—	—	$161,345	1,099,270
Remain eligible for relief						