FEDERAL NATIONAL MORTGAGE ASSOCIATION FANNIE MAE
Form 10-K
February 14, 2018

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
Commission file number: 0-50231
Federal National Mortgage Association
(Exact name of registrant as specified in its charter)
Fannie Mae

Federally chartered corporation	52-0883107	3900 Wisconsin Avenue, NW Washington, DC 20016	(800) 2FANNIE (800-232-6643)
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)	(Address of principal executive offices, including zip code)	(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None
Securities registered pursuant to Section 12(g) of the Act:
Common Stock, without par value
8.25% Non-Cumulative Preferred Stock, Series T, stated value $25 per share
8.75% Non-Cumulative Mandatory Convertible Preferred Stock, Series 2008-1, stated value $50 per share
Fixed-to-Floating Rate Non-Cumulative Preferred Stock, Series S, stated value $25 per share
7.625% Non-Cumulative Preferred Stock, Series R, stated value $25 per share
6.75% Non-Cumulative Preferred Stock, Series Q, stated value $25 per share
Variable Rate Non-Cumulative Preferred Stock, Series P, stated value $25 per share
Variable Rate Non-Cumulative Preferred Stock, Series O, stated value $50 per share
5.375% Non-Cumulative Convertible Series 2004-1 Preferred Stock, stated value $100,000 per share
5.50% Non-Cumulative Preferred Stock, Series N, stated value $50 per share
4.75% Non-Cumulative Preferred Stock, Series M, stated value $50 per share
5.125% Non-Cumulative Preferred Stock, Series L, stated value $50 per share
5.375% Non-Cumulative Preferred Stock, Series I, stated value $50 per share
5.81% Non-Cumulative Preferred Stock, Series H, stated value $50 per share
Variable Rate Non-Cumulative Preferred Stock, Series G, stated value $50 per share
Variable Rate Non-Cumulative Preferred Stock, Series F, stated value $50 per share
5.10% Non-Cumulative Preferred Stock, Series E, stated value $50 per share
5.25% Non-Cumulative Preferred Stock, Series D, stated value $50 per share
Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No þ
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Act. Yes ¨ No þ
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to

submit and post such files). Yes þ No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§ 229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

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

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

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

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

The aggregate market value of the common stock held by non-affiliates of the registrant computed by reference to the last reported sale price of the common stock quoted on the OTC Bulletin Board on June 30, 2017 (the last business day of the registrant's most recently completed second fiscal quarter) was approximately $2.7 billion.

As of January 31, 2018, there were 1,158,087,567 shares of common stock of the registrant outstanding.

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PART I

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.

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

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 "Business—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.

You can find a "Glossary of Terms Used in This Report" in "Management's Discussion and Analysis of Financial Condition and Results of Operations ('MD&A')."

Item 1. Business

Introduction

Fannie Mae provides a stable source of liquidity to the mortgage market and increases the availability and affordability of housing in the United States. We operate in the secondary mortgage market, primarily working with lenders. We do not originate loans or lend money directly to consumers in the primary mortgage market. Instead, we securitize mortgage loans originated by lenders into Fannie Mae mortgage-backed securities that we guarantee (which we refer to as Fannie Mae MBS); purchase mortgage loans and mortgage-related securities, primarily for securitization and sale at a later date; and engage in other activities that increase the supply of affordable housing. Through our single-family and multifamily business segments, we provided approximately $570 billion in liquidity to the mortgage market in 2017, which enabled the financing of approximately 3 million home purchases, refinancings or rental units.

Fannie Mae Provided $570 Billion in Liquidity in 2017

Executive Summary

Please read this Executive Summary together with our MD&A and our consolidated financial statements as of December 31, 2017 and related notes to the consolidated financial statements.

Summary of Our Financial Performance

Our pre-tax income was $18.4 billion in 2017 compared with $18.3 billion in 2016, reflecting the strength of the company's underlying business fundamentals.

Our net revenues, which consist of net interest income and fee and other income, were higher in 2017 compared with 2016.

- Net interest income slightly decreased in 2017 compared with 2016. Net interest income was primarily derived from guaranty fees from our $3.2 trillion guaranty book of business. We receive guaranty fees as compensation for managing the credit risk on loans underlying Fannie Mae MBS held by third parties.
- Fee and other income increased in 2017 compared with 2016 primarily as a result of a settlement agreement resolving legal claims related to private-label securities we purchased prior to entering conservatorship in 2008.

The decrease in our net income and comprehensive income in 2017 was primarily driven by a $9.9 billion provision for federal income taxes resulting from the enactment of the Tax Cuts and Jobs Act (the "Tax Act"). This one-time charge was due to the remeasurement of our deferred tax assets using the lower corporate tax rate enacted in the fourth quarter of 2017 with an effective date of January 1, 2018. We expect our future net income will benefit from the lower federal corporate income tax rate. See further discussion of the impact of the Tax Act in "MD&A—Consolidated Results of Operations" and "Note 9, Income Taxes."

See "MD&A—Consolidated Results of Operations" for more information on our financial results.

Net Worth Deficit

Our net worth deficit of $3.7 billion as of December 31, 2017 reflects the recognition of our comprehensive loss of $6.7 billion for the fourth quarter of 2017 and our payment to Treasury of $648 million in senior preferred stock

dividends during the fourth quarter of 2017. The comprehensive loss in the fourth quarter was driven by the $9.9 billion tax provision described above. We expect the Director of FHFA will submit a request to Treasury on our behalf for $3.7 billion to eliminate our net worth deficit.

Financial Performance Outlook

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

The potential for significant volatility in our financial results could result in a net loss in a future quarter. Because we had a net worth deficit as of December 31, 2017, we have no remaining capital reserves as of that date. Pursuant to the December 2017 letter agreement described in “Treasury Draws and Dividend Payments” below, we are now permitted to retain up to $3.0 billion in future earnings as capital reserves. Once we are able to rebuild our capital reserves to $3.0 billion, they will provide a buffer in the event of a net loss in a future quarter. However, any net loss we experience in the future could be greater than the amount of our capital reserves. If this were to occur, it would result in a net worth deficit for that quarter. If we have another net worth deficit in a future quarter, we will be required to draw additional funds from Treasury under the senior preferred stock purchase agreement to avoid being placed into receivership. See “Risk Factors” for a discussion of the risks associated with the limitations on our ability to rebuild our capital reserves, including factors that could result in a net loss or net worth deficit in a future quarter.

Treasury Draws and Dividend Payments

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

Under the dividend provisions of the senior preferred stock in effect beginning in 2013, the dividend payable on the senior preferred stock for a dividend period is 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. We refer to this as a “net worth sweep” dividend. The applicable capital reserve amount was initially set at $3.0 billion for 2013, decreased by $600 million each year, and was scheduled to decrease to zero for 2018. However, in December 2017, FHFA entered into a letter agreement with Treasury on our behalf that modified the dividend and liquidation preference provisions of the senior preferred stock. The December 2017 letter agreement amended the dividend provisions of the senior preferred stock to:

- increase the applicable capital reserve amount to $3.0 billion effective January 1, 2018; and
- reduce the dividend amount otherwise payable for the fourth quarter of 2017 by $2.4 billion.

The amended dividend provisions of the senior preferred stock also provide that, if we do not declare and pay a dividend in the full amount provided for in the senior preferred stock for any future dividend period, the capital reserve amount will thereafter be zero. In his December 21, 2017 statement announcing this reinstatement of the $3.0 billion capital reserve, the Director of FHFA noted that FHFA contemplates that going forward Fannie Mae and Freddie Mac dividends will be declared and paid beyond the $3.0 billion capital reserve in the absence of exigent circumstances.

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

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

(2) Treasury draws are shown in the period for which requested, not when the funds were received by us. Accordingly, the 2017 draw amount and 2008-2017 total draw amount reflect the $3.7 billion we will draw to eliminate our net worth deficit as of December 31, 2017. Draw requests have been funded in the quarter following a net worth deficit.

Under the terms of the senior preferred stock, if we do not have a positive net worth or if our net worth does not exceed the applicable capital reserve amount as of the end of a fiscal quarter, then no dividend amount will accrue or be payable for the applicable dividend period. Because we had a net worth deficit of $3.7 billion as of December 31, 2017, no dividend will be payable to Treasury for the first quarter of 2018, and we expect the Director of FHFA will submit a request to Treasury on our behalf for $3.7 billion to eliminate our net worth deficit. After we receive these funds, the maximum amount of remaining funding under the agreement will be $113.9 billion. If we were to draw additional funds from Treasury under the agreement in respect of a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement.

For a description of the terms of the senior preferred stock purchase agreement and the senior preferred stock, including additional information on the December 2017 letter agreement amending the terms of the senior preferred stock, see “Conservatorship and Treasury Agreements—Treasury Agreements.”

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 Strategic Objectives

Our vision is to be America's most valued housing partner and to provide liquidity, access to credit and affordability in all U.S. housing markets at all times, while effectively managing and reducing risk to our business, taxpayers and the housing finance system. We are advancing this vision by pursuing four strategic objectives:

- advancing a sustainable and reliable business model that reduces risk to the housing finance system and taxpayers;
- providing great service to our customers and partners, enabling them to serve the needs of American households more effectively;
- supporting and sustainably increasing access to credit and affordable housing; and
- building a simple, efficient, innovative and continuously improving company.

We believe pursuing these strategic objectives will position us to compete effectively in a diverse and rapidly changing housing finance market in the years ahead.

Advancing a sustainable and reliable business model that reduces risk to the housing finance system and taxpayers

We have significantly changed our business model since we entered conservatorship in 2008 and our business continues to evolve. We have strengthened our underwriting and eligibility standards and transitioned from a portfolio-focused business to a guaranty-focused business. In addition, we are transferring an increasing portion of the credit risk on our guaranty book of business to private investors. These changes have transformed our business model and reduced certain risks of our business as compared with our business prior to entering conservatorship.

Our business also continues to evolve as a result of our many other efforts to build a safer and sustainable housing finance system and to pursue the strategic goals identified by our conservator. See "Legislation and Regulation—Housing Finance Reform—Conservator Developments and Strategic Goals" for a discussion of some of these efforts and FHFA's strategic goals for our conservatorship.

Stronger underwriting and eligibility standards

The changes we made in late 2008 and 2009 to strengthen our underwriting and eligibility standards have improved the credit quality of our single-family guaranty book of business and contributed to improvement in our credit performance.

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(1) Calculated as of the end of each period based on the number of single-family conventional loans that are 90 days or more past due and loans that have been referred to foreclosure but not yet foreclosed upon, divided by the number of loans in our single-family conventional guaranty book of business.

(2) We have acquired HARP loans and other Refi Plus loans under our Refi Plus™ initiative since 2009. Our Refi Plus initiative offers refinancing flexibility to eligible borrowers who are current on their loans and whose loans are owned or guaranteed by us and meet certain additional criteria. HARP loans, which have loan-to-value ("LTV") ratios at origination greater than 80%, refers to loans we have acquired pursuant to the Home Affordable Refinance Program® ("HARP®"). Other Refi Plus loans, which have LTV ratios at origination of 80% or less, refers to loans we have acquired under our Refi Plus initiative other than HARP loans. Loans we acquire under Refi Plus and HARP are refinancings of loans that were originated prior to June 2009.

See "MD&A—Business Segments—Single-Family Business" for information on our recent single-family acquisitions and the credit performance of our single-family mortgage loans.

Transition to a guaranty-focused business

We have two primary sources of revenues:

- The guaranty fees we receive for managing the credit risk on loans underlying Fannie Mae MBS held by third parties.
- 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. 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).

Both of these sources of revenues are recorded as net interest income in our consolidated financial statements.
More than 75% of our 2017 net interest income was derived from the loans underlying our Fannie Mae MBS in consolidated trusts, which primarily generate income through guaranty fees. As shown in the chart below, 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. This shift has been driven by both the guaranty fee increases we implemented in 2012 and the reduction of our retained mortgage portfolio.

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(1) Guaranty fee income includes the impact of a 10 basis point guaranty fee increase implemented in 2012 pursuant to the Temporary Payroll Tax Cut Continuation Act of 2011, the incremental revenue from which is remitted to Treasury and not retained by us.

See "Consolidated Results of Operations—Net Interest Income" for more information on the components of our net interest income.

Transferring a portion of the mortgage credit risk on our book of business

In late 2013, we began entering into transactions that transfer to private investors a portion of the mortgage credit risk on some of the recently-acquired loans in our single-family book of business. The goal of these transactions is—to the extent economically sensible—to reduce the economic risk to us and to taxpayers of future borrower defaults. Our primary method of achieving this objective has been through our Connecticut Avenue Securities™ ("CAS") and Credit Insurance Risk Transfer™ ("CIRT™") transactions. In these transactions, we transfer to investors a portion of the credit risk associated with losses on a reference pool of mortgage loans in our single-family guaranty book of business and in exchange we pay investors a premium that effectively reduces the guaranty fee income we retain on the loans.

Since 2013, through our credit risk transfer efforts we have transferred a portion of the credit risk on mortgages in our single-family guaranty book of business with a total unpaid principal balance of more than $1.2 trillion, measured at the time of transaction. The chart below shows as of the dates specified the total outstanding unpaid principal balance of our single-family loans, as well as the percentage of our total single-family conventional guaranty book of business measured by unpaid principal balance, that were included in a reference pool for a credit risk transfer transaction.
The risk in force of these transactions, which refers to the maximum amount of losses that could be absorbed by credit risk transfer investors, was approximately $30 billion as of December 31, 2017. For further discussion of our credit risk transfer transactions, including information on the portion of the credit risk of these loans we have transferred, see "MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Transfer of Mortgage Credit Risk—Credit Risk Transfer Transactions."
In addition to the credit protection we obtain through credit risk transfer transactions, a significant portion of the loans in our single-family guaranty book of business is covered by mortgage insurance. As of December 31, 2017, 40% of our single-family conventional guaranty book of business was covered by some form of credit enhancement.
Our Multifamily business primarily transfers risk through its Delegated Underwriting and Servicing ("DUS®") program, which was initiated in 1988. DUS lenders are required to share with us the risk of loss over the life of the loan. As of December 31, 2017, 96% of the unpaid principal balance of loans in our $280.5 billion multifamily guaranty book of business had lender risk-sharing, and our maximum potential loss recovery from lenders under current risk-sharing agreements represented over 20% of the unpaid principal balance of our multifamily guaranty book of business. Our Multifamily business also continues to evaluate additional ways to transfer credit risk. See "MD&A—Business Segments—Multifamily Business" for more information on the credit enhancement arrangements for our multifamily guaranty book.

Providing great service to our customers and partners, enabling them to serve the needs of American households more effectively

We achieve our mission through our customers. Responding to and anticipating the changing needs of our mortgage lender and servicer customers with products, services and tools that offer greater speed, efficiency and effectiveness is a core part of our strategy. In 2017, we continued to make improvements to our business processes and policies to serve our customers better and enhance the value they can deliver to borrowers. We continue to work towards our goal of a digital mortgage process that reduces the time, cost and risk of originating and servicing mortgage loans. In addition to providing value to our customers, we believe these improvements will encourage lenders to safely expand their lending to a wider range of qualified borrowers.

We are also working on enhancements to our customers' day-to-day experience with us designed to improve customer loyalty. We believe our investments in an improved customer experience will provide us with not only a competitive advantage, but also allow us to collaborate with customers more effectively on long-term efforts to create new solutions to serve a changing housing finance market.

Supporting and sustainably increasing access to credit and affordable housing

Our mission includes promoting access to mortgage credit throughout the nation. We are focused on supporting sustainable access to credit and affordable housing, within our risk tolerance. Market forces in recent years have contributed to an overall decline in the supply of affordable housing for both single-family homes and multifamily rental housing. We are working on multiple fronts to help address housing affordability issues. For example:

- We began implementing our Duty to Serve plans in January 2018, which call for innovative solutions to expand our reach into three underserved markets: manufactured housing; affordable housing preservation; and rural housing.
- We also continue to support housing affordability through our purchases of loans to meet our single-family and multifamily housing goals.
- We are working with some customers to develop and test financing programs that could spur the development of more affordable housing supply, and help borrowers prudently overcome barriers to homeownership.
- Through our Sustainable Communities Initiative, we are working with partners to find new ways to increase, improve and preserve the supply of affordable housing through the advancement of sustainable, healthy communities.

Building a simple, efficient, innovative and continuously improving company

Since 2015, Fannie Mae has undertaken several internal initiatives to make our organization simpler, more efficient and more innovative, with the objective of making the company more competitive and responsive to changing market conditions and customer expectations. We are adopting lean management techniques across the enterprise as part of a multi-year effort to drive continuous improvement. We have also simplified many of our core business processes.

Residential Mortgage Market

We conduct business in the U.S. single-family and multifamily residential mortgage markets and the global securities market. According to the Federal Reserve, total U.S. residential mortgage debt outstanding was estimated to be approximately $11.8 trillion as of September 30, 2017 (the latest date for which information is available). We owned or guaranteed mortgage assets representing approximately 27% of total U.S. residential mortgage debt outstanding as of September 30, 2017.

We operate our business solely in the United States and its territories, and accordingly, we generate no revenue from and have no long-lived assets, other than financial instruments, in geographic locations other than the United States and its territories.

Business Segments

We have two reportable business segments: Single-Family and Multifamily. The Single-Family business operates in the secondary mortgage market relating to loans secured by properties containing four or fewer residential dwelling units, which are referred to as single-family mortgage loans. The Multifamily business operates in the secondary mortgage market relating primarily to loans secured by properties containing five or more residential units, which are referred to as multifamily mortgage loans.

The chart below displays the net revenues and pre-tax income for each of our business segments. Net revenues consist of net interest income and fee and other income. Pre-tax income refers to income before federal income taxes.

See "MD&A—Business Segments" for additional information on our Single-Family and Multifamily business segments, including each segment's primary business activities, customers, competitive and market conditions, business and credit metrics, and financial results. See "Note 10, Segment Reporting" for information about the total assets of each business segment and the management reporting and allocation process used to generate our segment results.

Mortgage Securitizations

We support market liquidity by issuing Fannie Mae MBS that are readily traded in the capital markets. We create Fannie Mae MBS by placing mortgage loans in a trust and issuing securities that are backed by those mortgage loans. Monthly payments received on the loans are the primary source of payments passed through to Fannie Mae MBS holders. We guarantee to the MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the trust certificates. In return for this guaranty, we receive guaranty fees.

Below we discuss (1) three broad categories of securitization transactions: lender swaps, portfolio securitizations and structured securitizations; (2) features of our MBS trusts; and (3) single-class and multi-class Fannie Mae MBS.

Securitization Transactions

We currently securitize a substantial majority of the single-family and multifamily mortgage loans we acquire. Our securitization transactions primarily fall within three broad categories: lender swap transactions; portfolio securitizations; and structured securitizations.

Lender Swap Transactions

Our most common type of securitization transaction is our "lender swap transaction." In a single-family lender swap transaction, a mortgage lender that operates in the primary mortgage market generally delivers a pool of mortgage loans to us in exchange for Fannie Mae MBS backed by these mortgage loans. Lenders may hold the Fannie Mae MBS they receive from us or sell them to investors. A pool of mortgage loans is a group of mortgage loans with similar characteristics. After receiving the mortgage loans in a lender swap transaction, we place them in a trust for which we serve as trustee. This trust is established for the sole purpose of holding the mortgage loans separate and apart from our corporate assets. We deliver to the lender (or its designee) Fannie Mae MBS that are backed by the pool of mortgage loans in the trust and that represent an undivided beneficial ownership interest in each of the mortgage loans. We guarantee to each MBS trust that we will supplement amounts received by the MBS trust as required to permit timely payment of principal and interest on the related Fannie Mae MBS. We retain a portion of the interest payment as a fee for providing our guaranty. The mortgage servicer also retains a portion of the interest payment as a fee for servicing the loan. Then, on behalf of the trust, we make monthly distributions to the Fannie Mae MBS certificateholders from the principal and interest payments and other collections on the underlying mortgage loans.

Lender Swap Transaction

Our Multifamily business generally creates multifamily Fannie Mae MBS in lender swap transactions in a manner similar to our Single-Family business. Our multifamily lender customers typically deliver only one mortgage loan to back each multifamily Fannie Mae MBS. The characteristics of each mortgage loan are used to establish guaranty fees on a risk-adjusted basis. Securitizing a multifamily mortgage loan into a Fannie Mae MBS facilitates its sale into the secondary market.

Portfolio Securitization Transactions

In contrast to our lender swap securitizations, in which a mortgage lender delivers a pool of mortgage loans to us that we immediately place in a trust for securitization, our "portfolio securitization transactions" involve creating and issuing Fannie Mae MBS using mortgage loans and mortgage-related securities that we hold in our retained mortgage portfolio. Most of our portfolio securitization transactions are driven by our single-family whole loan conduit activities, pursuant to which we purchase single-family whole loans from a large group of typically smaller lenders principally for the purpose of securitizing the loans into Fannie Mae MBS, which may then be sold to dealers and investors. We also securitize loans that have been held in our portfolio for a longer period of time, including reperforming loans. Reperforming loans are mortgage loans on which the borrower had previously been delinquent but subsequently became current, either with or without a modification.

Portfolio Securitization Transaction

Structured Securitization Transactions

In a "structured securitization transaction," we create structured Fannie Mae MBS, typically for our lender customers or securities dealer customers, in exchange for a transaction fee. In these transactions, the customer "swaps" a mortgage-related asset that it owns (typically a mortgage security) in exchange for a structured Fannie Mae MBS we issue. The process for issuing Fannie Mae MBS in a structured securitization is similar to the process involved in our lender swap securitizations described above.

We also issue structured transactions backed by multifamily Fannie Mae MBS through the Fannie Mae Guaranteed Multifamily Structures ("Fannie Mae GeMS™") program, which provides additional liquidity and stability to the multifamily market, while expanding the investor base for multifamily Fannie Mae MBS.

Features of Our MBS Trusts

Our MBS trusts hold either single-family or multifamily mortgage loans or mortgage-related securities. Each trust operates in accordance with a trust agreement or a trust indenture. Generally, each MBS trust is also governed by an issue supplement documenting the formation of that MBS trust, the identification of its related assets and the issuance of the related Fannie Mae MBS. The trust agreement or the trust indenture, together with the issue supplement and any amendments, are considered the "trust documents" that govern an individual MBS trust.

Single-Class and Multi-Class Fannie Mae MBS

Fannie Mae MBS trusts may be single-class or multi-class. Single-class MBS are MBS in which the investors receive principal and interest payments on the mortgage loans backing the MBS directly in proportion to their percentage ownership of the MBS issuance. Multi-class MBS are MBS, including Real Estate Mortgage Investment Conduits ("REMICs"), in which the cash flows on the underlying mortgage assets are divided, creating several classes of securities, each of which represents a beneficial ownership interest in the assets of the related

MBS trust and entitles the related holder to a specific portion and priority of cash flows. Terms to maturity of some multi-class Fannie Mae MBS, particularly REMIC classes, may match or be shorter than the maturity of the underlying mortgage loans and/or mortgage-related securities. After these classes mature, cash flows received on the underlying mortgage assets are allocated to the remaining classes in accordance with the payment terms of the securities. As a result, each of the classes in a multi-class MBS may have a different coupon rate, average life, repayment sensitivity or final maturity. Structured Fannie Mae MBS are either multi-class MBS or single-class MBS that are typically resecuritizations of other single-class Fannie Mae MBS. In a resecuritization, pools of MBS are collected and securitized.

Conservatorship and Treasury Agreements

Conservatorship

On September 6, 2008, the Director of FHFA appointed FHFA as our conservator, pursuant to authority provided by the Federal Housing Enterprises Financial Safety and Soundness Act of 1992, as amended, including by the Federal Housing Finance Regulatory Reform Act of 2008 (together, the “GSE Act”). The conservatorship is a statutory process designed to preserve and conserve our assets and property and put the company in a sound and solvent condition.

The conservatorship has no specified termination date and there continues to be significant uncertainty regarding the future of our company, including how long the company will continue to exist in its current form, the extent of our role in the market, how long we will be in conservatorship, what form we will have and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated, and whether we will continue to exist following conservatorship. For more information on the risks to our business relating to the conservatorship and uncertainties regarding the future of our company and business, as well as the adverse effects of the conservatorship on the rights of holders of our common and preferred stock, see “Risk Factors.”

Our conservatorship could terminate through a receivership. For information on the circumstances under which FHFA is required or permitted to place us into receivership and the potential consequences of receivership, see “Legislation and Regulation—GSE Act and Other Regulation of Our Business—Receivership” and “Risk Factors.”

Management of the Company during Conservatorship

Upon its appointment, the conservator immediately succeeded to (1) all rights, titles, powers and privileges of Fannie Mae, and of any shareholder, officer or director of Fannie Mae with respect to Fannie Mae and its assets, and (2) title to the books, records and assets of any other legal custodian of Fannie Mae. The conservator subsequently delegated specified authorities to our Board of Directors and delegated to management the authority to conduct our day-to-day operations. In connection with its delegation of authority, FHFA has instructed the Board to oversee that management has in place a compliance program that includes procedures for obtaining a decision from the conservator before taking action in any of the areas described in “Directors, Executive Officers and Corporate Governance—Corporate Governance—Conservatorship and Delegation of Authority to Board of Directors.” FHFA’s instructions also require the company to notify FHFA of activities that represent a significant change in current business practices, operations, policies or strategies. The conservator retains the authority to amend or withdraw its delegations at any time.

Our directors serve on behalf of the conservator and exercise their authority as directed by and with the approval, where required, of the conservator. Our directors have no fiduciary duties to any person or entity except to the conservator. Accordingly, our directors 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.

Because we are in conservatorship, our common stockholders currently do not have the ability to elect directors or to vote on other matters. The conservator eliminated common and preferred stock dividends (other than dividends on the senior preferred stock issued to Treasury) during the conservatorship.

Powers of the Conservator under the GSE Act

FHFA has broad powers when acting as our conservator. As conservator, FHFA can direct us to enter into contracts or enter into contracts on our behalf. Further, FHFA may transfer or sell any of our assets or liabilities

(subject to limitations and post-transfer notice provisions for transfers of certain types of financial contracts), without any approval, assignment of rights or consent of any party. The GSE Act provides, however, that mortgage loans and mortgage-related assets that have been transferred to a Fannie Mae MBS trust must be held by the conservator for the beneficial owners of the Fannie Mae MBS and cannot be used to satisfy the general creditors of the company. Neither the conservatorship nor the terms of our agreements with Treasury change our obligation to make required payments on our debt securities or perform under our mortgage guaranty obligations.

Treasury Agreements

On September 7, 2008, we, through FHFA, in its capacity as conservator, and Treasury entered into a senior preferred stock purchase agreement, which was amended and restated on September 26, 2008. The amended and restated agreement was subsequently amended on May 6, 2009, December 24, 2009 and August 17, 2012. On December 21, 2017, we, through FHFA, in its capacity as conservator, and Treasury entered into a letter agreement amending the dividend and liquidation preference provisions of the senior preferred stock we previously issued to Treasury. The terms of the senior preferred stock purchase agreement, senior preferred stock and the warrant discussed below continue to apply to us even if we are released from conservatorship. See "Risk Factors" for a description of the risks to our business relating to the Treasury agreements, as well as the adverse effects of the senior preferred stock and the warrant on the rights of holders of our common stock and other series of preferred stock.

Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant

Senior Preferred Stock Purchase Agreement

Under the senior preferred stock purchase agreement, we issued to Treasury (a) one million shares of Variable Liquidation Preference Senior Preferred Stock, Series 2008-2, which we refer to as the "senior preferred stock," and (b) a warrant to purchase, for a nominal price, shares of common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis at the time the warrant is exercised, which we refer to as the "warrant."

The senior preferred stock and warrant were issued to Treasury as an initial commitment fee in consideration of the commitment from Treasury to provide funds to us under the terms and conditions set forth in the senior preferred stock purchase agreement. The senior preferred stock purchase agreement provides that, on a quarterly basis, we may draw funds up to the amount, if any, by which our total liabilities exceed our total assets, as reflected in our consolidated balance sheet, prepared in accordance with generally accepted accounting principles ("GAAP"), for the applicable fiscal quarter (referred to as the "deficiency amount"), up to the maximum amount of remaining funding under the agreement. After we receive the additional funds requested from Treasury to eliminate our net worth deficit as of December 31, 2017, the maximum amount of remaining funding under the agreement will be $113.9 billion. If we were to draw additional funds from Treasury under the agreement in respect of a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. The senior preferred stock purchase agreement provides that the deficiency amount will be calculated differently if we become subject to receivership or other liquidation process.

Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement. The amount of remaining funding under the agreement also would not change if the full quarterly dividend amount were not declared and paid to Treasury.

The senior preferred stock purchase agreement provides for the payment of an unspecified quarterly commitment fee to Treasury; however, the August 2012 amendment to the agreement provided that this commitment fee will not be set, accrue or be payable, as long as the dividend provisions of the senior preferred stock remain substantially the same in form and content.

Treasury's funding commitment under the senior preferred stock purchase agreement has no expiration date. The senior preferred stock purchase agreement provides that Treasury's funding commitment will terminate under any of the following circumstances: (1) the completion of our liquidation and fulfillment of Treasury's obligations under its

funding commitment at that time; (2) the payment in full of, or reasonable provision for, all of our liabilities (whether or not contingent, including mortgage guaranty obligations); or (3) the funding by Treasury of the maximum amount that may be funded under the agreement. In addition, Treasury may terminate its funding commitment and declare the senior preferred stock purchase agreement null and void if a court vacates, modifies,

amends, conditions, enjoins, stays or otherwise affects the appointment of the conservator or otherwise curtails the conservator's powers. Treasury may not terminate its funding commitment under the agreement solely by reason of our being in conservatorship, receivership or other insolvency proceeding, or due to our financial condition or any adverse change in our financial condition.

The senior preferred stock purchase agreement provides that most provisions of the agreement may be waived or amended by mutual written agreement of the parties; however, no waiver or amendment of the agreement is permitted that would decrease Treasury's aggregate funding commitment or add conditions to Treasury's funding commitment if the waiver or amendment would adversely affect in any material respect the holders of our debt securities or guaranteed Fannie Mae MBS.

In the event of our default on payments with respect to our debt securities or guaranteed Fannie Mae MBS, if Treasury fails to perform its obligations under its funding commitment and if we and/or the conservator are not diligently pursuing remedies in respect of that failure, the holders of our debt securities or Fannie Mae MBS may file a claim in the United States Court of Federal Claims for relief requiring Treasury to fund to us the lesser of (1) the amount necessary to cure the payment defaults on our debt and Fannie Mae MBS and (2) the lesser of (a) the deficiency amount and (b) the maximum amount that may be funded under the agreement less the aggregate amount of funding previously provided under the commitment. Any payment that Treasury makes under those circumstances will be treated for all purposes as a draw under the senior preferred stock purchase agreement that will increase the liquidation preference of the senior preferred stock.

Senior Preferred Stock

Pursuant to the senior preferred stock purchase agreement, we issued one million shares of senior preferred stock to Treasury on September 8, 2008 with an aggregate initial liquidation preference of $1.0 billion. Shares of the senior preferred stock have no par value and have a stated value and initial liquidation preference equal to $1,000 per share. The stock's liquidation preference is subject to adjustment:

- Any amounts Treasury pays to us pursuant to its funding commitment under the senior preferred stock purchase agreement are added to the liquidation preference. Treasury has paid us a total of $116.1 billion pursuant to this commitment, and will pay us an additional $3.7 billion to eliminate our net worth deficit as of December 31, 2017.
- Any quarterly commitment fees that are payable but not paid in cash to Treasury will be added to the liquidation preference.
- For any dividend period for which dividends are payable, to the extent that dividends are not paid, they will accumulate and be added to the liquidation preference, regardless of whether or not they are declared.
- The December 2017 letter agreement increased the aggregate liquidation preference of the senior preferred stock by $3.0 billion as of December 31, 2017.

As a result of the adjustments described above, the aggregate liquidation preference of the senior preferred stock was $120.1 billion as of December 31, 2017, and will increase to $123.8 billion after we receive the $3.7 billion in additional funds from Treasury to eliminate our net worth deficit as of December 31, 2017. Dividend payments we make to Treasury do not reduce the outstanding liquidation preference of the senior preferred stock, although as described below we are permitted to pay down the liquidation preference of the senior preferred stock to the extent of any accumulated and unpaid dividends previously added to the liquidation preference and not previously paid down.

Treasury, as the holder of the senior preferred stock, is entitled to receive, when, as and if declared, out of legally available funds, cumulative quarterly cash dividends. The dividends we have paid to Treasury on the senior preferred stock during conservatorship have been declared by, and paid at the direction of, our conservator, acting as successor to the rights, titles, powers and privileges of the Board of Directors.

The dividend provisions of the senior preferred stock have been amended twice since the senior preferred stock was originally issued in September 2008: in August 2012 and December 2017.

- Original Dividend Provisions (2008-2012). The original dividend provisions of the senior preferred stock provided for cumulative quarterly cash dividends at an annual rate of 10% per year on the then-current liquidation preference of the

senior preferred stock. These provisions were applicable from the fourth quarter of 2008 through the fourth quarter of 2012.

- August 2012 Amendment to Dividend Provisions (2013-2017). The August 2012 amendment changed the dividend provisions of the senior preferred stock to a "net worth sweep" dividend. For each quarterly dividend period, the dividend amount would be the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeded an applicable capital reserve amount. Our net worth as defined by the agreement is the amount, if any, by which our total assets (excluding Treasury's funding commitment and any unfunded amounts related to the commitment) exceed our total liabilities (excluding any obligation in respect of capital stock), in each case as reflected on our balance sheet prepared in accordance with GAAP. The applicable capital reserve amount was initially $3.0 billion for dividend periods in 2013 and decreased by $600 million each year until it reached $600 million for dividend periods in 2017. Under the terms of the August 2012 amendment, the applicable capital reserve amount would have decreased to zero for dividend periods beginning January 1, 2018. These provisions were applicable from the first quarter of 2013 through the fourth quarter of 2017; however, the fourth quarter 2017 dividend payment was modified by the December 2017 letter agreement, as described below.
- December 2017 Amendment to Dividend Provisions (2018 and thereafter). The December 2017 letter agreement further modified the dividend provisions of the senior preferred stock. The dividends payable on the senior preferred stock continue to be net worth sweep dividends calculated each quarter based on our net worth as of the end of the immediately preceding fiscal quarter less an applicable capital reserve amount. However, the applicable capital reserve amount for dividend periods beginning January 1, 2018 was increased to $3.0 billion. If we do not declare and pay the dividend amount in full for any dividend period for which dividends are payable, then the applicable capital reserve amount will thereafter be zero. The December 2017 letter agreement also reduced by $2.4 billion the dividend amount otherwise payable for the fourth quarter of 2017 (which was calculated based on our net worth as of September 30, 2017, less the applicable capital reserve amount of $600 million as described above).

As a result of these amended dividend payment provisions, for each quarterly period beginning with the first quarter of 2018, dividends on the senior preferred stock accumulate and are payable based on the amount by which our net worth as of the end of the immediately preceding fiscal quarter exceeds $3.0 billion. If our net worth does not exceed the applicable capital reserve amount of $3.0 billion as of the end of the immediately preceding fiscal quarter, then dividends will neither accumulate nor be payable for such period.

The senior preferred stock ranks ahead of our common stock and all other outstanding series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and rights upon liquidation. As a result, if we are liquidated, the holder of the senior preferred stock is entitled to its then-current liquidation preference (which includes any accumulated but unpaid dividends) before any distribution is made to the holders of our common stock or other preferred stock.

The senior preferred stock provides that we may not, at any time, declare or pay dividends on, make distributions with respect to, or redeem, purchase or acquire, or make a liquidation payment with respect to, any common stock or other securities ranking junior to the senior preferred stock unless (1) full cumulative dividends on the outstanding senior preferred stock (including any unpaid dividends added to the liquidation preference) have been declared and paid in cash, and (2) all amounts required to be paid with the net proceeds of any issuance of capital stock for cash (as described in the following paragraph) have been paid in cash. Shares of the senior preferred stock are not convertible. Shares of the senior preferred stock have no general or special voting rights, other than those set forth in the certificate of designation for the senior preferred stock or otherwise required by law. The consent of holders of at least two-thirds of all outstanding shares of senior preferred stock is generally required to amend the terms of the senior preferred stock or to create any class or series of stock that ranks prior to or on parity with the senior preferred stock.

We are not permitted to redeem the senior preferred stock prior to the termination of Treasury's funding commitment under the senior preferred stock purchase agreement. Moreover, we are not permitted to pay down the liquidation preference of the outstanding shares of senior preferred stock except to the extent of (1) accumulated and unpaid dividends previously added to the liquidation preference and not previously paid down; and (2) quarterly commitment fees previously added to the liquidation preference and not previously paid down. In addition to these exceptions, if

we issue any shares of capital stock for cash while the senior preferred stock is outstanding, the net proceeds of the issuance must be used to pay down the liquidation preference of the senior preferred stock; however, the liquidation preference of each share of senior preferred stock may not be paid down below $1,000 per share prior to the termination of Treasury’s funding commitment. Following the

termination of Treasury's funding commitment, we may pay down the liquidation preference of all outstanding shares of senior preferred stock at any time, in whole or in part.

In December 2015, as part of a funding bill, Congress enacted legislation that temporarily prohibited Treasury from disposing of its Fannie Mae and Freddie Mac senior preferred stock. While this prohibition expired on January 1, 2018, the House of Representatives is considering a bill that would extend it through January 1, 2019.

Common Stock Warrant

Pursuant to the senior preferred stock purchase agreement, on September 7, 2008, we, through FHFA, in its capacity as conservator, issued a warrant to purchase common stock to Treasury. The warrant gives Treasury the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise, for an exercise price of $0.00001 per share. The warrant may be exercised in whole or in part at any time on or before September 7, 2028.

Covenants under Treasury Agreements

The senior preferred stock purchase agreement and warrant contain covenants that significantly restrict our business activities and require the prior written consent of Treasury before we can take certain actions. As a result of these covenants, we can no longer obtain additional equity financing (other than pursuant to the senior preferred stock purchase agreement) and we are limited in the amount and type of debt financing we may obtain.

These covenants prohibit us from taking a number of actions, including:

- paying dividends or other distributions on or repurchasing our equity securities (other than the senior preferred stock or warrant);
- issuing additional equity securities (except in limited instances);
- selling, transferring, leasing or otherwise disposing of any assets, except for dispositions for fair market value in limited circumstances including if (a) the transaction is in the ordinary course of business and consistent with past practice or (b) in one transaction or a series of related transactions if the assets have a fair market value individually or in the aggregate of less than $250 million;
- issuing subordinated debt;
- entering into any new compensation arrangements or increasing amounts or benefits payable under existing compensation arrangements for any of our executive officers (as defined by Securities and Exchange Commission ("SEC") rules) without the consent of the Director of FHFA, in consultation with the Secretary of the Treasury; and
- seeking or permitting the termination of our conservatorship, other than in connection with a receivership.

We also are subject to limits, which are described below, on the amount of mortgage assets that we may own and the total amount of our indebtedness.

- Mortgage Asset Limit. We are restricted in the amount of mortgage assets that we may own. Pursuant to the August 2012 amendment to the agreement, the maximum allowable amount of our mortgage assets was reduced to $650 billion on December 31, 2012 and, on each December 31 thereafter, 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 as of December 31, 2018. Our mortgage asset limit under the agreement was $288.4 billion as of December 31, 2017. For purposes of the agreement, the definition of mortgage asset is based on the unpaid principal balance of such assets and does not reflect market valuation adjustments, allowance for loan losses, impairments, unamortized premiums and discounts and the impact of our consolidation of variable interest entities. Based on this definition, our mortgage assets were $230.8 billion as of December 31, 2017. We disclose the amount of our mortgage assets on a monthly basis under the caption "Mortgage Portfolio End Balance" in our Monthly Summaries, which are available on our website and announced in a press release.

In 2014, FHFA requested that we cap the portfolio each year at 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. We were in compliance with FHFA's request as of December 31, 2017. See "MD&A—Retained Mortgage Portfolio" for more information about our retained mortgage portfolio.

- Debt Limit. We are subject to a limit on the amount of our indebtedness. This debt limit 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. Accordingly, our debt limit in 2017 was $407.2 billion and in 2018 is $346.1 billion. Beginning in 2019 and for each year thereafter, our debt limit will be $300.0 billion. The definition of indebtedness for purposes of our debt cap is based on the par value of each applicable loan and does not reflect the impact of consolidation of variable interest entities. Under this definition, our indebtedness as of December 31, 2017 was $277.5 billion. We disclose the amount of our indebtedness on a monthly basis under the caption "Total Debt Outstanding" in our Monthly Summaries, which are available on our website and announced in a press release.

Annual Risk Management Plan Covenant. We are required to provide an annual risk management plan to Treasury each year we remain in conservatorship. Each plan is required to set out our strategy for reducing our risk profile, describe the actions we will take to reduce the financial and operational risk associated with each of our business segments, and include an assessment of our performance against the planned actions described in the prior year's plan. We submitted our most recent annual risk management plan to Treasury in December 2017.

Lawsuits Challenging the Senior Preferred Stock Purchase Agreements and Conservatorship

Several lawsuits have been filed by preferred and common stockholders of Fannie Mae and Freddie Mac against one or more of the United States, Treasury and FHFA challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac. Some of these lawsuits also contain claims against Fannie Mae and Freddie Mac. For a description of these lawsuits, see "Legal Proceedings" and "Note 16, Commitments and Contingencies."

Legislation and Regulation

Housing Finance Reform

Policymakers and others have focused significant attention in recent years on how to reform the nation's housing finance system, including what role, if any, Fannie Mae and Freddie Mac should play. We describe below some recent actions and statements relating to housing finance reform from the Administration and Congress, as well as actions our conservator has been taking to further housing finance reform.

Administration Developments

The previous Administration endorsed the wind down of Fannie Mae and Freddie Mac through a responsible transition and the enactment of comprehensive housing finance reform legislation. The current Administration has not articulated a formal position on housing finance reform or the future of Fannie Mae and Freddie Mac; however, the Secretary of the Treasury has publicly stated that he is focused on housing finance reform and a solution to the current status of Fannie Mae and Freddie Mac.

Legislative Developments

Housing finance reform has been a subject of congressional attention for several years and is a stated priority of both the Chairman of the Senate Committee on Banking, Housing and Urban Affairs and the Chairman of the House Committee on Financial Services. Accordingly, we expect Congress to continue to consider proposed housing finance reform legislation that could result in significant changes in our structure and role in the future, including proposals that would result in Fannie Mae's liquidation or dissolution.

In January 2018, the Director of FHFA sent a letter outlining FHFA's perspectives on housing finance reform to the Chairman and Ranking Member of the Senate Committee on Banking, Housing and Urban Affairs. The letter includes a number of recommendations for a future housing finance system, including:

- reincorporating Fannie Mae and Freddie Mac as private, shareholder-owned corporations with new charters granted by a regulator to engage in the guarantee and issuance of mortgage-backed securities in the secondary mortgage

market;

- allowing new companies to potentially receive charters to compete against Fannie Mae and Freddie Mac in the secondary mortgage market;
- providing for an explicit catastrophic government guarantee on the mortgage-backed securities issued by regulated secondary mortgage market entities; and
- providing for an independent regulator that retains FHFA's existing authorities and adds additional authority. The regulator's authority would include the authority to set a regulated rate of return for the secondary mortgage market entities.

There continues to be significant uncertainty regarding the future of our company as Congress continues to consider housing finance reform. See "Risk Factors" for a discussion of the risks to our business relating to the uncertain future of our company.

Conservator Developments and Strategic Goals

FHFA has taken a number of steps as conservator to further the reform of the housing finance system. FHFA's current strategic goals for Fannie Mae and Freddie Mac's conservatorships 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 infrastructure for use by Fannie Mae and Freddie Mac and adaptable for use by other participants in the secondary market in the future.

Beginning in 2012, FHFA has released annual corporate performance objectives for Fannie Mae and Freddie Mac, referred to as the conservatorship scorecard. The conservatorship scorecard details the specific priorities each year for implementing FHFA's strategic goals. Some of the actions we are taking pursuant to the mandates of the scorecards are helping to build the policies and infrastructure for a safer and sustainable housing finance system. FHFA's conservatorship scorecards in recent years have included objectives relating to credit risk transfer transactions, development of a common securitization platform for Fannie Mae and Freddie Mac, development of a uniform mortgage-backed security for Fannie Mae and Freddie Mac, and mortgage data standardization initiatives.

Common Securitization Platform and Single Security Initiative

For several years, FHFA's conservatorship scorecards have included objectives relating to the development of a common securitization platform that can be used to perform certain aspects of the securitization process and the development of a uniform mortgage-backed security for Fannie Mae and Freddie Mac.

Common Securitization Platform. In October 2013, at the direction of our conservator, Fannie Mae and Freddie Mac established Common Securitization Solutions, LLC ("CSS"), a jointly owned limited liability company formed to design, develop, build and ultimately operate a common securitization platform. The intended purpose of the common securitization platform is to replace certain elements of Fannie Mae's and Freddie Mac's respective proprietary systems for securitizing mortgages and performing associated back office and administrative functions. In addition, FHFA has specified that the design of the common securitization platform should allow for the integration of additional market participants in the future.

In 2014, Fannie Mae and Freddie Mac executed three agreements relating to the governance and operation of CSS, and appointed a chief executive officer and four members of the CSS Board of Managers, two each from Fannie Mae and Freddie Mac. CSS currently operates as a separate company from us and Freddie Mac, with funding and limited administrative support services and other resources provided to it by us and Freddie Mac. In November 2016, Fannie Mae, Freddie Mac and CSS entered into a Customer Services Agreement that sets forth the terms under which CSS will provide securitization services to us and Freddie Mac.

In November 2016, Freddie Mac began using the common securitization platform for some activities relating to the issuance of its current single-class fixed-rate mortgage-backed securities. We continue to work with FHFA, Freddie Mac and CSS on building and testing the common securitization platform, as well as on implementing required changes to our systems and operations to integrate with the common securitization platform. In addition, we continue to consult with an industry advisory group on the common securitization platform and the Single Security Initiative.

Single Security Initiative. Since 2014, we, Freddie Mac and FHFA have been working on developing and implementing a uniform mortgage-backed security for Fannie Mae and Freddie Mac. In March 2017, FHFA announced that implementation of the Single Security Initiative by Fannie Mae and Freddie Mac is planned for the second quarter of 2019. FHFA has determined that the following features will apply to these securities:

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

Historically, Fannie Mae MBS have had a trading advantage over comparable Freddie Mac PCs. One of FHFA's stated objectives for the Single Security Initiative is to reduce the costs to Freddie Mac and taxpayers that result from differences in liquidity of Fannie Mae MBS and Freddie Mac PCs. As the implementation date of the Single Security Initiative approaches, some Fannie Mae MBS and comparable Freddie Mac PCs are trading closer to or at parity. See "Risk Factors" for a discussion of the risks to our business associated with the Single Security Initiative.

Other Scorecard Objectives

For more information on FHFA's 2018 conservatorship scorecard objectives, see our Current Report on Form 8-K filed with the SEC on December 22, 2017. For information on actions we took in 2017 pursuant to FHFA's 2017 conservatorship scorecard, see "Executive Compensation—Compensation Discussion and Analysis—Determination of 2017 Compensation—Assessment of Corporate Performance on 2017 Conservatorship Scorecard."

The Fannie and Freddie Open Records Act of 2017

On April 27, 2017, the House of Representatives passed, by a vote of 425 to 0, the Fannie and Freddie Open Records Act of 2017. If enacted, this bill would apply the Freedom of Information Act to Fannie Mae and Freddie Mac during any period that either company is under conservatorship or receivership, subject to a modified exemption for trade secrets and confidential or privileged commercial or financial information. The Freedom of Information Act is a law that provides the public the right to access records from federal agencies. It is unclear whether the Senate will consider this or similar legislation. If this bill were to pass the Senate and be signed into law, it could impose substantial operational burdens on us and adversely affect our business.

Charter Act

Fannie Mae is a shareholder-owned corporation organized and existing under the Federal National Mortgage Association Charter Act, which we refer to as the Charter Act or our charter. We were initially established in 1938. The Charter Act defines our mission of providing liquidity, increasing stability and promoting affordability in the residential mortgage market. Specifically, the Charter Act states that our purposes are to:

- provide stability in the secondary market for residential mortgages;
- respond appropriately to the private capital market;
- provide ongoing assistance to the secondary market for residential mortgages (including activities relating to mortgages on housing for low- and moderate-income families involving a reasonable economic return that

may be less than the return earned on other activities) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing; and

- promote access to mortgage credit throughout the nation (including central cities, rural areas and underserved areas) by increasing the liquidity of mortgage investments and improving the distribution of investment capital available for residential mortgage financing.

The Charter Act also sets forth the activities that we are permitted to conduct and describes our general corporate powers. We summarize these provisions of the Charter Act below.

- Purchase and securitization of mortgage loans. Our charter permits us to purchase and securitize mortgage loans secured by single-family and multifamily properties. We are also authorized to service, sell, lend on the security of, and otherwise deal in mortgage loans.
- Principal balance limitations. Single-family conventional mortgage loans that we purchase or securitize are subject to maximum original principal balance limits, known as "conforming loan limits." The conforming loan limits are established each year based on the average prices of one-family residences. For 2017, the national conforming loan limit for mortgages that finance one-family residences was set at $424,100. For 2018, FHFA increased the national conforming loan limit for one-family residences to $453,100, with higher limits for mortgages secured by two-family to four-family residences and in four statutorily-designated states and territories (Alaska, Hawaii, Guam and the U.S. Virgin Islands). In addition, higher loan limits of up to 150% of the otherwise applicable loan limit apply in designated high-cost areas. FHFA provides Fannie Mae and Freddie Mac with the designated high-cost areas annually. The Charter Act does not impose maximum original principal balance limits on loans we purchase or securitize that are insured by the Federal Housing Administration ("FHA") or guaranteed by the Department of Veterans Affairs ("VA") or on multifamily mortgage loans that we purchase or securitize.
- Credit enhancement requirements. The Charter Act generally requires credit enhancement on any single-family conventional mortgage loan that we purchase or securitize that has a loan-to-value ("LTV") ratio over 80% at the time of purchase. The credit enhancement required by our charter may take the form of one or more of the following: (1) insurance or a guaranty by a qualified insurer on the portion of the unpaid principal balance of the mortgage that exceeds 80%; (2) a seller's agreement to repurchase or replace the mortgage in the event of default; or (3) retention by the seller of at least a 10% participation interest in the mortgage. Regardless of LTV ratio, the Charter Act does not require us to obtain credit enhancement to purchase or securitize loans insured by FHA or guaranteed by the VA.
- Issuances of our securities. We are authorized, upon the approval of the Secretary of the Treasury, to issue debt obligations and mortgage-related securities. Neither the U.S. government nor any of its agencies guarantees, directly or indirectly, our debt or mortgage-related securities.
- Authority of Treasury to purchase our securities. At the discretion of the Secretary of the Treasury, Treasury may purchase our obligations up to a maximum of $2.25 billion outstanding at any one time.
- Exemptions for our securities. The Charter Act generally provides that our securities are exempt under the federal securities laws administered by the SEC. As a result, we are not required to file registration statements with the SEC under the Securities Act of 1933 with respect to offerings of any of our securities. Our non-equity securities are also exempt securities under the Securities Exchange Act of 1934 (the "Exchange Act"). However, our equity securities are not treated as exempt securities for purposes of Sections 12, 13, 14 or 16 of the Exchange Act. Consequently, we are required to file periodic and current reports with the SEC, including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K.
- Exemption from specified taxes. Fannie Mae is exempt from taxation by states, territories, counties, municipalities and local taxing authorities, except for taxation by those authorities on our real property. We are not exempt from the payment of federal corporate income taxes.
- Limitations. We may not originate mortgage loans in the primary mortgage market. We also may not advance funds to a mortgage seller on an interim basis, using mortgage loans as collateral, pending the sale of the mortgages in the secondary market. In addition, we may only purchase or securitize mortgages on properties located in the United States and its territories.

GSE Act and Other Regulation of Our Business

As a federally chartered corporation, we are subject to government regulation and oversight. FHFA is our primary regulator, and regulates our safety and soundness and our mission. FHFA is an independent agency of the federal government with general supervisory and regulatory authority over Fannie Mae, Freddie Mac and the Federal Home Loan Banks ("FHLBs"). The Department of Housing and Urban Development ("HUD") is our regulator with respect to fair lending matters. Our regulators also include the SEC and Treasury.

The GSE Act provides FHFA with safety and soundness authority that is comparable to and in some respects broader than that of the federal banking agencies. We describe below regulations applicable to us pursuant to the GSE Act, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") and other legislation. We also describe some regulations applicable to the mortgage industry that may indirectly affect us.

The Administration and some members of Congress have indicated a desire to amend specified provisions of the Dodd-Frank Act. Changes to the Dodd-Frank Act could affect regulations currently applicable to us and our customers and counterparties. In June 2017, in response to an executive order, the Secretary of the Treasury released a report titled "A Financial System That Creates Economic Opportunities: Banks and Credit Unions" recommending changes to financial services regulations. The report makes a number of recommendations relating to regulations affecting the mortgage industry, including regulations relating to mortgage loan origination, mortgage loan servicing and private sector secondary mortgage market activities. The report also makes recommendations relating to bank capital and liquidity standards that, if implemented, could affect demand for our debt and MBS securities. Many of the report's recommendations could be completed through regulatory actions, and do not require legislation.

Capital

We are required by the GSE Act to maintain sufficient capital to meet minimum and risk-based capital levels established by FHFA in order to be classified as "adequately capitalized." However, because we are under conservatorship, FHFA has suspended our capital classifications and advised us that we will not be subject to corrective action requirements that would ordinarily result from our receiving a capital classification of "undercapitalized." We continue to submit capital reports to FHFA and FHFA monitors our capital levels, but FHFA has stated that it does not intend to publish our risk-based capital level or our critical capital level during the conservatorship.

- Minimum Capital. Under the GSE Act, we are required to maintain an amount of core capital that equals or exceeds our minimum capital requirement. The GSE Act defines core capital as the sum of the stated value of outstanding common stock (common stock less treasury stock), the stated value of outstanding non-cumulative perpetual preferred stock, paid-in capital, and retained earnings, as determined in accordance with GAAP. Our minimum capital requirement is generally equal to the sum of 2.50% of on-balance sheet assets and 0.45% of off-balance sheet obligations. For purposes of minimum capital, FHFA has directed us to continue reporting loans backing Fannie Mae MBS held by third parties based on 0.45% of the unpaid principal balance regardless of whether these loans have been consolidated pursuant to accounting rules. The GSE Act provides FHFA with broad authority to increase the level of our required minimum capital and to establish capital or reserve requirements for specific products and activities.
- Risk-Based Capital. The GSE Act requires FHFA to establish risk-based capital requirements for Fannie Mae and Freddie Mac, to ensure that we operate in a safe and sound manner. Existing risk-based capital regulation under the GSE Act ties our capital requirements to the risk in our book of business, as measured by a stress test model. FHFA has discontinued stress test simulations under the existing rule. We continue to submit detailed profiles of our books of business to FHFA to support FHFA's monitoring of our business activity and their research into future risk-based capital rules.
- Critical Capital. The GSE Act also establishes a critical capital requirement, which is the amount of core capital below which we would be classified as "critically undercapitalized." Under the GSE Act, such classification is a discretionary ground for appointing a conservator or receiver. Our critical capital requirement is generally equal to the sum of 1.25% of on-balance sheet assets and 0.25% of off-balance sheet obligations. FHFA has directed us, for purposes of critical capital, to continue reporting loans backing Fannie Mae MBS held by third parties based on 0.25% of the unpaid principal balance, notwithstanding our consolidation of substantially all of the loans backing these securities.

Conservatorship Capital Framework

We have worked with FHFA and Freddie Mac on an aligned risk measurement framework for evaluating Fannie Mae and Freddie Mac business decisions and performance during conservatorship. In 2017, FHFA directed Fannie Mae and Freddie Mac to implement these conservatorship capital framework standards. The framework includes specific requirements relating to risk on our book of business and modeled returns on our new acquisitions. We are required to submit quarterly reports to FHFA relating to the framework's requirements. We continuously review our business decisions as they relate to existing and prospective capital framework standards.

Stress Testing

The Dodd-Frank Act requires certain financial companies to conduct annual stress tests to determine whether the companies have the capital necessary to absorb losses as a result of adverse economic conditions. Under FHFA regulations implementing this requirement, each year we are required to conduct a stress test using three different scenarios of financial conditions provided by FHFA: baseline, adverse and severely adverse. In conducting the stress test, we are required to calculate the impact of the scenario conditions on our capital levels and other specified measures of financial condition and performance over a period of at least nine quarters. In accordance with FHFA regulations, we submitted our most recent stress test results to FHFA and the Federal Reserve Board of Governors in May 2017 and published our most recent stress test results for the severely adverse scenario on our website in August 2017.

Portfolio

The GSE Act requires FHFA to establish standards governing our portfolio holdings, to ensure that they are backed by sufficient capital and consistent with our mission and safe and sound operations. FHFA is also required to monitor our portfolio and, in some circumstances, may require us to dispose of or acquire assets. In 2010, FHFA adopted, as the standard for our portfolio holdings, the portfolio limits specified in the senior preferred stock purchase agreement described under "Conservatorship and Treasury Agreements—Treasury Agreements—Covenants under Treasury Agreements," as it may be amended from time to time. The rule is effective for as long as we remain subject to the terms and obligations of the senior preferred stock purchase agreement.

New Products and Activities

The GSE Act requires us to request FHFA's approval before initially offering any new product, subject to certain exceptions. The GSE Act also requires us to provide FHFA with written notice before commencing any new activity. In July 2009, FHFA published an interim final rule implementing these provisions of the GSE Act. Subsequently, the then-Acting Director of FHFA concluded that permitting us to engage in new products was inconsistent with the goals of the conservatorship. FHFA therefore instructed us not to submit new product requests under the rule. In December 2016, FHFA published a final rule implementing our duty to serve three specified underserved markets, which is described below under "Duty to Serve Underserved Markets." Among other things, the duty to serve rule states that we may propose a new product for FHFA consideration if we determine that it would facilitate our duty to serve obligations and would be consistent with safety and soundness. The duty to serve rule also requires us to submit proposals relating to chattel loan pilots to FHFA for consideration. Accordingly, in January 2018, we submitted a proposal for a new chattel loan pilot to FHFA for consideration.

Prudential Management and Operations Standards

As required by the GSE Act, in June 2012, FHFA published a final rule establishing prudential standards relating to the management and operations of Fannie Mae, Freddie Mac and the FHLBs in ten areas: (1) internal controls and information systems; (2) independence and adequacy of internal audit systems; (3) management of market risk exposure; (4) management of market risk—measurement systems, risk limits, stress testing, and monitoring and reporting; (5) adequacy and maintenance of liquidity and reserves; (6) management of asset and investment portfolio growth; (7) investments and acquisitions of assets; (8) overall risk management processes; (9) management of credit and counterparty risk; and (10) maintenance of adequate records. The rule also includes provisions addressing the general responsibilities of boards of directors and senior management. In November 2015, FHFA amended these provisions and designated them as an additional prudential standard in order to clarify that they have the same effect and can be enforced in the same manner as the ten enumerated standards.

Receivership

Under the GSE Act, FHFA must place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations (that is, we have a net worth deficit) or if we have not been paying our debts as they become due, in either case, for a period of 60 days. FHFA has notified us that the measurement period for any mandatory receivership determination with respect to our assets and liabilities would commence no earlier than the SEC public filing deadline for our quarterly or annual financial statements and would continue for 60 calendar days thereafter. FHFA has advised us that if, during that 60-day period, we receive funds from Treasury in an amount at least equal to the deficiency amount under the senior preferred stock purchase agreement, the Director of FHFA will not make a mandatory receivership determination.

In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons set forth in the GSE Act. The statutory grounds for discretionary appointment of a receiver include: a substantial dissipation of assets or earnings due to unsafe or unsound practices; the existence of an unsafe or unsound condition to transact business; an inability to meet our obligations in the ordinary course of business; a weakening of our condition due to unsafe or unsound practices or conditions; critical undercapitalization; undercapitalization and no reasonable prospect of becoming adequately capitalized; the likelihood of losses that will deplete substantially all of our capital; or by consent.

The appointment of FHFA as receiver would immediately terminate the conservatorship. In the event of a receivership, the GSE Act requires FHFA, as the receiver, to organize a limited-life regulated entity with respect to Fannie Mae. Among other requirements, the GSE Act provides that this limited-life regulated entity:

- would succeed to Fannie Mae's charter and thereafter operate in accordance with and subject to such charter;
- would assume, acquire or succeed to our assets and liabilities to the extent that such assets and liabilities are transferred by FHFA to the entity; and
- would not be permitted to assume, acquire or succeed to any of our obligations to shareholders.

Placement into receivership would likely have a material adverse effect on holders of our common stock and preferred stock, and could have a material adverse effect on holders of our debt securities and Fannie Mae MBS. Should we be placed into receivership, different assumptions would be required to determine the carrying value of our assets, which could lead to substantially different financial results. For more information on the risks to our business relating to receivership and uncertainties regarding the future of our business, see "Risk Factors."

Affordable Housing Allocations

The GSE Act requires us to set aside in each fiscal year an amount equal to 4.2 basis points for each dollar of the unpaid principal balance of our total new business purchases and to pay this amount to specified HUD and Treasury funds. New business purchases consist of single-family and multifamily whole mortgage loans purchased during the period and single-family and multifamily mortgage loans underlying Fannie Mae MBS issued during the period pursuant to lender swaps. We are prohibited from redirecting or passing through the cost of these allocations to originators of mortgages that we purchase or securitize.

In December 2014, FHFA directed us to set aside amounts for these contributions during each fiscal year, and to allocate or otherwise transfer the amounts set aside within 60 days after the end of each fiscal year, except for any fiscal year for which a draw from Treasury was made under the terms of the senior preferred stock purchase agreement or in which such allocation or transfer would cause such a draw. Although we will draw funds from Treasury under the senior preferred stock purchase agreement to eliminate our fourth quarter 2017 net worth deficit, FHFA has directed us to proceed with the transfer of allocated funds for 2017 in light of FHFA's determination that this draw is triggered by a one-time charge relating to the enactment of the Tax Act and does not relate to any financial instability. Our new business purchases were $569.6 billion for the year ended December 31, 2017. Accordingly, we recognized an expense of $239 million related to this obligation for the year ended December 31, 2017. We expect to pay this amount to the funds on or before March 1, 2018.

Executive Compensation

The amount of compensation we may pay our executives is subject to a number of legal and regulatory restrictions, particularly while we are in conservatorship. For example:

- GSE Act. The GSE Act directs FHFA to prohibit us from providing compensation to our executive officers that is not reasonable or comparable. FHFA may at any time review the reasonableness and comparability of an executive officer’s compensation and may require us to withhold any payment to the officer during such review.
- STOCK Act. Pursuant to the Stop Trading on Congressional Knowledge Act (the “STOCK Act”) and related regulations issued by FHFA, our senior executives are prohibited from receiving bonuses while the company remains in conservatorship.
- Equity in Government Compensation Act. The Equity in Government Compensation Act of 2015 limits the total target annual direct compensation of our chief executive officer to $600,000 while the company is in conservatorship or receivership.
- Golden Parachute Regulation. FHFA regulation requires the approval of the Director of FHFA before we may enter into any agreement providing compensation in connection with the termination of an executive officer’s employment. FHFA regulation also generally prohibits us from making golden parachute payments to any current or former director, officer, employee, controlling stockholder or agent of the company during any period in which we are in conservatorship, receivership or other troubled condition unless either a specific exception applies or the Director of FHFA approves the payments.

For more information on our executive compensation program and regulatory and other legal requirements affecting our executive compensation, see “Executive Compensation.”

Fair Lending

The GSE Act requires the Secretary of HUD to assure that Fannie Mae and Freddie Mac meet their fair lending obligations. Among other things, HUD periodically reviews and comments on our underwriting and appraisal guidelines to ensure consistency with the Fair Housing Act.

Guaranty Fees

From time to time, FHFA establishes requirements for our guaranty fee pricing:

- In December 2017 and February 2018, FHFA, in its capacity as conservator, provided guidance relating to our guaranty fee pricing for new single-family acquisitions. FHFA’s guidance requires that we meet a specified minimum return on equity target based on the conservator capital framework described above. We must implement this target in the first quarter of 2018.
- In July 2016, FHFA advised us that, as a result of its comprehensive review of our guaranty fee levels for new acquisitions of single-family mortgages, FHFA, in its regulatory capacity, determined that it was necessary to set minimum base guaranty fees for us. FHFA’s objective is to ensure that guaranty fee reductions do not result in unsafe and unsound conditions. As a result, FHFA established minimum base guaranty fees that generally apply to our acquisitions of 30-year and 15-year fixed-rate loans in lender swap transactions. These new minimum base guaranty fees were implemented in November 2016.

In December 2011, Congress enacted the Temporary Payroll Tax Cut Continuation Act of 2011 (“TCCA”) under which, at the direction of FHFA, we increased the guaranty fee on all single-family residential mortgages delivered to us by 10 basis points effective April 1, 2012. The revenue generated by this fee increase is paid to Treasury and helps offset the cost of a two-month extension of the payroll tax cut from January 1, 2012 through February 29, 2012. FHFA and Treasury advised us to remit this fee increase to Treasury with respect to all loans acquired by us on or after April 1, 2012 and before January 1, 2022, and to continue to remit these amounts to Treasury on and after January 1, 2022 with respect to loans we acquired before this date until those loans are paid off or otherwise liquidated.

Housing Goals

We are subject to housing goals established by FHFA in accordance with the GSE Act. The housing goals 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. We describe below our housing goals that were in place for 2015 to 2017, our 2016 performance against these goals, as well as our new housing goals for 2018 to 2020.

Housing Goals for 2015-2017

Single-Family Housing Goals

FHFA established the following single-family home purchase and refinance housing goal benchmarks for 2015 through 2017. A home purchase mortgage may be counted toward more than one home purchase benchmark.

- 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).
- 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).
- 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 and high-minority areas home purchase subgoal (below), plus an adjustment 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. FHFA set the overall low-income areas home purchase benchmark goal at 17% for 2016 and at 18% for 2017.
- Low-Income and High-Minority 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.
- 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.

Under the rule, not all of our single-family loan acquisitions that fall within these categories may be counted towards our housing goals. Certain types of loan acquisitions are excluded, such as single-family government loans and loans for single-family rental properties.

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

Multifamily Housing Goals

FHFA established the following multifamily goals and subgoals for 2015 through 2017.

- Low-Income Families Goal: At least 300,000 multifamily units per year must be affordable to low-income families.
- Very Low-Income Families Subgoal: At least 60,000 multifamily units per year must be affordable to very low-income families.
- Small Affordable Multifamily Properties Subgoal: The subgoal for purchases of mortgages on small multifamily properties (5 to 50 units) affordable to low-income families increased 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.

Performance Against Housing Goals

In December 2017, FHFA determined that we met three of our five single-family housing goals and all of our multifamily housing goals for 2016. The table below displays our performance for 2016 against our single-family housing benchmarks and market share measures, as well as our multifamily housing goals, as validated by FHFA.

2016 Housing Goals Performance

	2016		
	Result	Benchmark	Single-Family Market Level
Single-family housing goals:[1]			
Low-income families home purchases	22.9%	24%	22.9%
Very low-income families home purchases	5.2	6	5.4
Low-income areas home purchases	20.2	17	19.7
Low-income and high-minority areas home purchases	16.2	14	15.9
Low-income families refinances	19.5	21	19.8

	2016	
	Result	Goal
	(in units)	
Multifamily housing goals:		
Low-income families	352,368	300,000
Very low-income families	65,910	60,000
Small affordable multifamily properties	9,312	8,000

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(1) Our single-family results and benchmarks are expressed as a percentage of the total number of eligible mortgages acquired during the period.

As shown in the table above, FHFA determined that we did not meet the single-family very low-income families home purchase goal or the single-family low-income families refinance goal for 2016. Although FHFA determined that meeting these goals was feasible, FHFA notified us that we are not required to submit a formal housing plan. FHFA notified us that it expects us to continue to make improvements in serving this market and will closely monitor and evaluate our housing goals performance in 2017 and 2018.

We will report our performance with respect to the 2017 housing goals in March 2018. FHFA will issue a final determination on our 2017 performance after the release of data reported under HMDA later this year.

As described in "Risk Factors," actions we may take to meet our housing goals and duty to serve requirements described below may increase our credit losses and credit-related expense.

Housing Goals for 2018-2020

In February 2018, FHFA published a final rule establishing single-family and multifamily housing goals for Fannie Mae and Freddie Mac for 2018 through 2020. Under the new rule, FHFA will continue to evaluate our performance against the single-family housing goals using the two-part approach described above that compares the goals-qualifying share of our single-family mortgage acquisitions against both a benchmark level and a market level. Additionally, there continues to be no market-based alternative measurement for the multifamily goal or subgoals.

FHFA's final rule established the following single-family housing goal benchmarks and the following multifamily housing goals for 2018 through 2020.

2018-2020 Housing Goals

Single-family (benchmark levels):[1]	
Low-income families home purchases goal	24 %
Very low-income families home purchases goal	6
Low-income areas home purchases goal	TBD[2]
Low-income and high-minority areas home purchases subgoal	14
Low-income families refinances goal	21
Multifamily:[3]	
Low-income families goal	315,000
Very low-income families subgoal	60,000
Small affordable multifamily properties subgoal	10,000

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(1) Single-family benchmarks are expressed as a percentage of the total number of eligible mortgages acquired during the period.

(2) The benchmark level for our acquisitions of single-family owner-occupied purchase money mortgage loans for families in low-income areas will continue to be set annually by notice from FHFA, based on the benchmark level for the low-income and high-minority areas home purchase subgoal (below), plus an adjustment factor reflecting the additional incremental share of mortgages for moderate-income families in designated disaster areas.

(3) Multifamily goals and subgoals are based on the number of multifamily units per year that we finance.

Duty to Serve Underserved Markets

The GSE Act requires that we serve very low-, low-, and moderate-income families in three specified underserved markets: manufactured housing, affordable housing preservation and rural areas. In December 2016, FHFA published a final rule implementing our duty to serve these underserved markets. Under the rule, we are required to adopt an underserved markets plan for each underserved market covering a three-year period that sets forth the activities and objectives we will undertake to meet our duty to serve that market. Our first underserved markets plans received non-objections from FHFA and were finalized and published in December 2017. The plans are effective for 2018 to 2020.

The types of activities that are eligible for duty to serve credit in each underserved market are summarized below:

- Manufactured housing market. For the manufactured housing market, duty to serve credit is available for eligible activities relating to manufactured homes (whether titled as real property or personal property (known as chattel)) and loans for specified categories of manufactured housing communities.
- Affordable housing preservation market. For the affordable housing preservation market, duty to serve credit is available for eligible activities relating to preserving the affordability of housing for renters and buyers under specified programs enumerated in the GSE Act and other comparable affordable housing programs administered by state and local governments, subject to FHFA approval. Duty to serve credit also is available for activities related to small multifamily rental properties, energy efficiency improvements on existing multifamily rental and single-family first lien properties, certain shared equity homeownership programs, the purchase or rehabilitation of certain distressed properties, and activities under HUD's Choice Neighborhoods Initiative and Rental Assistance Demonstration programs.
- Rural housing market. For the rural housing market, duty to serve credit is available for eligible activities related to housing in rural areas, including activities related to housing in high-needs rural regions and for high-needs rural populations.

As provided under the rule, FHFA adopted final evaluation guidance in November 2017. The guidance communicates FHFA's expectations regarding the development of the underserved markets plans and describes the annual process by which FHFA will evaluate our achievements under the underserved markets plans. Our

performance results will be reported to Congress. If FHFA determines that we failed to meet the requirements of an underserved markets plan, it may result in the imposition of a housing plan.

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, an inter-agency body of regulators issued a final rule under the Dodd-Frank Act governing margin and capital requirements applicable to entities that are subject to their oversight. The rule is effective in two phases and each phase requires that we implement operational changes and changes relating to the collateral we collect and provide for swap transactions. We complied with the first phase of the rule that became effective in 2017. The second phase of the rule is scheduled to become effective in September 2020. This phase will require additional operational changes and changes to collateral requirements, which may increase the costs associated with hedging our retained mortgage portfolio.

Risk Retention

The Dodd-Frank Act requires financial regulators to jointly prescribe regulations requiring securitizers to retain a portion of the credit risk in assets transferred, sold or conveyed through the issuance of asset-backed securities, with certain exceptions. In 2014, an inter-agency body of regulators issued a final rule implementing this credit risk retention requirement. The final rule generally requires securitizers to retain at least 5% of the credit risk of the assets they securitize. The rule offers several compliance options, one of which is to have either Fannie Mae or Freddie Mac (so long as they are in conservatorship or receivership with capital support from the United States) securitize and fully guarantee the assets, in which case no further retention of credit risk is required. In addition, securities backed solely by mortgage loans meeting the definition of a “qualified residential mortgage” are exempt from the risk retention requirements of the rule. The rule defines “qualified residential mortgage” to have the same meaning as the term “qualified mortgage” as defined by the Consumer Financial Protection Bureau (the “CFPB”) in connection with its ability-to-repay rule under Regulation Z discussed below.

Ability to Repay

The Dodd-Frank Act amended the Truth in Lending Act (“TILA”) to require creditors to determine that borrowers have a “reasonable ability to repay” most mortgage loans prior to making such loans. In 2013, the CFPB issued a final rule under Regulation Z that, among others things, requires creditors to determine a borrower’s “ability to repay” a mortgage loan. If a creditor fails to comply, a borrower may be able to offset a portion of the amount owed in a foreclosure proceeding or recoup monetary damages. The rule offers several options for complying with the ability to repay requirement, including making loans that meet certain terms and characteristics (referred to as “qualified mortgages”), which may provide creditors and their assignees with special protection from liability. Generally, a loan will be a qualified mortgage under the rule if, among other things, (1) the points and fees paid in connection with the loan do not exceed 3% of the total loan amount, (2) the loan term does not exceed 30 years, (3) the loan is fully amortizing with no negative amortization, interest-only or balloon features and (4) the debt-to-income ratio on the loan does not exceed 43% at origination. The CFPB also defined a special class of conventional mortgage loans that will be qualified mortgages if they (1) meet the points and fees, term and amortization requirements of qualified mortgages generally and (2) are eligible for sale to Fannie Mae or Freddie Mac. This class of qualified mortgages expires on the earlier of January 10, 2021 or when Fannie Mae and Freddie Mac cease to be in conservatorship or receivership. Although TILA does not apply to us, as we do not originate loans in the primary mortgage market, these rules apply to the lenders from which we acquire single-family mortgage loans. In May 2013, FHFA directed Fannie Mae and Freddie Mac to limit our acquisition of single-family loans to those loans that meet the points and fees, term and amortization requirements for qualified mortgages, or to loans that are exempt from the ability-to-repay rule, such as loans made to investors.

In March 2017, a CFPB official announced that the agency would soon begin its statutorily-mandated assessment of the ability to repay and qualified mortgage provisions. The CFPB is required to assess the effectiveness of the regulations in light of their stated goals and to publish a report, after public comment, on whether to modify, expand or eliminate the regulations. The CFPB’s assessment is due no later than January 10, 2019. To the extent that this assessment leads to regulatory changes in how lenders comply with the ability to repay rules or how loans gain

qualified mortgage status, these changes may have a material effect on the quality and quantity of loans available for sale to us.

TILA-RESPA Integrated Disclosure ("TRID")

The Dodd-Frank Act required the CFPB to streamline and simplify the disclosures required under TILA and the Real Estate Settlement Procedures Act. In October 2015, the CFPB's final rule implementing these changes went into effect. Although this rule applies to mortgage originators and is not directly applicable to us, we could face potential liability for certain errors in the new required disclosures in connection with the loans we acquire from lenders. It remains unclear what sorts of errors will give rise to liability. Also in October 2015, FHFA directed us and Freddie Mac not to conduct post-purchase loan file reviews for technical compliance with TRID. Consistent with FHFA's directive, we currently do not intend to exercise our contractual remedies, including requiring the lender to repurchase the loan, for noncompliance with the newly applicable provisions of TRID, except in two limited circumstances: if the required form is not used; or if a particular practice would impair enforcement of the note or mortgage or would result in assignee liability, and a court of law, regulator or other authoritative body has determined that such practice violates TRID.

The Future of LIBOR and Alternative Reference Rates

In July 2017, the United Kingdom's Financial Conduct Authority, which regulates LIBOR, announced its intention to stop persuading or compelling the group of major banks that sustains LIBOR to submit rate quotations after 2021. As a result, it is uncertain whether LIBOR will continue to be quoted after 2021. The Federal Reserve convened a group of private-market participants, known as the Alternative Reference Rate Committee (the "ARRC"), to identify a set of alternative U.S. dollar reference interest rates and an adoption plan for those alternative rates. In June 2017, the ARRC recommended an alternative reference rate that the Federal Reserve Bank of New York would publish that would be the ARRC's preferred alternative reference rate. The ARRC formed several working groups to evaluate the implementation of this new reference rate, and we participated in those working groups. At this time, we are unable to predict whether or when LIBOR will cease to be available or if the ARRC's recommended alternative reference rate will become the benchmark to replace LIBOR. Because we routinely engage in transactions involving financial instruments that reference LIBOR, these developments could have a material impact on us, borrowers, investors, and our customers and counterparties.

Employees

As of January 31, 2018, we employed approximately 7,200 personnel, including full-time and part-time employees, and employees on leave.

Where You Can Find Additional Information

We make available free of charge through our website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and all other SEC reports and amendments to those reports as soon as reasonably practicable after we electronically file the material with, or furnish it to, the SEC. Our website address is www.fanniemae.com. Materials that we file with the SEC are also available from the SEC's website, www.sec.gov. You may also request copies of any filing from us, at no cost, by calling the Fannie Mae Fixed-Income Securities Helpline at 1-800-2FANNIE (1-800-232-6643), or by writing to Fannie Mae, Attention: Fixed-Income Securities, 3900 Wisconsin Avenue, NW, Area 2H-3N, Washington, DC 20016.

All references in this report to our website addresses or the website address of the SEC are provided solely for your information. Information appearing on our website or on the SEC's website is not incorporated into this annual report on Form 10-K.

Forward-Looking
Statements

This report includes statements that constitute forward-looking statements within the meaning of Section 21E of the Exchange Act. In addition, our senior management may from time to time make forward-looking statements orally to analysts, investors, the news media and others. Forward-looking statements often include words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," "forecast," "project," "would," "should," "could,"

"likely," "may," "will" or similar words. Examples of forward-looking statements in this report include, but are not limited to, statements relating to our expectations regarding the following matters:

- our profitability and financial results, and the factors that will affect our profitability and financial results;
- our business plans and strategies and the impact of such plans and strategies;
- actions by the Director of FHFA relating to future dividend payments on the senior preferred stock and requests for funding from Treasury to eliminate our net worth deficit;
- actions by Treasury to provide funding to eliminate our net worth deficit;
- actions by Congress relating to housing finance reform legislation;
- our payments to HUD and Treasury funds under the GSE Act;
- the consequences of our conservatorship and possible receivership;
- the impact of accounting guidance and accounting changes on our business or financial results, including the impact of impairment accounting guidance;
- the impact of the Federal Reserve's balance sheet normalization program;
- the impact of legislation and regulation on our business or financial results;
- mortgage market and economic conditions (including home price appreciation rates) and the impact of such conditions on our business or financial results;
- the risks to our business;
- our effective tax rate;
- our loss reserves;
- our serious delinquency rate and the factors that will affect our serious delinquency rate;
- the effects of credit risk transfer transactions;
- factors that will affect or mitigate our credit risk exposure;
- the performance of the loans in our book of business and factors that will affect such performance;
- our single-family loan acquisitions and the credit risk profile of such acquisitions;
- factors that will affect our liquidity and ability to meet our debt obligations and factors relating to our liquidity contingency plans; and
- our response to legal and regulatory proceedings and their impact on our business or financial condition.

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

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

- the uncertainty of our future;
- future legislative and regulatory requirements or changes affecting us, such as the enactment of housing finance reform legislation;
- actions by FHFA, Treasury, HUD or other regulators that affect our business;
- changes in the structure and regulation of the financial services industry;
- the timing and level of, as well as regional variation in, home price changes;
- changes in interest rates and credit spreads;
- changes in unemployment rates and other macroeconomic and housing market conditions;
- credit availability;

- disruptions in the housing and credit markets;
- changes in the fiscal and monetary policies of the Federal Reserve, including implementation of the Federal Reserve's balance sheet normalization program;
- our future guaranty fee pricing and the impact of that pricing on our competitive environment and guaranty fee revenues;
- the volume of mortgage originations;
- the size, composition and quality of our guaranty book of business and retained mortgage portfolio;
- our market share;
- the life of the loans in our guaranty book of business;
- challenges we face in retaining and hiring qualified executives and other employees;
- our future serious delinquency rates;
- the deteriorated credit performance of many loans in our guaranty book of business;
- the conservatorship and its effect on our business;
- the investment by Treasury and its effect on our business;
- adverse effects from activities we undertake to support the mortgage market and help borrowers;
- actions we may be required to take by FHFA, in its role as our conservator or as our regulator, such as changes in the type of business we do or implementation of the Single Security Initiative;
- limitations on our business imposed by FHFA, in its role as our conservator or as our regulator;
- our future objectives and activities in support of those objectives, including actions we may take to reach additional underserved creditworthy borrowers;
- a decrease in our credit ratings;
- limitations on our ability to access the debt capital markets;
- significant changes in modification and foreclosure activity;
- the volume and pace of future nonperforming and reperforming loan sales and their impact on our results and serious delinquency rates;
- changes in borrower behavior;
- the effectiveness of our loss mitigation strategies, management of our real estate owned ("REO") inventory and pursuit of contractual remedies;
- defaults by one or more institutional counterparties;
- resolution or settlement agreements we may enter into with our counterparties;
- our need to rely on third parties to fully achieve some of our corporate objectives;
- our reliance on mortgage servicers;
- changes in GAAP, guidance by the Financial Accounting Standards Board (the "FASB"), and changes to our accounting policies;
- changes in the fair value of our assets and liabilities;
- operational control weaknesses;
- our reliance on models and future updates we make to our models, including the assumptions used by these models;
- global political risks;
- natural disasters, environmental disasters, terrorist attacks, pandemics or other major disruptive events;
- cyber attacks or other information security breaches or threats; and
- those factors described in "Risk Factors."

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

Item 1A. Risk Factors

Refer to "MD&A—Risk Management" and "MD&A—Business Segments" for more detailed descriptions of the primary risks to our business and how we seek to manage those risks.

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

Risks Relating to Our Business

The future of our company is uncertain.

There continues to be significant uncertainty regarding the future of our company, including how long the company will continue to exist in its current form, the extent of our role in the market, how long we will be in conservatorship, what form we will have and what ownership interest, if any, our current common and preferred stockholders will hold in us after the conservatorship is terminated, and whether we will continue to exist following conservatorship. The conservatorship is indefinite in duration and the timing, conditions and likelihood of our emerging from conservatorship are uncertain. Our conservatorship could terminate through a receivership. Termination of the conservatorship, other than in connection with a receivership, requires Treasury's consent under the senior preferred stock purchase agreement.

The previous Administration endorsed the wind down of Fannie Mae and Freddie Mac through a responsible transition and the enactment of comprehensive housing finance reform legislation. The current Administration has not articulated a formal position on housing finance reform or the future of Fannie Mae and Freddie Mac; however, the Secretary of the Treasury has publicly stated that he is focused on housing finance reform and a solution to the current status of Fannie Mae and Freddie Mac.

We expect that Congress will continue to consider legislation that could result in significant changes in our structure and role in the future, including proposals that would result in Fannie Mae's liquidation or dissolution. Congress, FHFA or other agencies may also consider legislation or regulation aimed at increasing the competition we face, reducing our market share, expanding our obligations to provide funds to Treasury, constraining our business operations, or subjecting us to new obligations, such as the Freedom of Information Act, that could impose substantial burdens or adversely affect our results of operations or financial condition. We cannot predict the prospects for the enactment, timing or final content of housing finance reform legislation or other legislation related to our activities.

We may not have sufficient capital reserves to avoid a net worth deficit if we experience a comprehensive loss in a future quarter. If we have a net worth deficit in a future quarter, we will be required to draw funds from Treasury to avoid being placed into receivership.

Because of our net worth deficit as of December 31, 2017, we had no capital reserves as of that date. Our ability to rebuild our capital reserves in future periods is limited. The dividend provisions of the senior preferred stock permit us to retain only up to $3.0 billion in future earnings as capital reserves, provided our conservator directs us to declare and pay senior preferred stock dividends in full in the future. As a result, we may not have sufficient capital reserves to avoid a net worth deficit if we have a comprehensive loss in a future quarter. And, because we had no capital reserves as of December 31, 2017, if we have a comprehensive loss in the first quarter of 2018, we will also have a net

worth deficit for that quarter.

We have experienced and expect to continue to experience volatility in our financial results from period to period due to a number of factors, particularly changes in market conditions that result in fluctuations in the estimated fair value of the financial instruments, such as derivatives and certain securities, that we mark to market through our

earnings. Other factors that may result in volatility in our quarterly financial results include developments that affect our loss reserves, such as changes in interest rates, home prices or accounting standards, or events such as natural disasters. Accordingly, although we expect to remain profitable on an annual basis for the foreseeable future, the potential volatility in our financial results, which may be significant from quarter to quarter, could result in a net worth deficit in a future quarter. In addition, other factors such as legislative or regulatory actions could result in a net worth deficit in a future quarter.

In June 2016, the FASB issued guidance that changes the impairment model for most financial assets and certain other instruments, which we will adopt on January 1, 2020. For loans, held-to-maturity debt securities and other financial assets recorded at amortized cost, entities will be required to use a new forward-looking "expected loss" model that will replace today's "incurred loss" model and generally will result in the earlier recognition of allowance for loan losses. We are continuing to evaluate the impact of this guidance on our consolidated financial statements. We expect the greater impact of the guidance to relate to our accounting for credit losses for loans that are not individually impaired. The adoption of this guidance may decrease, perhaps substantially, our retained earnings and increase our allowance for loan losses, which could result in a net worth deficit when we adopt the guidance in the first quarter of 2020.

For any quarter for which we have a net worth deficit, we will be required to draw funds from Treasury under the senior preferred stock purchase agreement to avoid being placed into receivership. After we receive the additional funds requested from Treasury to eliminate our net worth deficit as of December 31, 2017, the maximum amount of remaining funding under the agreement will be $113.9 billion. If we were to draw additional funds from Treasury under the agreement in respect of a future period, the amount of remaining funding under the agreement would be reduced by the amount of our draw. Dividend payments we make to Treasury do not restore or increase the amount of funding available to us under the agreement. Accordingly, if we experience multiple quarters of net worth deficits, the amount of remaining funding available under the senior preferred stock purchase agreement could be significantly reduced from its current level.

Our regulator is authorized or required to place us into receivership under specified conditions, which would result in the liquidation of our assets. Amounts recovered from the liquidation may not be sufficient to repay the liquidation preference of any series of our preferred stock or to provide any proceeds to common shareholders.

FHFA is required to place us into receivership if the Director of FHFA makes a written determination that our assets are less than our obligations for a period of 60 days after the filing deadline for our Form 10-K or Form 10-Q with the SEC. Although Treasury committed to providing us funds in accordance with the terms of the senior preferred stock purchase agreement, if we need funding from Treasury to avoid triggering FHFA's obligation, Treasury may not be able to provide sufficient funds to us within the required 60 days if it has exhausted its borrowing authority, if there is a government shutdown, or if the funding we need exceeds the amount available to us under the agreement. In addition, we could be put into receivership at the discretion of the Director of FHFA at any time for other reasons set forth in the GSE Act, including if we are critically undercapitalized or if we are undercapitalized and have no reasonable prospect of becoming adequately capitalized.

A receivership would terminate the conservatorship. In addition to the powers FHFA has as our conservator, the appointment of FHFA as our receiver would terminate all rights and claims that our shareholders and creditors may have against our assets or under our charter arising from their status as shareholders or creditors, except for their right to payment, resolution or other satisfaction of their claims as permitted under the GSE Act. If we are placed into receivership and do not or cannot fulfill our guaranty to the holders of our Fannie Mae MBS, there may be significant delays of any payments to our MBS holders, and the MBS holders could become unsecured creditors of ours with respect to claims made under our guaranty to the extent the mortgage collateral underlying the Fannie Mae MBS is insufficient to satisfy the claims of the MBS holders.

In the event of a liquidation of our assets, only after payment of the administrative expenses of the receiver and the immediately preceding conservator, the secured and unsecured claims against the company (including repaying all outstanding debt obligations), and the liquidation preference of the senior preferred stock, would any liquidation proceeds be available to repay the liquidation preference on any other series of preferred stock. Finally, only after the liquidation preference on all series of preferred stock is repaid would any liquidation proceeds be available for

distribution to the holders of our common stock. We believe that in the event of a liquidation of our assets it is unlikely that there would be sufficient proceeds to make any distribution to holders of our preferred stock or common stock, other than possibly to Treasury as a holder of our senior preferred stock.

Risk
Factors

Our business and results of operations may be materially adversely affected if we are unable to retain and recruit well-qualified senior executives and other employees. The conservatorship, the uncertainty of our future and limitations on our executive and employee compensation put us at a disadvantage compared to many other companies in attracting and retaining these employees.

Our business processes are highly dependent on the talents and efforts of our senior executives and other employees. The conservatorship, the uncertainty of our future and limitations on executive and employee compensation have had, and are likely to continue to have, an adverse effect on our ability to retain and recruit well-qualified executives and other employees. Turnover in key management positions and challenges in integrating new management could harm our ability to manage our business effectively and successfully finalize the implementation of our and FHFA's current strategic initiatives, and ultimately could adversely affect our financial performance.

Actions taken by Congress, FHFA and Treasury to date, or that may be taken by them or other government agencies in the future, have had, and may continue to have, an adverse effect on the retention and recruitment of senior executives and other employees. We are subject to significant restrictions on the amount and type of compensation we may pay our executives and other employees under conservatorship. For example, we are subject to a law that limits the annual direct compensation of our Chief Executive Officer to no more than $600,000 while we are in conservatorship or receivership, and a law that prohibits our senior executives from receiving bonuses during any period of conservatorship. Additionally, we are unable to offer equity-based compensation to our employees. As a result of these restrictions, we have not been able to incent and reward excellent performance with compensation structures that provide upside potential to our executives, which places us at a disadvantage compared to many other companies in attracting and retaining executives. In addition, the uncertainty of potential congressional action with respect to housing finance reform, which may result in the wind-down of the company, also negatively affects our ability to retain and recruit executives and other employees.

Limitations on our ability to offer market-based compensation also makes succession planning difficult. In particular, the limit on the annual direct compensation of our Chief Executive Officer to $600,000 significantly elevates our risk that we will not be able to retain our Chief Executive Officer and negatively affects our succession planning and our ability to attract qualified candidates for this critical role.

We face competition from within the financial services industry and from businesses outside of the financial services industry for qualified executives and other employees. If we are unable to retain, promote and attract executives and other employees with the necessary skills and talent, we would face increased risks for operational failures. If there were several high-level departures at approximately the same time, our ability to conduct our business would likely be materially adversely affected, which could have a material adverse effect on our results of operations and financial condition.

Our business activities are significantly affected by the conservatorship and the senior preferred stock purchase agreement.

We are currently under the control of our conservator, FHFA, and we do not know when or how the conservatorship will terminate. As conservator, FHFA can direct us to enter into contracts or enter into contracts on our behalf, and generally has the power to transfer or sell any of our assets or liabilities. In addition, our directors do not have fiduciary duties to any person or entity except to the conservator. Accordingly, our directors 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 in making or approving a decision unless specifically directed to do so by the conservator.

We are subject to significant restrictions on our business activities during conservatorship. We may be prevented by our conservator from engaging in business activities or transactions that we believe would benefit our business and financial results. For example, because FHFA must approve changes to the national loan level price adjustments we charge and can direct us to make other changes to our guaranty fee pricing, our ability to address changing market conditions, pursue certain strategic objectives, or manage the mix of loans lenders choose to deliver to us is constrained. We publish national risk-based loan level price adjustment grids that specify the additional cash fees we charge at the time we acquire a loan based on the credit characteristics of the loan. These fees allow us to price appropriately for the credit risk we assume in providing our guaranty on the loans. We do not have the ability to

implement changes to these pricing grids without the approval of FHFA. If the mix of our single-family loan acquisitions changes, and FHFA does not approve requested changes to our pricing grids in response to these changes, it could adversely affect our financial results and condition. In addition, if FHFA directs

us to change our pricing in any manner—including increases or decreases in our base guaranty fees or our loan-level price adjustments—it could result in a decrease in our guaranty fee revenues in future periods, a decrease in our single-family business volume or a negative impact on the credit risk profile of our new single-family acquisitions, any of which could adversely affect our financial results and condition.

Because we are under the control of our conservator, our business objectives may not be consistent with the investment objectives of our investors. We are devoting significant resources to meeting FHFA's goals for our conservatorship and expect to continue to do so. We may be required by our conservator to engage in activities that are operationally difficult, costly to implement or unprofitable, or that may adversely affect our financial results or the credit risk profile of our book of business. FHFA has changed our business objectives significantly since we entered conservatorship, and could make additional changes at any time. Actions we take to meet FHFA's strategic goals and objectives for our conservatorship could adversely affect our financial results. For example, FHFA's conservatorship scorecards in recent years have included objectives relating to the development of a uniform mortgage-backed security for Fannie Mae and Freddie Mac. As the implementation date of the single security approaches, some Fannie Mae MBS and comparable Freddie Mac PCs are trading closer to or at parity. If our market share declines in the future due to this trend or other factors, it could adversely affect our financial results. It is also possible that uncertainty surrounding the implementation and overall impact of the Single Security Initiative could contribute to declines in the liquidity or market value of our Fannie Mae MBS.

The senior preferred stock purchase agreement with Treasury includes a number of covenants that significantly restrict our business activities. We cannot, without the prior written consent of Treasury: pay dividends (except on the senior preferred stock); sell, issue, purchase or redeem Fannie Mae equity securities; sell, transfer, lease or otherwise dispose of assets in specified situations; engage in transactions with affiliates other than on arm's-length terms or in the ordinary course of business; issue subordinated debt; or incur indebtedness that would result in our aggregate indebtedness exceeding 120% of the amount of mortgage assets we are allowed to own under the agreement. In deciding whether to consent to any request for approval it receives from us under the agreement, Treasury has the right to withhold its consent for any reason and is not required by the agreement to consider any particular factors, including whether or not management believes that the transaction would benefit the company. Pursuant to the senior preferred stock purchase agreement, the maximum allowable amount of mortgage assets we were permitted to own as of December 31, 2017 was $288.4 billion and will decrease to $250 billion as of December 31, 2018. In addition, FHFA has requested that we further cap our mortgage assets each year at 90% of the annual limit under our senior preferred stock purchase agreement with Treasury.

Actions taken by the conservator and the restrictions set forth in the senior preferred stock purchase agreement could adversely affect our business, results of operations, financial condition, liquidity and net worth.

A number of lawsuits have been filed against the U.S. government relating to the senior preferred stock purchase agreement and the conservatorship. See "Note 16, Commitments and Contingencies" and "Legal Proceedings" for a description of these lawsuits. These lawsuits, and actions Treasury or FHFA may take in response to these lawsuits, could have a material impact on our business.

The conservatorship and agreements with Treasury have had, and will continue to have, a material adverse effect on our common and preferred shareholders.

We do not know when or how the conservatorship will terminate. Moreover, even if we are released from conservatorship, we remain subject to the terms of the senior preferred stock purchase agreement, senior preferred stock and warrant, which can only be canceled or modified with the consent of Treasury. The conservatorship and agreements with Treasury have had, and will continue to have, material adverse effects on our common and preferred shareholders, including the following:

No voting rights during conservatorship. The rights and powers of our shareholders are suspended during conservatorship. During conservatorship, our common shareholders do not have the ability to elect directors or to vote on other matters unless the conservator delegates this authority to them.

No dividends to common or preferred shareholders, other than to Treasury. Our conservator announced in September 2008 that we would not pay any dividends on the common stock or on any series of preferred stock, other than the

senior preferred stock, while we are in conservatorship. In addition, under the terms of the senior preferred stock purchase agreement, dividends may not be paid to common or preferred shareholders (other than on the senior preferred stock) without the prior written consent of Treasury, regardless of whether we are in conservatorship.

Risk
Factors

Our profits are distributed to Treasury. Pursuant to the dividend provisions of the senior preferred stock and quarterly directives from our conservator, we are obligated to pay Treasury each quarter any dividends declared consisting of the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount, which is $3.0 billion effective January 1, 2018. As a result, our net income is not available to common shareholders or preferred shareholders other than Treasury as holder of the senior preferred stock.
Liquidation preference of senior preferred stock is high and could increase. The senior preferred stock ranks prior to our common stock and all other series of our preferred stock, as well as any capital stock we issue in the future, as to both dividends and distributions upon liquidation. Accordingly, if we are liquidated, the senior preferred stock is entitled to its then-current liquidation preference (which includes any accumulated but unpaid dividends), before any distribution is made to the holders of our common stock or other preferred stock. After we receive the additional funds from Treasury to eliminate our net worth deficit as of December 31, 2017, the liquidation preference on the senior preferred stock will be $123.8 billion. The liquidation preference would increase further if we draw on Treasury's funding commitment in respect of any future quarters or if we do not pay dividends owed on the senior preferred stock. If we are liquidated, we believe it is unlikely that there would be sufficient funds remaining after payment of amounts to our creditors and to Treasury as holder of the senior preferred stock to make any distribution to holders of our common stock and other preferred stock.
Exercise of the Treasury warrant would substantially dilute investment of current shareholders. If Treasury exercises its warrant to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis, the ownership interest in the company of our then-existing common shareholders will be substantially diluted, and we would thereafter have a controlling shareholder.
No longer managed for the benefit of shareholders. Because we are in conservatorship, we are no longer managed with a strategy to maximize shareholder returns.
For additional description of the conservatorship and our agreements with Treasury, see "Business—Conservatorship and Treasury Agreements."
We may incur significant credit losses and credit-related expenses on the loans in our book of business, which could materially adversely affect our earnings, financial condition and net worth.
We are exposed to a significant amount of mortgage credit risk on our $3.2 trillion total book of business, which includes mortgage assets that back our guaranteed Fannie Mae MBS, mortgage assets in our retained mortgage portfolio and credit enhancements we provide. Borrowers of mortgage loans that we own or guaranty may fail to make required payments of principal and interest on their mortgage loans, exposing us to the risk of credit losses and credit-related expenses. Increases in our credit-related expenses would reduce our earnings and adversely affect our financial condition and net worth.
The credit performance of loans in our book of business could deteriorate in the future, particularly if we experience national or regional declines in home prices, weakening economic conditions or high unemployment, resulting in higher credit losses and credit-related expenses. Although we strengthened our underwriting and eligibility standards in late 2008 and 2009, we continue to have loans in our book of business that were originated under our prior standards. As of December 31, 2017, 10% of our single-family conventional guaranty book of business consisted of loans acquired prior to 2009 and another 13% consisted of Refi Plus loans, which represent refinancings of loans that were originated prior to June 2009. Moreover, some of the loans we acquired prior to 2009 that remain in our single-family book of business as of December 31, 2017 have certain characteristics that expose us to greater credit risk than other types of mortgage loans, such as Alt-A loans (2% of our single-family conventional guaranty book), interest-only loans (1% of our single-family conventional guaranty book) and loans with FICO credit scores at origination of less than 620 (2% of our single-family conventional guaranty book). In addition, 17% of our single-family conventional guaranty book of business as of December 31, 2017 consisted of loans with original LTV ratios greater than 90%, which may pose a higher credit risk than loans with lower LTV ratios. We present detailed information about the risk characteristics of our single-family conventional guaranty book of business and our multifamily guaranty book of business in "MD&A—Business Segments." The processing of foreclosures of single-family

loans continues to be slow in some states, which has negatively affected our foreclosure timelines and our single-family serious delinquency rate.

While we use certain credit enhancements to mitigate some of our potential future credit losses, these credit enhancements may provide less protection than we expect for a number of reasons. Some of the credit enhancements we use, such as mortgage insurance and credit insurance risk transfer transactions, are subject to

the risk that the counterparties may not meet their obligations to us. Our credit risk transfer transactions have limited terms (typically 10 or 12.5 years), after which they provide limited or no further credit protection on the covered loans. Due to differences in accounting, there also could be a significant lag between the time when we recognize a provision for credit losses and when we recognize the related recovery from our CAS transactions. While a credit expense on a loan in a reference pool for a CAS transaction is recorded when it is probable that we have incurred a loss, for our CAS issued beginning in 2016, a recovery is recorded when an actual loss event occurs. In addition, our credit risk transfer transactions are not designed to shield us from all losses because we retain a portion of the risk of future losses on loans covered by these transactions, including all or a portion of the first loss risk in most transactions. Similarly, mortgage insurance does not protect us from all losses on covered loans. For example, mortgage insurance does not cover us from default risk for properties that suffered damages that were not covered by the hazard insurance we require. A property damaged by a flood that was outside a flood hazard area, where we require coverage, or a property damaged by an earthquake are the most likely scenarios where property damage may result in a default not covered by hazard insurance.

A failure in our operational systems or infrastructure, or those of third parties, could materially adversely affect our business, impair our liquidity, cause financial losses and harm our reputation.

Shortcomings or failures in our internal processes, people, data management or systems could disrupt our business or have a material adverse effect on our risk management, liquidity, financial statement reliability, financial condition and results of operations. Such a failure could result in legislative or regulatory intervention or sanctions, liability to customers, financial losses, business disruptions and damage to our reputation. For example, our business is highly dependent on our ability to manage and process, on a daily basis, an extremely large number of transactions, many of which are highly complex, across numerous and diverse markets and in an environment in which we must adapt to changing external conditions. These transactions are subject to various legal, accounting and regulatory standards. Our financial, accounting, data processing or other operating systems and facilities may fail to operate properly or become disabled or damaged as a result of a number of factors, including events that are wholly or partially beyond our control, adversely affecting our ability to process these transactions or manage associated data with reliability and integrity. In addition, we rely on information provided by third parties in processing many of our transactions; that information may be incorrect or we may fail to properly manage or analyze it or properly monitor its data quality.

We rely upon business processes that are highly dependent on people, technology and equipment, data and the use of numerous complex systems and models to manage our business and produce books and records upon which our financial statements and risk reporting are prepared. This reliance increases the risk that we may be exposed to financial, reputational or other losses as a result of inadequately designed internal processes or data management architecture, inflexible technology or the failure of our systems. While we continue to enhance our technology, infrastructure, operational controls and organizational structure in order to reduce our operational risk, these actions may not be effective to manage these risks and may create additional operational risk as we execute these enhancements. In addition, our use of third-party service providers for some of our business and technology functions increases the risk that an operational failure by a third party will adversely affect us.

Our ability to manage and aggregate data may be limited by the effectiveness of our policies, programs, processes, systems and practices that govern how data is acquired, validated, stored, protected, processed and shared. Failure to manage data effectively and to aggregate data in an accurate and timely manner may limit our ability to manage current and emerging risks, as well as to manage changing business needs.

We also face the risk of operational failure, termination or capacity constraints of any of the clearing agents, paying agents, exchanges, clearinghouses or other financial intermediaries we use to facilitate our securities and derivatives transactions. In recent years, there has been significant consolidation among clearing agents, exchanges and clearing houses. This consolidation and interconnectivity increases the risk of operational failure, on both an individual basis and an industry-wide basis, as disparate complex systems need to be integrated, often on an accelerated basis. Any such failure, termination or constraint could adversely affect our ability to effect transactions or manage our exposure to risk, and could have a significant adverse impact on our business, liquidity, financial condition, net worth and results of operations.

Substantially all of our employees and business operations functions are consolidated in two metropolitan areas: Washington, DC and Dallas, Texas. As a result of this concentration of our employees and facilities, a catastrophic event at either location, such as a terrorist attack, natural disaster, extreme weather event or disease pandemic could impact our ability to operate notwithstanding the business continuity plans and facilities that we have in

place. Although we have an out-of-region data center for disaster recovery, this data center will take several days to become operational in the event it becomes necessary as a result of the catastrophic loss of our in-region data center. Moreover, because of the concentration of our employees in the Washington, DC and Dallas metropolitan areas, if a regional disruption occurs in one of these areas, our employees may not be not able to occupy our facilities, work remotely, or communicate with or travel to other locations. Accordingly, we may not be able to successfully implement our contingency plans if a catastrophic event occurs, which could materially adversely affect our ability to conduct our business and lead to financial losses.

A breach of the security of our systems or facilities, or those of third parties with which we do business, including as a result of cyber attacks, could damage or disrupt our business or result in the disclosure or misuse of confidential information, which could damage our reputation, increase our costs and cause losses.

Our operations rely on the secure receipt, processing, storage and transmission of confidential and other information in our computer systems and networks and with our business partners, including proprietary, confidential or personal information that is subject to privacy laws, regulations or contractual obligations. Information security risks for large institutions like us have significantly increased in recent years in part because of the proliferation of new technologies and the use of the Internet and telecommunications technologies to conduct or automate financial transactions. There have been several recent, highly publicized cases involving financial services companies, consumer-based companies and other organizations reporting the unauthorized disclosure of client, customer or other confidential information, as well as cyber attacks involving the dissemination, theft and destruction of corporate information, intellectual property, cash or other valuable assets. There have also been several highly publicized cases where hackers have requested "ransom" payments in exchange for not disclosing customer information or for not making the targets' computer systems unavailable.

We have been, and likely will continue to be, the target of attempted cyber attacks, computer viruses, malicious code, phishing attacks, denial of service attacks and other information security threats. To date, cyber attacks have not had a material impact on our financial condition, results or business; however, we could suffer material financial or other losses in the future and we are not able to predict the severity of these attacks. Our risk and exposure to these matters remains heightened because of, among other things, the evolving nature of these threats, the current global economic and political environment, our prominent size and scale and our role in the financial services industry, the outsourcing of some of our business operations, the ongoing shortage of qualified cyber security professionals, and the interconnectivity and interdependence of third parties to our systems.

Despite our efforts to ensure the integrity of our software, computers, systems and information, we may not be able to anticipate, detect or recognize threats to our systems and assets, or to implement effective preventive measures against all cyber threats, especially because the techniques used are increasingly sophisticated, change frequently, are complex, and are often not recognized until launched. We routinely identify cyber threats as well as vulnerabilities in our systems and work to address them, but these efforts may be insufficient. Cyber attacks can originate from a variety of sources, including external parties who are affiliated with foreign governments or are involved with organized crime or terrorist organizations. Third parties may also attempt to induce employees, customers or other users of our systems to disclose sensitive information or provide access to our systems or network, or to our data or that of our counterparties or borrowers, and these types of risks may be difficult to detect or prevent.

The occurrence of a cyber attack, breach, unauthorized access, misuse, computer virus or other malicious code or other cyber security event could jeopardize or result in the unauthorized disclosure, gathering, monitoring, misuse, corruption, loss or destruction of confidential and other information that belongs to us, our customers, our counterparties, third-party service providers or borrowers that is processed and stored in, and transmitted through, our computer systems and networks. The occurrence of such an event could also result in damage to our software, computers or systems, or otherwise cause interruptions or malfunctions in our, our customers', our counterparties' or third parties' operations. This could result in significant losses, loss of customers and business opportunities, reputational damage, litigation, regulatory fines, penalties or intervention, reimbursement or other compensatory costs, or otherwise adversely affect our business, financial condition or results of operations.

A cyber attack could occur and persist for an extended period of time without detection. We expect that any investigation of a cyber attack would be inherently unpredictable and that it would take time before the completion of any investigation and before there is availability of full and reliable information. During such time we would not necessarily know the extent of the harm or how best to remediate it, and certain errors or actions could be

repeated or compounded before they are discovered and remediated. In addition, announcing that a cyber attack has occurred increases the risk of additional cyber attacks, and preparing for this elevated risk can delay the announcement of a cyber attack. All or any of these challenges could further increase the costs and consequences of a cyber attack.
In addition, we may be required to expend significant additional resources to modify our protective measures and to investigate and remediate vulnerabilities or other exposures arising from operational and security risks. Although we maintain insurance coverage relating to cybersecurity risks, our insurance may not be sufficient to provide adequate loss coverage in all circumstances.
Because we are interconnected with and dependent on third-party vendors, exchanges, clearing houses, fiscal and paying agents, and other financial institutions, we could be adversely impacted if any of them is subject to a successful cyber attack or other information security event. For example, if a data breach compromises the integrity of borrower data that we or our customers rely on, it could adversely affect our operations or financial results. Third parties with which we do business may also be sources of cybersecurity or other technological risks. We outsource certain functions and these relationships allow for the external storage and processing of our information, as well as customer, counterparty and borrower information, including on cloud-based systems. We also share this type of information with regulatory agencies and their vendors. While we engage in actions to mitigate our exposure resulting from our information-sharing activities, ongoing threats may result in unauthorized access, loss or destruction of data or other cybersecurity incidents with increased costs and consequences to us such as those described above.
We routinely transmit and receive personal, confidential and proprietary information by electronic means. We have discussed and worked with customers, vendors, service providers, counterparties and other third parties to develop secure transmission capabilities and protect against cyber attacks, but we do not have, and may be unable to put in place, secure capabilities with all of our clients, vendors, service providers, counterparties and other third parties and we may not be able to ensure that these third parties have appropriate controls in place to protect the confidentiality of the information. An interception, misuse or mishandling of personal, confidential or proprietary information being sent to or received from a customer, vendor, service provider, counterparty or other third party could result in legal liability, regulatory action and reputational harm.
Our concurrent implementation of multiple new initiatives may increase our operational risk and result in one or more material weaknesses in our internal control over financial reporting.
We are currently implementing a number of initiatives in furtherance of both our and our conservator's strategic objectives. The magnitude of the many new initiatives we are undertaking may increase our operational risk. Many of these initiatives involve significant changes to our business processes, systems and infrastructure, and present significant operational challenges for us. For example, we are working with FHFA and Freddie Mac on a multi-year effort to build a common securitization platform to eventually replace some of our current securitization infrastructure and to issue a uniform mortgage-backed security on this platform. This initiative, in coordination with related internal infrastructure upgrades, is expected to result in significant changes to our current systems and operations, and involves a high degree of complexity. While implementation of each individual initiative creates operational challenges, implementing multiple initiatives during the same time period significantly increases these challenges. Due to the operational complexity associated with these changes and the limited time periods for implementing them, we believe there is a risk that implementing these changes could result in one or more material weaknesses in our internal control over financial reporting in a future period. If this were to occur, we could experience material errors in our reported financial results. In addition, FHFA, Treasury, other agencies of the U.S. government or Congress may require us to take actions in the future that could further increase our operational risk.
We may undertake efforts that adversely affect our business, results of operations, financial condition, liquidity and net worth.
In conservatorship our business is no longer managed with a strategy to maximize shareholder returns while fulfilling our mission. FHFA's current strategic goals for our conservatorship are described in "Business—Legislation and Regulation—Housing Finance Reform—Conservator Developments and Strategic Goals." In pursuit of the goals prescribed by our conservator, we are taking a variety of actions that could adversely affect our economic returns, possibly significantly, such as modifying loans to help struggling borrowers; expanding our underwriting and eligibility

requirements to increase access to mortgage credit; increasing our use of credit risk transfer transactions, which effectively reduces the guaranty fee income we retain on the covered loans; and

preparing to issue a uniform mortgage-backed security. We may also be asked to take additional efforts in support of our conservator's goals in the future that could adversely affect our economic returns. These activities may have short- and long-term adverse effects on our business, results of operations, financial condition, liquidity and net worth.

Other agencies of the U.S. government or Congress also may ask us to take actions to support the housing and mortgage markets or in support of other goals. These actions may adversely affect our financial results and condition. For example, in December 2011 Congress enacted the TCCA under which, at the direction of FHFA, we increased the guaranty fee on all single-family residential mortgages delivered to us by 10 basis points effective April 1, 2012. The revenue generated by this fee increase is paid to Treasury and helps offset the cost of a two-month extension of the payroll tax cut in 2012.

We are also required by the GSE Act to undertake efforts in support of the housing market that could adversely affect our financial results and condition. For example, we are subject to housing goals under the GSE Act that require that a portion of the mortgage loans we acquire must be for low- and very low-income families, families in low-income census tracts and moderate-income families in minority census tracts or designated disaster areas. In addition, in December 2016, FHFA issued a final rule to implement our new duty to serve very low-, low- and moderate-income families in three underserved markets: manufactured housing, affordable housing preservation and rural areas. We are making changes to our business and our acquisitions to comply with our new duty to serve obligations, which went into effect on January 1, 2018. We may take actions to meet our housing goals and duty to serve obligations that could adversely affect our profitability. For example, we may acquire loans that offer lower expected returns on our investment than our other loan acquisitions and that may potentially increase our credit losses and credit-related expenses. If we do not meet our housing goals or duty to serve requirements, and FHFA finds that the goals or requirements were feasible, we may become subject to a housing plan that could require us to take additional steps that could have an adverse effect on our results of operations and financial condition. The potential penalties for failure to comply with housing plan requirements include a cease-and-desist order and civil money penalties. See "Business—Legislation and Regulation—GSE Act and Other Regulation of Our Business" for more information on our housing goals and duty to serve underserved markets.

Limitations on our ability to access the debt capital markets could have a material adverse effect on our ability to fund our operations.

Our ability to fund our business depends primarily on our ongoing access to the debt capital markets. Market concerns about matters such as the extent of government support for our business, the future of our business (including future profitability, future structure, regulatory actions and our status as a government-sponsored enterprise) and the creditworthiness of the U.S. government could cause a severe negative effect on our access to the unsecured debt markets, particularly for long-term debt. We believe that our ability in recent years to issue debt of varying maturities at attractive pricing resulted from federal government support of our business. As a result, we believe that our status as a government-sponsored enterprise and continued federal government support is essential to maintaining our access to debt funding. Changes or perceived changes in federal government support of our business or our status as a government-sponsored enterprise could materially and adversely affect our liquidity, financial condition and results of operations. There can be no assurance that the government will continue to support us, or that our current level of access to debt funding will continue. In addition, due to our reliance on the U.S. government's support, our access to debt funding also could be materially adversely affected by a change or perceived change in the creditworthiness of the U.S. government.

Future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, as well as our liquidity position. If we are unable to issue both short- and long-term debt securities at attractive rates and in amounts sufficient to operate our business and meet our obligations, it likely would interfere with the operation of our business and have a material adverse effect on our liquidity, results of operations, financial condition and net worth.

Our liquidity contingency plans may be difficult or impossible to execute during a liquidity crisis.

Our liquidity contingency plans may be difficult or impossible to execute during a liquidity crisis. If we cannot access the unsecured debt markets, our ability to repay maturing indebtedness and fund our operations could be eliminated or

significantly impaired. In this event, our alternative sources of liquidity—consisting of our other investments portfolio and the unencumbered mortgage assets in our retained mortgage portfolio—may not be sufficient to meet our liquidity needs.

We believe that the amount of mortgage-related assets that we could successfully sell or borrow against in the event of a liquidity crisis or significant market disruption is substantially lower than the amount of mortgage-related assets we hold. Due to the current composition of our retained mortgage portfolio, including the significant amount of distressed assets in our portfolio, there would likely be insufficient market demand for large amounts of the mortgage-related assets in our portfolio over a prolonged period of time, which would limit our ability to borrow against or sell these assets. To the extent that we are able to obtain funding by pledging or selling mortgage-related assets as collateral, we anticipate that a discount would be applied that would reduce the value assigned to those assets. Depending on market conditions at the time, this discount could result in proceeds significantly lower than the current market value of these assets and could thereby reduce the amount of financing we obtain, which could reduce our earnings and net worth.

A decrease in the credit ratings on our senior unsecured debt could have an adverse effect on our ability to issue debt on reasonable terms, particularly if such a decrease were not based on a similar action on the credit ratings of the U.S. government. A decrease in our credit ratings also could require that we post additional collateral for our derivatives contracts.

A reduction in our credit ratings could materially adversely affect our liquidity, our ability to conduct our normal business operations, our financial condition and our results of operations. Credit ratings on our senior unsecured debt, as well as the credit ratings of the U.S. government, are primary factors that could affect our borrowing costs and our access to the debt capital markets. Credit ratings on our debt are subject to revision or withdrawal at any time by the rating agencies. Actions by governmental entities impacting the support we receive from Treasury could adversely affect the credit ratings on our senior unsecured debt. As of December 31, 2017, our long-term debt was rated “AA+” by Standard & Poor’s Ratings Services (“S&P”), “Aaa” by Moody’s Investors Services (“Moody’s”) and “AAA” by Fitch Ratings Limited (“Fitch”).

Because we rely on the U.S. government for capital support, in recent years, when a rating agency has taken an action relating to the U.S. government’s credit rating, they have taken a similar action relating to our ratings at approximately the same time. S&P, Moody’s and Fitch have all indicated that they would likely lower their ratings on the debt of Fannie Mae and certain other government-related entities if they were to lower their ratings on the U.S. government. We currently cannot predict whether one or more of these rating agencies will downgrade our debt ratings in the future, nor can we predict the potential impact.

A reduction in our credit ratings also could cause derivatives clearing organizations or their members to demand that we post additional collateral for our derivative contracts. Our credit ratings and ratings outlook are included in “MD&A—Liquidity and Capital Management—Liquidity Management—Credit Ratings.”

One or more of our institutional counterparties may fail to fulfill their contractual obligations to us, resulting in financial losses, business disruption and decreased ability to manage risk.

We rely on our institutional counterparties to provide services and credit enhancements that are critical to our business. We face the risk that one or more of our institutional counterparties may fail to fulfill their contractual obligations to us. Our primary exposures to institutional counterparty risk are with credit guarantors that provide credit enhancements on the mortgage assets that we hold in our retained mortgage portfolio or that back our Fannie Mae MBS, including mortgage insurers, mortgage reinsurers and multifamily lenders with risk sharing arrangements; mortgage servicers that service the loans we hold in our retained mortgage portfolio or that back our Fannie Mae MBS; mortgage sellers and servicers that are obligated to repurchase loans from us or reimburse us for losses in certain circumstances; the financial institutions that issue the investments held in our other investments portfolio; and derivatives counterparties. We also have counterparty exposure to custodial depository institutions; mortgage originators, investors and dealers; debt security dealers; financial guarantors; and document custodians.

In the event of a bankruptcy or receivership of one of our counterparties, we may be required to establish our ownership rights to the assets these counterparties hold on our behalf to the satisfaction of the bankruptcy court or receiver, which could result in a delay in accessing these assets causing a decline in their value. In addition, if we are unable to replace a defaulting counterparty that performs services that are critical to our business with another counterparty, it could adversely affect our ability to conduct our operations and manage risk.

We routinely enter into a high volume of transactions with counterparties in the financial services industry, including brokers and dealers, mortgage lenders and commercial banks, and mortgage insurers, resulting in a significant credit concentration with respect to this industry. We may have multiple exposures to particular

counterparties, as many of our counterparties provide several types of services to us. For example, our lender customers or their affiliates may also act as derivatives counterparties, mortgage servicers, custodial depository institutions or document custodians. Accordingly, if one of these counterparties were to become insolvent or otherwise default on its obligations to us, it could harm our business and financial results in a variety of ways.

An institutional counterparty may default in its obligations to us for a number of reasons, such as changes in financial condition that affect its credit rating, changes in its servicer rating, a reduction in liquidity, operational failures or insolvency. Counterparty defaults or limitations on their ability to do business with us could result in significant financial losses or hamper our ability to do business or manage the risks to our business, which could materially adversely affect our business, results of operations, financial condition, liquidity and net worth.

We depend on our ability to enter into derivatives transactions in order to manage the duration and prepayment risk of our retained mortgage portfolio. If we lose access to our derivatives counterparties, it could adversely affect our ability to manage these risks, which could have a material adverse effect on our business, results of operations, financial condition and liquidity.

Our financial condition or results of operations may be adversely affected if mortgage servicers fail to perform their obligations to us.

We delegate the servicing of the mortgage loans in our guaranty book of business to mortgage servicers; we do not have our own servicing function. Functions performed by mortgage servicers on our behalf include collecting and delivering principal and interest payments, administering escrow accounts, monitoring and reporting delinquencies, performing default prevention activities and other functions. The inability of a mortgage servicer to perform these functions due to financial, operational, regulatory or other issues could negatively affect our ability to manage our book of business, delay or prevent our collection of amounts due to us, or otherwise result in the failure to perform other servicing duties, resulting in financial losses.

Our servicers also have an active role in our loss mitigation efforts. Our ability to actively manage the troubled loans that we own or guarantee, and to implement our homeownership assistance and foreclosure prevention efforts quickly and effectively, is limited by our reliance on our mortgage servicers. A decline in servicer performance on loss mitigation could adversely affect our credit performance, which could have a material adverse effect on our business, results of operations and financial condition.

A large portion of our single-family guaranty book is serviced by non-depository servicers. The potentially lower financial strength, liquidity and operational capacity of non-depository mortgage sellers and servicers compared with depository mortgage sellers and servicers may negatively affect their ability to satisfy their repurchase or compensatory fee obligations or to service the loans on our behalf.

If we replace a mortgage servicer, we likely would incur costs and potential increases in servicing fees and could also face operational risks. If a mortgage servicer fails, it could result in a temporary disruption in servicing and loss mitigation activities relating to the loans serviced by that mortgage servicer, particularly if there is a loss of experienced servicing personnel. We may also face challenges in transferring a large servicing portfolio.

Multifamily mortgage servicing is typically performed by the lenders who sell the mortgages to us. We are exposed to the risk that multifamily servicers could come under financial pressure, which could potentially result in a decline in the quality of the servicing they provide us.

We may incur losses as a result of claims under our mortgage insurance policies not being paid in full or at all.

We rely heavily on mortgage insurers to provide insurance against borrower defaults on single-family conventional mortgage loans with LTV ratios over 80% at the time of acquisition. Although the financial condition of our primary mortgage insurer counterparties currently approved to write new business has improved in recent years, there is still a risk that these counterparties may fail to fulfill their obligations to pay our claims under insurance policies.

With respect to primary mortgage insurers that we have approved to write coverage on loans sold to us, we currently do not differentiate pricing based on counterparty strength or operational performance. Additionally, we would not revoke a primary mortgage insurer’s status as an eligible insurer unless there was a material violation of our private mortgage insurer eligibility requirements. Further, we do not generally select the provider of primary mortgage insurance on a specific loan, because the selection is usually made by the lender at the time the loan is originated.

Accordingly, we have limited ability to manage our concentration risk with respect to primary mortgage insurers.

Three of our mortgage insurer counterparties who are currently not approved to write new business—PMI Mortgage Insurance Co. ("PMI"), Triad Guaranty Insurance Corporation ("Triad") and Republic Mortgage Insurance Company ("RMIC")—are currently in run-off. A mortgage insurer that is in run-off continues to collect renewal premiums and process claims on its existing insurance business, but no longer writes new insurance, which increases the risk that the mortgage insurer will pay claims only in part or fail to pay claims at all under existing insurance policies. Entering run-off may close off a source of profits and liquidity that may have otherwise assisted a mortgage insurer in paying claims under insurance policies, and could also cause the quality and speed of its claims processing to deteriorate. PMI and Triad have been paying only a portion of policyholder claims and deferring the remaining portion. PMI is currently paying 71.5% of claims under its mortgage insurance policies in cash and is deferring the remaining 28.5%, and Triad is currently paying 75% of claims in cash and deferring the remaining 25%. It is uncertain whether PMI or Triad will be permitted in the future to pay their deferred policyholder claims and/or increase or decrease the amount of cash they pay on claims. RMIC is no longer deferring payments on policyholder claims and has paid us its previously outstanding deferred payment obligations as well as interest on those obligations; however, RMIC remains in run-off. PMI, Triad and RMIC provided a combined $6.1 billion, or 4%, of our risk in force mortgage insurance coverage of our single-family guaranty book of business as of December 31, 2017.

On at least a quarterly basis, we assess our mortgage insurer counterparties' respective abilities to fulfill their obligations to us, and our loss reserves take into account this assessment. If our assessment indicates their ability to pay claims has deteriorated significantly or if our projected claim amounts have increased, it could result in an increase in our loss reserves and our credit losses.

Changes in accounting standards and policies can be difficult to predict and can materially impact how we record and report our financial results.

Our accounting policies and methods are fundamental to how we record and report our financial condition, results of operations and cash flows. From time to time, the FASB or the SEC changes the financial accounting and reporting standards or the policies that govern the preparation of our financial statements. In addition, FHFA provides guidance that affects our adoption or implementation of financial accounting or reporting standards. These changes can be difficult to predict and expensive to implement, and can materially impact how we record and report our financial condition, results of operations and cash flows. We could be required to apply new or revised guidance retrospectively, which may result in the revision of prior period financial statements by material amounts. The implementation of new or revised accounting guidance, such as the new impairment guidance issued in June 2016 described above and in "Note 1, Summary of Significant Accounting Policies—New Accounting Guidance," could have a material adverse effect on our financial results or net worth and result in or contribute to the need for additional draws from Treasury under the senior preferred stock purchase agreement.

Material weaknesses in our internal control over financial reporting could result in errors in our reported results or disclosures that are not complete or accurate.

Management has determined that, as of the date of this filing, we have ineffective disclosure controls and procedures that result in a material weakness in our internal control over financial reporting. In addition, our independent registered public accounting firm, Deloitte & Touche LLP, has expressed an adverse opinion on our internal control over financial reporting because of the material weakness. Our ineffective disclosure controls and procedures and material weakness could result in errors in our reported results or disclosures that are not complete or accurate, which could have a material adverse effect on our business and operations.

Our material weakness relates specifically to the impact of the conservatorship on our disclosure controls and procedures. Because we are under the control of FHFA, some of the information that we may need to meet our disclosure obligations may be solely within the knowledge of FHFA. As our conservator, FHFA has the power to take actions without our knowledge that could be material to our shareholders and other stakeholders, and could significantly affect our financial performance or our continued existence as an ongoing business. Because FHFA currently functions as both our regulator and our conservator, there are inherent structural limitations on our ability to design, implement, test or operate effective disclosure controls and procedures relating to information known to FHFA. As a result, we have not been able to update our disclosure controls and procedures in a manner that

adequately ensures the accumulation and communication to management of information known to FHFA that is needed to meet our disclosure obligations under the federal securities laws, including disclosures affecting our financial statements. Given the structural nature of this material weakness, we do not expect to remediate this

weakness while we are under conservatorship. See “Controls and Procedures” for further discussion of management’s conclusions on our disclosure controls and procedures and internal control over financial reporting.

In many cases, our accounting policies and methods, which are fundamental to how we report our financial condition and results of operations, require management to make judgments and estimates about matters that are inherently uncertain. Management also relies on models in making these estimates.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Our management must exercise judgment in applying many of these accounting policies and methods so that these policies and methods comply with GAAP and reflect management’s judgment of the most appropriate manner to report our financial condition and results of operations. In some cases, management must select the appropriate accounting policy or method from two or more alternatives, any of which might be reasonable under the circumstances but might affect the amounts of assets, liabilities, revenues and expenses that we report. See “Note 1, Summary of Significant Accounting Policies” for a description of our significant accounting policies.

We have identified two of our accounting policies as being critical to the presentation of our financial condition and results of operations. These accounting policies are described in “MD&A—Critical Accounting Policies and Estimates.” We believe these policies are critical because they require management to make particularly subjective or complex judgments about matters that are inherently uncertain and because of the likelihood that materially different amounts would be reported under different conditions or using different assumptions.

Because our financial statements involve estimates for amounts that are very large, even a small change in the estimate can have a significant impact for the reporting period. For example, because our allowance for loan losses is so large, even a change that has a small impact relative to the size of this allowance can have a meaningful impact on our results for the quarter in which we make the change.

Many of our accounting methods involve substantial use of models. Models are inherently imperfect predictors of actual results because they are based on assumptions, including assumptions about future events. Our actual results could differ significantly from those generated by our models. As a result, the estimates that we use to prepare our financial statements, as well as our estimates of our future results of operations, may be inaccurate, perhaps significantly.

Failure of our models to produce reliable results may adversely affect our ability to manage risk and make effective business decisions.

We make significant use of quantitative models to measure and monitor our risk exposures and to manage our business. For example, we use models to measure and monitor our exposures to interest rate, credit and market risks, and to forecast credit losses. The information provided by these models is used in making business decisions relating to strategies, initiatives, transactions, pricing and products.

Models are inherently imperfect predictors of actual results because they are based on historical data and assumptions regarding factors such as future loan demand, borrower behavior, creditworthiness and home price trends. Other potential sources of inaccurate or inappropriate model results include errors in computer code, bad data, misuse of data, or use of a model for a purpose outside the scope of the model’s design. Modeling often assumes that historical data or experience can be relied upon as a basis for forecasting future events, an assumption that may be especially tenuous in the face of unprecedented events.

Given the challenges of predicting future behavior, management judgment is used at every stage of the modeling process, from model design decisions regarding core underlying assumptions, to interpreting and applying final model output. To control for these inherent imperfections, our models are validated by an independent model risk management team within our Enterprise Risk Division and are subject to control requirements set by our model risk policies.

When market conditions change quickly and in unforeseen ways, there is an increased risk that the model assumptions and data inputs for our models are not representative of the most recent market conditions. Under such circumstances, we must rely on management judgment to make adjustments or overrides to our models. A formal model update is typically an extensive process that involves basic research, testing, independent validation and production implementation. In a rapidly changing environment, it may not be possible to update existing models quickly enough

to properly account for the most recently available data and events. Management

adjustments to modeled results are applied within the confines of the governance structure provided by a combination of our model risk management team and our management-level finance and risk committees.

If our models fail to produce reliable results on an ongoing basis, we may not make appropriate risk management decisions, including decisions affecting loan purchases, management of credit losses, guaranty fee pricing, and asset and liability management. Any of these decisions could adversely affect our business, results of operations, liquidity, net worth and financial condition. Furthermore, strategies we employ to manage and govern the risks associated with our use of models may not be effective or fully reliable.

Changes in interest rates or our loss of the ability to manage interest rate risk successfully could adversely affect our financial results and condition, and increase interest rate risk.

We fund our operations primarily through the issuance of debt and invest our funds primarily in mortgage-related assets that permit mortgage borrowers to prepay their mortgages at any time. These business activities expose us to market risk, which is the risk of loss resulting from changes in the economic environment. Market risk includes interest rate risk, which is the risk of loss from adverse changes in the value of our assets or liabilities or our future earnings due to changes in interest rates. We describe these risks in more detail in "MD&A—Risk Management—Market Risk Management, Including Interest Rate Risk Management." Changes in interest rates affect both the value of our mortgage assets and prepayment rates on our mortgage loans.

Changes in interest rates could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. Our ability to manage interest rate risk depends on our ability to issue debt instruments with a range of maturities and other features, including call provisions, at attractive rates and to engage in derivatives transactions. We must exercise judgment in selecting the amount, type and mix of debt and derivative instruments that will most effectively manage our interest rate risk. The amount, type and mix of financial instruments that are available to us may not offset possible future changes in the spread between our borrowing costs and the interest we earn on our mortgage assets.

We mark to market changes in the estimated fair value of our derivatives through our earnings on a quarterly basis, but we do not similarly mark to market changes in some of the financial instruments that generate our interest rate risk exposures. As a result, changes in interest rates, particularly significant changes, can have a significant adverse effect on our earnings and net worth for the quarter in which the changes occur, depending on the nature of the changes and the derivatives we hold at that time. We have experienced significant fair value losses in some periods due to changes in interest rates, and we expect to continue to experience volatility from period to period in our financial results as a result of fair value losses or gains on our derivatives.

Changes in interest rates also can affect our credit losses. When interest rates increase, our credit losses from loans with adjustable payment terms may increase as borrower payments increase at their reset dates, which increases the borrower's risk of default. Rising interest rates may also reduce the opportunity for these borrowers to refinance into a fixed-rate loan. Similarly, many borrowers may have additional debt obligations, such as home equity lines of credit and second liens, that also have adjustable payment terms. If a borrower's payment on his or her other debt obligations increases due to rising interest rates or a change in amortization, it increases the risk that the borrower may default on a loan we own or guarantee. In addition to increasing the risk of future borrower defaults, rising interest rates reduce expected future loan prepayments, which lengthens the expected life of our individually impaired loans and therefore increases our impairment related to concessions we have provided on those loans.

Changes in spreads could materially impact our results of operations, net worth and the fair value of our net assets.

Spread risk or basis risk is the resulting impact of changes in the spread between our mortgage assets and our debt and derivatives we use to hedge our position. Changes in market conditions, including changes in interest rates, liquidity, prepayment and default expectations, and the level of uncertainty in the market for a particular asset class may cause fluctuations in spreads. Changes in mortgage spreads have contributed to significant volatility in our financial results in certain periods, due to fluctuations in the estimated fair value of the financial instruments that we mark to market through our earnings, and this could occur again in a future period. Changes in mortgage spreads could cause significant fair value losses, and could adversely affect our near-term financial results and net worth. We do not actively manage or hedge our spread risk after we purchase mortgage assets, other than through asset monitoring and

disposition.

Our business is subject to laws and regulations that restrict our activities and operations, which limit our ability to diversify our business and may prohibit us from undertaking activities that management believes would benefit our business.

As a federally chartered corporation, we are subject to the limitations imposed by the Charter Act, extensive regulation, supervision and examination by FHFA and regulation by other federal agencies, including Treasury, HUD and the SEC. As a company under conservatorship, our primary regulator has management authority over us in its role as our conservator. We are also subject to other laws and regulations that affect our business, including those regarding taxation and privacy.

The Charter Act defines our permissible business activities. For example, we may not originate mortgage loans or purchase single-family loans in excess of the conforming loan limits, and our business is limited to the U.S. housing finance sector. In addition, as described in a previous risk factor, our business activities are subject to significant restrictions as a result of the conservatorship and the senior preferred stock purchase agreement. As a result of these limitations on our ability to diversify our operations, our financial condition and results of operations depend almost entirely on conditions in a single sector of the U.S. economy, specifically, the U.S. housing market. Weak or unstable conditions in the housing market can therefore have a significant adverse effect on our results of operations, financial condition and net worth.

Our business and financial results could be materially adversely affected by legal or regulatory proceedings.

We are a party to various claims and other legal proceedings. We also have been, and in the future may be, involved in government investigations. We may be required to establish accruals and to make substantial payments in the event of adverse judgments or settlements of any such claims, investigations or proceedings, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. Any legal proceeding or governmental investigation, even if resolved in our favor, could result in negative publicity or cause us to incur significant legal and other expenses.

Developments in, outcomes of, impacts of, and costs, expenses, settlements and judgments related to these legal proceedings and governmental investigations may differ from our expectations and exceed any amounts for which we have accrued or require adjustments to such accruals. In addition, responding to these matters could divert significant internal resources away from managing our business.

An active trading market in our equity securities may cease to exist, which would adversely affect the market price and liquidity of our common and preferred stock.

Our common stock and preferred stock are now traded exclusively in the over-the-counter market. We cannot predict the actions of market makers, investors or other market participants, and can offer no assurances that the market for our securities will be stable. If there is no active trading market in our equity securities, the market price and liquidity of the securities will be adversely affected.

Mortgage fraud could result in significant financial losses and harm to our reputation.

We use a process of delegated underwriting in which lenders make specific representations and warranties about the characteristics of the mortgage loans we purchase and securitize. As a result, we do not independently verify most borrower information that is provided to us. This exposes us to the risk that one or more of the parties involved in a transaction (the borrower, seller, broker, appraiser, title agent, lender or servicer) will engage in fraud by misrepresenting facts about a mortgage loan. Similarly, we rely on delegated servicing of loans and use of a variety of external resources to manage our REO inventory. We have experienced financial losses resulting from mortgage fraud, including institutional fraud perpetrated by counterparties. In the future, we may experience additional financial losses or reputational damage as a result of mortgage fraud.

Risk Factors

Risks Relating to Our Industry

Our business and financial results are affected by general economic conditions, particularly home prices and employment trends, and a deterioration of economic conditions or the financial markets may materially adversely affect our results of operations, net worth and financial condition.

Our business is significantly affected by the status of the U.S. economy, particularly home prices and employment trends. A prolonged period of slow growth in the U.S. economy or any deterioration in general economic conditions or the financial markets could materially adversely affect our results of operations, net worth and financial condition. For example, if home prices decrease or the unemployment rate increases, it could result in significantly higher levels of credit losses and credit-related expense.

Global economic conditions can also adversely affect our business and financial results. Changes or volatility in market conditions resulting from deterioration in or uncertainty regarding global economic conditions can adversely affect the value of our assets, which could materially adversely affect our results of operations, net worth and financial condition. Global economic conditions also could negatively affect the credit performance of the loans in our book of business.

Volatility or uncertainty in global political conditions also can significantly affect economic conditions and the financial markets. We describe above the risks to our business posed by changes in interest rates and changes in spreads. In addition, as described above, future changes or disruptions in the financial markets could significantly change the amount, mix and cost of funds we obtain, as well as our liquidity position.

A decline in activity in the U.S. housing market, increasing interest rates, or recent changes in tax laws could lower our business volumes or otherwise adversely affect our results of operations, net worth and financial condition.

Our business volume is affected by the rate of growth in total U.S. residential mortgage debt outstanding and the size of the U.S. residential mortgage market. A decline in mortgage debt outstanding reduces the unpaid principal balance of mortgage loans available for us to acquire, which in turn could reduce our net interest income. Even if we were able to increase our share of the secondary mortgage market, it may not be sufficient to make up for a decline in the rate of growth in mortgage originations.

Mortgage interest rates also affect our business volume. Rising interest rates generally result in fewer mortgage originations, particularly for refinances. An increase in interest rates, particularly if the increase is sudden and steep, could significantly reduce our business volume. Significant reductions in our business volume could adversely affect our results of operations and financial condition. The Federal Reserve has raised the target range for the federal funds rate five times between December 2015 and December 2017. In January 2018, the Federal Reserve stated that it expects economic conditions will evolve in a manner that will warrant further gradual increases in the federal funds rate; and that the federal funds rate is likely to remain, for some time, below levels that are expected to prevail in the longer run. The Federal Reserve also stated that the actual path of the federal funds rate will depend on the economic outlook as informed by incoming data. The Federal Reserve may increase rates at a faster rate than it is currently expecting. Moreover, the Federal Reserve’s federal funds rate path is not the only factor that affects long-term interest rates. Accordingly, our business remains subject to the risk of sudden and steep interest rate increases.

The recent changes in tax laws may also adversely affect housing demand, home prices or other housing or mortgage market conditions, which could adversely affect our results of operations, net worth and financial condition.

The Federal Reserve’s balance sheet normalization program could adversely affect our business, results of operations, financial condition, liquidity and net worth.

In recent years, the Federal Reserve has purchased a significant amount of mortgage-backed securities issued by us, Freddie Mac and Ginnie Mae. The Federal Reserve began to taper these purchases in January 2014 and concluded its asset purchase program in October 2014. From October 2014 through September 2017, the Federal Reserve maintained a policy of reinvesting principal payments from its holdings of agency debt and agency mortgage-backed securities in agency mortgage-backed securities; therefore, it continued to purchase a significant amount of agency

mortgage-backed securities. In October 2017, the Federal Reserve initiated the balance sheet normalization program the Federal Open Market Committee described in June 2017. Under this

program, the Federal Reserve's securities holdings will be gradually reduced by decreasing reinvestment of principal payments from those securities. We expect the Federal Reserve's balance sheet normalization program likely will result, in the longer term, in increases in mortgage interest rates and a widening of mortgage spreads, which could adversely affect our business volume and reduce demand for Fannie Mae MBS. If this occurs, it could adversely affect our business, results of operations, financial condition, liquidity and net worth.

Regulatory changes in the financial services industry may negatively impact our business.

Changes in the regulation of the financial services industry are affecting and are expected to continue to affect many aspects of our business. Examples of regulatory changes that have affected us or may affect us in the future include: rules requiring the clearing of certain derivatives transactions and margin and capital rules for uncleared derivative trades, which impose additional costs on us; the CFPB's "ability-to-repay" rule, which has limited the types of products we can acquire and could impact the volume of loans sold to us in the future; and the development of single-counterparty credit limit regulations, which could cause our customers to change their business practices.

The Administration and some members of Congress have indicated a desire to reduce or amend financial regulations, particularly those promulgated under specified provisions of the Dodd-Frank Act. Changes to financial regulations could affect our business directly or indirectly if they affect our customers and counterparties.

Changes in regulations applicable to U.S. banks could also affect our business, as U.S. banks purchase a large amount of our debt and MBS securities. New or revised liquidity or capital requirements applicable to U.S. banks could materially affect demand by those banks for our debt securities and MBS in the future.

The actions of Treasury, the Commodity Futures Trading Commission, the SEC, the FDIC, the Federal Reserve and international central banking authorities directly or indirectly impact financial institutions' cost of funds for lending, capital-raising and investment activities, which could increase our borrowing costs or make borrowing more difficult for us. Changes in monetary policy are beyond our control and difficult to anticipate.

Overall, these legislative and regulatory changes could affect us in substantial and unforeseeable ways and could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth.

Legislative, regulatory or judicial actions could negatively impact our business, results of operations, financial condition or net worth.

Legislative, regulatory or judicial actions at the federal, state or local level could negatively impact our business, results of operations, financial condition or net worth. Legislative, regulatory or judicial actions could affect us in a number of ways, including by imposing significant additional costs on us and diverting management attention or other resources. For example, we could be affected by:

- Legislative or regulatory changes that expand our or our servicers' responsibility and liability for securing, maintaining or otherwise overseeing vacant properties prior to foreclosure, which could increase our costs.
- State laws and court decisions granting new or expanded priority rights to homeowners associations over our mortgages, which could adversely affect our ability to recover our losses on affected loans.
- Legal challenges relating to MERSCORP and the MERS® System, which could negatively affect our ability to use the MERS System and adversely affect our ability to enforce our rights with respect to the large portion of our loans that are registered and tracked in the MERS System. These challenges could result in court decisions that increase the costs and time it takes to record loans or foreclose on loans.

In addition, as described above, our business could be materially adversely affected by legislative and regulatory actions relating to housing finance reform or the financial services industry, or by legal or regulatory proceedings.

The occurrence of a major natural or other disaster in the United States could negatively impact our credit losses and credit-related expenses.

We conduct our business in the single-family and multifamily residential mortgage markets and own or guarantee the performance of mortgage loans throughout the United States. The occurrence of a major natural or environmental disaster, terrorist attack, cyber attack, pandemic, or similar event (a "major disruptive event") in a regional geographic area of the United States could negatively impact our credit losses and credit-related expenses in the affected area or, depending on the nature of the event, nationally.

The occurrence of a major disruptive event could negatively impact a geographic area in a number of different ways, depending on the nature of the event. A major disruptive event that either damages or destroys residential or multifamily real estate securing mortgage loans in our book of business or negatively impacts the ability of borrowers to continue to make principal and interest payments on mortgage loans in our book of business could increase our delinquency rates, default rates and average loan loss severity of our book of business in the affected region or regions, which could have a material adverse effect on our business, results of operations, financial condition, liquidity and net worth. While we attempt to create a geographically diverse book of business, a major disruptive event, depending on its magnitude, scope and nature, could generate significant credit losses and credit-related expenses.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

We own or lease ten office facilities in the Washington, DC metropolitan area with a total square footage of approximately 2,913,000 square feet, including our current principal office at 3900 Wisconsin Ave, NW, Washington, DC and our future principal office at 1100 15th St, NW, Washington, DC, both of which are leased.

We also lease approximately 1,032,000 square feet of office space in other regional locations in the United States, including the Dallas, Texas metropolitan area.

We sold our current principal office located at 3900 Wisconsin Ave, NW, Washington, DC, as well as two other Washington, DC office facilities, in November 2016. We currently occupy these three facilities pursuant to lease arrangements. We expect the total square footage we lease to decrease following completion of our office moves in Washington, DC and other locations.

Item 3. Legal Proceedings

This item describes our material legal proceedings. We describe additional material legal proceedings in “Note 16, Commitments and Contingencies,” which is incorporated herein by reference. In addition to the matters specifically described or incorporated by reference in this item, we are involved in a number of legal and regulatory proceedings that arise in the ordinary course of business that do not have a material impact on our business. Litigation claims and proceedings of all types are subject to many factors that generally cannot be predicted accurately.

We record accruals for legal claims when a loss is probable and we can reasonably estimate the amount of such loss. The actual costs of resolving legal claims may be substantially higher or lower than the amounts accrued for those claims. For matters where the likelihood or extent of a loss is not probable or cannot be reasonably estimated, we do not record accruals in our consolidated financial statements. If certain of these matters are determined against us, FHFA or Treasury it could have a material adverse effect on our results of operations, liquidity and financial condition, including our net worth.

Senior Preferred Stock Purchase Agreements Litigation

Between June 2013 and June 2017, preferred and common stockholders of Fannie Mae and Freddie Mac filed lawsuits in multiple federal courts against one or more of the United States, Treasury and FHFA, challenging actions taken by the defendants relating to the senior preferred stock purchase agreements and the conservatorships of Fannie Mae and Freddie Mac. Some of these lawsuits also contain claims against Fannie Mae and Freddie Mac. The legal claims being advanced by one or more of these lawsuits include challenges to the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendments to the agreements, the payment of dividends to Treasury under the net worth sweep dividend provisions, and FHFA’s decision to require Fannie Mae and Freddie Mac to draw funds from Treasury in order to pay dividends to Treasury prior to the August 2012 amendments. The plaintiffs seek various forms of equitable and injunctive relief, including rescission of the August 2012 amendments, as well as damages. The cases that remain pending or were terminated after September 30, 2017 are as follows:

District of Columbia. There are currently three cases pending in the U.S. District Court for the District of Columbia that have been consolidated for pretrial proceedings. The court initially dismissed these three cases, and a fourth case, in September 2014. All of the plaintiffs filed a notice of appeal. On February 21, 2017, the Court of Appeals

Legal Proceedings

for the District of Columbia Circuit affirmed in part and reversed in part the district court's dismissal of the three currently pending cases, and affirmed the district court's dismissal of the fourth case. On July 17, 2017, the Court of Appeals issued a revised opinion allowing certain plaintiffs to pursue claims the original opinion had found not properly preserved, and modifying its discussion of the standard that applies to one of those claims. On October 16, 2017, the plaintiffs in all four cases filed petitions for certiorari with the United States Supreme Court seeking review of the Court of Appeals' ruling upholding the district court's dismissal of certain claims. Certain plaintiffs filed amended complaints in the district court on November 1, 2017. The defendants moved to dismiss those complaints on January 10, 2018. Fannie Mae is a defendant in the three actions pending in the U.S. District Court for the District of Columbia, which are described in "Note 16, Commitments and Contingencies."

Eastern District of Kentucky. On September 9, 2016, the U.S. District Court for the Eastern District of Kentucky dismissed the case pending before it. The plaintiffs appealed and the Court of Appeals for the Sixth Circuit affirmed the district court's dismissal on November 22, 2017.

Northern District of Illinois. On March 20, 2017, the U.S. District Court for the Northern District of Illinois dismissed the case pending before it. The plaintiff filed a notice of appeal and the appeal was docketed on April 27, 2017.

Northern District of Iowa. On March 27, 2017, the U.S. District Court for the Northern District of Iowa dismissed the case pending before it. The plaintiff filed a notice of appeal and the appeal was docketed on April 4, 2017.

Southern District of Texas. On May 22, 2017, the U.S. District Court for the Southern District of Texas dismissed the case pending before it. The plaintiff filed a notice of appeal and the appeal was docketed on May 30, 2017.

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

District of New Jersey. On August 2, 2017, shareholder David J. Voacolo filed a lawsuit against Fannie Mae and the United States in the U.S. District Court for the District of New Jersey alleging that the net worth sweep dividend provisions of the senior preferred stock that were implemented in August 2012 were a violation of due process and an illegal exaction. Plaintiff seeks damages only.

U.S. Court of Federal Claims. Fannie Mae is a nominal defendant in two actions filed against the United States in the U.S. Court of Federal Claims: Fisher v. United States of America, filed on December 2, 2013, and Rafter v. United States of America, filed on August 14, 2014. Plaintiffs in these cases allege that the net worth sweep dividend provisions of the senior preferred stock that were implemented pursuant to the August 2012 amendment to the senior preferred stock purchase agreement constitute a taking of Fannie Mae's property without just compensation in violation of the U.S. Constitution. The Fisher plaintiffs are pursuing this claim derivatively on behalf of Fannie Mae, while the Rafter plaintiffs are pursing the claim directly against the United States. Plaintiffs in Rafter also allege a derivative claim that the government breached an implied contract with Fannie Mae's Board of Directors by implementing the net worth sweep dividend provisions. Plaintiffs in Fisher request just compensation to Fannie Mae in an unspecified amount. Plaintiffs in Rafter seek just compensation for themselves on their constitutional claim and payment of damages to Fannie Mae on their derivative claim for breach of an implied contract. The United States filed a motion to dismiss the Fisher case on January 23, 2014; however, the court stayed proceedings in the Fisher and Rafter cases until discovery concluded in a related case, Fairholme Funds v. United States. That discovery is complete and the court has ordered the plaintiffs to file amended complaints by February 22, 2018.

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

filed a notice of appeal and the appeal was docketed on December 22, 2017.

Legal Proceedings

LIBOR Lawsuit

On October 31, 2013, Fannie Mae filed a lawsuit in the U.S. District Court for the Southern District of New York against Barclays Bank PLC, UBS AG, The Royal Bank of Scotland Group PLC, The Royal Bank of Scotland PLC, Deutsche Bank AG, Credit Suisse Group AG, Credit Suisse International, Bank of America Corp., Bank of America, N.A., Citigroup Inc., Citibank, N.A., J.P. Morgan Chase & Co., J.P. Morgan Chase Bank, N.A., Coöperative Centrale Raiffeisen-Boerenleenbank B.A., the British Bankers Association (the "BBA") and BBA LIBOR Ltd. alleging they manipulated LIBOR. On October 6, 2014, Fannie Mae filed an amended complaint alleging, among other things, that the banks submitted false borrowing costs to the BBA in order to suppress LIBOR. The amended complaint seeks compensatory and punitive damages based on claims for breach of contract, breach of the implied duty of good faith and fair dealing, unjust enrichment, fraud and conspiracy to commit fraud. The defendants filed motions to dismiss the lawsuit, which the court granted in part and denied in part on August 4, 2015. The court ruled that Fannie Mae had adequately pled fraud, breach of contract and unjust enrichment claims against most defendants, but that the applicable statute of limitations periods precluded some contract and unjust enrichment claims from proceeding. The court dismissed the BBA and Credit Suisse Group AG from the lawsuit.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is traded in the over-the-counter market and quoted on the OTC Bulletin Board under the ticker symbol "FNMA." The transfer agent and registrar for our common stock is Computershare Trust Company, N.A., P.O. Box 30170, College Station, TX 77842-3170.

Common Stock Data

The following table displays, for the periods indicated, the high and low prices per share of our common stock as reported in the Bloomberg Financial Markets service. These prices represent high and low trade prices. No dividends were declared on shares of our common stock during the periods indicated.

	High	Low
2016		
First Quarter	$1.83	$0.98
Second Quarter	2.48	1.26
Third Quarter	2.08	1.57
Fourth Quarter	5.00	1.61
2017		
First Quarter	$4.50	$2.47
Second Quarter	3.05	2.19
Third Quarter	3.17	2.23
Fourth Quarter	3.31	2.61

Dividends

Our payment of dividends is subject to the following restrictions:

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

Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Restrictions Under Senior Preferred Stock Purchase Agreement and Senior Preferred Stock. The senior preferred stock purchase agreement prohibits us from declaring or paying any dividends on Fannie Mae equity securities (other than the senior preferred stock) without the prior written consent of Treasury. In addition, pursuant to the dividend provisions of the senior preferred stock and quarterly directives from our conservator, we are obligated to pay Treasury each quarter any dividends declared consisting of the amount, if any, by which our net worth as of the end of the immediately preceding fiscal quarter exceeds an applicable capital reserve amount, which is $3.0 billion effective January 1, 2018. As a result, our net income is not available to common stockholders. For more information on the terms of the senior preferred stock purchase agreement and senior preferred stock, see "Business—Conservatorship and Treasury Agreements—Treasury Agreements—Senior Preferred Stock Purchase Agreement and Related Issuance of Senior Preferred Stock and Common Stock Warrant."

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

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

Holders

As of January 31, 2018, we had approximately 9,000 registered holders of record of our common stock. In addition, as of January 31, 2018, Treasury held a warrant giving it the right to purchase shares of our common stock equal to 79.9% of the total number of shares of our common stock outstanding on a fully diluted basis on the date of exercise.

Recent Sales of Unregistered Securities

Under the terms of our senior preferred stock purchase agreement with Treasury, we are prohibited from selling or issuing our equity interests, other than as required by (and pursuant to) the terms of a binding agreement in effect on September 7, 2008, without the prior written consent of Treasury. During the quarter ended December 31, 2017, we did not issue any equity securities.

Information about Certain Securities Issuances by Fannie Mae

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

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

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

Disclosure about our obligations pursuant to some of the MBS we issue, some of which may be off-balance sheet obligations, can be found at www.fanniemae.com/mbsdisclosure. From this address, investors can access information

and documents about our MBS, including prospectuses and related prospectus supplements.

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

Our Purchases of Equity Securities

We did not repurchase any of our equity securities during the fourth quarter of 2017.

Item 6. Selected Financial Data

The selected consolidated financial data displayed below are summarized from our results of operations for the five-year period ended December 31, 2017, as well as selected consolidated balance sheet data as of the end of each year within this five-year period. This data should be reviewed in conjunction with the audited consolidated financial statements and related notes and with the MD&A included in this annual report on Form 10-K.

	For the Year Ended December 31,				
	2017	2016	2015	2014	2013
	(Dollars in millions)				
Statement of operations data:					
Net revenues[1]	$22,960	$22,261	$22,757	$25,855	$26,334
Net income attributable to Fannie Mae	2,463	12,313	10,954	14,208	83,963
New business purchase data:					
New business purchases[2]	$569,616	$637,425	$515,541	$409,834	$759,535
Performance ratios:					
Net interest yield[3]	0.64 %	0.67 %	0.68 %	0.63 %	0.70 %
Credit loss ratio (in basis points)[4]	9.3 bps	10.8 bps	33.2 bps	17.1 bps	11.4 bps

	As of December 31,				
	2017	2016	2015	2014	2013
	(Dollars in millions)				
Balance sheet data:					
Investments in securities	$39,522	$ 48,925	$ 60,138	$ 62,158	$ 68,939
Mortgage loans, net of allowance	3,178,525	3,079,753	3,019,644	3,019,494	3,026,240
Total assets	3,345,529	3,287,968	3,221,917	3,248,176	3,270,108
Short-term debt	33,756	35,579	71,950	106,572	74,449
Long-term debt	3,296,298	3,226,737	3,125,721	3,115,583	3,160,074
Total liabilities	3,349,215	3,281,897	3,217,858	3,244,456	3,260,517
Senior preferred stock	117,149	117,149	117,149	117,149	117,149
Preferred stock	19,130	19,130	19,130	19,130	19,130
Total Fannie Mae stockholders' equity (deficit)	(3,686)	6,071	4,030	3,680	9,541
Net worth surplus (deficit)	(3,686)	6,071	4,059	3,720	9,591

Selected Financial Data

	As of December 31,				
	2017	2016	2015	2014	2013
	(Dollars in millions)				
Book of business data:					
Guaranty book of business[5]	$3,211,858	$3,134,005	$3,076,556	$3,089,174	$3,118,513
Credit quality:					
Total troubled debt restructurings on accrual status	$110,130	$127,494	$140,964	$145,294	$141,227
Total nonaccrual loans[6]	47,369	44,450	49,412	64,959	83,606
Combined loss reserves[7]	(19,400)	(23,835)	(28,590)	(36,787)	(45,295)
Combined loss reserves as a percentage of total guaranty book of business	0.60%	0.76%	0.93%	1.19%	1.45%
Combined loss reserves as a percentage of total nonaccrual loans	40.96	53.62	57.86	56.63	54.18

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(1) Consists of net interest income and fee and other income.

(2) 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.

(3) Calculated based on net interest income for the period divided by the average balance of total interest-earning assets during the period, expressed as a percentage.

(4) Consists of (a) charge-offs, net of recoveries and (b) foreclosed property expense (income) for the reporting period divided by the average guaranty book of business during the period, expressed in basis points. See “MD&A—Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Other Single-Family Credit Information—Credit Loss Performance and Concentration Metrics” for a discussion of how our credit loss ratio is calculated, including how prior period ratios have been adjusted to reflect a current year change in presentation.

(5) Refers to the sum of the unpaid principal balance of: (a) mortgage loans of Fannie Mae; (b) mortgage loans underlying Fannie Mae MBS; and (c) other credit enhancements that we provide on mortgage assets. It excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty. Prior periods amounts have been adjusted to reflect a current year change in presentation to align our guaranty book of business to our Monthly Summary, as described in “MD&A—Total Book of Business.”

(6) Total amounts based on recorded investment of nonaccrual loans. We generally classify single-family loans as nonaccrual when the payment of principal or interest on the loan is 60 days or more past due. Multifamily loans are placed on nonaccrual status when the loan becomes 90 days or more past due according to its contractual terms or is deemed individually impaired. See “Note 1, Summary of Significant Accounting Policies” for more information about our policies on nonaccrual loans.

(7) Consists of our allowance for loan losses and reserve for guaranty losses.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

You should read this MD&A in conjunction with our consolidated financial statements as of December 31, 2017 and related notes to the consolidated financial statements.

Key Market Economic Indicators

The following discussion presents certain macroeconomic indicators that can significantly influence our business and financial results.

Gross Domestic Product and Unemployment Rates

According to the U.S. Bureau of Economic Analysis advance estimate, the inflation-adjusted U.S. gross domestic product ("GDP") rose by 2.3% in 2017, accelerating from 1.5% in 2016.

According to the U.S. Bureau of Labor Statistics as of January 2018, the economy created an estimated 2.3 million non-farm jobs in 2017 and 2.2 million non-farm jobs in 2016. The unemployment rate declined to 4.1% in December 2017 from 4.7% in December 2016. In January 2018, non-farm payrolls increased by 200,000 jobs, and the unemployment rate remained at 4.1%. The most comprehensive measure of the unemployment rate, which includes those working part-time who would rather work full-time and those not looking for work but who want to work and are available for work, declined to 8.1% in December 2017 from 9.1% in December 2016.

Changes in GDP and the unemployment rate can affect several mortgage market factors, including the demand for both single-family and multifamily housing and the level of loan delinquencies. Decreases in the unemployment rate typically result in lower levels of delinquencies, which often result in a decrease in credit losses.

Interest Rates

	As of December 31,		
	2017	2016	2015
Selected benchmark interest rates			
3-month LIBOR	1.69%	1.00%	0.61%
2-year swap rate	2.08	1.45	1.18
5-year swap rate	2.24	1.98	1.74
10-year swap rate	2.40	2.34	2.19
10-year Treasury rate	2.41	2.45	2.27
30-year Fannie Mae MBS par coupon rate	3.00	3.13	3.00

How Interest Rates Can Affect Our Financial Results

- Net interest income. In a rising interest rate environment, our mortgage loans tend to prepay more slowly, which typically results in lower net amortization income from cost basis adjustments on mortgage loans and related debt. Conversely, in a declining interest rate environment, our mortgage loans tend to prepay faster, resulting in higher net amortization income from cost basis adjustments on mortgage loans and related debt.
- Fair value gains (losses). We have exposure to fair value gains and losses resulting from changes in interest rates, primarily through our risk management derivatives and mortgage commitment derivatives, which we mark to market. Generally, we experience fair value losses when swap rates decrease and fair value gains when swap rates increase; however, because the composition of our derivative position varies across the yield curve, different yield curve changes (e.g., parallel, steepening or flattening) will generate different gains and losses.
- Credit-related income (expense). Increases in mortgage interest rates tend to lengthen the expected lives of our modified loans, which increases the impairment on these loans and results in increases in the provision for credit losses. Conversely, decreases in mortgage interest rates tend to shorten the expected

lives of our modified loans, which reduces the impairment on these loans and results in decreases in the provision for credit losses.

Home Prices

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[1] Calculated internally using property data information on loans purchased by Fannie Mae, Freddie Mac and other third-party home sales data. Fannie Mae's home price index is a weighted repeat transactions index, measuring average price changes in repeat sales on the same properties. Fannie Mae's home price index excludes prices on properties sold in foreclosure. The reported home price change reflects the percentage change in Fannie Mae's home price index from the fourth quarter of the prior year to the fourth quarter of the reported year. Fannie Mae's home price estimates are based on preliminary data and are subject to change as additional data becomes available.

We expect home prices on a national basis to continue to grow in 2018 at a similar rate as in 2017. We also expect significant regional variation in the timing and rate of home price growth.

How Home Prices Can Affect Our Financial Results

- Actual and forecasted home prices impact our provision or benefit for credit losses.
- Changes in home prices affect the amount of equity that borrowers have in their homes. Borrowers with less equity typically have higher delinquency and default rates.
- As home prices increase, the severity of losses we incur on defaulted loans that we hold or guarantee decreases because the amount we can recover from the property securing the loan increases. Decreases in home prices increase the losses we incur on defaulted loans.
- Increases in home prices typically result in decreases in expected credit losses on the mortgage-related securities we hold.

Consolidated Results of Operations

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

Summary of Consolidated Results of Operations

	For the Year Ended December 31,			Variance	
	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
	(Dollars in millions)				
Net interest income	$20,733	$21,295	$21,409	$(562)	$(114)
Fee and other income	2,227	966	1,348	1,261	(382)
Net revenues	22,960	22,261	22,757	699	(496)
Investment gains, net	1,522	1,256	1,336	266	(80)
Fair value losses, net	(1,211)	(1,081)	(1,767)	(130)	686
Administrative expenses	(2,737)	(2,741)	(3,050)	4	309
Credit-related income (expense):					
Benefit for credit losses	2,041	2,155	795	(114)	1,360
Foreclosed property expense	(521)	(644)	(1,629)	123	985
Total credit-related income (expense)	1,520	1,511	(834)	9	2,345
TCCA fees	(2,096)	(1,845)	(1,621)	(251)	(224)
Other expenses, net	(1,511)	(1,028)	(613)	(483)	(415)
Income before federal income taxes	18,447	18,333	16,208	114	2,125
Provision for federal income taxes	(15,984)	(6,020)	(5,253)	(9,964)	(767)
Net income	2,463	12,313	10,955	(9,850)	1,358
Less: Net income attributable to noncontrolling interest	—	—	(1)	—	1
Net income attributable to Fannie Mae	$2,463	$12,313	$10,954	$(9,850)	$1,359
Total comprehensive income attributable to Fannie Mae	$2,257	$11,665	$10,628	$(9,408)	$1,037

Net Interest Income

We have two primary sources of net interest income:

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

Guaranty fees consist of two primary components:

- base guaranty fees that we receive over the life of the loan; and
- upfront fees that we receive at the time of loan acquisition primarily related to single-family loan level pricing adjustments and other fees we receive from lenders, which are amortized over the contractual life of the loan. We refer to this as amortization income.

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 Fannie Mae MBS in consolidated trusts on our balance sheet. Those guaranty fees are the primary component of the difference between the interest income on loans in consolidated trusts and the interest expense on the debt of consolidated trusts.

The table below displays the components of our net interest income from our two primary sources of this income: guaranty fees and our retained mortgage portfolio.

Components of Net Interest Income

	For the Year Ended December 31,			Variance	
	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
	(Dollars in millions)				
Net interest income from retained mortgage portfolio[1]	$4,340	$5,475	$7,116	$(1,135)	$(1,641)
Net interest income from guaranty book of business:					
Base guaranty fee income, net of TCCA	8,139	7,495	6,831	644	664
Base guaranty fee income related to TCCA[2]	2,096	1,845	1,621	251	224
Net amortization income	6,158	6,480	5,841	(322)	639
Total net interest income from guaranty book of business	16,393	15,820	14,293	573	1,527
Total net interest income	$20,733	$21,295	$21,409	$(562)	$(114)

(1) Includes interest income from assets held in our other investment portfolio, as well as other assets used to generate lender liquidity.

(2) Revenues generated by the 10 basis point guaranty fee increase we implemented in 2012 pursuant to the TCCA, the incremental revenue from which is remitted to Treasury and not retained by us.

Net interest income decreased in 2017 compared with 2016 due to:

- A decline in net interest income from our retained mortgage portfolio due to a decline in the average balance of this portfolio as we continued to reduce it. See "Retained Mortgage Portfolio" for more information.
- A decline in net amortization income as prepayments on mortgage loans of consolidated trusts decreased, which reduced the amortization of the cost basis adjustments on the loans and related debt.
- These declines were partially offset by an increase in base guaranty fee income as the size of our guaranty book of business increased and loans with higher base guaranty fees comprised a larger part of our guaranty book of business in 2017 than in 2016.

Net interest income decreased in 2016 compared with 2015 primarily due to:

- A decline in net interest income from our retained mortgage portfolio due to a decline in the average balance of this portfolio as we continued to reduce it.
- This decline was almost entirely offset by an increase in guaranty fee income primarily driven by:
  - an increase in base guaranty fee income as loans with higher base guaranty fees comprised a larger part of our guaranty book of business in 2016 than in 2015; and
  - an increase in net amortization income in 2016 as a lower interest rate environment during the first nine months of the year increased prepayments on mortgage loans of consolidated trusts, which accelerated the amortization of the cost basis adjustments on the loans and related debt.

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

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

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

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

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

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

Analysis of Net Interest Income and Yield

	For the Year Ended December 31,								
	2017			2016			2015		
	Average Balance	Interest Income/ Expense	Average Rates Earned/Paid	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	$186,216	$7,726	4.15 %	$228,786	$9,376	4.10 %	$257,870	$9,728	3.77 %
Mortgage loans of consolidated trusts	2,966,541	100,593	3.39	2,838,453	95,266	3.36	2,794,050	97,971	3.51
Total mortgage loans[1]	3,152,757	108,319	3.44	3,067,239	104,642	3.41	3,051,920	107,699	3.53
Mortgage-related securities	12,984	450	3.47	21,430	875	4.08	33,499	1,529	4.56
Non-mortgage-related securities[2]	55,778	591	1.06	54,355	261	0.48	46,498	71	0.15
Federal funds sold and securities purchased under agreements to resell or similar arrangements	37,369	373	1.00	27,917	141	0.51	31,173	60	0.19
Advances to lenders	4,506	123	2.73	4,583	102	2.23	4,063	83	2.04
Total interest-earning assets	$3,263,394	$109,856	3.37 %	$3,175,524	$106,021	3.34 %	$3,167,153	$109,442	3.46 %
Interest-bearing liabilities:									
Short-term funding debt	$29,651	$(246)	0.83 %	$51,270	$(202)	0.39 %	$88,885	$(145)	0.16 %
Long-term funding debt	272,769	(6,293)	2.31	305,945	(6,946)	2.27	339,181	(7,561)	2.23
Total funding debt	302,420	(6,539)	2.16	357,215	(7,148)	2.00	428,066	(7,706)	1.80
Debt securities of consolidated trusts held by third parties	2,969,238	(82,584)	2.78	2,835,233	(77,578)	2.74	2,768,873	(80,327)	2.90

Total interest-bearing liabilities	$3,271,658	$(89,123)	2.72 %	$3,192,448	$(84,726)	2.65 %	$3,196,939	$(88,033)	2.75 %
Net interest income/net interest yield		$20,733	0.64 %		$21,295	0.67 %		$21,409	0.68 %

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(1) Average balance includes mortgage loans on nonaccrual status. Typically, interest income on nonaccrual mortgage loans is recognized when cash is received. Interest income not recognized for loans on nonaccrual status was $942 million, $1.3 billion and $1.6 billion for the years ended December 31, 2017, 2016 and 2015, respectively.

(2) Includes cash equivalents.

The table below 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.

Rate/Volume Analysis of Changes in Net Interest Income

	2017 vs. 2016			2016 vs. 2015		
	Total Variance	Variance Due to:[1] Volume	Rate	Total Variance	Variance Due to:[1] Volume	Rate
	(Dollars in millions)					
Interest income:						
Mortgage loans of Fannie Mae	$(1,650)	$(1,765)	$115	$(352)	$(1,151)	$799
Mortgage loans of consolidated trusts	5,327	4,335	992	(2,705)	1,539	(4,244)
Total mortgage loans	3,677	2,570	1,107	(3,057)	388	(3,445)
Mortgage-related securities	(425)	(315)	(110)	(654)	(506)	(148)
Non-mortgage-related securities[2]	330	7	323	190	14	176
Federal funds sold and securities purchased under agreements to resell or similar arrangements	232	60	172	81	(7)	88
Advances to lenders	21	(2)	23	19	11	8
Total interest income	$3,835	$2,320	$1,515	$(3,421)	$(100)	$(3,321)
Interest expense:						
Short-term funding debt	$(44)	$111	$(155)	$(57)	$81	$(138)
Long-term funding debt	653	764	(111)	615	752	(137)
Total funding debt	609	875	(266)	558	833	(275)
Debt securities of consolidated trusts held by third parties	(5,006)	(3,790)	(1,216)	2,749	(2,238)	4,987
Total interest expense	$(4,397)	$(2,915)	$(1,482)	$3,307	$(1,405)	$4,712
Net interest income	$(562)	$(595)	$33	$(114)	$(1,505)	$1,391

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

(2) Includes cash equivalents.

Fee and Other Income

Fee and other income includes transaction fees, multifamily fees, technology fees and other miscellaneous income. Fee and other income increased in 2017 compared with 2016 primarily due to $975 million of income in 2017 resulting from a settlement agreement resolving legal claims related to private-label securities we purchased prior to entering conservatorship in 2008.

Fee and other income decreased in 2016 compared with 2015 primarily due to lower multifamily fees in 2016 driven by a decrease in yield maintenance income. In addition, we recognized lower technology fees in 2016 as a result of eliminating fees charged to our customers for using our Desktop Underwriter® and Desktop Originator® systems beginning in June 2015.

Investment Gains, Net

Investment gains, net primarily includes gains and losses recognized from the sale of available-for-sale ("AFS") securities, sale of loans, gains and losses recognized on the consolidation and deconsolidation of securities, net other-than-temporary impairments recognized on our investments, and lower of cost or fair value adjustments on held for sale ("HFS") loans. Investment gains, net were higher in 2017 and 2015 compared with 2016 due to higher gains resulting from sales of HFS loans.

Fair Value Losses, Net

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

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

Fair Value Losses, Net

	For the Year Ended December 31,		
	2017	2016	2015
	(Dollars in millions)		
Risk management derivatives fair value gains (losses) attributable to:			
Net contractual interest expense accruals on interest rate swaps	$(889)	$(1,125)	$(960)
Net change in fair value during the period	307	2	(160)
Total risk management derivatives fair value losses, net	(582)	(1,123)	(1,120)
Mortgage commitment derivatives fair value gains (losses), net	(603)	288	(393)
Total derivatives fair value losses, net	(1,185)	(835)	(1,513)
Trading securities gains (losses), net	190	28	(368)
CAS debt fair value gains (losses), net[1]	(297)	(645)	28
Other, net[2]	81	371	86
Fair value losses, net	$(1,211)	$(1,081)	$(1,767)

(1) Consists of fair value gains and losses on CAS debt reported at fair value.

(2) Consists of fair value gains and losses on non-CAS debt and mortgage loans.

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 duration risk, which includes prepayment risk. We purchase option-based risk management derivatives to economically hedge prepayment risk. In cases where options obtained through callable debt issuances are not needed for risk management derivative purposes, we may sell options in the over-the-counter derivatives market in order to offset the options obtained in the callable debt. Our principal purpose in using derivatives is to manage our aggregate interest rate risk profile within prescribed risk parameters. We generally use only derivatives that are relatively liquid and straightforward to value. We consider the cost of derivatives used in our management of interest rate risk to be an inherent part of the cost of funding and hedging our mortgage investments and economically similar to the interest expense that we recognize on the debt we issue to fund our mortgage investments.

We present, by derivative instrument type, the fair value gains and losses on our derivatives in "Note 8, Derivative Instruments."

The primary factors that may affect the fair value of our risk management derivatives include the following:

- Changes in interest rates: Our primary derivative instruments are interest-rate swaps, including pay-fixed and receive-fixed interest-rate swaps. Pay-fixed swaps decrease in value and receive-fixed swaps increase in value as swap rates decrease (with the opposite being true when swap rates increase). Because the composition of our pay-fixed and receive fixed derivatives varies across the yield curve, different yield curve changes (e.g., parallel, steepening or flattening) will generate different gains and losses.

- Changes in our derivative activity: The mix and balance of our derivative portfolio changes from period to period as we enter into or terminate derivative instruments to respond to changes in interest rates and changes in the balances and modeled characteristics of our assets and liabilities. Changes in the composition of our derivative portfolio will affect the derivative fair value gains and losses we recognize in a given period.

Additional factors that affect the fair value of our risk management derivatives include implied interest rate volatility and the time value of purchased or sold options, among other factors.

We recognized total risk management derivatives fair value losses in 2017 primarily as a result of interest expense accruals on interest rate swaps. These losses were partially offset by an increase in the fair value of our interest rate swaps in 2017 due to movements in swap rates during the year.

We recognized total risk management derivatives fair value losses for 2016 primarily as a result of a decrease in the total fair value of our pay-fixed derivatives in the first half of 2016 due to declines in longer-term swap rates during the period. These losses were offset by an increase in the total fair value of our pay-fixed derivatives in the second half of 2016 due to an increase in longer-term swap rates during the period.

We recognized total risk management derivatives fair value losses in 2015 primarily as a result of decreases in the total fair value of our pay-fixed derivatives due to declines in longer-term swap rates during the year.

Because risk management derivatives are an important part of our interest rate risk management strategy, it is important to evaluate the impact of our derivatives in the context of our interest rate risk profile and in conjunction with the other mark-to-market gains and losses presented in the table above. For additional information on our use of derivatives to manage interest rate risk, see “Risk Management—Market Risk Management, Including Interest Rate Risk Management—Interest Rate Risk Management.”

Mortgage Commitment Derivatives Fair Value Gains (Losses), Net

Certain commitments to purchase or sell mortgage-related securities and to purchase single-family mortgage loans are generally accounted for as derivatives. For open mortgage commitment derivatives, we include changes in their fair value in our consolidated statements of operations and comprehensive income. When derivative purchase commitments settle, we include the fair value of the commitment on the settlement date in the cost basis of the loan or security we purchase. When derivative commitments to sell securities settle, we include the fair value of the commitment on the settlement date in the cost basis of the security we sell. Purchases of securities issued by our consolidated MBS trusts are treated as extinguishments of debt; we recognize the fair value of the commitment on the settlement date as a component of debt extinguishment gains and losses in “Other expenses, net.” Sales of securities issued by our consolidated MBS trusts are treated as issuances of consolidated debt; we recognize the fair value of the commitment on the settlement date as a component of debt in the cost basis of the debt issued.

We recognized fair value losses on our mortgage commitments in 2017 primarily due to losses on commitments to sell mortgage-related securities driven by an increase in prices as interest rates declined during most commitment periods throughout 2017.

We recognized fair value gains on our mortgage commitments in 2016 primarily due to gains on commitments to sell mortgage-related securities driven by a decrease in prices as interest rates increased during commitment periods in the fourth quarter of 2016. This was partially offset by an increase in prices as interest rates declined during the commitment periods in the first nine months of the year.

We recognized fair value losses on our mortgage commitments in 2015 primarily due to losses on commitments to sell mortgage-related securities driven by increases in prices as interest rates decreased during the commitment periods.

CAS Debt Fair Value Gains (Losses), Net

We enter into credit risk transfer transactions, including the issuance of CAS debt, in order to reduce the economic risk to us and to taxpayers of future borrower defaults. CAS debt we issued prior to 2016 is reported at fair value as “Debt of Fannie Mae” in our consolidated balance sheets.

We recognized fair value losses on CAS debt reported at fair value in 2017 and 2016 primarily due to tightening spreads between CAS yields and LIBOR.

We recognized fair value gains on CAS debt reported at fair value in 2015 primarily due to widening spreads between CAS yields and LIBOR.

For further discussion of our credit risk transfer transactions, see "Business Segments—Single-Family Business—Single-Family Mortgage Credit Risk Management—Transfer of Mortgage Credit Risk—Credit Risk Transfer Transactions."

Administrative Expenses

Administrative expenses in 2017 were flat compared with 2016.

Administrative expenses decreased in 2016 compared with 2015 primarily due to the recognition of expenses related to the settlement of our defined benefit pension plan obligations in 2015. 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 consolidated statements of operations and comprehensive income for the year ended December 31, 2015.

Credit-Related Income (Expense)

Credit-related income (expense) consists of our benefit (provision) for credit losses and foreclosed property expense. We record a provision for credit losses and establish loss reserves for losses that we believe have been incurred and will eventually be realized over time in our financial statements. Our combined loss reserves, which include our allowance for loan losses and reserve for guaranty losses, provide for an estimate of credit losses incurred in our guaranty book of business, including concessions we granted borrowers upon modification of their loans. When we reduce our loss reserves, we recognize a benefit for credit losses.

Our credit-related income or expense can vary substantially from period to period based on a number of factors such as changes in actual and expected home prices, fluctuations in interest rates, borrower payment behavior, events such as natural disasters, the types and volume of our loss mitigation activities, the volume of foreclosures completed, and redesignations of loans from held for investment ("HFI") to HFS. In addition, our credit-related income or expense and our loss reserves can be impacted by updates to the models, assumptions and data used in determining our allowance for loan losses.

Benefit for Credit Losses

We refer to our benefit (provision) for loan losses and benefit (provision) for guaranty losses collectively as our "benefit (provision) for credit losses."

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

Components of Benefit for Credit Losses

	For the Year Ended December 31,		
	2017	2016	2015
	(Dollars in billions)		
Benefit for credit losses:			
Changes in loan activity[1]	$(0.9)	$0.5	$0.5
Redesignation of HFI loans to HFS loans	1.1	0.2	(0.9)
Actual and forecasted home prices	1.7	2.1	2.5
Actual and projected interest rates	(0.4)	(0.7)	(0.9)
Other[2]	0.6	—	(0.5)
Single-family benefit for credit losses	2.1	2.1	0.7
Multifamily benefit (provision) for credit losses	(0.1)	0.1	0.1
Total benefit for credit losses	$2.0	$2.2	$0.8

(1) Primarily consists of changes in the allowance due to loan delinquency, loan liquidations, new troubled debt restructurings, amortization of concessions granted to borrowers and the impact of FHFA's Advisory Bulletin 2012-02, "Framework for Adversely Classifying Loans, Other Real Estate Owned, and Other Assets and Listing Assets for Special Mention" (the "Advisory Bulletin"). The 2017 amount reflects estimated incurred losses on single-family loans resulting from Hurricanes Harvey, Irma and Maria (collectively, the "hurricanes").

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

The primary factors that impacted our benefit for credit losses in 2017 were:

- An increase in actual and forecasted home prices contributed to the benefit for credit losses. Higher home prices decrease the likelihood that loans will default and reduce the amount of credit loss on loans that do default, which impacts our estimate of losses and ultimately reduces our loss reserves and provision for credit losses. As we continue to reduce the number of single-family nonperforming and reperforming HFI loans in our book of business, we expect changes in home prices will have a lesser impact on our provision for credit losses.
- We redesignated certain reperforming and nonperforming single-family loans with an aggregate unpaid principal balance of $15.4 billion from HFI to HFS during the year as we no longer intend to hold them to maturity. Upon redesignation of these loans, we recorded the loans at the lower of cost or fair value with a charge-off to the allowance for loan losses. Amounts recorded in the allowance related to the loans exceeded the amount charged off, which contributed to the benefit for credit losses.
- Our estimate of incurred losses from Hurricanes Harvey, Irma and Maria (collectively, the "hurricanes"), which occurred in 2017, partially offset the positive factors above.

We recognized a benefit for credit losses in 2016 primarily due to an increase in home prices including distressed property valuations.

The primary factors that impacted our benefit for credit losses in 2015 were:

- Home prices increased in 2015, which contributed to our benefit for credit losses in 2015.
- We redesignated certain nonperforming single-family loans with an aggregate unpaid principal balance of $9.3 billion from HFI to HFS in 2015 as we no longer intend to hold them to maturity. Upon redesignation of these loans, we recorded the loans at the lower of cost or fair value via a charge-off to the allowance for loan losses. Amounts charged off exceeded the amounts recorded in the allowance related to the loans, which reduced our benefit for credit losses.

Foreclosed Property Expense

Foreclosed property expense decreased in 2017 compared with 2016 and in 2016 compared with 2015, primarily due to a decline in the number of foreclosed properties in each period.

Our credit-related income (expense) should be considered in conjunction with our credit loss performance metrics as well as our combined loss reserves. See "Business Segments" for discussions of our single-family and multifamily credit loss metrics and combined loss reserves.

TCCA Fees

Pursuant to the TCCA, in 2012, FHFA directed us to increase our single-family guaranty fees by 10 basis points and remit this increase to Treasury. This TCCA-related revenue is included in "Net interest income" and the expense is recognized as "TCCA fees" in our consolidated financial statements.

TCCA fees increased in 2017 compared with 2016, and in 2016 compared with 2015, as our book of business subject to the TCCA continued to grow in each period. We expect the guaranty fees collected and expenses incurred under the TCCA to continue to increase in the future.

Federal Income Taxes

We recognized a provision for federal income taxes of $16.0 billion in 2017, $6.0 billion in 2016 and $5.3 billion in 2015. The provision for federal income taxes in 2017 was primarily driven by a charge of $9.9 billion resulting from the remeasurement of our deferred tax assets in the fourth quarter of 2017 resulting from the enactment of legislation that reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018.

Our effective tax rates were 86.6% in 2017, 32.8% in 2016 and 32.4% in 2015. Our effective tax rate was different from the federal statutory rate of 35% for the year ended December 31, 2017 primarily due to the increase in the provision for federal income taxes driven by the remeasurement of our deferred tax assets in the fourth quarter of 2017 resulting from the enactment of legislation that reduced the federal corporate income tax rate from 35% to 21% effective January 1, 2018. Our effective tax rates for the years 2017, 2016 and 2015 were reduced due to the benefits of our investments in housing projects eligible for low-income housing tax credits. We expect our effective tax rate to be approximately 20% in 2018. See "Note 9, Income Taxes" for information on our income taxes.

Consolidated Balance Sheet Analysis

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

Summary of Consolidated Balance Sheets

	As of December 31,		
	2017	2016	Variance
	(Dollars in millions)		
Assets			
Cash and cash equivalents and federal funds sold and securities purchased under agreements to resell or similar arrangements	$51,580	$55,639	$(4,059)
Restricted cash	28,150	36,953	(8,803)
Investments in securities[1]	39,522	48,925	(9,403)
Mortgage loans:			
Of Fannie Mae	167,793	207,190	(39,397)
Of consolidated trusts	3,029,816	2,896,028	133,788
Allowance for loan losses	(19,084)	(23,465)	4,381
Mortgage loans, net of allowance for loan losses	3,178,525	3,079,753	98,772
Deferred tax assets, net	17,350	33,530	(16,180)
Other assets	30,402	33,168	(2,766)
Total assets	$3,345,529	$3,287,968	$57,561
Liabilities and equity (deficit)			
Debt:			
Of Fannie Mae	$276,752	$327,097	$(50,345)
Of consolidated trusts	3,053,302	2,935,219	118,083
Other liabilities	19,161	19,581	(420)
Total liabilities	3,349,215	3,281,897	67,318
Equity (deficit)	(3,686)	6,071	(9,757)
Total liabilities and equity (deficit)	$3,345,529	$3,287,968	$57,561

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(1) Includes $29.2 billion as of December 31, 2017 and $32.3 billion as of December 31, 2016 of U.S. Treasury securities that are included in our other investments portfolio, which we present in the "Other Investments Portfolio" table in "Liquidity and Capital Management—Liquidity Management—Other Investments Portfolio."

Investments in Securities

Other Investments Portfolio

Our 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—Other Investments Portfolio” for additional information on our other investments portfolio.

Investments in Mortgage-Related Securities

Our investments in mortgage-related securities are classified in our consolidated balance sheets as either trading or available-for-sale and are measured at fair value. The table below displays the fair value of our investments in mortgage-related securities, including trading and available-for-sale securities. We classify private-label securities 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.

Summary of Mortgage-Related Securities at Fair Value

	As of December 31,		
	2017	2016	2015
	(Dollars in millions)		
Mortgage-related securities:			
Fannie Mae	$5,995	$7,323	$9,034
Other agency	1,475	2,605	6,430
Alt-A and subprime private-label securities	1,767	3,345	7,039
CMBS	24	1,580	3,596
Mortgage revenue bonds	672	1,293	3,150
Other mortgage-related securities	367	462	1,404
Total	$10,300	$16,608	$30,653

The decrease in mortgage-related securities at fair value in 2017 was primarily driven by sales and liquidations.

See “Note 5, Investments in Securities” for additional information on our investments in mortgage-related securities, including the composition of our trading and available-for-sale securities at amortized cost and fair value and the gross unrealized gains and losses related to our available-for-sale securities as of December 31, 2017 and 2016.

Mortgage Loans and Allowance for Loan Losses

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

The increase in the balance of mortgage loans, net of allowance, as of December 31, 2017 compared with December 31, 2016 was driven by:

- an increase in mortgage loans of consolidated trusts due to securitization activity from lender swap and portfolio securitization transactions; and
- a decrease in our allowance for loan losses.

Offsetting these factors was a decline in mortgage loans of Fannie Mae resulting from:

- liquidations;
- portfolio securitizations; and
- sales outpacing acquisitions.

The decrease in our allowance for loan losses during 2017 was primarily driven by:

- the relief of the allowance for loan losses upon the redesignation of certain reperforming and nonperforming single-family loans from HFI to HFS;

- liquidations of mortgage loans and charge-offs, which relieved the allowance on these loans; and
- an increase in actual and forecasted home prices.

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

Deferred Tax Assets

We recognize deferred tax assets and liabilities for future tax consequences arising from differences between the carrying amounts of existing assets and liabilities under GAAP and their respective tax bases and tax credit carryforwards.

The decrease in our deferred tax assets in 2017 was primarily driven by the enactment of the Tax Act, which required the remeasurement of our deferred tax assets using the lower federal corporate income tax rate enacted in the fourth quarter of 2017 with an effective date of January 1, 2018. For additional information on our deferred tax assets, see “Note 9, Income Taxes.”

Debt

Debt of Fannie Mae is the primary means of funding our mortgage purchases. Debt of consolidated trusts represents the amount of Fannie Mae MBS issued from consolidated trusts and held by third-party certificateholders. We provide a comparison of the mix between our outstanding short-term and long-term debt and a summary of the activity of the debt of Fannie Mae in “Liquidity and Capital Management—Liquidity Management—Debt Funding.” Also see “Note 7, Short-Term and Long-Term Debt” for additional information on our outstanding debt.

The decrease in debt of Fannie Mae in 2017 was primarily driven by lower funding needs, as our retained mortgage portfolio decreased. The increase in debt of consolidated trusts during 2017 was primarily driven by sales of Fannie Mae MBS, which are accounted for as issuances of debt of consolidated trusts in our consolidated balance sheets, since the MBS certificate ownership is transferred from us to a third party.

Stockholders’ Deficit

We had a net deficit of $3.7 billion as of December 31, 2017, compared with net equity of $6.1 billion as of December 31, 2016. The shift to a net deficit was primarily due to a net loss during the fourth quarter of 2017 driven by an increase in the provision for federal income taxes resulting from the Tax Act and by the payment of senior preferred stock dividends to Treasury during the year.

Retained Mortgage Portfolio

We primarily use our retained mortgage portfolio to provide liquidity to the mortgage market and support our loss mitigation activities. Previously, we also used our retained mortgage portfolio for investment purposes.

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

- Lender liquidity, which includes balances related to our whole loan conduit activity, supports our efforts to provide liquidity to the single-family and multifamily mortgage markets.
- Loss mitigation supports our loss mitigation efforts through the purchase of delinquent loans from MBS trusts.
- Other represents assets that were previously purchased for investment purposes. More than half of the balance of "Other" consisted of reverse mortgage loans and Fannie Mae-wrapped reverse mortgage securities as of December 31, 2017. We expect the amount of assets in "Other" will decline over time as they liquidate, mature or are sold.

Retained Mortgage Portfolio
(Dollars in billions)

Lender liquidity	Loss mitigation	Other

Our retained mortgage portfolio consists of mortgage loans and mortgage-related securities that we own and includes Fannie Mae MBS and non-Fannie Mae mortgage-related securities. Assets held by consolidated MBS trusts that back mortgage-related securities owned by third parties are not included in our retained mortgage portfolio.

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

Retained Mortgage Portfolio

	As of December 31,	
	2017	2016
	(Dollars in millions)	
Single-family:		
Mortgage loans[1]	$146,316	$181,219
Reverse mortgages	26,458	29,443
Mortgage-related securities:		
Agency securities[2]	31,719	25,521
Fannie Mae-wrapped reverse mortgage securities	6,689	7,420
Ginnie Mae reverse mortgage securities	527	146
Other Fannie Mae-wrapped securities	3,414	3,773
Private-label and other securities	2,588	4,980
Total single-family mortgage-related securities[3]	44,937	41,840
Total single-family mortgage loans and mortgage-related securities	217,711	252,502
Multifamily:		
Mortgage loans[4]	4,591	9,407
Mortgage-related securities:		
Agency securities[2]	7,860	7,693
CMBS	24	1,567
Mortgage revenue bonds	597	1,185
Total multifamily mortgage-related securities[5]	8,481	10,445
Total multifamily mortgage loans and mortgage-related securities	13,072	19,852
Total retained mortgage portfolio	$230,783	$272,354

(1) Includes single-family loans restructured in a troubled debt restructuring ("TDR") that were on accrual status of $86.3 billion and $119.4 billion as of December 31, 2017 and 2016, respectively, and single-family loans on nonaccrual status of $33.1 billion and $38.7 billion as of December 31, 2017 and 2016, respectively.

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

(3) The fair value of these single-family mortgage-related securities was $46.7 billion and $42.9 billion as of December 31, 2017 and 2016, respectively.

(4) Includes multifamily loans restructured in a TDR that were on accrual status of $84 million and $131 million as of December 31, 2017 and 2016, respectively, and multifamily loans on nonaccrual status of $122 million and $246 million as of December 31, 2017 and 2016, respectively.

(5) The fair value of these multifamily mortgage-related securities was $9.0 billion and $11.2 billion as of December 31, 2017 and 2016, respectively.

The amount of mortgage assets that we may own is restricted by our senior preferred stock purchase agreement with Treasury, as described in "Business—Conservatorship and Treasury Agreements—Treasury Agreements." Our retained mortgage portfolio is already below the final $250 billion cap under the senior preferred stock purchase agreement that becomes effective on December 31, 2018. We expect the size of our retained mortgage portfolio will continue to decrease in 2018.

Our retained mortgage portfolio decreased by 15% in 2017 due to liquidations and sales from our loss mitigation and other portfolios, which outweighed purchases of loans in 2017.

Purchases of Loans from Our MBS Trusts

Under the terms of our MBS trust documents, we have the option or, in some instances, the obligation, to purchase mortgage loans that meet specific criteria from an MBS trust. The purchase price for these loans is the unpaid principal balance of the loan plus accrued interest.

In deciding whether and when to exercise our option to purchase a loan from a single-family MBS trust, we consider a variety of factors, including: our legal ability to purchase loans under the terms of the trust documents; whether we have agreed to modify the loan; our mission and public policy; our loss mitigation strategies and the exposure to credit losses we face under our guaranty; our cost of funds; the impact on our results of operations; relevant market yields; the accounting impact; the administrative costs associated with purchasing and holding the loans; counterparty exposure to lenders that have agreed to cover losses associated with delinquent loans; and general market conditions. The weight we give to these factors changes depending on market circumstances and other factors.

The cost of purchasing most delinquent loans from single-family Fannie Mae MBS trusts and holding them in our retained mortgage portfolio is currently less than the cost of advancing delinquent payments to security holders. We generally purchase loans from single-family MBS trusts as they become four or more consecutive monthly payments delinquent. During 2017, we purchased delinquent loans with an unpaid principal balance of $11.8 billion from our single-family MBS trusts. We expect to continue purchasing loans from single-family 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.

For our multifamily MBS trusts, we typically exercise our option to purchase a loan from the trust if the loan is delinquent as to four or more consecutive monthly payments, whether those payments were missed in whole or in part.

Total
Book of
Business

The table below displays the composition of our total book of business based on unpaid principal balance. Our single-family book of business accounted for 91% of our total book of business as of December 31, 2017 and 92% of our total book of business as of December 31, 2016. While our total book of business includes all of our mortgage-related assets, both on- and off-balance sheet, our guaranty book of business excludes non-Fannie Mae mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty. As of December 31, 2017, we revised the presentation of our guaranty book of business to align to our Monthly Summary, which is available on our website and announced in a press release. The primary revision to the presentation of our guaranty book of business was to exclude the impact of consolidation adjustments that were previously included. Information as of December 31, 2016 has been changed to correspond to the current period presentation.

Composition of Total Book of Business

	As of December 31,					
	2017			2016		
	Single-Family	Multifamily	Total	Single-Family	Multifamily	Total
	(Dollars in millions)					
Guaranty book of business[1]	$2,931,356	$ 280,502	$3,211,858	$2,888,420	$ 245,585	$3,134,005
Non-Fannie Mae mortgage securities[2]	4,005	621	4,626	7,479	2,752	10,231
Total book of business	$2,935,361	$ 281,123	$3,216,484	$2,895,899	$ 248,337	$3,144,236
Guaranty Book of Business Detail:						
Conventional guaranty book of business[3]	$2,890,908	$ 279,235	$3,170,143	$2,842,918	$ 244,222	$3,087,140
Government guaranty book of business[4]	$40,448	$ 1,267	$41,715	$45,502	$ 1,363	$46,865

(1) Includes other Fannie Mae guarantees of $14.3 billion and $15.3 billion as of December 31, 2017 and December 31, 2016, respectively. The unpaid principal balance of resecuritized Fannie Mae MBS is included only once in the reported amount.

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

(3) 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.

(4) 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.

Business Segments

We have two reportable business segments: Single-Family and Multifamily. This section describes each segment's primary business activities, customers, competitive and market conditions, business and credit metrics, and financial results. See "Note 10, Segment Reporting" for information about the total assets of each business segment and the management reporting and allocation process used to generate our segment results.

Single-Family Business

Single-Family Primary Business Activities

Providing Liquidity for Single-Family Mortgage Loans

Working with our lender customers, our Single-Family business provides liquidity to the mortgage market primarily by acquiring single-family loans from lenders and securitizing those loans into Fannie Mae MBS, which are either delivered to the lenders or sold to investors or dealers. We describe our securitization transactions and the types of Fannie Mae MBS that we issue in "Business—Mortgage Securitizations" above. Our Single-Family business also supports liquidity in the mortgage market and the businesses of our lender customers through other activities, such as issuing structured Fannie Mae MBS backed by single-family mortgage assets and buying and selling single-family agency mortgage-backed securities.

A single-family loan is secured by a property with four or fewer residential units. Our Single-Family business securitizes and purchases primarily conventional (not federally insured or guaranteed) single-family fixed-rate or adjustable-rate, first-lien mortgage loans, or mortgage-related securities backed by these types of loans. We also securitize or purchase loans insured by FHA, loans guaranteed by the VA, loans guaranteed by the Rural Development Housing and Community Facilities Program of the U.S. Department of Agriculture, manufactured housing mortgage loans and other mortgage-related securities.

Single-Family Mortgage Servicing

Generally, the servicing of the mortgage loans that are held in our retained mortgage portfolio or that back our Fannie Mae MBS is performed by mortgage servicers on our behalf. Some loans are serviced for us by the lenders that initially sold the loans to us. In other cases, our loans are serviced by third-party servicers that did not originate or sell the loans to us. For loans we own or guarantee, the lender or servicer must obtain our approval before selling servicing rights to another servicer.

Our mortgage servicers typically collect and deliver principal and interest payments, administer escrow accounts, monitor and report delinquencies, perform default prevention activities, evaluate transfers of ownership interests, respond to requests for partial releases of security, and handle proceeds from casualty and condemnation losses. Our mortgage servicers are the primary point of contact for borrowers and perform a key role in the effective implementation of our homeownership assistance initiatives, negotiation of workouts of troubled loans, and other loss mitigation activities. If necessary, mortgage servicers inspect and preserve properties and process foreclosures and bankruptcies. Because we generally delegate the servicing of our mortgage loans to mortgage servicers and do not have our own servicing function, our ability to actively manage troubled loans that we own or guarantee is limited.

For more information on the risks of our reliance on servicers, refer to “Risk Factors.”

We compensate servicers primarily by permitting them to retain a specified portion of each interest payment on a serviced mortgage loan as a servicing fee. Servicers also generally retain assumption fees, late payment charges

and other similar charges, to the extent they are collected from borrowers, as additional servicing compensation. We also compensate servicers for negotiating workouts on problem loans.

Our servicers are required to develop, follow and maintain written procedures relating to loan servicing and legal compliance in accordance with our Servicing Guide. We oversee servicer compliance with our Servicing Guide requirements and execution of our loss mitigation programs by conducting reviews of select servicers. These reviews are designed to test a servicer's quality control processes and compliance with our requirements across key servicing functions. Issues identified through these Servicing Guide compliance reviews are provided to the servicer with prescribed corrective actions and expected resolution due dates, and we monitor servicers' remediation of their compliance issues.

Performance management staff measure, monitor and manage overall servicer performance by providing loss mitigation workout goals to targeted servicers, discussing performance against each goal and tracking action items to improve, and following up on remediation of findings identified from compliance reviews. Additionally, we employ a servicer performance management program called the STAR™ Program, which provides our largest servicers a transparent framework of key metrics and operational assessments to recognize strong performance and identify areas of weakness.

Repercussions for poor performance by a servicer may include lost incentive income, reduced opportunity for STAR Program recognition, compensatory fees, monetary and non-monetary remedies, performance improvement plans and servicing transfers.

Single-Family Credit Risk and Credit Loss Management

Our Single-Family business:

- Prices and manages the credit risk on loans in our single-family guaranty book of business.
- Enters into transactions that transfer a portion of the credit risk on some of the loans in our single-family guaranty book of business.
- Works to reduce costs of defaulted single-family loans through home retention solutions and foreclosure alternatives, management of foreclosures and our REO inventory, selling nonperforming loans, and pursuing contractual remedies from lenders, servicers and providers of credit enhancement.

See "Single-Family Mortgage Credit Risk Management" below for discussion of our strategies for managing credit risk and credit losses on single-family loans.

Single-Family Customers

Our principal single-family customers are lenders that operate within the primary mortgage market where mortgage loans are originated and funds are loaned to borrowers. Our customers include mortgage banking companies, savings and loan associations, savings banks, commercial banks, credit unions, community banks, specialty servicers, insurance companies, and state and local housing finance agencies. Lenders originating mortgages in the primary mortgage market often sell them in the secondary mortgage market in the form of whole loans or in the form of mortgage-related securities.

During 2017, approximately 1,200 lenders delivered single-family mortgage loans to us. We acquire a significant portion of our single-family mortgage loans from several large mortgage lenders. During 2017, our top five lender customers, in the aggregate, accounted for approximately 36% of our single-family business volume, compared with approximately 30% in 2016. Wells Fargo Bank, N.A., together with its affiliates, was the only customer that accounted for 10% or more of our single-family business volume in 2017, with approximately 17% of our 2017 single-family business volume.

We have a diversified funding base of domestic and international investors. Purchasers of single-family Fannie Mae MBS include fund managers, commercial banks, pension funds, insurance companies, Treasury, foreign central banks, corporations, state and local governments, and other municipal authorities.

Single-Family Competition

We compete to acquire single-family mortgage assets in the secondary market. We also compete for the issuance of single-family mortgage-related securities to investors. Competition in these areas is affected by many factors, including the number of residential mortgage loans offered for sale in the secondary market by loan originators and other market participants, the nature of the residential mortgage loans offered for sale (for example, whether

the loans represent refinancings), the current demand for mortgage assets from mortgage investors, the interest rate risk investors are willing to assume and the yields they will require as a result, and the credit risk and prices associated with available mortgage investments.

Competition to acquire mortgage assets is significantly affected by both our and our competitors' pricing and eligibility standards, as well as investor demand for our and our competitors' mortgage-related securities. Our competitive environment also may be affected by many other factors, such as new legislation or regulations. See "Business—Legislation and Regulation" and "Risk Factors" for information on matters that could affect our business and competitive environment.

Our competitors for the acquisition of single-family mortgage assets are financial institutions and government agencies that manage residential mortgage credit risk or invest in residential mortgage loans, including Freddie Mac, FHA, the VA, Ginnie Mae (which primarily guarantees securities backed by FHA-insured loans and VA-guaranteed loans), the FHLBs, U.S. banks and thrifts, securities dealers, insurance companies, pension funds, investment funds and other mortgage investors. Our primary competitors for the issuance of single-family mortgage-related securities are Freddie Mac and Ginnie Mae, as many private market competitors dramatically reduced or ceased their activities in the single-family secondary mortgage market following the 2008 housing crisis.

Single-Family Market Share

The chart below displays our market share of single-family mortgage loan acquisitions in 2017 as compared with that of our primary competitors. This acquisition market share information is based on our current estimates of the single-family first lien mortgage loans that were originated in the United States in 2017, as well as estimates of our competitors' acquisitions based on publicly available data. Our estimates are subject to change, perhaps materially, as additional data become available. We exclude our purchase of delinquent loans from our MBS trusts in the calculation of our market share.

- We estimate our single-family acquisition market share was 28% in 2016 and 27% in 2015.

The chart below displays our market share of single-family mortgage-related securities issuances in 2017 as compared with that of our primary competitors for the issuance of single-family mortgage-related securities.

- We estimate our market share of single-family mortgage-related securities issuances was 39% in 2016 and 37% in 2015.
- We estimate our market share of single-family mortgage-related securities issuances was 37% in the fourth quarter of 2017, compared with 39% in the third quarter of 2017 and 41% in the fourth quarter of 2016. The decrease in our market share in the fourth quarter of 2017 was primarily driven by increased competition. FHFA's recent guidance relating to our guaranty fee pricing for new single-family acquisitions may impact our market share in the future. See "Single-Family Business Metrics" for additional discussion of FHFA's guidance.

Single-Family Mortgage Market

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(1) Total existing home sales data according to National Association of REALTORS®. New single-family home sales data according to the U.S. Census Bureau. Certain previously reported data may have been changed to reflect revised historical data from one or both of these organizations.

(2) 2017 information is as of September 30, 2017 and is based on the Federal Reserve's December 2017 mortgage debt outstanding release, the latest date for which the Federal Reserve has estimated mortgage debt outstanding for single-family residences. Prior period amounts have been changed to reflect revised historical data from the Federal Reserve.

- The 30-year fixed mortgage rate averaged 4.0% in 2017, compared with 3.7% in 2016, according to Freddie Mac's Primary Mortgage Market Survey®.
- We forecast that total originations in the U.S. single-family mortgage market in 2018 will decrease from 2017 levels by approximately 5%, from an estimated $1.83 trillion in 2017 to $1.73 trillion in 2018, and that the amount of originations in the U.S. single-family mortgage market that are refinancings will decrease from an estimated $687 billion in 2017 to $536 billion in 2018.

Single-Family Business Metrics

The charts and related discussion below present certain business metrics of our Single-Family business.

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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 single-family mortgage-related securities held in our retained mortgage portfolio for which we do not provide a guaranty. The average single-family guaranty book of business is calculated based on the average of all four quarters during each respective year.

Although single-family Fannie Mae MBS issuances decreased in 2017 primarily as a result of lower refinancing activity during the year, single-family Fannie Mae MBS outstanding increased as of year-end 2017, as liquidations slowed in 2017 driven by a decline in prepayments due to the rising interest rate environment.

Average Charged Guaranty Fee on Single-Family Guaranty Book of Business and
Average Charged Guaranty Fee on New Single-Family Acquisitions[1]

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(1) Calculated based on the average guaranty fee rate for our single-family guaranty arrangements during the period plus the recognition of any upfront cash payments over an estimated average life. Excludes the impact of a 10 basis point guaranty fee increase implemented in 2012 pursuant to the TCCA, the incremental revenue from which is remitted to Treasury and not retained by us.

Our average charged guaranty fee on newly acquired single-family loans increased in 2017 compared with 2016 primarily due to an increase in total loan level price adjustments charged on our 2017 acquisitions. Our average charged guaranty fee on newly acquired single-family loans, net of TCCA, decreased from 47.1 bps in the third quarter of 2017 to 45.4 bps in fourth quarter of 2017 primarily driven by increased competition.

In December 2017 and February 2018, FHFA, in its capacity as conservator, provided guidance relating to our guaranty fee pricing for new single-family acquisitions. FHFA's guidance requires that we meet a specified minimum return on equity target based on the conservator capital framework. We must implement this target in the first quarter of 2018. We may be required to increase guaranty fees charged on some loans in order to meet this requirement.

Single-Family Business Financial Results

Single-Family Business Financial Results

	For the Year Ended December 31,			Variance	
	2017	2016	2015	2017 vs. 2016	2016 vs. 2015
	(Dollars in millions)				
Net interest income[1]	$18,212	$19,010	$19,301	$(798)	$(291)
Fee and other income	1,378	521	636	857	(115)
Net revenues	19,590	19,531	19,937	59	(406)
Investment gains, net	1,352	944	970	408	(26)
Credit-related income (expense)[2]	1,550	1,439	(1,035)	111	2,474
Fair value losses, net	(1,188)	(1,040)	(1,505)	(148)	465
Administrative expenses	(2,391)	(2,418)	(2,711)	27	293
TCCA fees[1]	(2,096)	(1,845)	(1,621)	(251)	(224)
Other expenses[3]	(1,004)	(1,012)	(831)	8	(181)
Income before federal income taxes	15,813	15,599	13,204	214	2,395
Provision for federal income taxes	(14,301)	(5,417)	(4,593)	(8,884)	(824)
Net income attributable to Fannie Mae	$1,512	$10,182	$8,611	$(8,670)	$1,571

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(1) Reflects the impact of a 10 basis point guaranty fee increase implemented in 2012 pursuant to the TCCA, the incremental revenue from which is remitted to Treasury. The resulting revenue is included in net interest income and the expense is recognized as "TCCA fees."

(2) Consists of the benefit for credit losses and foreclosed property expenses.

(3) Consists of gains (losses) from partnership investments, debt extinguishment (gains) losses, and other expenses.

Net interest income

Single-family net interest income decreased in 2017 compared with 2016, primarily due to a decline in the average balance of our single-family retained mortgage portfolio and lower amortization income, partially offset by higher base guaranty fee income.

Single-family net interest income decreased in 2016 compared with 2015, primarily due to a decline in the average balance of our single-family retained mortgage portfolio, partially offset by increases in both amortization income and base guaranty fee income.

Fee and other income

Fee and other income increased in 2017 compared with 2016 primarily due to $975 million of income in 2017 resulting from a settlement agreement resolving legal claims related to private-label securities we purchased prior to entering conservatorship.

Credit-related income

We recognized higher credit-related income in 2017 compared with 2016. Credit-related income in 2017 was primarily driven by higher actual and forecasted home prices and the redesignation of loans from HFI to HFS, which was partially offset by estimated incurred losses from the hurricanes in 2017.

We recognized credit-related income in 2016 compared with credit-related expense in 2015. Credit-related income in 2016 was primarily driven by an increase in home prices, including distressed property valuations.

See "Consolidated Results of Operations—Credit-Related Income (Expense)" for more information on the drivers of our credit-related income.

Investment gains

Investment gains, net increased during 2017 compared with 2016 primarily due to increased gains resulting from sales of HFS loans.

Investment gains, net was flat in 2016 compared with 2015.

Fair value losses, net

The fair value losses that are reported for the single-family segment in 2017, 2016 and 2015 are consistent with the fair value losses reported in our 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."

Administrative expenses

Administrative expenses were flat in 2017 compared with 2016.

Administrative expenses decreased in 2016 compared with 2015, primarily as a result of the recognition of expenses related to the settlement of our defined benefit pension plan obligations in 2015.

Single-Family Mortgage Credit Risk Management

Our strategy in managing single-family mortgage credit risk consists of five primary components:

- our acquisition and servicing policies along with our underwriting and servicing standards;
- portfolio diversification and monitoring;
- the transfer of credit risk through risk transfer transactions and the use of credit enhancements;
- management of problem loans; and
- REO management.

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. In addition, we exclude from these credit statistics less than 1% of our single-family conventional guaranty book of business for which our loan level information is incomplete as of December 31, 2017 and 2016. 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" for a discussion of the risk that we could experience mortgage fraud as a result of this reliance on lender representations. We provide information on non-Fannie Mae mortgage-related securities held in our portfolio in "Note 5, Investments in Securities."

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

Overview

Our Single-Family business, with the oversight of our Enterprise Risk Management division, is responsible for setting underwriting and servicing standards and pricing, and managing credit risk relating to our single-family guaranty book of business.

Underwriting and Servicing Standards

Our Selling Guide sets forth our underwriting and eligibility guidelines, as well as our policies and procedures related to selling single-family mortgages to us. Our Servicing Guide sets forth our policies for servicing the single-family loans in our single-family guaranty book.

Desktop Underwriter

Our proprietary automated underwriting system, Desktop Underwriter ("DU®"), is used by mortgage lenders to evaluate the majority of our single-family loan acquisitions. DU was used to evaluate over 80% of the non-Refi Plus single-family loans we acquired in 2017. DU measures credit risk by assessing the primary risk factors of a mortgage and provides a comprehensive risk assessment of a borrower's loan application. Risk factors evaluated by DU include the key loan attributes described under "Single-Family Portfolio Diversification and Monitoring" below such as borrower credit data, LTV ratio, loan purpose and occupancy type, as well as other risk factors such as the borrower's debt-to-income ratio, the amount of the borrower's liquid reserves, the presence of co-borrowers and whether the borrower is self-employed. DU does not use a FICO credit score to evaluate the borrower's credit history, but applies its own assessment of the borrower's credit data, including using trended credit data. DU performs a comprehensive evaluation of these factors, weighing each factor based on the amount of risk it represents and its importance to the recommendation. DU analyzes the results of this evaluation to arrive at the underwriting recommendation for the loan case file. As part of our comprehensive risk management approach, we regularly review DU's underlying risk assessment models and recalibrate these models to improve DU's ability to effectively analyze risk and avoid excessive risk layering. Factors we take into account in these evaluations include the profile of loans delivered to us, loan performance and current market conditions. We periodically update DU to reflect changes to our underwriting and eligibility guidelines based on these evaluations.

Recent Changes

In July 2017, we implemented DU Version 10.1, which included a change that enabled loans with debt-to-income ratios above 45% (up to 50%) to rely on DU's comprehensive risk assessment, and removed specific policy rules that had previously set maximum LTV ratio and minimum reserves requirements for those loans. Due in part to our implementation of this change, the percentage of our non-Refi Plus single-family acquisitions associated with borrower debt-to-income ratios above 45% increased to 20% in the fourth quarter of 2017, compared with 10% for all of 2017 and 5% for all of 2016. After assessing the loan profile of loans delivered to us since the DU Version 10.1 changes went into effect, we are revising DU's risk assessment to limit risk layering. Risk layering refers to the acquisition of loans with multiple higher-risk characteristics (such as high LTV ratio, credit profile with a history of delinquencies, debt-to-income ratio above 45% and no or low levels of reserves). We expect to implement these changes in March 2018 through DU Version 10.2. With DU Version 10.2, we expect fewer DU Approve recommendations on loans that have multiple higher-risk characteristics; however, we expect to continue to acquire a higher proportion of loans with debt-to-income ratios above 45% than we have in previous years.

Other Underwriting Standards

We also may purchase and securitize mortgage loans that have been underwritten using other automated underwriting systems, as well as manually underwritten mortgage loans that meet our stated underwriting requirements or meet agreed-upon standards that differ from our standard underwriting and eligibility criteria.

Servicing Policies

Our servicing policies establish the requirements our servicers must follow in:

- processing and remitting loan payments;
- working with delinquent borrowers on loss mitigation activities;
- managing and protecting Fannie Mae's interest in the pledged property; and

• processing bankruptcies and foreclosures.

Our goal is to ensure that our policies support management of risk over the life of the mortgage loan by enabling default prevention activities, promoting loss mitigation in the event of default and providing for the preservation and protection of the collateral supporting the mortgage loan. See "Single-Family Primary Business Activities—Single-Family Mortgage Servicing" above for more information on the servicing of our single-family mortgage loans.

Quality Control Process

Our quality control process includes using automated tools to help us determine whether a loan meets our underwriting and eligibility guidelines, performing more in-depth reviews, and selecting random samples of performing loans for quality control review shortly after delivery.

Repurchase Requests

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 representation and warranty framework described below. We collectively refer to our demands that mortgage sellers and servicers meet these obligations as repurchase requests. As of December 31, 2017, we had issued repurchase requests on approximately 0.10% of the $597.4 billion of unpaid principal balance of single-family loans delivered to us during the twelve months ended March 2017.

Our total outstanding repurchase requests as of December 31, 2017 were $229 million, compared with $303 million as of December 31, 2016. 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 may be 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. If we are unable to resolve our repurchase requests, either through collection or additional remedies, we will not recover the losses we have recognized on the associated loans.

Representation and Warranty Relief

We implemented a revised representation and warranty framework in 2013 to provide lenders with a higher degree of certainty and clarity regarding their exposure to repurchase requests on future deliveries, as well as greater consistency around repurchase timelines and remedies. This framework was further revised in 2014. Under the framework, lenders are relieved of certain repurchase liabilities for loans that meet specific requirements. The chart below summarizes our current representation and warranty framework.

Relief Criteria	R&W Framework Version 1 (Announced Sept 2012)	R&W Framework Version 2 (Announced May 2014)
Relief provided with respect to:	Underwriting representations and warranties. Excludes life of loan representations and warranties[1]	Underwriting representations and warranties. Excludes life of loan representations and warranties[1]
Effective date—loans acquired or MBS issue date	January 1, 2013 up to July 1, 2014	On and after July 1, 2014
Required consecutive monthly payments	- 36 for non-Refi Plus loans - 12 for Refi Plus (including HARP) loans	- 36 for non-Refi Plus loans - 12 for Refi Plus (including HARP) loans
Delinquencies permitted to remain eligible for relief	None	Up to two 30 day delinquencies (but not in the 36th consecutive month's payment)
Eligible for relief after satisfactory conclusion of a full-file quality control review	No	Yes

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(1) No relief from enforcement is available for "life of loan" representations and warranties, regardless of the number of payments made by a borrower or whether there has been a satisfactory conclusion of a full-file quality control review. Examples of life of loan representations and warranties include that the loan has been originated in compliance with applicable laws and that the loan conforms to our charter requirements.

We have continued to provide value to our customers by developing new tools that enable them to obtain relief from certain representations and warranties at an earlier date. Our Day 1 Certainty™ initiative implemented in the fourth quarter of 2016 offers lenders representation and warranty relief for:

- borrower income, asset and employment data that has been validated through Desktop Underwriter;
- appraised property value for appraisals that have received a qualifying risk score in Collateral Underwriter; and
- property value, condition and marketability for lenders that exercise the property inspection waiver option available on eligible transactions.

Relief for validated borrower income data is available for loans acquired on or after October 24, 2016 and relief for the other validated data referenced above is available for loans acquired on or after December 10, 2016.

As of December 31, 2017, approximately 55% of the outstanding loans in our single-family conventional guaranty book of business were acquired after January 1, 2013 and are subject to the revised representation and warranty framework, compared with 48% as of December 31, 2016. In the chart below, we display information regarding the relief status of single-family conventional loans delivered to us beginning in 2013, based only on payment history or the satisfactory conclusion of a full-file quality control review.

Representation and Warranty Status of Single-Family Conventional Loans Acquired in 2013-2017[1]

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(1) Acquisitions of single-family conventional loans for 2013-2017 include $22.3 billion and $17.1 billion as of December 31, 2017 and 2016, respectively, that are not eligible for relief under the revised representation and warranty framework due to delinquencies or defects identified in quality control reviews.

Providing lenders with relief from repurchasing loans for breaches of certain representations and warranties on loans acquired beginning in 2013 that meet specified eligibility requirements shifts some of the risk of non-compliance with our requirements back to us. However, we believe that we have taken appropriate steps to mitigate this risk, including moving the primary focus and timing of our quality control reviews to shortly after loan delivery. We also retain the right to review all loans, including reviews for any violations of "life of loan" representations and warranties.

Single-Family Portfolio Diversification and Monitoring

Overview

Diversification within our single-family book of business by product type, loan characteristics and geography is an important factor that influences credit quality and performance and may reduce our credit risk. We monitor various loan attributes, 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. In some cases, we may decide to significantly reduce our participation in riskier loan product categories. We also review the payment performance of loans in order to help identify potential problem loans early in the delinquency cycle and to guide the development of our loss mitigation strategies.

The profile of our guaranty book of business includes the following key loan attributes:

- LTV ratio. LTV ratio is a strong predictor of credit performance. The likelihood of default and the gross severity of a loss in the event of default are typically lower as the LTV ratio decreases. This also applies to the estimated mark-to-market LTV ratios, particularly those over 100%, as this indicates that the borrower's mortgage balance exceeds the property value.
- Product type. Certain loan product types have features that may result in increased risk. Generally, intermediate-term, fixed-rate mortgages exhibit the lowest default rates, followed by long-term, fixed-rate mortgages. Historically, adjustable-rate mortgages ("ARMs"), including negative-amortizing and interest-only loans, and balloon/reset mortgages have exhibited higher default rates than fixed-rate mortgages, partly because the borrower's payments rose, within limits, as interest rates changed.
- Number of units. Mortgages on one-unit properties tend to have lower credit risk than mortgages on two-, three- or four-unit properties.
- Property type. Certain property types have a higher risk of default. For example, condominiums generally are considered to have higher credit risk than single-family detached properties.
- Occupancy type. Mortgages on properties occupied by the borrower as a primary or secondary residence tend to have lower credit risk than mortgages on investment properties.
- Credit score. Credit score is a measure often used by the financial services industry, including us, to assess borrower credit quality and the likelihood that a borrower will repay future obligations as expected. A higher credit score typically indicates lower credit risk.
- Loan purpose. Loan purpose refers to how the borrower intends to use the funds from a mortgage loan—either for a home purchase or refinancing of an existing mortgage. Cash-out refinancings have a higher risk of default than either mortgage loans used for the purchase of a property or other refinancings that restrict the amount of cash returned to the borrower.
- Geographic concentration. Local economic conditions affect borrowers' ability to repay loans and the value of collateral underlying loans. Geographic diversification reduces mortgage credit risk.
- Loan age. We monitor year of origination and loan age, which is defined as the number of years since origination. Credit losses on mortgage loans typically do not peak until the third through sixth year following origination; however, this range can vary based on many factors, including changes in macroeconomic conditions and foreclosure timelines.

The table below displays our single-family conventional business volumes and our single-family conventional guaranty book of business, based on certain key risk characteristics that we use to evaluate the risk profile and credit quality of our single-family loans.

Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business[1]

	Percent of Single-Family Conventional Business Volume at Acquisition[2] For the Year Ended December 31,			Percent of Single-Family Conventional Guaranty Book of Business[3][4] As of December 31,		
	2017	2016	2015	2017	2016	2015
Original LTV ratio:[5]						
<= 60%	18 %	21 %	18 %	20 %	21 %	21 %
60.01% to 70%	13	14	14	14	14	14
70.01% to 80%	39	38	40	38	38	38
80.01% to 90%	12	12	12	11	11	11
90.01% to 100%	18	15	15	14	12	12
Greater than 100%	*	*	1	3	4	4
Total	100 %	100 %	100 %	100 %	100 %	100 %
Weighted average	75 %	74 %	75 %	75 %	75 %	75 %
Average loan amount	$226,325	$230,249	$220,090	$166,643	$163,200	$160,741
Estimated mark-to-market LTV ratio:[6]						
<= 60%				52 %	49 %	46 %
60.01% to 70%				18	19	19
70.01% to 80%				17	17	17
80.01% to 90%				8	9	10
90.01% to 100%				4	4	5
Greater than 100%				1	2	3
Total				100 %	100 %	100 %
Weighted average				58 %	60 %	62 %
Product type:						
Fixed-rate:[7]						
Long-term	84 %	81 %	81 %	80 %	77 %	76 %
Intermediate-term	13	17	17	15	17	17
Interest-only	—	—	—	*	*	*
Total fixed-rate	97	98	98	95	94	93
Adjustable-rate:						
Interest-only	—	—	—	1	1	2
Other ARMs	3	2	2	4	5	5
Total adjustable-rate	3	2	2	5	6	7
Total	100 %	100 %	100 %	100 %	100 %	100 %
Number of property units:						
1 unit	97 %	98 %	97 %	97 %	97 %	97 %
2-4 units	3	2	3	3	3	3
Total	100 %	100 %	100 %	100 %	100 %	100 %
Property type:						
Single-family homes	90 %	90 %	90 %	91 %	91 %	91 %
Condo/Co-op	10	10	10	9	9	9
Total	100 %	100 %	100 %	100 %	100 %	100 %

	Percent of Single-Family Conventional Business Volume at Acquisition[2] For the Year Ended December 31,			Percent of Single-Family Conventional Guaranty Book of Business[3][4] As of December 31,		
	2017	2016	2015	2017	2016	2015
Occupancy type:						
Primary residence	89 %	90 %	88 %	89 %	88 %	88 %
Second/vacation home	4	4	4	4	4	4
Investor	7	6	8	7	8	8
Total	100 %	100 %	100 %	100 %	100 %	100 %
FICO credit score at origination:						
< 620[8]	* %	* %	1 %	2 %	2 %	2 %
620 to < 660	5	4	5	5	5	5
660 to < 700	13	11	12	12	12	12
700 to < 740	23	21	20	20	20	20
>= 740	59	64	62	61	61	61
Total	100 %	100 %	100 %	100 %	100 %	100 %
Weighted average	745	750	748	745	745	744
Loan purpose:						
Purchase	56 %	44 %	45 %	39 %	35 %	33 %
Cash-out refinance	21	19	19	20	20	20
Other refinance	23	37	36	41	45	47
Total	100 %	100 %	100 %	100 %	100 %	100 %
Geographic concentration:[9]						
Midwest	14 %	14 %	14 %	15 %	15 %	15 %
Northeast	14	14	14	18	18	19
Southeast	23	21	20	22	22	22
Southwest	20	19	20	17	17	16
West	29	32	32	28	28	28
Total	100 %	100 %	100 %	100 %	100 %	100 %
Origination year:						
2011 and prior				22 %	28 %	35 %
2012				14	17	21
2013				12	15	18
2014				7	8	11
2015				12	14	15
2016				18	18	—
2017				15	—	—
Total				100 %	100 %	100 %

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

(1) Second lien mortgage loans held by third parties are not reflected in the original LTV or mark-to-market LTV ratios in this table.

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

(3)

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 the end of each period.

(4) Our single-family conventional guaranty book of business includes jumbo-conforming and high-balance loans, which we describe under "Jumbo-Conforming and High-Balance Loans" below.

(5) 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.

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

(7) Long-term fixed-rate consists of mortgage loans with maturities greater than 15 years, while intermediate-term fixed-rate loans have maturities equal to or less than 15 years. Loans with interest-only terms are included in the interest-only category regardless of their maturities.

(8) Loans acquired after 2009 with FICO credit scores at origination below 620 consist primarily of the refinance of existing loans under our Refi Plus initiative.

(9) Midwest consists of IL, IN, IA, MI, MN, NE, ND, OH, SD and WI. Northeast consists of CT, DE, ME, MA, NH, NJ, NY, PA, PR, RI, VT and VI. Southeast consists of AL, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA and WV. Southwest consists of AZ, AR, CO, KS, LA, MO, NM, OK, TX and UT. West consists of AK, CA, GU, HI, ID, MT, NV, OR, WA and WY.

As shown in the table above, a greater proportion of our single-family loan acquisitions in 2017 had LTV ratios over 90% (from 15% in 2016 to 18% in 2017), and there was a decline in the weighted average FICO credit score of our single-family acquisitions in 2017 (from 750 in 2016 to 745 in 2017). We believe several factors drove these changes, including a greater proportion of acquisitions consisting of home purchase loans rather than refinance loans, which generally have higher FICO scores, a decline in refinance volume, and the changes to our eligibility standards implemented in DU Version 10.1 described above.

The credit profile of our future acquisitions will depend on many factors, including:

- our future guaranty fee pricing and our competitors' 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, FHA and 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 and high LTV refinance loans we acquire in the future.

See "Single-Family Acquisition and Servicing Policies and Underwriting and Servicing Standards—Recent Changes" for a description of a change that we expect to implement in March 2018. We expect the ultimate performance of all our loans will be affected by borrower behavior, public policy and macroeconomic trends, including unemployment, the economy and home prices. In addition, if lender customers retain more of the higher-quality loans they originate, it could negatively affect the credit profile of our new single-family acquisitions.

We continue to seek new ways to responsibly expand access to mortgage credit. FHFA's 2018 conservatorship scorecard specifies that in 2018 we should continue to work to increase access to single-family mortgage credit for creditworthy borrowers, including underserved segments of the market. 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.

HARP and Refi Plus Loans

Since 2009, we have offered HARP under our Refi Plus initiative, which was designed to expand refinancing opportunities for borrowers who may otherwise be unable to refinance their mortgage loans due to a decline in home values. HARP offers refinancing flexibility to eligible borrowers who are current on their loans and whose loans are owned or guaranteed by us and meet certain additional criteria.

Under HARP, we allow our borrowers who have mortgage loans that have note dates prior to June 2009 with current LTV ratios greater than 80% to refinance their mortgages without obtaining new mortgage insurance in excess of what is already in place. Accordingly, HARP loans have LTV ratios at origination in excess of 80%. HARP loans cannot:

- be an adjustable-rate mortgage loan, if the initial fixed period is less than five years;

- have an interest only feature, which permits the payment of interest without a payment of principal;
- be a balloon mortgage loan; or
- have the potential for negative amortization.

The loans we acquire under HARP have higher LTV ratios than we would otherwise permit, greater than 100% in some cases. Since 2012, we have acquired HARP loans with LTV ratios greater than 125% for fixed-rate loans of eligible borrowers. In addition to the high LTV ratios that characterize HARP loans, some borrowers for HARP and Refi Plus loans may also have lower FICO credit scores and may provide less documentation than we would otherwise require.

Loans we acquire under Refi Plus and HARP represent refinancings of loans that are already in our guaranty book of business. The credit risk associated with the newly acquired loans essentially replaces the credit risk on the loans that we already held prior to the refinancing. These loans have higher risk profiles and higher serious delinquency rates than the other loans we have acquired since the beginning of 2009. However, we expect these loans will perform better than the loans they replace because HARP and Refi Plus loans should either reduce the borrowers' monthly payments or provide more stable terms than the borrowers' old loans (for example, by refinancing into a mortgage with a fixed interest rate instead of an adjustable rate).

HARP loans constituted approximately 1% of our total single-family acquisitions in 2017 and 2016. We expect the volume of refinancings under HARP to continue to remain a small percentage of our acquisitions between now and the program's expiration, due to the small population of borrowers with loans that have high LTV ratios who are willing to refinance and would benefit from refinancing.

The following table displays key statistics on our HARP loans.

Statistics on HARP Loans

	As of December 31,	
	2017	2016
Percentage of single-family conventional guaranty book of business	7 %	9 %
Serious delinquency rate	1.43 %	1.15 %
Estimated mark-to-market LTV ratio	70 %	76 %
Weighted average FICO credit score at origination	702	726

In August 2016, FHFA directed us and Freddie Mac to implement a new high LTV refinance offering aimed at borrowers who are making their mortgage payments on time and whose current LTV ratio exceeds a specified amount. In August 2017, FHFA announced that the new high LTV refinance offering will be available for borrowers whose loans were originated on or after October 1, 2017 and who meet other eligibility requirements. FHFA also directed us and Freddie Mac to extend the HARP sunset date from September 30, 2017 to December 31, 2018. We have also extended the end date of our Refi Plus initiative to December 31, 2018.

Jumbo-Conforming and High-Balance Loans

The standard conforming loan limit for a one-unit property was $417,000 from 2006 to 2016. This limit was increased to $424,100 for 2017 and $453,100 for 2018. From 2008 to 2011, our loan limits were higher in specified high-cost areas, reaching as high as $729,750 for one-unit properties. Our loan limits for loans originated after September 30, 2011 decreased in specified high-cost areas to an amount not to exceed 150% of the otherwise applicable loan limit. See "Business—Legislation and Regulation—Charter Act" for additional information on our loan limits.

The following table displays the amount of jumbo-conforming and high-balance loans in our single-family conventional guaranty book of business.

Single-Family Jumbo-Conforming and High-Balance Loans

	As of December 31,	
	2017	2016
Unpaid principal balance (in billions)	$188.6	$166.0
Percentage of single-family conventional guaranty book of business	7 %	6 %

Reverse Mortgages

The outstanding unpaid principal balance of reverse mortgage loans and Fannie Mae MBS backed by reverse mortgage loans in our guaranty book of business was $33.1 billion as of December 31, 2017 and $36.9 billion as of December 31, 2016. In 2010, we ceased acquisitions of newly originated reverse mortgages. The principal balance of our reverse mortgage loans could increase over time, as each month the scheduled and unscheduled payments, interest, mortgage insurance premium, servicing fee and default-related costs accrue to increase the unpaid principal balance. The majority of these loans are home equity conversion mortgages insured by the federal government through FHA.

Mortgage Products with Rate Resets

ARMs are mortgage loans with an interest rate that adjusts periodically over the life of the mortgage based on changes in a specified index. We have different types of ARMS including:

- Interest-only loans that allow the borrower to pay only the monthly interest due, and none of the principal, for a fixed term. The majority of our interest-only loans are ARMs.
- Negative-amortizing loans that allow the borrower to make monthly payments that are less than the interest actually accrued for the period. The unpaid interest is added to the principal balance of the loan, which increases the outstanding loan balance.

ARMs represented approximately 5% of our single-family conventional guaranty book of business as of December 31, 2017 and 6% as of December 31, 2016.

Rate reset modifications are mortgage loans we have modified with terms that include a reduction in the borrowers' interest rate that is fixed for an initial period and is followed by one or more annual interest rate increases in the future. The majority of these rate reset modifications are performing loans that were modified under the Home Affordable Modification Program ("HAMP®") and have fixed interest rates for an initial five-year period followed by annual interest rate increases, of up to 1 percent per year, until the mortgage rate reaches the prevailing market rate at the time of modification.

The outstanding unpaid principal balance of rate reset modifications in our guaranty book of business was $46.6 billion as of December 31, 2017. During 2017, approximately 76% of these modified loans experienced an interest rate reset to a weighted average interest rate of 4.21%.

In anticipation of potential financial hardship related to interest rate increases, we have directed servicers to evaluate rate reset modifications for a re-modification, if a loan is:

- at imminent risk of default and the borrower requests a loan modification, or
- becomes 60 days delinquent within the first 12 months after an interest rate adjustment.

Additionally, for borrowers with HAMP modifications we extended "pay for performance" incentives, in the form of principal curtailment, to encourage borrowers to stay current on their mortgages after the initial interest rate reset and to reduce their monthly payments in cases where the borrower chooses to re-amortize their unpaid principal balance following receipt of the incentive.

The table below displays the unpaid principal balance for ARMs, rate reset modifications and fixed-rate interest-only loans in our single-family guaranty book of business, aggregated by product type and categorized by the year of their next scheduled contractual reset date. The contractual reset is either an adjustment to the loan's interest rate or a scheduled change to the loan's monthly payment to begin to reflect the payment of principal. The timing of the actual reset dates may differ from those presented due to a number of factors, including refinancing or exercising of other provisions within the terms of the mortgage.

Single-Family Adjustable-Rate Mortgage and Rate Reset Modifications by Year[1]

	Reset Year						
	2018	2019	2020	2021	2022	Thereafter	Total
	(Dollars in millions)						
ARMs—Amortizing	$24,325	$6,473	$5,796	$6,668	$7,985	$ 15,231	$66,478
ARMs—Interest Only and Negative Amortizing	16,270	599	565	185	347	323	18,289
Rate Reset Modifications	21,435	3,153	1,845	1,554	1,187	—	29,174
Fixed-Rate Interest Only	324	24	50	49	25	14	486

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[1] Excludes loans for which there is not an additional reset for the remaining life of the loan.

We have not observed a materially different performance trend for rate reset modifications, interest-only loans or negative-amortizing loans that have recently reset as compared to those that are still in the initial period. We believe the current performance trend for interest-only loans and negative-amortizing loans is the result of the current low interest rate environment and expect that this trend may not continue if interest rates rise significantly.

Transfer of Mortgage Credit Risk

Mortgage Insurance

Our charter generally requires credit enhancement on any single-family conventional mortgage loan that we purchase or securitize if it has an LTV ratio over 80% at the time of purchase. Borrower-paid primary mortgage insurance is the most common type of credit enhancement in our single-family guaranty book of business. Mortgage insurers may also provide pool mortgage insurance, which is insurance that applies to a defined group of loans.

	Provider	Characteristics	Claim Process Timeline
Primary Mortgage Insurance	Borrower	Transfers varying portions of the credit risk associated with a mortgage loan to a third-party insurer. In order for us to receive a payment in settlement of a claim under a primary mortgage insurance policy, the insured loan must be in default and the borrower's interest in the property that secured the loan must have been extinguished, generally in a foreclosure action.	Three to six months after title to the property has been transferred.
Pool Mortgage Insurance	Mortgage Insurers	Pool mortgage insurance benefits typically are based on actual loss incurred and are subject to an aggregate loss limit. Under some of our pool mortgage insurance policies, we are required to meet specified loss deductibles before we can recover under the policy.	Three to six months after disposition of the property that secured the loan.

For a discussion of our aggregate mortgage insurance coverage as of December 31, 2017 and 2016, see "Risk Management—Credit Risk Management—Institutional Counterparty Credit Risk Management—Mortgage Insurers."

Credit Risk Transfer Transactions

Our Single-Family business has developed risk-sharing capabilities to transfer portions of our single-family mortgage credit risk to the private market. Our primary method of achieving this objective has been through our CAS and CIRT transactions. In these transactions, we transfer to investors a portion of the mortgage credit risk associated with losses on a reference pool of mortgage loans and in exchange we pay investors a premium that effectively reduces the guaranty fee income we retain on the loans. We enter into other types of credit risk transfer transactions in addition to our CAS and CIRT transactions, including lender risk-sharing transactions. As of December 31, 2017, approximately 32% of the loans in our single-family conventional guaranty book of business, measured by unpaid principal balance, were included in a reference pool for a credit risk transfer transaction.

We target over 90% of acquisitions in the following loan categories for credit risk transfer transactions:

- fixed-rate 30-year single-family conventional loans that meet certain credit performance characteristics;

- loans that are non-Refi Plus; and
- loans with LTV ratios between 60% and 97%.

This criteria covers over 60% of our recent single-family acquisitions.

Loans are generally included in reference pools for CAS and CIRT transactions on a lagged basis; typically, about six months to one year after we initially acquire the loans. The portion of our single-family loan acquisitions we include in credit risk transfer transactions can vary from period to period based on market conditions and other factors.

We describe below the three major categories of our credit risk transfer transactions.

	Transaction Description	Other Key Characteristics
CAS	• We transfer to investors a portion of the mortgage credit risk associated with losses on a reference pool of mortgage loans. • We create a reference pool consisting of recently acquired single-family mortgage loans included in our guaranty book of business and create a hypothetical securitization structure with notional credit risk positions, or tranches (that is, first loss, mezzanine and senior). • We issue CAS debt related to the first loss and mezzanine risk positions. • We retain the senior loss as well as portions of the mezzanine loss tranche, and all or a portion of the first loss tranche in CAS transactions. • Beginning in 2016, we recognize CAS debt we issue to investors at amortized cost as “Debt of Fannie Mae” in our consolidated balance sheets. CAS debt we issued prior to 2016 is recognized at fair value as “Debt of Fannie Mae” in our consolidated balance sheets.	• The principal balance of CAS debt decreases as a result of credit losses on loans in the related reference pool. These write downs of the principal balance reduce the total amount of payments we are obligated to make to investors on the CAS debt. • Credit losses on the loans in the reference pool for a CAS transaction are first applied to reduce the outstanding principal balance of the first loss tranche. • If credit losses on these loans exceed the outstanding principal balance of the first loss tranche, losses would then be applied to reduce the outstanding principal balance of the mezzanine loss tranche. • The credit protection provided by the first loss and mezzanine loss tranches is expected to absorb all of the losses we estimate would be incurred on the loans in a stressed credit environment, such as a severe or prolonged economic downturn. • Generally issued with a stated final maturity date of either 10 or 12.5 years from issuance. • After maturity, CAS debt provides no further credit protection with respect to the remaining loans in the reference pool underlying that CAS transaction.
CIRT	• Insurance transactions whereby we obtain actual loss coverage on pools of loans either directly from an insurance provider that retains the risk, or from an insurance provider that simultaneously cedes all of its risk to one or more reinsurers. • In CIRT deals, we retain an initial portion of losses on the loans in the pool (typically the first 0.5% of the initial pool unpaid principal balance). Reinsurers cover losses above this retention amount up to a detachment point (typically the next 2.5% of the initial pool unpaid principal balance). We retain all losses above this detachment point. • We make premium payments on CIRT deals that we recognize in “Other expenses, net” in our consolidated statements of operations and comprehensive income.	• The insurance layer typically provides coverage for losses on the pool that are likely to occur only in a stressed economic environment. • Insurance benefits are received after the underlying property has been liquidated and all applicable proceeds, including private mortgage insurance benefits, have been applied to the loss. • A portion of the insurers’ or reinsurers’ obligations is collateralized with highly-rated liquid assets held in a trust account initially determined according to the ratings of such insurer or reinsurer. Contractual provisions require additional collateral to be posted in the event of adverse developments with the counterparty, such as a ratings downgrade. • Generally written for 10 year terms.
	• Customized lender risk-sharing transactions.	

Lender risk-sharing	• In most transactions, lenders invest directly in a portion of the credit risk on mortgage loans they originate and/or service.	• Transactions are generally structured so that a portion of the credit risk on the underlying mortgage loans is transferred without increasing our counterparty exposure.

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

Single-Family Credit Risk Transfer Transactions

Issuances from Inception to December 31, 2017

(Dollars in billions)

Senior	Fannie Mae[1] $1,181				Initial Reference Pool[4]
Mezzanine	Fannie Mae[1] $1	CIRT[2][3] $5	CAS[2] $27	Lender Risk-Sharing[2] $1	
First Loss	Fannie Mae[1] $6		CAS[2][5] $2	Lender Risk-Sharing[2] $1	$1,224

Outstanding as of December 31, 2017

(Dollars in billions)

Senior	Fannie Mae[1] $886				Outstanding Reference Pool[4][6]
Mezzanine	Fannie Mae[1] $1	CIRT[2][3] $5	CAS[2] $20	Lender Risk-Sharing[2] $1	
First Loss	Fannie Mae[1] $6		CAS[2][5] $2	Lender Risk-Sharing[2] $1	$922

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

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

(3) Includes mortgage pool insurance transactions covering loans with an unpaid principal balance of approximately $7 billion at issuance and approximately $4 billion outstanding as of December 31, 2017.

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

(5) For CAS transactions, “First Loss” represents all B tranche balances.

(6) For CAS and some lender risk-sharing transactions, represents outstanding reference pools, not the outstanding unpaid principal balance of the underlying loans, as of December 31, 2017.

We have designed our credit risk transfer transactions so that prepayment activity typically has a more substantial impact on the senior tranches retained by Fannie Mae than on the risk transferred to third parties. Principal payments on the underlying reference pool are first allocated between the senior tranches and then applied sequentially to the subordinate tranches. Losses are applied in reverse sequential order starting with the first loss tranche. For CAS transactions, all principal payments and losses are allocated pro rata between the sold notes and the portion we retain. We have recognized minimal credit losses on the loans in reference pools underlying

credit risk transfer transactions to date primarily because the loans were acquired in recent years, after we implemented improvements in our credit underwriting practices, and because recent macroeconomic factors such as unemployment rates and home prices have been favorable.

The decreases in outstanding balances from issuance to December 31, 2017 in the senior and mezzanine tranches are the result of paydowns. Outstanding balances from issuance to December 31, 2017 in the first loss tranches decreased only slightly as the losses allocated to those tranches were insignificant.

During 2017, pursuant to our credit risk transfer transactions, we transferred a portion of the mortgage credit risk on single-family mortgages with an unpaid principal balance of over $390 billion at the time of the transactions.

- For the year ended December 31, 2017, we paid approximately $770 million in interest expense, net of LIBOR, on our outstanding CAS debt and approximately $190 million in CIRT premiums;
- Comparatively, we paid approximately $540 million in interest expense, net of LIBOR, on our outstanding CAS debt and approximately $110 million in CIRT premiums for the year ended December 31, 2016.

These expenses increased from 2016 to 2017 as we continue to transfer credit risk on a larger portion of our single-family book of business.

While these deals are expected to mitigate some of our potential future credit losses, they are not designed to shield us from all losses. We retain a portion of the risk of future credit losses on loans covered by CAS and CIRT transactions, including all or at least half of the first loss positions and all of the senior loss positions. In addition, on our CAS transactions, we retain a pro rata share of risk equal to approximately 5% of all notes sold. While a credit expense on a loan in a reference pool for a CAS transaction is recorded when it is probable that we have incurred a loss, for our CAS issued beginning in 2016, a recovery is recorded when an actual loss event occurs.

We continue to explore ways to innovate and improve our credit risk transfer programs. As part of this continued innovation, we announced a proposed new structure that would enhance our CAS program by structuring our CAS offerings as notes issued by trusts that qualify as real estate mortgage investment conduits. This proposed enhancement to our CAS program is designed to promote the continued growth of the market by expanding the potential investor base for these securities, making the program more attractive to real estate investment trust investors, as well as certain other investors, and limiting investor exposure to Fannie Mae counterparty risk.

Problem Loan Management

Overview

Our problem loan management strategies are primarily focused on reducing defaults to avoid losses that would otherwise occur and pursuing foreclosure alternatives to attempt to minimize the severity of the losses we incur. If a borrower does not make required payments, or is in jeopardy of not making payments, we work with the loan servicer to offer workout solutions to minimize the likelihood of foreclosure as well as the severity of loss. When appropriate, we seek to move to foreclosure expeditiously.

This section describes the following:

- delinquency statistics on our problem loans;
- efforts undertaken to manage our problem loans;
- metrics regarding our loan workout activities;
- REO management; and
- other single-family credit-related disclosures, including our credit loss performance and concentration metrics, loss reserves and troubled debt restructurings (“TDRs”) resulting from loan modifications.

Delinquency

Single-family delinquency data is calculated based on number of loans. We include single-family conventional loans that we own and those that back Fannie Mae MBS in the calculation of the single-family delinquency rate. Seriously delinquent loans are loans that are 90 days or more past due or in the foreclosure process. Percentage of book outstanding calculations are based on the unpaid principal balance of loans for each category divided by the unpaid principal balance of our total single-family guaranty book of business for which we have detailed loan level information.

The table below displays the delinquency status of loans in our single-family conventional guaranty book of business (based on number of loans) and changes in the balance of seriously delinquent loans in our single-family conventional guaranty book of business.

Delinquency Status and Activity of Single-Family Conventional Loans

	As of December 31,		
	2017	2016	2015
Delinquency status:			
30 to 59 days delinquent	1.63%	1.51%	1.46%
60 to 89 days delinquent	0.50	0.41	0.41
Seriously delinquent (“SDQ”)	1.24	1.20	1.55
Percentage of SDQ loans that have been delinquent for more than 180 days	43 %	59 %	67 %
Percentage of SDQ loans that have been delinquent for more than two years	13	21	30

	For the Year Ended December 31,		
	2017	2016	2015
Single-family SDQ loans (number of loans):			
Beginning balance	206,549	267,174	329,590
Additions	287,805	252,590	266,136
Removals:			
Modifications and other loan workouts	(76,119)	(77,800)	(91,241)
Liquidations and sales	(84,512)	(117,459)	(117,884)
Cured or less than 90 days delinquent	(121,540)	(117,956)	(119,427)
Total removals	(282,171)	(313,215)	(328,552)
Ending balance	212,183	206,549	267,174

While our single-family delinquency rates continued their downward trend in the first part of 2017, the impact of the hurricanes in the third quarter of 2017 resulted in an increase in our single-family delinquency rates in the latter part of the year. In response to the hurricanes, we permitted our servicers to grant an initial temporary 90-day period of disaster forbearance to any homeowner in the hurricane-affected regions they believe has been impacted by the disaster. Servicers are permitted to extend the forbearance period beyond 90 days after making contact with the homeowner or with our approval. As a result, a large number of borrowers in the hurricane-affected regions became delinquent while in this forbearance period, particularly in Texas, Florida and Puerto Rico, which were most significantly impacted by the hurricanes.

We expect our single-family serious delinquency rate to remain higher during the short-term while borrowers are in forbearance periods. We expect many of these delinquent borrowers to resolve their delinquencies in the next several months, either through resuming their mortgage payments or by obtaining a loan modification. Over the long term, we expect the impact of the hurricanes on our serious delinquency rate to subside and for this rate to resume its previous downward trend; however, because our single-family serious delinquency rate has already declined significantly over the past several years, we expect more modest declines and may experience period to period fluctuations in this rate.

Our single-family serious delinquency rate and the period of time that loans remain seriously delinquent continue to be negatively affected by the length of time required to complete a foreclosure in some states. Other factors that affect our single-family serious delinquency rate include:

- the pace of loan modifications;
- the timing and volume of nonperforming loan sales we make;
- natural disasters;
- servicer performance; and
- changes in home prices, unemployment levels and other macroeconomic conditions.

Certain higher-risk loan categories, such as Alt-A loans, loans with higher mark-to-market LTV ratios, and our 2005 through 2008 loan vintages, continue to exhibit higher than average delinquency rates and/or account for a higher share of our credit losses. Single-family loans originated in 2005 through 2008 constituted 6% of our single-family book of business as of December 31, 2017, but constituted 42% of our seriously delinquent single-family loans as of December 31, 2017 and drove 65% of our 2017 single-family credit losses. In addition, loans in certain judicial foreclosure states such as Florida, New Jersey and New York with historically long foreclosure timelines have exhibited higher than average delinquency rates and/or account for a higher share of our credit losses.

The following table displays the serious delinquency rates for, and the percentage of our total seriously delinquent single-family conventional loans represented by, the specified loan categories. We also include information for our loans in California, as this state accounts for a large share of our single-family conventional guaranty book of business. The reported categories are not mutually exclusive. While the recent hurricanes resulted in a higher serious delinquency rate in 2017 in most of the categories shown below, serious delinquency rates declined in New Jersey and New York due in part to the high volume of nonperforming loan sales in 2017 related to loans in these states.

Single-Family Conventional Seriously Delinquent Loan Concentration Analysis

	As of December 31,					
	2017			2016		
	Percentage of Book Outstanding	Percentage of Seriously Delinquent Loans[1]	Serious Delinquency Rate	Percentage of Book Outstanding	Percentage of Seriously Delinquent Loans[1]	Serious Delinquency Rate
States:						
California	19%	5 %	0.42 %	19%	6 %	0.50 %
Florida	6	19	3.71	6	10	1.89
New Jersey	4	5	2.15	4	8	3.07
New York	5	7	2.02	5	10	2.65
All other states	66	64	1.09	66	66	1.11
Product type:						
Alt-A	2	12	4.95	3	15	5.00
Vintages:						
2004 and prior	4	23	3.28	5	26	2.82
2005-2008	6	42	6.55	8	51	6.39
2009-2017	90	35	0.53	87	23	0.36
Estimated mark-to-market LTV ratio:						
<= 60%	52	41	0.84	49	33	0.70
60.01% to 70%	18	18	1.34	19	15	1.13
70.01% to 80%	17	16	1.48	17	16	1.31
80.01% to 90%	8	11	2.09	9	13	2.11
90.01% to 100%	4	6	2.62	4	9	2.99
Greater than 100%	1	8	11.70	2	14	10.44
Credit enhanced:[2]						
Primary MI & other[3]	20	26	1.95	18	28	2.18
Credit risk transfer[4]	32	8	0.42	22	2	0.17
Non-credit enhanced	60	69	1.27	67	70	1.16

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

(2) The credit enhanced categories are not mutually exclusive. A loan with primary mortgage insurance that is also covered by a credit risk transfer transaction will be included in both the "Primary MI & other" category and the

"Credit risk transfer" category. As a result, the "Credit enhanced" and "Non-credit enhanced" categories do not sum to 100%. The total percentage of our single-family conventional guaranty book of business with some form of credit enhancement as of December 31, 2017 was 40%.

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

(4) Refers to loans included in reference pools for credit risk transfer transactions, including loans in these transactions that are also covered by primary mortgage insurance.

Role of Servicers in Loss Mitigation

The efforts of our mortgage servicers are critical in keeping people in their homes and preventing foreclosures. In recent years, we issued new standards for mortgage servicers regarding the management of delinquent loans, default prevention, and foreclosure time frames. These standards, reinforced by incentives and compensatory fees, require servicers to take a more consistent approach to homeowner communications, loans modifications and other workouts, and when necessary, foreclosures.

Our problem loan management strategies include transferring servicing on some delinquent loan populations that include loans with higher-risk characteristics to special servicers with which we have worked to develop high-touch protocols for servicing these loans. We believe retaining special servicers to service these loans using high-touch protocols will reduce our future credit losses on the transferred loan portfolio.

Loan Workout Metrics

Our loan workouts reflect:

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

We work with our servicers to implement our home retention solution and foreclosure alternative initiatives, and we emphasize the importance of early contact with borrowers and early entry into a home retention solution. We require that servicers first evaluate borrowers for eligibility under a workout option before considering foreclosure.

Home Retention Solutions

Loan modifications account for a significant majority of our home retention solutions. Characteristics of our loan modifications include:

- changes to the original mortgage terms such as product type, interest rate, amortization term, maturity date and/or unpaid principal balance;
- collection of less than the contractual amount due under the original loan, for many of our loan modifications;
- receiving the full amount due, or certain installments due, under the loan over a period of time that is longer than the period of time originally provided for under the terms of the loan; and
- forbearance for up to twelve months for those homeowners who are unemployed, to help homeowners avoid foreclosure.

Approximately 42% of our performing loan modifications include a reduction in the borrower’s interest rate that is fixed for an initial period and may be followed by one or more annual interest rate increases. The majority of these modifications with rate resets had their third interest rate reset in 2017. See “Single-Family Portfolio Diversification and Monitoring—Mortgage Products with Rate Resets” above for additional information on the timing of these initial interest rate resets.

Our primary loan modification initiatives have included HAMP, which had a December 31, 2016 application deadline, and our proprietary Standard and Streamlined Modification initiatives. The Fannie Mae Flex Modification program replaced both HAMP and our Standard and Streamlined Modification programs with a single modification program that leverages the lessons learned from the housing crisis. The Flex Modification program became available for our servicers to implement on March 1, 2017 and was required to be implemented by October 1, 2017. The program offers additional payment relief allowing forbearances of principal to an 80% mark-to-market LTV ratio for eligible borrowers, and targeting a 20% payment reduction.

Foreclosure Alternatives

We also continue to focus on foreclosure alternatives for borrowers who are unable to retain their homes. Foreclosure alternatives may be more appropriate if the borrower has experienced a significant adverse change in financial condition due to events such as unemployment or reduced income, divorce, or unexpected issues like medical bills and is therefore no longer able to make the required mortgage payments. To avoid foreclosure and satisfy the first-lien mortgage obligation, our servicers work with a borrower to:

- accept a deed-in-lieu of foreclosure, whereby the borrower voluntarily signs over the title to their property to the servicer, or
- sell the home prior to foreclosure in a short sale, whereby the borrower sells the home for less than the full amount owed to Fannie Mae under the mortgage loan.

These alternatives are designed to reduce our credit losses while helping borrowers avoid having to go through a foreclosure. We work to obtain the highest price possible for the properties sold in short sales. The existence of a second lien may limit our ability to provide borrowers with loan workout options, particularly those that are part of our foreclosure prevention efforts; however, we are not required to contact a second lien holder to obtain their approval prior to providing a borrower with a loan modification.

The chart below shows our completed single-family loan workouts, by type. These statistics include loan modifications but do not include trial modifications, loans to certain borrowers who have received bankruptcy relief that are classified as TDRs, or repayment or forbearance plans that have been initiated but not completed. As of December 31, 2017, there were approximately 28,500 loans in a trial modification period.

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

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

The table below displays the percentage of our single-family loan modifications completed during 2016 and 2015 that were current or paid off one year after modification, as well as the percentage of our single-family loan modifications completed during 2015 that were current or paid off two years after modification.

Percentage of Single-Family Loan Modifications That Were Current or Paid Off at One and Two Years Post-Modification[1]

	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
One Year Post-Modification								
HAMP modifications	71%	74%	76%	75%	75%	76%	78%	79%
Non-HAMP modifications	63	64	66	65	63	63	66	65
Total	63	65	66	66	64	64	67	67
Two Years Post-Modification								
HAMP modifications					73%	73%	77%	77%
Non-HAMP modifications					64	64	67	66
Total					65	65	68	67

(1) Modifications do not reflect loans currently in trial modifications.

Nonperforming Loan Sales

FHFA's 2017 conservatorship scorecard included objectives relating to reducing the number of our severely-aged delinquent loans, including through nonperforming loan sales. During 2017, we sold approximately 15,700 nonperforming loans with an aggregate unpaid principal balance of $2.8 billion.

REO Management

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

Single-Family REO Properties

	For the Year Ended December 31,		
	2017	2016	2015
Single-family REO properties (number of properties):			
Beginning of period inventory of single-family REO properties[1]	38,093	57,253	87,063
Acquisitions by geographic area:[2]			
Midwest	8,478	12,379	17,024
Northeast	9,453	12,389	15,553
Southeast	10,860	16,977	29,618
Southwest	5,133	6,984	8,522
West	2,691	4,780	7,919
Total REO acquisitions [1]	36,615	53,509	78,636
Dispositions of REO	(48,397)	(72,669)	(108,446)
End of period inventory of single-family REO properties[1]	26,311	38,093	57,253
Carrying value of single-family REO properties (dollars in millions)	$3,112	$4,372	$6,608
Single-family foreclosure rate[3]	0.21 %	0.31 %	0.45 %
REO net sales prices to unpaid principal balance[4]	75 %	74 %	72 %
Short sales net sales price to unpaid principal balance[5]	75 %	74 %	73 %

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

(2) See footnote 9 to the Risk Characteristics of Single-Family Conventional Business Volume and Guaranty Book of Business table for states included in each geographic region.

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

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

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

The number of our single-family foreclosed properties declined in 2017 compared with 2016 and in 2016 compared with 2015 primarily due to lower charge-offs as a result of lower serious delinquencies aged greater than 180 days.

We market and sell our foreclosed properties through local real estate professionals. Our primary objectives are both to minimize the severity of loss to Fannie Mae by maximizing sales prices and to stabilize neighborhoods by preventing empty homes from depressing home values. In cases where the property does not sell, we use alternative methods of disposition, including selling homes to municipalities, other public entities or non-profit organizations, and selling properties through public auctions.

In some cases, we engage in third party sales at foreclosure, which allow us to avoid maintenance and other REO expenses we would have incurred had we acquired the property.

As shown in the chart below, a significant portion of our REO properties are unable to be marketed at any given time because the properties are occupied, under repair, or are subject to state or local redemption or confirmation periods, which extends the amount of time it takes to bring our properties to a marketable state and eventually dispose of them. We currently lease properties to tenants who occupied the properties before we acquired them into our REO inventory and to eligible borrowers who executed a deed-in-lieu of foreclosure. As of December 31, 2017, approximately 700 tenants leased our REO properties.

Other Single-Family Credit Information

Credit Loss Performance and Concentration Metrics

The amount of credit losses we realize in a given period are driven by foreclosures, pre-foreclosure sales, REO activity and mortgage loan redesignations in a given period. The table below displays the components of our single-family credit loss performance metrics, as well as our single-family initial charge-off severity rate. Our credit loss performance metrics are not defined terms within GAAP and may not be calculated in the same manner as similarly titled measures reported by other companies. We believe that credit loss performance metrics may be useful to investors as the losses are presented as a percentage of our book of business and have historically been used by analysts, investors and other companies within the financial services industry. In prior years, because management did not view changes in the fair value of our mortgage loans as credit losses, we adjusted our credit loss performance metrics to exclude the impact associated with our acquisition of credit-impaired loans from unconsolidated MBS trusts. This impact on our credit loss metrics is no longer significant, hence we no longer adjust our credit loss performance metrics in this manner. The credit loss metrics presented below for all periods reflect this revised presentation. In addition, the prior period credit loss ratios have been adjusted to reflect the current year change in presentation relating to our guaranty book of business described in "Total Book of Business."

Single-Family Credit Loss Performance Metrics

	For the Year Ended December 31,					
	2017		2016		2015	
	Amount	Ratio[1]	Amount	Ratio[1]	Amount	Ratio[1]
	(Dollars in millions)					
Charge-offs, net of recoveries	$(2,423)	8.3 bps	$(2,685)	9.3 bps	$(5,011)	17.4 bps
Adoption of Advisory Bulletin and change in accounting policy[2]	—	—	—	—	(3,555)	12.4
Foreclosed property expense	(540)	1.9	(653)	2.3	(1,723)	6.0
Credit losses and credit loss ratio	$(2,963)	10.2 bps	$(3,338)	11.6 bps	$(10,289)	35.8 bps
Single-family initial charge-off severity rate[3]		15.3%		19.7%		26.0%

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

(2) Our charge-offs for 2015 include the initial charge-offs associated with our adoption of the charge-off provisions of the Advisory Bulletin, as well as charge-offs relating to a change in accounting policy for nonaccrual loans.

(3) The rate excludes any costs, gains or losses associated with REO after initial acquisition through final disposition. The rate includes charge-offs pursuant to the provisions of the Advisory Bulletin and charge-offs of property tax and insurance receivables.

Our single-family credit losses and credit loss ratio decreased in 2017 compared with 2016 primarily due to lower charge-offs as a result of lower serious delinquencies aged greater than 180 days. While the recent hurricanes have increased our overall serious delinquency rate, the impact has not yet aged sufficiently to substantially affect charge-offs.

Our single-family credit losses and credit loss ratio decreased in 2016 compared with 2015 primarily due to our adoption of the charge-off provisions of the Advisory Bulletin and a change in our accounting policy for nonaccrual loans in the first quarter of 2015. Lower charge-offs in 2016 compared with 2015 also contributed to the decrease in our credit losses and credit loss ratio in 2016.

Our single-family initial charge-off severity rate continued to decline in 2017 primarily driven by lower LTV ratios on charged-off loans.

The table below displays concentrations of our single-family credit losses based on geography, credit characteristics and loan vintages.

Single-Family Credit Loss Concentration Analysis

	Percentage of Single-Family Conventional Guaranty Book of Business Outstanding[1]		Percentage of Single-Family Credit Losses[2]	
	As of December 31,		As of December 31,	
	2017	2016	2017	2016
Geographical distribution:				
California	19%	19%	8%	2%
Florida	6	6	10	8
Illinois	4	4	9	9
New Jersey	4	4	14	16
New York	5	5	12	18
All other states	62	62	47	47
Select higher-risk products:				
Alt-A loans	2	3	22	25
Vintages:[3]				
2004 and prior	4	5	12	16
2005 - 2008	6	8	65	65
2009 - 2017	90	87	23	19

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